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17 March 2009

AFI DEVELOPMENT PLC
("AFI Development" or the "Company")

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

ECONOMIC DOWNTURN LEADS TO LOSS OF US$108 MILLION
CASH POSITION REMAINS STRONG

AFI Development PLC, a leading real estate company focused on developing property in Russia and the CIS, has today announced its preliminary financial results for the year ended 31 December 2008.

Financial highlights:

- Net Asset Value per share now stands at US$4.82, down by 60% from US$12.11 as at 30 June 2008 and 57% from US$11.19 as at 31 December 2007
- Net Asset Value, based on the valuation of our projects portfolio independently verified by Jones Lang LaSalle LLC and project costs, is US$2.53 billion, down by 60% since 30 June 2008 and by 57% since 31 December 2007
- The Company's investment portfolio is valued at US$2.47 billion, down by 58% since 30 June 2008 and 53% since 31 December 2007
- Loss for the year is US$107.86 million (31 December 2007: profit US$215.6 million)
- Interim dividend paid out in aggregate amount of US$200 million. Strong cash position retained post dividend and the Company continues to access debt financing for its development projects
- Loss per share of 20.75 cents (2007: profit 43.97 cent)
- Starting from 1st quarter 2009, the Company will implement the new Standard, titled "Improvements to International Financial Reporting Standards, 2008." Amendments to IAS 40 "Investment property" under this Standard are expected to have a significant impact on our financial statements in 2009. Based on the current valuation, the Company is expected to record a profit of circa US$680 million before tax in the 1st quarter of 2009.

Operational highlights:
- During 2008 we successfully completed the following projects on schedule:
    - Four Winds residential building
    - Ozerkovskaya Phase II hotel building
    - Ozerkovskaya Phase II residential building
- In May 2008 we sold Aquamarine II office building for US$207 million, of which we are entitled to 50%, resulting in an aggregate capital gain of US$84 million (US$35 million was recognised during 2008 and US49 million – in 2007).
- Construction of Mall of Russia remains on schedule
- Slowdown in rental demand due to current market conditions
- Significant slowdown in the sale of apartments since June 2008 with only a small number of deals concluded in the second half of 2008

Lev Leviev, Chairman of AFI Development, commented:

"The extremely difficult conditions in the global and Russian real estate markets have resulted in AFI Development reporting a loss in 2008. We have nevertheless retained our strong cash position and are continuing the development of our core projects.

The Moscow market has yet to stabilise and we see few signs of an early recovery in 2009. We are carefully calibrating the progress of our developments in order to complete our key projects cost-effectively while maintaining our financial strength. Over the next twelve months, this strategy should result in rental income and significant value creation. At the eventual end of the current recession our portfolio will be enhanced from the completion of high quality projects."

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Alexander Khaldey, Chief Executive Officer of AFI Development, added:

"Despite the increasingly adverse business environment experienced by our sector in the 2nd half of 2008, AFI Development continued to implement its major projects on schedule, completing the Ozerkovskaya Phase II development and the Four Winds development within the Tverskaya Zastava project. We already have in place sufficient funding to cover our development work in 2009, with significant further progress expected at Mall of Russia this year. "

For further information, please contact:

AFI Development PLC +7 (495) 796 9988
Igor Solomon
Natalia Ivanova

Citigate Dewe Rogerson, London +44 20 7638 9571
David Westover
Lucie Holloway

About AFI Development

AFI Development is the leading developer of unique large-scale projects in Moscow, the Russian regions and the CIS countries. Established in 2001, AFI Development focuses on developing and redeveloping high quality commercial and residential real estate assets including offices, shopping centers, hotels, mixed-use properties and residential projects. The Company's strategy is to sell the residential properties it develops and to either lease the commercial properties or sell them for a favourable return.

In May of 2007, AFI Development was successfully admitted to the Main Market of the London Stock Exchange. Through its IPO the Company raised a total of US$ 1.4 billion. AFI Development delivers shareholder value through a commitment to innovation and continuous project development, coupled with the highest standards of design, construction, quality and customer service.

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CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT

The year 2008 saw the intensification of the global economic crisis, which had also affected our key operating regions, resulting in the beginning of a severe downturn in the Russian real estate sector. AFI Development succeeded even in these challenging circumstances in maintaining positive revenues for the first nine months of the year, but the impact of the crisis, that was felt most strongly in the 4^{th} quarter, led to a loss for the year of US$107.86 million.

In the first six months of 2008 we saw continued demand from commercial tenants and residential buyers across the range of our projects. The market value of the portfolio increased by 13% in that period, while rental values grew by over US$10 million compared with the same period in the previous year. As economic confidence continued to deteriorate globally, this also affected the Russia and potential tenants and buyers held back from the market, so that valuations in the Moscow region began to reverse their previous strong growth rates. Since it is very difficult to calculate accurate valuations in the current highly uncertain operating environment, we are taking a conservative view and classifying eight of our projects as land bank, without assigning market values to them. This policy will be reviewed once a period of sustained stability has returned.

The management team of AFI Development has been proactive in its strategic approach to handling the current difficulties, implementing a secure funding approach and development strategy to enable it to meet the challenges it faces. We are focusing on the development of our core large-scale projects and have in place the combination of debt and equity needed to fund the remaining work. In addition we are continually monitoring our cost base to ensure this is in line with the selected strategy, and where possible cost optimisation is targeted.

Our core projects are at an advanced stage of development and are fully funded to completion. The strategic approach identified for other projects in our portfolio is to create incremental value at relatively low cost through progressing approvals and other activities at its early-stage developments. Further development work on these projects will be initiated once a higher percentage of pre-leasing is obtained and funding is secured.

While in our experience the timing of any recovery in the sector remains uncertain and the length of the current crisis cannot be forecasted, our cautious and responsible approach to financial management has provided operating resilience in these circumstances. This approach should ensure that we have in place the funding and the strategy to withstand the recession and to await the resumption of growth in the future

Results

Due to the continued global financial crisis, we witnessed a sharp decrease in property values in the second half of 2008, and as a result have recorded impairments with regard to several properties totalling US$189.98 million. This led to a loss for the 4^{th} quarter of 2008 of US$135.85 million and for the year of US$107.86 million. Our Net Asset Value ("NAV") has decreased to US$2.53 billion from US$6.34 billion at 30 June 2008.

Our cash and funding position at the year end remains strong with US$272.5 million in cash and cash equivalents on our balance sheet as at 31 December 2008, and our key active development projects, Mall of Russia and Tverskaya Zastava Mall, are fully financed in line with the investment program for 2009.

Strategic update

As a result of the continued global financial crisis we have witnessed a further deterioration in market conditions, both locally and globally. In line with the strategy set out at the time of our 2008 3^{rd} quarter results, we have suspended the development of non-core projects, while continuing with the Mall of Russia and the Tverskaya Zastava Shopping Centre. These key projects are unique assets, which will be transformative for their local environments in Moscow and are at an advanced stage of development. Concentrating on these projects, which are fully funded to completion through a combination of debt and equity, is intended to ensure a stable cash-flow position for the Company until markets stabilise. In addition, we will continue to add long-term value to the non-core elements of our portfolio by progressing the necessary pre-construction permits, so that we are able to capitalise on our position when market conditions improve.

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Valuation

As at 31 December 2008, Jones Lang LaSalle LLC ("JLL"), our independent valuers, valued our portfolio of yielding properties at US$175.88 million, our portfolio of residential properties at US$315.19 million and our portfolio of projects under development at US$1,581.73 million. Consequently, the value of these parts our portfolio, as valued by JLL, is US$2.07 billion. This figure represents a 52% decrease in the value of these parts of our portfolio since the last valuation by JLL as at 30 June 2008.

JLL has concluded that the market conditions existing as at 31 December 2008 and still persisting represent "abnormal uncertainty" caused by "market instability" as defined in RICS Guidance Note 5. As a result and upon careful consideration, a joint decision by the Company and JLL has been taken to the effect that certain development assets within our portfolio that are in the very early stages of the development process should be categorised as "land bank" without ascribing current market value to them. This approach was adopted due to abnormal market volatility and we believe our decision is consistent with the likely impact of the introduction of the Improvements to International Financial Reporting Standards 2008 (amendments to IAS 40 Investment Property), which will become effective from 1 January 2009, on our financial results for the first three months of 2009, under which any value ascribed to such land bank projects other than their costs, would result in a profit or loss to be recorded in our income statement that could not be justified by standards of fair presentation required under IAS 1.13. This valuation treatment will be reviewed in the future once market conditions are more stable.

The projects categorised as land bank are the following:

- Kuntsevo
- Pochtovaya
- Volgograd
- St. Petersburg
- Perm
- Ruza
- Ukraine
- Kislovodsk (Old Lake)

The aggregate costs of these projects as at 31 December 2008 are US$295.53 million, their total value as at 30 June 2008 was US$1,236.42 million.

Additionally, as our hotel assets that are completed or nearing completion will be managed under management agreements where we will incur the operational risk, these hotel projects have been reclassified as property, plant and equipment and were, therefore, excluded from the JLL valuation. These assets are recorded in our books at cost.

The total value of our portfolio represented by the JLL valuation and the costs of land bank and of the hotel properties is US$2.47 billion. This figure represents a 58% decrease in the overall value of the portfolio since the last valuation as at 30 June 2008 and 53% decrease since 31 December 2007.

Based on the year end valuation and costs of those projects that were not valued by JLL, our NAV stands at US$2.53 billion or US$4.82 per share. This figure represents a 60% decrease in NAV and in NAV per share since the previous portfolio valuation as at 30 June 2008 and a 57% decrease since 31 December 2007. This decrease in NAV has been driven principally by current market conditions, decrease in rental rates and increase in yields.

Liquidity

We completed 2008 with a strong liquidity position comprising US$272.5 million cash and cash equivalents on our balance sheet as at 31 December 2008. This is due to the Company's ability to balance liquidity from a number of sources, including cash proceeds from the IPO and sales of completed projects, as well as bank loans such as RUR8,448 million (equivalent to approximately US$288 million at the exchange rate as at 31 December 2008) of additional project financing from Russia's VTB Bank ("VTB"). Since the start of the period, we have paid out approximately US$284 million to cover our short term obligations under maturing corporate facilities.

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As a result of our refocused strategy for our development projects, the revised estimated CAPEX requirements over the next 12 months will be as follows:

Project	**CAPEX for the next 12 months**	**Total CAPEX outstanding**	**Secured Funds Balance**
Mall of Russia	US$209.17 million	US$209.17 million	RUR6,768 million (US$230.36 million as at 31 December 2008 (VTB facility balance))
Tverskaya Zastava	US$119.3 million	US$198.5 million	US$208.88 million (Sberbank facility balance)
Total	**US$328.47 million**	**US$407.67 million**	**US$439.24 million**

Portfolio update

Status of completed and other projects

During the second half of 2008, we completed work on the Ozerkovskaya Embankment project, Phase II and obtained a commissioning permit for the hotel and residential buildings. The hotel is scheduled for opening in the 2nd half of 2009. We have sold 46% of the residential premises.

The Four Winds residential building was also completed in the 2nd half of 2008. 74% of the apartments have been sold.

Total revenue recorded for 2008 from sale of residential premises of Four Winds and Ozerkovskaya Embankment project is equal to US$78.64 million.

The Four Winds office building continues to generate a net operating income (NOI) of approximately US$31 million per annum, of which we are entitled to 50%.

At Berezhkovskaya, Pochtovaya, Ozerkovskaya Phase IV, and Tverskaya Zastava Plaza I, II, and IV projects we own certain premises that were designated for demolition before construction. These assets are currently let out and in 2008 accounted for aggregate revenues of US$18.8 million.

We are in the process of conservation of the construction sites at Ozerkovskaya Phase III, Kossinskaya, Botanic Garden, Otradnoye and Paveletskaya projects in order to conclude current work and put them in an appropriate condition for work to resume in future.

Changes to Portfolio

We have decided to discontinue our investment in the Moscow City Hotel project by terminating all the agreements with our partner in this project, an unrelated third party.

Core Projects Update

Mall of Russia

As of the date of this statement, the construction of the core structure and the shell, including the cupola as well as circa 50% of the internal engineering systems are completed. The Mall is scheduled to open in the 4th quarter of 2009.

We have pre-let circa 35% of the Gross Lettable Area ("GLA"), including lease agreements and letters of intent. Lease agreements cover 16% of the GLA. We are currently targeting an average rate of US$1,150 for the first year with a step-up clause of 30% on average for the second year and 20% for the third year.

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Tverskaya Zastava Shopping Center

During the 4th quarter of 2008, we were negotiating with the City of Moscow regarding the rearrangement of the cashflows in connection with the public utility components of the project (traffic interchange and utility lines). These negotiations resulted in a memorandum, under which the City of Moscow will finance the infrastructure components of the project during the construction phase rather than compensating us for these expenses upon completion as had been agreed previously. The construction of the public elements at the site will resume as soon as the City starts the financing.

Active Projects

Property	Costs incurred as at 31 December 2008 (US$, million)	Secured Finance		GLA, sqm	Estimated Completion Date	JLL Valuation Summary as valued at 31 December 2008 (US$, million)		
		Drawn	Balance			Estimated Market Rental upon Completion (excl. VAT and OpEx)	Market Value (AFI's Share)	Market Value at Completion (AFI's Share)
Mall of Russia	235.41	RUR1,680 million	RUR6,768 million	97,148	Q4 2009	136.13	740.00	1,100
Tverskaya Zastava Mall	119.66	US$71.12 million	US$208.88 million	36,200	2011	66.45	121.20	554.03

Yielding Properties

Property	AFI's Share	GLA, sq.m.	Market Value as Valued by JLL at 31/12/08 (AFI's Share) (US$ million)	Occupancy as at 31//12/08	Aggregate Rent in 2008 (US$, million)
Four Winds	50%	21,700	123.58	87%	4.68
H2O	100%	9,300	18.70	69%	5.47
Ozerkovskaya IV	100%	1,545	4.00	75%	0.90
Berezhkovskaya	74%	11,312	29.60	86%	4.78

Property, Plant and Eequipment

Property	Type	Number of Keys	Status	AFI's Share	Costs as at 31 December 2008 (US$, million)
Ozerkovskaya	Business Class	160	Completed	100%	33.99
Plaza Spa	Four Star Spa Hotel	274	Operational	50%	27.72
Kalinina	Three Star Spa Hotel	175	Renovation	100%	11.45
Versailles	Boutique Hotel	53	Renovation	100%	12.07
Park Plaza	Three Star Spa Hotel	500	Concept	100%	15.52

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Remaining Properties

Property	Market value at 31 December 2008 (US$ million) (AFI's share)	Market value at 30 June 2008 (US$ million) (AFI's share)
Tverskaya Zastava		
Plaza I	208.68	496.35
Plaza II	76.23	415.48
Plaza II(a)	5.83	24.83
Plaza IV	166.75	453.05
Four Winds 2 (Residential)	32.46	49.86
Ozerkovskaya		
Phase II (Residential)	65.80	81.40
Phase III	63.40	124.00
Otradnoye	149.53	407.35
Paveletskaya	27.85	76.00
Kossinskaya	171.80	274.20
Botanic Garden	67.40	83.55*
Total	**1,035.73**	**2,486.07**

*as at 30 September 2008

Human Resources:

The Company has achieved tremendous growth since its inception in 2001 and especially post its IPO in May 2007. Correspondingly, we significantly expanded our professional teams during this period in line with the number of projects in our pipeline and sought to secure access to the best available individuals who were scarce in the local market. In light of having to refocus our strategy, we have regrettably been forced to reduce our headcount to adapt to the new environment and focus on cost optimization.

Market Update

Market Overview

The first half of 2008 saw rapid economic growth in the Russian economy, supported by high levels of investment and consumer demand. The global market crisis finally impacted Russia during the 4th quarter of 2008, and the economic slowdown is expected to continue through mid-2009.

While the vast majority of European markets recorded declining investment volumes during 2008, investments into the Russian real estate market reached US$6.4 billion and thus saw a new record. However, in the 4th quarter of 2008 investor confidence was seriously shaken, and a wait-and-see attitude has taken hold.

Investment is very highly targeted in Moscow, which accounts for almost 72% of annual total real estate investment in Russia. This is largely due to the lack of institutional quality investment stock outside of Moscow. The dominance of Moscow has been further strengthened by the credit crisis where there has been a discernable 'flight to quality.' As investors have had less funds available they have tended to seek assets and locations that offer the lowest risk profile
[Source: Moscow Real Estate Market Overview, Jones Lang LaSalle]

Office Real Estate

At the end of 2008 modern office stock in Moscow reached 9.2 million sqm, but remains considerably smaller than in other major European capitals. In the 4th quarter of 2008 Moscow had the largest take-up in Europe. 2008 take-up remained at the level witnessed in 2007 at 2.14 million sqm.

International manufacturing companies as well as Russian banking and finance companies dominated take-up activity in 2008.

The level of prime base rents in Moscow remains very high in comparison to most other European capitals. In the 4th quarter of 2008 Moscow prime rental levels demonstrated a 26% decrease. Nevertheless, Moscow held second place after London in terms of prime rental level (US$1,400 US/sqm/year).

Significant new supply will enter the market in 2009-2010. However, the ongoing financial crisis has forced developers to postpone planned projects.
[Source: Moscow Real Estate Market Overview, Jones Lang LaSalle]

Retail Real Estate

During the past seven years, the real disposable income of Muscovites has growing by 7-10% (in terms of US$) per annum, stimulating consumer demand significantly. Stable income growth also underpinned strong consumer demand. However, the situation changed significantly at the end of 2008. As a result, incomes fell abruptly and, according to the latest estimations and forecasts of the Ministry of Economic Development and Commerce, real disposable income in Russia in 2008 only grew by 4%, while the forecast for 2009 is much lower at 2.5% growth in real disposable income.

Total shopping centre stock in Moscow consisted of 2,02 million sqm, or 193 sqm of stock per 1,000 inhabitants, which is relatively low compared to other European capitals. The Moscow retail market is still a developing market in terms of the amount and the quality of existing shopping centres. Since 2001, the stock of quality shopping centres in Moscow has increased significantly. However, openings of most projects have been delayed by several quarters and only around 20% of planned premises were completed in 2008, most others were delayed. It is anticipated that this situation may well deteriorate further in the mid term.

Moscow continues to attract foreign retailers for the high purchasing power of its population. More than 15 new foreign retailers entered the market in 2008, while another 10 announced their entry for 2009. However, their plans may be subject to change due to the current financial crisis.

In the 4th quarter of 2008, annual prime rents for shopping centres located in the City Centre (excluding VAT and operating expenses) were US$3,700 – 4,700/sqm/year, while the average shopping centre base rent was US$600 – 1,300/sqm/year.
[Source: Moscow Real Estate Market Overview, Jones Lang LaSalle]

Residential Real Estate

Taking into account the results of the first three quarters of 2008, the volumes of residential construction in Russia amounted to 35.2 million sqm, which is 13 million sqm more than in the corresponding period of 2007. However, the pace of growth is substantially lower. Investment growth rates declined due to difficult financing and growth of interest rates, thus causing a decrease in construction activity. During the first nine months of 2008, 1.62 million sqm of residential space was built in Moscow.
[Source: Blackwood Residential Real Estate Market Overview Q3 2008]

During the period 2009 to 2010 the market is likely to face a further decline in developers' activity. Some projects are stalled or cancelled; in addition, the majority of projects that are currently at the planning stage will be postponed for delivery in 2011 or later. Population declining income growth leads to a downward shift of demand for residential space. Demand for quality residential space is also decreasing due to toughened mortgage terms.

During the final months of 2008 a descending trend in prices for residential real estate became obvious and well-defined. This trend is reasonable for two main reasons. On the one hand, prices for real estate in Moscow had been growing significantly for many years, often being above the purchasing capacity of the majority of potential buyers. On the other hand, the financial crisis has cut considerably incomes of businesses and people and almost eliminated mortgage lending and investment activity on the market.
[Source: Moscow Real Estate Market Overview, Jones Lang LaSalle]

The average price on the new construction market in Moscow amounted to US$6,742 per sqm at the end of 2008.
[Source: www.irn.ru]

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Outlook

According to real estate market analysts, the decreasing in prices on the residential market will continue in the short term although the main wave of price adjustment will finish in the 1st half of 2009, while in the 2nd half of 2009 prices are expected to stabilise.

The vacancy rate in the Moscow retail market, which is now less than 1%, is still one of the lowest in Europe. According to forecasts, slowing pipeline delivery will keep vacancies low while retailers, particularly franchise holders, are likely to be forced to open stores. This is expected to restrict any rental correction in Moscow.

It is anticipated that the financial crisis will significantly reduce office take-up in 2009 and that this will only return to 2007-2008 levels after 2011.
[Source: Moscow Real Estate Market Overview, Jones Lang LaSalle]

As for the land market in the Moscow Region the financial crisis has already hit the land market and we expect prices for land plots to go down as supply volume increases. Developer companies are likely to put land assets for sale to raise additional funds to pay off credits and complete projects at a final stage. Certain analysts currently anticipate that land prices will fall by at least 50%
[Source: Blackwood Residential Real Estate Market Overview Q3 2008]

Board

Our Board consists of eight members, led by Mr. Lev Leviev, who was appointed Chairman as of 1 January 2008. The additional Board members are:
Mr. Alexander Khaldey
Mr. Izzy Cohen
Mr. Avinadav Greenshpon
Mr. Avraham Barzilay
Mr. Christakis Klerides, Independent Director, Head of Audit Committee
Mr. Moshe Amit, Independent Director, Head of Remuneration Committee
Mr. John Porter, Independent Director

Lev Leviev
Chairman of the Board

Alexander Khaldey
Chief Executive Officer

17 March 2009

AFI DEVELOPMENT PLC

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

AFI Development is one of the leading real estate development companies operating in Russia and other CIS countries. We focus on developing and redeveloping high quality commercial and residential real estate assets in Moscow, the Moscow Region and other major Russian cities such as St. Petersburg, Perm and Volgograd, as well as Ukraine. Our strategy is to sell the residential properties we develop and to either lease the commercial properties we develop or sell them if we are able to achieve a favourable return.

As at 31 December 2008, we had a portfolio of 4 yielding properties, 13 investment projects under development, 8 land bank projects and 5 hotel projects at various stages of development in 17 locations in Russia and Ukraine. These comprise commercial projects focused on offices, shopping centres, hotels and mixed-use properties, residential projects in prime locations in Moscow focused on upscale apartment buildings and residential districts in the Moscow Region aimed at the upper middle class segment of the market. As at 31 December 2008, JLL valued our beneficial interest in the projects in our current portfolio in their existing state of development, except the landbank and hotel projects, at approximately US$2.07 billion, subject to the assumptions set out in the valuation report attached to the Annual Report.

In 2008 we had a loss of US$107.86 million, in comparison to a profit of US$215.62 million in 2007. Our loss derived primarily from the revaluation of our investment portfolio by JLL. In 2007 we recognised a US$201.91 million gain from revaluation of our completed projects opposed a loss of US$154.98 million in 2008. At the same time our profit from rental activity increased from US$1.70 million in 2007 to US$19.43 million in 2008. We also recognised profits from sales of residential premises at Four Winds and Ozerkovskaya Embankment Phase II projects for a total amount of US$17.54 million.

Presentation of Financial Information

Our consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), which were in effect at the time of preparing our consolidated financial statements. IFRS differs in various material respects from US GAAP and UK GAAP.

During 2008 we completed a corporate reorganization by acquiring a number of Russian and Cypriot entities, which are described in detail in the section entitled "Key Factors Affecting our Financial Results – Acquisitions". Our consolidated financial statements comprise the respective consolidated annual financial statements for the years ended 31 December 2007 and 2008 of AFI Development PLC (formerly Donkamill Holdings Limited) and all of its subsidiaries and the Company's interest in jointly controlled entities. These subsidiaries and jointly controlled entities are listed in Note 34 of our consolidated financial statements for the period ended 31 December 2008.

Key Factors Affecting our Financial Results

Our results have been affected, and are expected to be affected in the future, by a variety of factors, including, but not limited to, the following:

Macroeconomic Factors

Our properties and projects are mainly located in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance.

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The following table sets out certain macroeconomic information for Russia as of and for the dates indicated:

	Year ended 31 December	
	2008	2007
Gross Domestic Product growth[(1)]	7.0%	8.1%
Consumer price index[(1)]	14.027%	9.005%

[Source: International Monetary Fund. Information for 2008 is estimated by the IMF]

Acquisitions

We have made a number of strategic acquisitions during the last two years, which have affected the results of our operations and financial condition. We made these acquisitions in order to acquire rights to buildings and/or land plots within the boundaries of certain of our existing and proposed development projects.

During 2007, we acquired the following projects or assets:

- In April 2007, we acquired a 74% interest in Berezhkovskaya project, for US$31.77 million.
- In April 2007, we acquired a 90.17% participatory interest in a Russian company, which holds ownership rights to buildings that are required for the completion of our Tverskaya Zastava Plaza II project. The total consideration was US$ 6.99 million.
- In April 2007, we acquired 100% of Kossinskaya project for US$242.95 million.
- In July 2007, we acquired Phase I of the Pochtovaya project for US$95.20 million.
- In September 2007, we acquired Phase II of the Pochtovaya project for US$42.49 million.
- In July 2007, we acquired a 51% interest in the Botanic Garden project for US$20.40 million. An additional 39% interest in this project was acquired in December 2007 for US$38.02 million.
- In May 2007 we started the acquisition of our Tverskaya Zastava Plaza IV project. The consideration for the 25% stake was US$29.68 million, which was increased in October with the acquisition of an additional 70% share for US$89.79 million. In addition, the Company has concluded an agreement to buy out the remaining 5% in the project for a pre-agreed price of US$1.42 million per each additional 1% stake.
- In partnership with Danya International Holdings Ltd., a related party, we have formed a joint venture, which is the owner of 50% of the Perm project. The remainder is held by our Russian partner. Our share in the joint venture prior to the buy out of the stake from Danya Cebus was 60%.

During 2008, we acquired the following projects or assets:

On 26 March 2008, we entered into an agreement with Africa-Israel Hotels Ltd. ("AFIH"), a related party, pursuant to which the Company acquired the seller's interest in four properties located in the Caucasian Mineral Springs area in the Krasnodar Region in the southern part of the Russian Federation, (three properties in Kislovodsk and one property in Zheleznovodsk). The properties and the acquired interests are listed below:

Property	Location	Description	Status	Beneficial Ownership
Plaza Hotel	Kislovodsk	Four-star spa hotel 274 rooms	Operating	50%
Versailles	Kislovodsk	Boutique hotel 53 suites	Renovation	100%
Park Plaza	Kislovodsk	Three-star spa hotel 500 rooms	Concept	100%
Kalinina	Zheleznovodsk	Three-star spa hotel 175 rooms	Renovation	100%

An external valuation of the properties was ordered jointly by us and by AFIH. The valuation as of 1 March 2008 was carried out by JLL, ascribing an aggregate value of US$72.4 million to the aforesaid interests in these properties. We decided to purchase these properties for US$70 million. Under the sale and purchase agreement, AFIH will continue to operate the properties upon completion on arm's length terms.

On 26 March 2008, the Company entered into agreement with Danya Cebus International Ltd., a related party, for the purchase of its 20% share in the Perm project. The project is jointly held with a local unrelated partner (50%). Under the sale and purchase agreement, we purchased a 40% share in the Cypriot entity that holds 50% of the project, thereby increasing our holding in this entity to 100% and, consequently, our share in the Perm project to 50%. The parties have agreed on a purchase price of US$11.1 million, based on the JLL valuation as at 31 December 2007 and the portion of Danya Cebus' shareholder's loans above its pro-rata share in the project (subject to the actual US$:RUR exchange rate at the date of closing).

On 26 March 2008, the Board resolved to expand the mandate of AFI Development Plc to include all CIS countries in addition to Russia. Following this decision, on 26 March 2008, we entered into an agreement with Moonbeam and Nirro for the acquisition of an operation in Ukraine, which consists of the Boryspol project in the vicinity of Kiev international airport and that project's management team. The parties agreed to perform the transaction at cost, for a total consideration of US$30.26 million.

On 14 February 2008 the Company acquired Phase III of the Pochtovaya project for US$42 million

For additional information on our acquisitions during the period under review, see notes 8 and 34 to our consolidated financial statements.

Revenue Recognition

Revenue recognition policies have a significant impact on our operational results. Below we have summarised the key elements of our revenue recognition policies:

- ***Rental income.*** We recognise rental income from investment properties leased out under operating leases in our income statement on a straight line basis over the term of the lease.

- ***Construction consulting and construction management fees.*** We recognise revenues from construction consulting and construction management services in our income statement, in proportion to the stage of the project as at the relevant reporting date. We assess the stage of completion by reference to the amount of work performed.

- ***Sales of trading properties.*** We recognise revenue from the sale of trading properties in our income statement when the risks and rewards of ownership of the property are transferred to the buyer. When we receive down payments in connection with the sale of trading property that is under construction, we record this figure in the current liabilities on our balance sheet at the time of sale.

Capitalization of Costs for Properties under Development

We capitalise all costs directly related to the purchase and construction of properties being developed as both investment properties and trading properties, including costs to acquire land rights and premises, design costs, permit costs, costs of general contractors, costs relating to the lease of the underlying land and the majority of our employee costs related to such projects.

In addition, we capitalise financing costs related to development projects only during the period of construction of the projects. We do not, however, commence the capitalising of financing costs related to expenditures on a project until construction on each project begins. As the majority of our development projects are still in the pre-construction or construction phases, to date we have capitalised the great majority of the overall costs related to our business activities. In our consolidated financial statements, we capitalised expenses related to the development of our investment and trading properties in aggregate amounts of US$225.7 million and US$324.7 million in the years ended 2007 and 2008, respectively.

Upon completion of construction works, property classified as investment property under development (which are those properties that are being constructed or developed for future use to earn rental income or for capital appreciation) is appraised to market value and reclassified as an investment property and any gain or loss on appraisal is recognised in our income statement. Trading properties, which include those projects where we intend to sell the entire project as a whole or in part (this principally includes our residential development projects), are represented on our balance sheet at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale.

As a rule, once construction works on investment properties and trading properties are completed, we begin to recognise expenses related to such assets in our income statement.

Exchange Rates

Our consolidated financial statements are presented in US Dollars, which is our functional currency. The functional currency of our Russian subsidiaries and joint ventures is the Rouble. The balance sheets of our Russian subsidiaries are translated into US Dollars in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and income and expense items are translated into US Dollars at the average exchange rate for the period. All resulting foreign currency exchange rate differences are recognised directly in our shareholders' equity under the line item “translation reserve.” When a foreign operation is sold, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in our income statement when the gain or loss on disposal of the foreign operation is recognised.

The monetary assets and liabilities of our Russian subsidiaries that are denominated in currencies other than Roubles are initially recorded by our subsidiaries at the exchange rate between the Rouble and such foreign currency prevailing at such date. Such monetary assets and liabilities are then retranslated into Roubles at the exchange rate prevailing at each subsequent balance sheet date. We recognise the resulting exchange rate differences between the dates at which such assets or liabilities were originally recorded and at subsequent balance sheet dates as foreign exchange losses and gains in our income statement. In particular, during the period under review, we have recognised foreign exchange rate gains and losses in connection with US Dollar denominated payables and receivables of our Russian subsidiaries. As most of our projects are still in the pre-yield stage, our Russian subsidiaries have historically had higher levels of US Dollar denominated payables, including interest on loans and general contractor fees, than US Dollar denominated receivables, such as rental payments, with the result that we have historically recorded foreign exchange gains when the Rouble appreciates against the US Dollar, thus reducing the US Dollar denominated liabilities of our Russian subsidiaries when translated into Roubles and foreign exchange losses when the US Dollar appreciates against the Rouble.

Fluctuating Construction and Other Development Costs

During the periods under review, we have experienced fluctuations in development and construction costs, including costs of contractors, labour, pre-project documentation and land and property acquisition costs. Labour costs have been fluctuating due to both labour shortages and higher costs of living in Russia, particularly in Moscow, and the effects of the financial crisis.

Additional Factors That May Affect Our Future Financial Results

We are still at an early stage of development and currently have a limited number of yielding properties. As a result, our historical results of operations may not be an accurate indication of the future results of our operations. As we complete a greater number of projects, additional factors, including those set forth below, may impact our future financial position and results of operations.

Sales of Properties

Consistent with our strategy, we may sell our projects or our interests in the subsidiaries that hold our projects. To date, we have derived nearly all of our profits from selling interests in our subsidiaries that hold our projects rather than the projects themselves, which is mainly due to tax considerations. The sale of our interests in the Cypriot subsidiaries that hold our projects is not subject to income tax in either Cyprus or Russia. However, the sale of the projects themselves, which are likely to take place to a greater extent in the future, will be subject to income tax in Russia.

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Recognition of Costs

Given that substantially all of our projects are in the pre-construction or construction stage, we have historically capitalised the majority of the costs related to these projects, except for finance costs related to our projects in the pre-construction phase. However, once we complete the construction of a project, we will cease to capitalise the related costs and begin to recognise expenses related to the project in our income statement. We also intend to expand our operations in the field of property management and will expense all costs relating to our management activities. As a result, we expect our operating expenses and administrative expenses to increase significantly in future periods.

We also expect to assume significant amounts of debt in connection with financing our projects, which will result in an increase in financing costs.

Recovery of VAT

We pay VAT to the Russian authorities with respect to construction costs and expenses incurred in connection with our projects, which, according to Russian tax law, can be recovered upon completion of construction. We have accordingly included recoverable VAT as an asset on our balance sheet, the size of which we expect will increase as the development of our projects advances. We may face delays recovering such VAT payments to the extent we face procedural complications to reclaiming such VAT or, in certain cases, such as to the extent we do not complete a project, we may not be eligible to recover such VAT payments. However, during January 2008 we managed to recover VAT for the total amount of RUR 42.35 million for one of our Russian companies.

Deferred Taxation

As we continue to advance the development of our projects, we also expect to record both higher deferred tax liabilities and assets. Under Russian tax law, we are not allowed to capitalise certain of the costs in relation to the design, construction and financing of projects that we capitalise for the purposes of our consolidated financial statements under IFRS. As a result, our tax bases in the related assets may be lower than our accounting bases for IFRS purposes, which would result in deferred tax liabilities. However, the recognition of such costs as expenses may result in accumulated tax losses for Russian tax purposes that we may be able to carry forward against estimated future profits, resulting in deferred tax assets. We expect these deferred tax liabilities and assets to grow as our major projects reach more advanced stages. However, such tax losses may only be carried forward to offset gains for a ten-year period under Russian tax law and they may only be utilised in the Russian subsidiary in which such tax losses were generated. There can be no assurance that we will be able to utilise any such tax loss carried forward.

Fair Value Calculation

Our future results of operations may be affected by our measurement of the fair value of our investment properties and changes in the fair value of such properties. Upon completion of construction, the projects that we have classified as investment property under development are reassessed at fair value and reclassified as investment property, and any gain or loss as a result of reassessment is recognised in our income statement. Any change in fair value of the investment property is thereafter recognised as a gain or loss in our income statement. Accordingly, fair value measurements of our investment properties may significantly affect our results of operations even if we do not dispose of such assets.

Specifically, in May 2008 the International Accounting Standards Board issued its latest Standard, titled "Improvements to International Financial Reporting Standards, 2008." Amendments to IAS 40 "Investment property" under this Standard are expected to have a significant impact on our financial statements in 2009. Under the new requirements investment property under development is to be measured at fair value. As a result we expect to recognise circa US$625 million of revaluation gain (net of deferred tax expense) in the 1st quarter of 2009 for projects that were revalued by JLL as at 31 December 2008 higher than their book value.

Revenue

Generally, our strategy is to lease the commercial properties we develop, subject to our continual reassessment of such properties based on prevailing market conditions. Funds that we receive pursuant to the lease of our commercial properties are recorded as revenue on our income statement. We have core and non-core asset rental revenue for the period under review. As a result, we expect our revenue to increase in future periods as our projects become income yielding.

Competition

We believe that our future results of operations may be impacted by increasing competition, especially as it relates to the identification and acquisition of properties in Russia.

Management Structure

During 2008 the Company's Russian subsidiaries kept the structure created during 2007.

As a result of the turmoil in the markets and following our decision to focus on three active projects, the local headcount was significantly reduced.

Results of Operations

Description of Income Statement Line Items

The following discussion provides a description of the composition of certain of our income statement line items for the period under review.

Revenue

To date, we have derived revenues from three sources: construction consulting and construction management fees, rental income and sale of residential properties. During the period under review, we derived considerable amounts of revenue from such rental income and sale of residential properties, unlike in the previous reporting period. We expect that our revenue from rental income will increase further in the future once we have completed the construction of the commercial properties we are currently developing for lease. As we no longer provide construction consulting and construction management services to third parties, other than our joint ventures, we do not expect construction consulting and construction management fees to contribute a significant amount to our revenue in the future.

Construction consulting and construction management fees

We have historically derived construction consulting and construction management fees from project management services we provide to both third party developers and our joint ventures. We typically charge third party developers and our joint ventures a fixed percentage of the total costs related to the projects for which we provide such services. Since 2006, we no longer provide construction consulting and construction management services for third parties outside of our group and so revenue derived from such fees from third parties will be at or close to zero going forward.

We do, however, continue to record revenues with respect to construction consulting and construction management services provided to our joint ventures, in proportion to the ownership interests of third parties in such joint ventures. We have historically provided such services to (i) our joint venture Westec Four Winds Ltd., ("Westec"), which is developing our Four Winds project; and (ii) our joint venture Krown Investments, which is developing the Ozerkovskaya Phase II and Phase III projects, and of which we sold a 50% interest to a non-related third party in September 2006.

Beginning in 2007, Westec put in place its own project management team. As a result, we have not provided project management services to Westec in the period under review and do not expect to provide it in the near future. We expect our revenue from construction consulting and construction management fees in 2009 to be at approximately the same level as in 2008.

Rental income

To date, we have derived rental income primarily from buildings that we have purchased and which are rented on a short-term basis, including the following:

1) Non-core assets:

- Office buildings at Bolshaya Pochtovaya – premises that form part of our Pochtovaya project. We intend to demolish these buildings in order to build predominantly office space at the site. These non-core assets accounted for approximately 28% of our total rental income for the year ended 31 December 2008;

- The non-residential premises at Gruzinsky Val – part of our Tverskaya Zastava Plaza II project. We intend to demolish this building in order to build a mixed-use development at the site. This non-core asset accounted for approximately 6% of our total rental income for the year ended 31 December 2008;

- The non-residential premises we own at Tverskaya Zastava Square, which is a part of our Tverskaya Plaza II project. We intend to demolish these premises as part of the overall development of Tverskaya Zastava II. These non-core assets accounted for approximately 7% of our total rental income for the year ended 31 December 2008.

2) Core assets:

- The H2O office building, which we acquired in 2006, and which forms part of the Paveletskaya Embankment development. This core asset accounted for approximately 17% of our total rental income for the year ended 31 December 2008;

- Four Winds office building, which was completed in December 2007 and was leased from September 2008. This core asset accounted for approximately 15% of our total rental income for the year ended 31 December 2008;

- Office building at Ozerkovskaya Lane – part of our Ozerkovskaya Phase IV project. We transferred it to our core assets in 2008. It accounted for approximately 3% of our total rental income for the year ended 31 December 2008;

- Berezhkovskaya office building, in which we own 74% accounted approximately for 15% of our total rental revenue for the year ended 31 December 2008.

- Plaza Hotel, which was acquired during 2008 from Africa-Israel Hotels Ltd., a related party. This asset accounted for approximately 7% of our total rental income for the year ended 31 December 2008.

Operating expenses

Operating expenses consist mainly of employee wages, social benefits and property operating expenses, which are directly attributable to revenues. As substantially all of our activities to date have involved real estate development projects that are still in the pre-construction or construction phase, we have historically capitalised the great majority of our overall costs. See “—Key Factors Affecting Our Financial Results—Capitalization of Costs for Properties under Development.”

We recognise as expenses in our income statement the costs of those employees who have provided construction consulting and construction management services to third parties or, with respect to a portion of such costs, to our 50-50 joint ventures. We also recognise property operating costs (including outsourced building maintenance), utilities, security and other tenant services related to our properties that generate rental income, as expenses on our income statement.

Administrative expenses

Our administrative expenses comprise primarily general and administrative expenses such as office rental costs, audit, travelling and entertainment, share option expenses, aircraft operating costs and marketing costs, as well as depreciation expenses related to our motor vehicles, office equipment and aircraft. Our principal administrative expense to date has been depreciation expenses, share option expenses and rental payments for the lease of our head office premises at 29, 1st Brestskaya Street in Moscow.

Profit on disposal of investment in subsidiaries

We recognise profit or loss from the sale of interests in our subsidiaries when the risks and rewards of ownership are transferred to the buyer in the transaction.

Revaluation of investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and categories of properties being valued, values the Company’s investment property portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation in a transaction between a willing buyer and a willing seller after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion. The difference between revalued fair value of investment property and its book value is recognised as revenue in the income statement.

JLL has concluded that the market conditions existing as at 31 December 2008 and still persisting represent “abnormal uncertainty” caused by “market instability” as defined in RICS Guidance Note 5. As a result and upon careful consideration, a joint decision by the Company and JLL has been taken to the effect that certain development assets within our portfolio that are in the very early stages of the development process should be categorised as “land bank” without ascribing current market value to them. This approach was adopted due to abnormal market volatility and we believe our decision is consistent with the likely impact of the introduction of the Improvements to International Financial Reporting Standards 2008 (amendments to IAS 40 Investment Property), which will become effective from 1 January 2009, on our financial results for the 1st quarter of 2009, under which any value ascribed to such land bank projects other than their costs, would result in a profit or loss to be recorded in our profit and loss statement that could not be justified by standards of fair presentation required under IAS 1.13. This valuation treatment will be reviewed in the future once market conditions are more stable.

Operating profit before net finance costs

Operating profit before net finance costs is calculated by adding revenue, other income, profit on disposal of investment in subsidiaries and valuation gains on investment property, and subtracting operating expenses, administrative expenses and other expenses.

Finance income

Our finance income comprises net foreign exchange gain, if any, and interest income. We recognise foreign exchange gains and losses, principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Rouble. Historically, our Russian subsidiaries have had higher levels of US Dollar denominated payables, including interest on loans and general contractor fees, than US Dollar denominated receivables, such as rental payments, with the result that we have historically recorded foreign exchange gains when the Rouble appreciates against the US Dollar, thus reducing the US Dollar denominated liabilities of our Russian subsidiaries when translated into Roubles and foreign exchange losses when the US Dollar appreciates against the Rouble. Our interest income is derived primarily from interest on our bank deposits which primarily include proceeds from our May 2007 IPO and interest on loans to our joint ventures, including Westec and Krown Investments.

Finance expenses

Our finance expense comprises net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalised. We recognise foreign exchange gains and losses principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Rouble. See "—Key Factors Affecting Our Financial Results—Exchange Rates." We capitalise our interest expense with respect to our development projects that are under construction, for which amounts are not reflected as expenses in our income statement. When funds are borrowed specifically for a particular project, we capitalise all actual borrowing costs related to the project less income earned on the temporary investment of such borrowings and when funding for a project is obtained from our general funds, we capitalise only funding costs related to the particular project based on the weighted average of the borrowing costs applicable to our general funds. See "—Key Factors Affecting Our Financial Results—Capitalization of Costs for Properties under Development."

Income tax expense

Income taxes are calculated based on tax legislation applicable to the country of residence of each of our subsidiaries and, as a company based and organised in Cyprus, we are subject to income tax in Cyprus. We and our Cypriot subsidiaries are currently subject to a statutory corporate income tax rate of 10% in Cyprus. Our Russian subsidiaries were subject to corporate income tax at a rate of 24% up to 31 December 2008. Since 1 January 2009 corporate income tax rate was reduced to 20%. Yet, to date, most of our Russian subsidiaries have experienced losses for Russian tax purposes. Profits on revaluation gains of investment property in companies based in Russia, from which we have derived the vast majority of our profits to date, are subject to deferred income tax at a rate of 20%.

Results of Operations for the Years Ended 31 December 2007 and 2008

(US$ in millions)	**For the year ended 31 December**	
	2007	**2008**
Revenue		
Sale of real estate property	-	78.64
Construction consulting/management fees	3.58	2.67
Rental income	8.45	31.37
	12.03	**112.68**
Other income	0.11	4.18
Expenses		
Cost of real estate property	-	(61.09)
Operating expenses	(6.75)	(11.94)
Administrative expenses	(9.94)	(17.12)
Other expenses	(1.37)	(0.95)
	(5.92)	**25.76**
Profit on disposal of investment in subsidiaries	8.89	0.25
Impairment loss	-	(189.98)
Valuation gains on investment property	201.91	35.00
Results from operating activities	**204.88**	**(128.98)**
Finance income	72.92	30.42
Finance expenses	(2.28)	(27.72)
Net finance income	**70.64**	**2.70**
Profit before income tax	**275.52**	**(126.28)**
Income tax expense	(58.33)	18.42
(Loss)/profit from continuing operations	**217.19**	**(107.86)**
Loss from discontinued operations (net of income tax)	(1.57)	-
(Loss)/profit for the year	**215.62**	**(107.86)**

Revenue. Our revenue increased by US$100.65 million, from US$12.03 million in 2007 to US$112.68 million in 2008. This increase resulted mainly from recognition of revenues from sale of residential premises at Four Winds and Ozerkovskaya Embankment (Phase II) projects at a total amount of US$78.64 million. For Ozerkovskaya Embankment and Four Winds we recognised revenues from the sale of 46% and 74% of the total residential premises, respectively. This increase was also driven by a US$22.92 million increase in rental income. For detail see "– Results of Operations – Rental income."

Operating expenses. Our operating expenses increased by US$5.19 million, or 77%, from US$6.75 million in 2007 to US$11.94 million in 2008. This increase was primarily due to higher expenses resulting from an increase in the number of revenue producing properties we operated, including the acquisition of non-core assets and the operation of certain of our core assets.

Administrative expenses. Our administrative expenses increased by US$7.18 million, or 72%, from US$9.94 million in 2007 to US$17.12 million in 2008. This increase relates in part to the depreciation of the aircraft in the amount of US$6.87 million in 2008 compared to US$1.24 million in 2007, as well as other expenses related to its operation.

Cost of real estate property. Simultaneously with the recognition of revenue from sale we recognised the cost of sales from the sales of the Four Winds and Ozerkovskya Embankment (Phase II) residential premises in the total amount of US$ 61.09 million.

Impairment loss. For 2008 we recognised an aggregate impairment loss of US$189.98 million, including US$146.60 million for projects under construction under IAS 36 "Impairment of assets" and US$43.38 for completed projects under IAS 40 "Investment property." An impairment loss was recognised for certain projects since their book values turned out to exceed their market value defined by our independent appraisers JLL.

Valuation gains on investment property. Valuation gain on investment property decreased by US$166.91 million, or 83%, from US$201.91 million in 2007 to US$35 million in 2008. This decrease resulted mainly from the decline in property investment market values in the Russian Federation.

Net finance costs

The following table sets forth our net finance costs for the years ended 31 December 2007 and 31 December 2008:

	2007	**2008**
	(US$ in millions)	
Interest income on loans receivable	4.94	5.44
Interest income on bank deposits and cash equivalents	35.48	24.98
Finance income	**40.42**	**30.42**
Interest expense on loans and borrowings	(1.11)	(1.26)
Interest expense on bank loans	(16.88)	(24.64)
Interest capitalised	15.85	23.14
Other finance expenses	(0.15)	(0.80)
Finance expenses	**(2.28)**	**(3.56)**
Net foreign exchange gain/ (loss)	**32.50**	**(24.15)**
Net finance income	**70.64**	**2.71**

Net finance income is finance income less finance expense. Our net finance income decreased by US$67.93 million, or 96%, from a US$70.64 million income in 2007 to an income of US$2.71 million in 2008. This decrease was principally due to a US$56.65 million decrease in net foreign exchange gains/losses and a US$10 million decrease in finance income.

Interest income

Our interest income decreased by US$10 million, or 25%, from US$40.42 million in 2007 to US$30.42 million in 2008. This decrease was primarily due to lower levels of interest from bank deposits, which had an effect on the amount of interest received on the funds raised through our IPO in 2007.

Net foreign exchange gain

We recorded a net foreign exchange loss of US$24.15 million in 2008 compared to a net foreign exchange gain of US$32.50 million in 2007. Our foreign exchange loss in 2008 was primarily due to the weakening of the Rouble against the US Dollar in 2008 by 20%, which resulted in US$ denominated bank loans payable by our Russian subsidiaries being increased when translated into Rouble. See "—Description of Income Statement Line Items—Finance income."

Finance expenses

Finance expenses increased from US$2.28 million in 2007 to US$3.56 million in 2008. The increase in our finance expenses from 2007 to 2008 primarily resulted from interest expense on the loan received from Citibank N.A. on 17th of April 2008 in the amount of US$40 million, which was fully repaid on 15 December 2008. The total amount of interest expense on this loan for 2008 was equal to US$1.4 million. For details see note 23 of our consolidated financial statements.

Our capitalised interest costs increased from US$15.85 million in 2007 to US$23.14 million in 2008 due to new bank loans received for our projects during 2008 and increase in interest rates in 2008 as compared to 2007. In 2007 and 2008 our capitalised interest expenses related primarily to expenditures related to the Moscow City Shopping Centre, Ozerkovskaya Embankment and Tverskaya Zastava projects, certain of which (namely Ozerkovskaya Phase I and the Tverskaya Zastava Shopping Centre) were in the construction phase.

Income tax expense. Our income tax expense decreased by US$76.75 million, from a US$58.33 million expense in 2007 to a US$18.24 million benefit in 2008. Our income tax expense consists of a current tax expense and a deferred tax expense for 2007 as well as for 2008. During 2007 and 2008 we incurred the following income tax benefit/(expenses):

	2007	**2008**
	(US$ in millions)	
Current tax (expense)	(9.80)	(12.55)
Deferred tax (expense)/ benefit	(48.53)	30.97
Total income tax (expense)/benefit	**(58.33)**	**18.42**

Current tax expense.

Our current tax expense increased in 2008 by US$2.75 million, or by 28% when compared to 2007. The reason for this increase is the higher levels of income generated from rental activity of our core and non-core assets. The Cypriot rate of corporate income tax remained unchanged during 2007 and 2008 and profit on the disposal of investments in subsidiaries is not subject to income tax in Cyprus.

Deferred tax expense

Deferred tax expense decreased by US$79.50 million in 2008 against 2007. The main reason for the decrease in the deferred tax expense is due to the impairment recorded on completed properties in 2008 that led to the reversal of the deferred tax liability to a deferred tax asset. The decrease was also due to a decrease in the corporate income tax rate in Russian Federation from 24% in 2008 to 20% since 1 January 2009.

Profit/Loss for the year

Due to the factors described above, our financial result decreased by US$323.48 million, from a US$215.62 million profit in 2007 to a US$107.86 million loss in 2008. This decrease was primarily due to the impairment recognised for investment property and projects under construction in 2008 against the revaluation gain recognised from investment property in 2007.

Liquidity and Capital Resources

Cash Flows

For the years ended 31 December 2007 and 2008

The following table sets out our consolidated cash flows for the years ended 31 December 2007 and 2008.

	For the year ended 31 December	
	2007	**2008**
	(US$ in millions)	
Net cash from operating activities	**10.82**	**27.06**
Net cash used in investing activities	**(796.89)**	**(236.23)**
Net cash (used in)/from financing activities	**1,547.27**	**(240.77)**
Effect of exchange rate fluctuations	24.90	(89.93)
Net (decrease)/increase in cash and cash equivalents	786.10	(539.87)
Cash and cash equivalents at 1 January	26.27	812.37
Cash and cash equivalents at 31 December	**812.37**	**272.50**

Generally, our strategy is to sell the residential properties we develop and to lease the commercial properties we develop, subject to continuous reassessment of such properties based on prevailing market conditions. Because of this, we have historically classified all of our commercial properties as investment properties and our residential properties as trading properties. The effect of this is that, when we sell all or a portion of one of our commercial properties, the principal cash flow effects of such a sale are reflected in cash from investing activities, rather than cash from operating activities, even though we have engaged in substantial development activity in respect of such properties. Alternatively, if we sell all or a portion of one of our residential properties, the principal cash flow effects of such a sale are reflected in cash flows from operating activities

Net cash from operating activities

Net cash from operating activities increased by US$16.24 million, from US$10.82 million in 2007 to US$27.06 million in 2008. This increase was primarily attributable to a US$17.38 million increase in advances from tenants from US$6.90 million in 2007 to US$24.28 million in 2008.

Net cash used in investing activities

Net cash used in investing activities decreased by US$560.66 million, from US$796.89 million in 2007 to US$236.23 million in 2008. This decrease was due to a number of factors. We recorded a decrease in cash outflow as a result of a significantly lower number of acquisitions performed for 2008 in comparison to 2007 and a decrease in advances to builders. The main decrease was due to a US$443.20 million decrease in cash used for acquisitions and disposals of subsidiaries in 2008 compared with 2007. For a list of acquisitions and their purchase prices in 2008, please see "– Acquisitions." Construction costs and advances to builders decreased by US$80.99 in total. Also during 2008 we sold an aircraft, which we acquired in November 2007, for US$43.31 million.

Net cash (used in)/ from financing activities

Net cash (used in)/from financing activities decreased by US$1,788.04million, from an inflow of US$1,547.27 million in 2007 to an outflow of US$240.76 million. This decrease is principally due to the receipt of the Company's IPO proceeds during 2007.

The cash outflow from financing activities was also increased by the interim dividends paid out in an aggregate amount of US$200 million during 2008.

Repayment of bank loans and borrowings increased by US$159.65 million from US$124.53 million in 2007 to US$284.18 million in 2008. In 2008, we repaid the US$200 million loan from Deutsche Bank and the US$40 million secured loan from Citibank N.A. in full, repaid US$10 million of the secured loan from Quasar Capital Ltd. and US$3.58 million to other creditors, and redeemed all interest on our bank loans for the total amount of US$30.60 million as per contracted maturity schedule.

Effect of exchange rate fluctuations

We recorded a negative effect of exchange rate fluctuations of US$89.93 million in 2008 as compared to a positive effect of US$24.90 million in 2007, primarily due to the weakening of the Rouble against the US Dollar in 2008 by 20% against 7% increase in 2007, and its impact on our monetary assets and liabilities.

Capital Resources

During the periods presented, we have met our cash requirements principally through borrowings and the proceeds from our IPO.

On 11 May 2007, the Company's GDRs were admitted to the Official List of the UK Financial Services Authority and to trading on the London Stock Exchange's regulated market. A total gross amount of approximately US$1.4 billion has been raised and is used to finance the Company's real estate activities. In addition to IPO funds, in 2007 and 2008 we obtained significant finance from international and local banking institutions, which are detailed below:

(i) A non-revolving credit line in the total amount of RUR 8,448 million was obtained from VTB Bank on 28 August 2008. Up to 31 December 2008 we received the first drawdown in the amount of RUR 1,680 million (equivalent to US$68 million), at an interest rate of 14.25%. The second drawdown is expected in the amount of RUR 6,768 million (equivalent to US$230 million), at an interest rate of 13.75%. The funds drawn under the credit line are being used to finance the construction of the Moscow-City Mall project. The credit line is secured by a pledge over 100% of the shares of Bellgate Constructions Limited, a lien over 75% of the development rights regarding the project, and a mortgage of commercial spaces when completed. AFI Development's guarantee is one of the elements of collateral for this credit line.

(ii) A non-revolving credit line in the total amount of US$280 million was obtained from Sberbank during the year ended 31 December 2007. Up to 31 December 2008 US$71.12 million (2007: US$16.1 million) were drawn. The funds drawn under the credit line are being used to finance the construction of the Tverskaya Zastava Shopping Centre project. Starting 2 October 2008, this credit line carries interest of 8.00% above 6 months US$ LIBOR (previously – 4.50% above 6 months US$ LIBOR). The credit line is secured by a pledge over 51% of the shares in the asset company, a lien over the development rights regarding the Tverskaya Zastava shopping mall project, and a mortgage over the shopping mall and its parking when completed.

(iii) A secured loan from a non-related party was obtained from Quasar Capital Limited with Deutsche Bank London Branch acting as facility agent. According to the loan agreement dated 13 February 2006 the total amount of the loan granted was US$60 million, it carries interest at an annual rate of 2.4% above 6 months US$ LIBOR and will be paid in fixed instalments with the last being on 13 February 2011. An amount of US$21 million is payable within one year. The full amount of the loan is guaranteed by Africa Israel Investments Ltd, registered in Israel, which is the ultimate shareholder of the Company.

(iv) A long term secured bank loan facility from Citibank N.A. was obtained for the refinance of the acquisition of the aircraft for US$40 million on 17 April 2008 and was repaid during December 2008. The loan carried interest at an annual rate of 1.55% above 3 month US$ LIBOR.

(v) A short term secured loan from Deutsche Bank, London Branch, amounting to US$200 million granted to the Company during the year ended 31 December 2007 was fully repaid during August 2008.

(vi) Short term secured bank loans include a new non-revolving credit line which was obtained from MDM Bank for US$16.7 million during the year ended 31 December 2008. The funds drawn under the credit line were used to finance the construction of the Four Winds project. This credit line had carried interest of 12% per annum until 30 September 2008, when it was increased by the bank to 20% per annum.

(vii) Short term secured bank loans also include a non-revolving credit line which was obtained from MDM Bank for EUR 36 million during the period ended 31 December 2007. The funds drawn under the credit line were used to finance the construction of the Four Winds Project. This credit line had carried interest of 12% and of 14% per annum until 30 September 2008, when it was increased by the bank to 20% per annum.

(viii) A non-revolving credit line in the amount of RUR 1.488 billion which was obtained from VTB Bank on 1 August 2008. This credit line carries interest of 12.4 % per annum.

(ix) A short term loan from S & T Equity (Overseas) Ltd was originally granted by Brent Industrial Holdings Limited to Westec Four Winds Limited and was assigned later to S & T Equity (Overseas) Ltd. Up to 1 October 2006 the loan carried interest at an annual rate of 5% thereafter it bears interest at an annual rate of 8.5%. There were no securities or guarantees given for the loan. S&T Equity Overseas Ltd is the other 50% shareholder of Westec Four Winds Limited. The loan was repaid in 2008.

(x) An express credit line was obtained from Citibank for the total amount of US$20 million. This express credit line carries an annual interest rate of 3.072% at 31 December 2008. The loan is secured by the portfolio of securities held by Citibank and is payable on demand.

As of 31 December 2008, our debt comprised the following:

	Currency	Nominal interest rate	Year of maturity	2007 US$ '000	2008 US$ '000
Unsecured loan from shareholder	US$	1%	2009	316	-
Unsecured loans from other related companies	US$	6m US$ LIBOR + 4.5%	2010	3,177	-
Secured loan from Quasar Capital Limited	US$	6m US$ LIBOR + 2.4%	2010-11	51,700	30,000
	US$	6m US$ LIBOR + 2.4%	2009	10,000	21,005
Secured loan from Sberbank	US$	6m US$ LIBOR + 8.0%	2010	16,155	71,402
Secured loan from MDM Bank	EUR	20%	2009	26,340	25,515
Secured loan from MDM Bank	US$	20%	2009		8,443
Secured loan from Deutsche Bank AG	US$	6m US$ LIBOR + 1.45%	2008	204,971	-
Secured loan from VTB Bank	RUR	13.75% - 14.25%	2011	-	57,181
Secured loan from VTB Bank	RUR	12,40%	2009	-	50,972
Unsecured loans from non-related companies	US$	12%	2009	1,424	1,438
	RUR	14.5%	2008	4,453	4,381
	RUR	0%	2008	8,500	7,101
	RUR	8.5% - 12%	2008-14	146	151
	RUR	3% - 5%	2008-11	268	622
Unsecured loans from joint ventures	RUR	9%	2007-11	609	-

Unsecured loan - S&T Equity (Overseas) Ltd	US$	8.5%	2008	3,890	-
Citibank	US$	3.072%	2009	-	20,095
				331,949	298,306

As at 31 December 2008, our loans and borrowings were payable as follows:

	As at 31 December	
The loans and borrowings are payable as follows:	**2007**	**2008**
	(US$ in millions)	
Less than one year	259.07	139.56
Between one and five years	72.88	103.300
More than five years	-	55.444
	331.95	**298.31**

Capital Requirements

We require capital to finance the following:

- Capital expenditures, consisting of cash outlays for capital investments in active real estate development projects;
- Repayment of debt;
- Changes in working capital; and
- General corporate activities.

Real estate development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our active development projects.

Our capital expenditures consist principally of investments in the development of investment properties under development and trading properties under construction. Our cash outlays for capital expenditures for the years ended 31 December 2007 and 2008 were US$225.7 million and US$324.7 respectively

For the foreseeable future, we expect that we will continue to rely on our financing activities to support our investing and operating activities. We also expect that our capital expenditures in connection with the development of real estate properties will comprise the majority of our cash outflows for the foreseeable future.

Commitments and Contingent Liabilities

Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain other committed obligations. The following table summarises our future obligations (including interest through 31 December 2007) under these contracts due by the periods indicated as of 31 December 2007.

	For 2007Y				For 2008Y			
	Less than a year	**Between one and five years**	**More than five years**	**Total**	**Less than a year**	**Between one and five years**	**More than five years**	**Total**
	(US$ in millions)				**(US$ in millions)**			
Contractual obligations								
Loans and borrowings	259.07	72.88	-	331.95	139.56	103.30	55.44	298.30
Operating leases payable	4.54	9.52	41.21	55.27	2.04	5.48	31.07	38.59
Committed investments								

Construction costs	533.01	323.37	—	856.38	241.00	281.90	—	522.90
Total	**796.61**	**405.76**	**41.21**	**1,243.60**	**382.60**	**390.68**	**86.51**	**859.80**

As of 31 December 2008, our principal loans and borrowings included secured bank loans from Deutsche Bank, Sberbank, VTB, Citibank and MDM Bank. See note 23 to our consolidated financial statements.

Our operating leases include both land leases with the City of Moscow with respect to land underlying certain of our projects and a lease of office space in Moscow. See note 30 to our consolidated financial statements.

Committed construction and renovation costs arise under agreements with third parties for construction of properties. As of 31 December 2008, we were contractually committed to make future payments with respect to the following projects:

Project name	**Commitment**	
	2007	**2008**
	US$ '000	
Moscow City shopping centre	384.03	140.86
Tverskaya Zastava development	193.02	175.70
Otradnoye	176.63	145.75
Ozerkovskaya Embankment - Phase II	42.05	22.28
Four Winds I and II	33.13	38.32
Paveletskaya Embankment	27.53	-
-	**856.38**	**522.90**

For the summary of the most significant contracts see note 31 to our consolidated financial statements:

Qualitative and Quantitative Disclosures about Market Risk

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options and forward rate agreements, to manage these market risks. To date, we have not utilised any derivative or other financial instruments for trading purposes.

Credit risk

Credit risk is the risk of financial loss to AFI Development if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investment securities.

Trade and other receivables

Financial assets that are potentially subject to credit risk consist principally of trade and other receivables. The carrying amount of trade and other receivables represents the maximum amount exposed to credit risk. Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables. The Company has policies in place to ensure that, where possible, rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

AFI Development has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, the management team believes that there is no significant risk of loss to the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. AFI Development's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in its funding requirements by keeping cash and committed credit lines available.

AFI Development's liquidity position is monitored on a daily basis by the management, which takes necessary actions if required. The Company structures its assets and liabilities in such a way that liquidity risk is minimised.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the available returns for shareholders.

a. Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2008, 41% of our indebtedness was floating rate, represented by our loans from Quasar Capital and Sberbank, which had a total outstanding principal amount of US$122.41 million as of 31 December 2008. For more detail see note 23 to our consolidated financial statements.

b. Currency risk

The Company is exposed to currency risk on future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations that are denominated in a currency other than the respective functional currencies of AFI Development's entities, primarily the US Dollar and Russian Rouble. The currency in which these transactions are primarily denominated is the Euro.

Critical Accounting Policies

Critical accounting policies are those policies that require the application of our management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

A detailed description of certain of the main accounting policies we use in preparing our consolidated financial statements is set forth in note 3 to our consolidated financial statements.

Estimates regarding fair value

We make estimates and assumptions regarding the fair value of our investment properties that have a significant risk of causing a material adjustment to the amounts of assets and liabilities on our balance sheet. In particular, our investment properties under development (which currently comprise the majority of our projects) are remeasured at fair value upon completion of construction and the gain or loss on remeasurement is recognised in our income statement, as appropriate. In forming an opinion on fair value, we consider information from a variety of sources including, among others, the current prices in an active market, third party valuations and internal management estimates.

The principal assumptions underlying our estimates of fair value are those related to the receipt of contractual rentals, expected future market rentals, void/vacancy periods, maintenance requirements and discount rates that we deem appropriate. We regularly compare these valuations to our actual market yield data and actual transactions and those reported by the market. We determine expected future market rents on the basis of current market rents for similar properties in the same location and condition.

Impairment of financial assets

We recognise impairment losses with respect to financial assets, including loans receivable and trade and other receivables, in our income statement if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. We test significant financial assets for impairment on an individual basis and assess our remaining financial assets collectively in groups that share similar credit characteristics. Impairment losses with respect to financial assets are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows of the asset discounted at the original effective interest rate of that asset.

Estimating the discounted present value of the estimated future cash flows of a financial asset is inherently uncertain and requires us both to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognizing or avoiding impairment charges

Impairment of non-financial assets

We recognise impairment loss with respect to non-financial assets, including investment property under development and trading properties under construction, if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, we discount estimated future cash flows of the asset to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amounts of impaired non-financial assets are reduced to their estimated recoverable amount either directly or through the use of an allowance account and we include the amount of such loss in our income statement for the period.

We assess at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, we then estimate the recoverable amount of the asset. Estimating the value in use requires us to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life and the appropriate discount rate, which is primarily based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognizing or avoiding impairment charges. During the period under review we recognised an impairment loss for our projects for a total of US $189.98 million.

Deferred income taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves a jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items, such as capitalization of expenses, among others, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess, in the course of our tax planning process, our ability and the ability of our subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable profit and available tax planning strategies. If, in our management’s judgment, the deferred tax assets recorded will not be recovered, a valuation allowance is recorded to reduce the deferred tax asset.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our consolidated financial statements the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period over which the deferred tax assets and liabilities will be recoverable.

If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

Share-based payment transactions

The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historic experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Recent Accounting Pronouncements

The IASB has recently promulgated certain new International Financial Reporting Standards, amendments to standards and amendments to interpretations. These new standards and amendments are described in note 3 to our consolidated financial statements.

These new standards and amendments did not have a significant influence on the consolidated financial statements for the year ended 31 December 2007.

In May 2008 the International Accounting Standards Board issued its latest Standard, titled “Improvements to International Financial Reporting Standards, 2008.” Amendments to IAS 40 “Investment property” under this Standard are expected to have a significant impact on our financial statements in 2009. Under the new requirements investment property under development is to be measured at fair value. As a result we expect to recognise circa US$625 million of revaluation gain (net of deferred tax expense) in the 1st quarter of 2009 for projects that were revalued by JLL as at 31 December 2008 higher than their book value.

AFI DEVELOPMENT PLC

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

AFI DEVELOPMENT PLC

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

CONTENTS

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Lev Leviev - Chairman
	Izzy Cohen (appointed on 27 August 2008)
	Alexander Khaldey
	Avraham Barzilay
	Avinadav Grinshpon
	Moshe Amit
	Christakis Klerides
	John Porter
Secretary	Emerald Secretarial Limited
Independent Auditors	KPMG
Bankers	Joint Stock Commercial Savings Bank of the Russian Federation Open Joint Stock Company VTB Bank Bank Leumi le-Israel BM
Registered Office	Olympion, 25 Omiros & Araouzos Tower, 3035 Limassol, Cyprus

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS' REPORT

The Board of Directors of AFI Development Plc (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group, which remained unchanged from last year, are real estate investment and development. The principal activity of the Company is the holding of investments in subsidiaries.

EXAMINATION OF THE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE GROUP

AFI Development is one of the leading real estate development companies operating in Russia and other CIS countries. The Company focuses on developing and redeveloping high quality commercial and residential real estate assets in Moscow, the Moscow Region and other major Russian cities such as St. Petersburg, Perm and Volgograd, as well as Ukraine. The Company's strategy is to sell the residential properties it develops and to either lease the commercial properties it develops or sell them if it is able to achieve a favourable return.

As at 31 December 2008 the Group has a portfolio of 4 yielding properties, 13 investment projects under development, 8 land bank projects and 5 hotel projects at various stages of development in 17 locations in Russia and Ukraine. These comprise commercial projects focused on offices, shopping centres, hotels and mixed-use properties, residential projects in prime locations in Moscow focused on upscale apartment buildings and residential districts in the Moscow Region aimed at the upper middle class segment of the market.

During 2008 the Company managed to reach completion stage of two residential buildings, Four Winds and Ozerkovskaya Embankment (Phase 2) and of the hotel at Ozerkovskaya Embankment

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 7. The loss of the Group for the year before taxation and before any loss from discontinued operations amounted to US$ 126,275 thousand (2007: profit US$275,523 thousand). The loss after taxation attributable to the Group's shareholders amounted to US$108,674 thousand (2007: profit US$215,664 thousand), which the Board of Directors recommends to be transferred to the retained earnings.

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS' REPORT

DIVIDENDS

The Board of Directors declared, on 18 November 2008, and paid on the 4 December 2008, a dividend of US$0.3817 per GDR or share, totalling to an amount of US$200,000 thousand. Part of this dividend was distributed out of the profits of 2006.

MAIN RISKS AND UNCERTAINTIES

The most significant risks faced by the Group and the steps taken to manage these risks are described in note 5 of the consolidated financial statements.

FUTURE DEVELOPMENTS

The Group is one of the leading real estate development companies operating in Russia. It focuses on developing and redeveloping high quality commercial and residential real estate assets in Moscow and the Moscow Region. The strategy during the reporting period and for the future periods is to sell the residential properties that the Group develops and to either lease the commercial properties that the Group develops or sell them if the Group is able to achieve a favourable return.

SHARE CAPITAL

There were no changes in the share capital of the Company during the year.

During the comparative year the following share capital changes took place:

On 3 May 2007 at a Meeting of the Board of Directors a written resolution of the Company's Director was approved which resolved that the Company would issue and allot and authorise the transfer of 100,000,000 shares of US$0.001 each to BNY (Nominees) Limited, for the purpose of the issuance of global depositary receipts ("GDR's") in the Official List of the UK Financial Services Authority ("FSA") and to trading on the Main Market of the London Stock Exchange ("LSE"). This increased the issued and fully paid share capital of the Company to 523,847,027 shares of US$0,001 each.

The initial public offering comprised a total of 100,000,000 shares in the form of GDRs, with one GDR representing one ordinary share. Each GDR had an offer price of US$14. On 11 May 2007 the Company was successful in having its 100,000,000 GDRs admitted to the Official List of the UK FSA and to trading on the Main Market of the LSE. A total of approximately US$1.34 billion has been raised and will be used to finance the Group real estate activities.

BRANCHES

The Group operates five branches of Cypriot entities in the Russian Federation. These are Bellgate Construction Ltd branch, which owns Moscow city project. The Westec Four Winds Ltd branch which owns Four Winds I and II projects. During the year ended 31 December 2008 the Group established 3 new branches Amerone branch, Bugis branch owning investment properties and Bastet branch acting as a sales agent for residential properties.

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS' REPORT

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2008 and at the date of this report are shown on page 1. The directors' date of appointment and resignation, if applicable, is indicated on page 1. The term of those that have not resigned will expire on the date of the next annual general meeting of the shareholders but all of them are eligible for re-election. There were no significant changes in the assignment of responsibilities of the Board of Directors.

POST BALANCE SHEET EVENTS

As described in note 35 of the consolidated financial statements there were no events which took place after the balance sheet date which have a bearing on the understanding of the financial statements.

INDEPENDENT AUDITORS

The independent auditors, KPMG Limited, have expressed their willingness to continue offering their services. A resolution reappointing the auditors and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Emerald Secretarial Limited
Secretary

Nicosia, 16 March 2009

KPMG
Chartered Accountants
14 Esperidon Street
1087 Nicosia, Cyprus
P.O.Box. 21121
1502 Nicosia, Cyprus

Telephone +357 22 209000
Telefax +357 22 678200
Website www.kpmg.com.cy

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Independent Auditors' Report

To the Members of AFI Development Plc

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of AFI Development Plc (the "Company") and its subsidiaries (the "Group") on pages 7 to 52, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG
Chartered Accountants
14 Esperidon Street
1087 Nicosia, Cyprus
P.O.Box. 21121
1502 Nicosia, Cyprus

Telephone +357 22 209000
Telefax +357 22 678200
Website www.kpmg.com.cy

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 4 is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

KPMG
Chartered Accountants

Nicosia, 16 March 2009

AFI DEVELOPMENT PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 US$ '000	2007 US$ '000
Revenue			
Rental income		31,367	8,447
Construction consulting/management fees		2,668	3,583
		34,035	12,030
Other income	9	4,182	114
Operating expenses		(11,937)	(6,747)
Administrative expenses		(17,124)	(9,938)
Other expenses	10	(946)	(1,369)
		8,210	(5,910)
Profit on disposal of investment in subsidiaries	27	249	8,886
Valuation losses on investment/trading properties		(189,984)	-
Valuation gains on investment property		35,000	201,908
Net valuation (losses)/gains on investment property	14,15,19	(154,984)	201,908
Proceeds from sale of trading properties		78,635	-
Carrying value of trading properties sold		(61,091)	-
Profit on disposal of trading properties		17,544	-
Results from operating activities		(128,981)	204,884
Finance income		30,422	72,917
Finance expenses		(27,716)	(2,278)
Net finance income	11	2,706	70,639
(Loss)/profit before income tax		(126,275)	275,523
Income tax benefit/(expense)	12	18,419	(58,329)
(Loss)/profit from continuing operations		(107,856)	217,194
Loss from discontinued operations (net of income tax)	7	-	(1,573)
(Loss)/profit for the year		(107,856)	215,621
Attributable to:			
Equity holders of the Company		(108,674)	215,664
Minority interest		818	(43)
(Loss)/Profit for the year		(107,856)	215,621
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share (cent)	13	(20.75)	43.97
Continuing operations			
Basic and diluted (loss)/earnings per share (cent)	13	(20.75)	44.29

The notes on pages 11 to 52 form an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note	Attributable to the equity holders of the Company Share Capital US$ '000	 Share Premium US$ '000	 Translation Reserve US$ '000	 Retained Earnings US$ '000	 Total US$ '000	Minority interest US$ '000	Total US$ '000
Balance at 1 January 2007		424	421,325	6,047	175,745	603,541	-	603,541
Issuance of share capital	22	100	1,342,608	-	-	1,342,708	-	1,342,708
Share option expense		-	-	-	1,595	1,595	-	1,595
Profit for the year		-	-	-	215,664	215,664	(43)	215,621
Effect of acquisition of subsidiaries		-	-	-	-	-	397	397
Translation adjustments		-	-	2,443	-	2,443	25	2,468
Balance at 31 December 2007		524	1,763,933	8,490	393,004	2,165,951	379	2,166,330
Balance at 1 January 2008		524	1,763,933	8,490	393,004	2,165,951	379	2,166,330
Dividends to equity holders		-	-	-	(200,000)	(200,000)	-	(200,000)
Share option expense		-	-	-	885	885	-	885
Loss for the year		-	-	-	(108,674)	(108,674)	818	(107,856)
Effect of acquisition of subsidiaries		-	-	-	-	-	831	831
Realised translation difference on disposal of subsidiaries		-	-	(2,415)	-	(2,415)	-	(2,415)
Translation adjustments		-	-	(128,232)	-	(128,232)	(162)	(128,394)
Balance at 31 December 2008		524	1,763,933	(122,157)	85,215	1,727,515	1,866	1,729,381

The notes on pages 11 to 52 form an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	2008 US$ '000	2007 US$ '000
Assets			
Investment property	14	186,275	287,865
Investment property under development	15	1,112,003	1,062,545
Property, plant and equipment	16	102,833	45,563
Long-term loans receivable	17	5,610	4,396
VAT recoverable	18	22,189	19,889
Goodwill		150	150
Total non-current assets		1,429,060	1,420,408
Trading properties under construction	19	271,035	172,177
Inventory		91	39
Short-term loans receivable	17	640	4,498
Trade and other receivables	20	228,008	234,795
Cash and cash equivalents	21	272,498	812,373
Total current assets		772,272	1,223,882
Total assets		2,201,332	2,644,290
Equity			
Share capital		524	524
Share premium		1,763,933	1,763,933
Translation reserve		(122,157)	8,490
Retained earnings		85,215	393,004
Total equity attributable to the equity holders of the Company	22	1,727,515	2,165,951
Minority interest		1,866	379
Total equity		1,729,381	2,166,330
Liabilities			
Long-term loans and borrowings	23	158,744	72,877
Deferred tax liabilities	24	6,321	50,893
Total non-current liabilities		165,065	123,770
Short-term loans and borrowings	23	139,562	259,072
Trade and other payables	25	140,339	83,816
Income tax payable	12	2,703	4,404
Deferred income	26	24,282	6,898
Total current liabilities		306,886	354,190
Total liabilities		471,951	477,960
Total equity and liabilities		2,201,332	2,644,290

The consolidated financial statements were approved by the Board of Directors on 16 March 2009.

Lev Leviev
Chairman

Alexander Khaldey
Director

The notes on pages 11 to 52 form an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2008

	Note	2008 US$'000	2007 US$'000
Cash flows from operating activities			
(Loss)/profit for the year		(107,856)	215,621
Adjustments for:			
Depreciation	16	7,938	2,097
Interest income	11	(30,422)	(40,416)
Interest expense		2,790	2,133
Share option expense	22	885	1,595
Fair value adjustments		154,984	(200,539)
Profit on disposal of investment in subsidiaries	27	(249)	(8,886)
(Profit)/ Loss from sale of property, plant and equipment		(3,775)	9
Unrealised loss/(gain) on foreign exchange		24,156	(32,501)
Income tax (benefit)/expense		(18,419)	58,329
		30,032	(2,558)
Change in trade and other receivables		(21,923)	(32,247)
Change in amounts receivable from related companies	20	(3,909)	(235)
Change in inventories		(15)	(24)
Change in trading properties under construction		(6,566)	(11,749)
Change in assets held for sale		-	3,441
Change in trade and other payables		37,557	38,492
Change in down payments received for construction		(12,810)	15,200
Change in amounts payable to related companies	25	(20)	71
Change in deferred income		19,047	6,774
		41,393	17,165
Income taxes paid		(14,335)	(6,344)
Net cash from operating activities		27,058	10,821
Cash flows from investing activities			
Proceeds from sale of investment in subsidiaries	27	93,222	142,063
Net cash outflow for acquisition of subsidiaries	8	(149,752)	(641,795)
Interest received		29,624	39,626
Proceeds from sale of property, plant and equipment		40,929	19
Change in advances to builders	20	23,714	(93,003)
Payments for investment properties under development		(248,631)	(198,098)
Prepayments for investment properties under development		(19,550)	(34,355)
Payments for VAT recoverable		(617)	(9,238)
Payments for acquisition of property, plant and equipment		(5,170)	(2,107)
Net cash used in investing activities		(236,231)	(796,888)
Cash flows from financing activities			
Proceeds from issuance of shares and listing of GDRs		-	1,342,708
Payments for loan receivable		(2,104)	(7,474)
Proceeds from repayment of loans receivable		49	8,546
Proceeds from loans and borrowings		245,466	328,021
Repayment of loans and borrowings		(253,574)	(110,780)
Dividends paid		(200,000)	-
Interest paid		(30,603)	(13,748)
Net cash (used in)/from financing activities		(240,766)	1,547,273
Effect of exchange rate fluctuations		(89,936)	24,895
Net (decrease)/increase in cash and cash equivalents		(539,875)	786,101
Cash and cash equivalents at 1 January		812,373	26,272
Cash and cash equivalents at 31 December	21	272,498	812,373

The notes on pages 11 to 52 form an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the "Company") was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 25 Olympion Street, 3035 Limassol, Cyprus. The Company is a 71.70% indirect subsidiary of Africa Israel Investments Group which is listed in the Tel Aviv Stock Exchange (TASE). The 9.7% of its share capital is held by Nirro Group S.A. and the remaining shareholding is held by a custodian bank in exchange for the GDR's issued and listed in the London Stock Exchange.

The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities. The principal activity of the Group is real estate investment and development.

The principal activity of the Company is the holding of investments in subsidiaries and joint ventures as presented in note 34 "Group Entities".

2. BASIS OF PREPARATION

Statement of compliance
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Companies Law of Cyprus, Cap. 113.

Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention as modified, up to 31 December 2003, by the provisions of IAS 29 "Reporting in Hyperinflationary Economies" which provides for the restatement of non-monetary assets and liabilities to account for the inflation. The historical cost convention is also modified in regard to investment property which is presented at fair value and trading property, trading property and investment property under development which are presented after any impairment to their value.

Functional and presentation currency
The consolidated financial statements are presented in United States Dollars which is the Company's functional currency. All financial information presented in United States Dollars has been rounded to the nearest thousand except when otherwise indicated.

Use of estimates and judgement
The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2. BASIS OF PREPARATION (continued)

Use of estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 8 – business combinations
- Note 12 – provision for tax liabilities
- Note 14 – valuation of investment property
- Note 15 – valuation of investment property under construction
- Note 19 – valuation of trading properties under development
- Note 20 – recoverability of receivables
- Note 24 – utilisation of tax losses
- Note 27 – estimated cost of disposed assets and liabilities
- Note 32 – contingencies

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently, by all Group entities, to all years presented in these consolidated financial statements, in dealing with items which are considered material in relation to the Group's consolidated financial statements.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Jointly controlled entities

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, income and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

Translation of foreign entity's financial statements

Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using its functional currency. Where the functional currency of an entity of the Group is other than US Dollars, which is the presentation currency of the Group, then the financial statements of the entity are translated in accordance with IAS 21 'The effects of changes in foreign exchange rates'. Assets and liabilities of foreign operations, both monetary and non-monetary are translated to US Dollars at exchange rates at the reporting date. Income and expense items are translated to US Dollars using the transaction dates or average rate for the year for practical reasons. All resulting exchange differences are recognised directly in equity in the translation reserve, until the foreign entity is disposed of (in part or in full) in which case the relevant amount is transferred to the income statement.

The table below shows the exchange rates of Russian Roubles which is the functional currency of the Russian subsidiaries of the Group:

As of:	Exchange rate Russian Roubles for US$1	% Change
31 December 2008	29.3804	19.7
31 December 2007	24.5462	(6.8)
Average rate during:		
Year ended 31 December 2008	24.9791	(2.0)
Year ended 31 December 2007	25.4940	(5.9)

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Non derivative financial instruments

Non-derivative financial instruments comprise of loans receivable, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the financial asset. Financial liabilities are derecognised if the Group's obligations specified in the contact expire or are discharged or cancelled.

Cash and cash equivalents comprise of cash in hand, cash at banks and short-term highly liquid investments that are readily convertible to cash and are subject to insignificant risk of changes in value.

Non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or for administration purposes. Investment properties are measured at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Any gain or loss arising from a change in fair value is recognised in the income statement.

When an item of property plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in such transfers is recognised in the income statement immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Group begins to redevelop an existing property for continued use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property plant and equipment during the redevelopment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property under development

Property that is being constructed or developed for future use as investment property is classified as investment property under development and stated at cost until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in the income statement.

All costs directly related with the purchase and construction of a property, land lease payments, and all subsequent capital expenditure for the development qualifying as acquisition costs are capitalised.

Capitalisation of financing costs

Financing costs are capitalised if they are directly attributable to the acquisition or production of a qualifying asset. Capitalisation of financing costs commences when the activities to prepare the asset are in process and expenditures and financing costs are being incurred. Capitalisation of financing costs may continue until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate. The capitalised financing cost is limited to the amount of borrowing cost actually incurred.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related property, plant and equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the income statement.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

3. SIGNIFIANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The annual depreciation rates for the current and comparative years are as follows:

Buildings	1-2%
Office equipment	10-33⅓%
Motor vehicles	33⅓%
Aircraft (50% residual value)	33⅓%

Depreciation methods, useful economic lives and residual values are reviewed at each reporting date. Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part

Intangible assets

Goodwill

Goodwill (negative goodwill) arises on acquisition of subsidiaries, associates and joint ventures. Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Up to 31 December 2004, goodwill was stated at cost less accumulated amortisation and impairment losses. Goodwill amortisation was charged in the income statement on a straight-line basis over a period of 20 years. From 1 January 2005, following a change in accounting policy to comply with the IFRS 3 "Business Combinations" goodwill is no longer amortised, instead it is tested for impairment at every reporting date. Any impairment loss is recognised in the income statement in the year it arises.

Trading Properties

Trading Properties are measured at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the properties and bringing them to their existing condition. In the case of constructed trading properties, cost includes an appropriate share of direct and financing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Trading properties under construction

Trading properties are defined as projects in which the Group participates as a contractor or as a promoter, and which include construction work with the intention to sell the entire building as a whole or parts thereof. Each project represents one building or a group of buildings. A group of buildings is considered one project when the buildings at the same building site are being constructed according to one building plan and under one building license, and are offered for sale at the same time. Trading properties include cost of land or rights of the land which constitutes the relative portion of the area on which the construction work on projects is performed, plus the cost of the work executed on the projects as well as other costs allocated thereto, less the cumulative amounts recognised in the income statement as cost of trading properties sold up to the end of the reported period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading Properties (continued)

Trading properties under construction (continued)

Direct costs and expenses are charged to projects on a specific basis, whereas borrowing costs are allocated among the jobs based on the relative proportion of the costs. Non–specific borrowing costs are capitalised to such qualifying asset, or portion thereof which was not financed with specific credit, by weighted–average rate of the borrowing cost up to the amount of borrowing cost actually incurred. Where the estimated expenses for a building project indicate that a loss is expected, an appropriate provision is set up. Buildings that are under construction are classified as trading properties under construction on the face of the balance sheet.

Deferred income

Income received in advance is classified under current liabilities as deferred income and comprise rental income received for future periods and amounts received in advance, for the sale of trading properties for which recognition of revenue has not yet commenced.

Non- current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying value and fair value less cost to sell. Any impairment on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any accumulated impairment loss.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

All impairment losses are recognised in the income statement.

Non-financial assets

The carrying amounts of the Group's non-financial assets, excluding investment property, VAT recoverable, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Non-financial assets (continued)

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Sale of trading properties

Revenue from sale of trading properties is recognised in the income statement when the significant risks and rewards of ownership are transferred to the buyer.

Construction Management fee

Revenue from construction management is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Rental income

Rental income from investment property leased out under operating leases is recognised in the income statement on a straight line basis over the term of the lease.

Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method, net of interest capitalised.

Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)
A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The provision for taxation either current or deferred is based on the tax rates applicable to the country of residence of each subsidiary.

Discontinued operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Segment reporting
A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

Adoption of new and revised Standards and Interpretations
During the current year the company adopted all the new and revised IFRSs which are relevant to its operations and are effective for accounting periods commencing on 1 January 2008. The adoption of these Standards did not have a material effect on the financial statements.

All the IFRSs which had been issued by the International Accounting Standards Board (IASB) and are effective during the year ended 31 December 2008 have been adopted by the European Union (EU) except from IFRIC12: ‘‘Service Concession Arrangements’’ and some requirements of IAS39: ‘‘Financial Instruments: Recognition and Measurement’’ regarding the accounting hedging of portfolios.

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2008:

Standards and Interpretations adopted by the EU

- *Improvements to IFRSs - 2008* (effective for annual periods beginning on or after 1 January 2009).

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised Standards and Interpretations (continued)

Standards and Interpretations adopted by the EU (continued)

- *IFRS1: ''First Time Adoption of IFRSs'' and IAS27:"Consolidated and Separate Financial Statements"* (Amendment) on the *"Cost of an Investment in a subsidiary, jointly controlled entity or associate"* (effective for annual periods beginning on or after 1 July 2009).
- *IFRS2 (amendment):"Share based Payments: Vesting Conditions and Cancellations"* (effective for annual periods beginning on or after 1 January 2009).
- *IFRS8:"Operating Segments"* (effective for annual periods beginning on or after 1 January 2009).
- *IAS1 (revised):"Presentation of Financial Statements"* (effective for annual periods beginning on or after 1 January 2009).
- *IAS23 (revised): "Borrowing Costs"* (effective for annual periods beginning on or after 1 January 2009).
- *Amendments to IAS32:''Puttable Financial Instruments and Obligations Arising on Liquidation''* and *IAS1: "Presentation of Financial Statements"* (effective for annual periods beginning on or after 1 January 2009).
- *IFRIC13:"Customer Loyalty Programmes"* (effective for annual periods beginning on or after 1 July 2008).

Standards and Interpretations not adopted by the EU

- *IFRS1 (Amendment):"First Time Adoption of IFRSs''* (effective for annual periods beginning on or after 1 January 2009).
- *IFRS3 (Amendment):''Business Combinations''* (effective for annual periods beginning on or after 1 July 2009).
- *IAS27 (Amendment):"Consolidated and Separate Financial Statements"* (effective for annual periods beginning on or after 1 July 2009).
- *IAS39 ''Financial Instruments: Recognition and Measurement'' (Amendment):''Eligible Hedged Items''* (effective for annual periods beginning on or after 1 July 2009).
- *IAS39 ''Financial Instruments: Recognition and Measurement'' (Amendment): ''Reclassification of Financial Instruments''* (effective for annual periods beginning on or after 1 July 2008).
- *IFRIC15: ''Agreements for the Construction of Real Estate''* (effective for annual periods beginning on or after 1 January 2009).
- *IFRIC16:''Hedges of a Net Investment in a Foreign Operation''* (effective for annual periods on or after 1 October 2008).
- *IFRIC17:''Distributions of Non Cash Assets to Owners''* (effective for annual periods beginning on or after 1 July 2009).
- *IFRIC18:''Transfers of Assets from Customers''* (effective as from 1 July 2009).

The Board of Directors expects that the adoption of these standards or interpretations in future periods will not have a material effect on the financial statements of the Company except from the application of the Revised IAS1: ''Presentation of Financial Statements'' which is expected to have a material effect on the presentation of Financial Statements and the improvements to IFRSs of 2008, specifically improvements to IAS 40 "Investment property" are expected to have a material impact on the financial statements in 2009. Under the new requirements investment property under development is to be measured at fair value. As a result it is expected to recognise circa US$625 million of revaluation gain (net of deferred tax expense) in the 1st quarter of 2009 for projects that were revalued by JLL as at 31 December 2008 higher than their book value.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of property, plant and equipment is the estimated amount for which they could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of land and building and buildings under development is based on the quoted market prices for similar items.

Investment property
An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

Share-based payment transactions
The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. FINANCIAL RISK MANAGEMENT

Overview
The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables
Financial assets which are potentially subject to credit risk consist principally of trade and other receivables. The carrying amount of trade and other receivable represents the maximum amount exposed to credit risk. Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables. The Group has policies in place to ensure that, where possible rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in its funding requirements by keeping cash and committed credit lines available.

The Group's liquidity position is monitored on a daily basis by the management which take necessary actions if required. The Group structures its assets and liabilities in such a way that liquidity risk is minimised.

The Group maintains the following lines of credit:

- A US$60,000 thousand term loan facility agreement with Quasar Capital Ltd as original lender and Deutsche Bank AG, London Branch, as facility agent. This loan is intended for the financing of the Ozerkovskaya Embankment project.
- A non-revolving credit line from the Joint Stock Commercial Savings Bank of the Russian Federation ("Sberbank") for US$280,000 thousand. The funds drawn under the credit line are required to be used to finance the construction of the Tverskaya Zastava Shopping Centre project.
- A non-revolving credit line from VTB Bank for RUR 1,488 million. This credit line carries interest of 12.4 % (rouble terms).
- A second non-revolving credit line from VTB Bank for RUR 8,448 million. The funds drawn under this credit line are being used to finance the construction of the Moscow-City Mall project.
- Loans from Joint-Stock Commercial Bank "Moscow Business World" (MDM Bank) which were acquired by Westec Four Winds Limited, a joint venture, for the financing of Four Winds Plaza I and II projects. The available credit line is €55,593 thousand out of which only €35,904 thousand were drawn, and credit line for US$16,758 thousand out of which only US$16,700 were drawn (the Group's 50% share is €17,952 thousand and US$8,350 thousand respectively).
- An express credit line from Citi Smith Barney for US$20,095 thousand.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The first half of 2008 saw rapid economic growth in the Russian economy, supported by high levels of investment and consumer demand. The global market crisis finally impacted Russia during the 4th quarter of 2008, and the economic slowdown is expected to continue through mid-2009. Investor confidence was seriously shaken, and a wait-and-see attitude has taken hold.

5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk
The Group is exposed to currency risk on future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations that are denominated in a currency other than the respective functional currencies of Group entities, primarily the United States Dollars and Russian Roubles. The currency in which these transactions are primarily denominated is the Russian Roubles, United States Dollars and Euro.

Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Company is committed to delivering the highest standards in boardroom practice and financial transparency through:
- clear and open communication with investors;
- maintaining accurate quarterly financial records which transparently and honestly reflect the financial position of its business; and
- endeavouring to maximise shareholder returns.

A full programme of investor relations activity ensures appropriate contact with institutional and private shareholders, with regular meetings, presentations and disclosure of important information. Great care is taken to provide suitably detailed information on the Group's activities and results to enable various stakeholders to understand the performance and prospects of the Group.

6. SEGMENT REPORTING

Business segments
The Group's main business activities are real estate development. The Group is also currently constructing several hotels to entered into hotel operation, this operation is not yet significant and does not qualify as a reporting business segment under IAS 14 "Segment reporting".

Geographical segments
Almost all of the Group's operations and development are located in the Russian Federation. In addition the Group operates in Ukraine. However, this operations is not significant compared to the group activities and does not qualify as a reporting geographical segment under IAS 14 "Segment reporting".

7. DISCONTINUED OPERATIONS

In February 2006, the Group acquired OAO MKPK for future development of its land and buildings. MKPK is a manufacturing company and as the Group is not active in manufacturing, the Group's management decision was to sell this manufacturing facility. The results from the manufacturing activities are presented separately as loss from discontinued operations. Management committed to a plan to sell this division early in 2007. One of the production lines was sold in February 2007 and second production line was sold in May 2007.

	2008 US$ '000	2007 US$ '000
Results of discontinued operations		
Revenue	-	6,059
Expenses	-	(7,632)
Results from operating activities	-	(1,573)
Income tax expense	-	-
Loss for the year	-	(1,573)

8. ACQUISITION OF SUBSIDIARIES AND COMPANIES UNDER COMMON CONTROL

Acquisition of subsidiaries

During 2008 the Group acquired the following subsidiaries:

100% of Occuper Holdings Ltd, a Cypriot company, which owns 100% shareholding of OOO Adnera, registered in Russia. OOO Adnera holds ownership rights in real estate required for the Phase III of the Bolshaya Pochtovaya project in Moscow.

100% of OOO AFI RUS SM, registered in the Russian Federation.

24% additional interest in the share capital of OOO Bizar, registered in the Russian Federation. The Company acquired during 2007 50% shareholding in OOO Bizar, therefore it currently holds a total of 74%.

50% of Noana Limited and 100% of Eitan Cyprus Limited, Cypriot companies, that hold investment in four properties located in the Caucasian Mineral Springs area, in the Kislovodsk region, in the southern part of the Russian Federation.

100% shareholding of AFI Ukraine Limited, a Cypriot company, and LLC "AFI DS-1", LLC "AFI DS-2", LLC "AFI DS-3" and LLC Bundikom-Ukrane, registered in Ukraine. These companies are the owners of the Boryspol project in the vicinity of Kiev international airport.

40% additional shareholding of Krusto Enterprises Ltd. The Company acquired during 2007 60% shareholding in Krusto Enterprises Ltd, as a result, the Company currently holds 50% in ZAO Kama Gate, registered in the Russian Federation.

8. ACQUISITION OF SUBSIDIARIES AND COMPANIES UNDER COMMON CONTROL (continued)

Acquisition of subsidiaries (continued)

During 2007 the Group acquired the following subsidiaries:

50% of OOO Bizar who is the owner of two non-residential buildings. The Company, intends to increase its share subject to acquisition of two additional buildings by OOO Bizar. The total percentage of ownership will be 74%.

90.17% participatory interest in the charter capital of ZAO Nedra Publishing, which holds ownership rights to buildings required for the completion of Tverskaya Zastava Plaza II project. The Group's intention is to acquire all the charter capital of the entity.

100% shareholding of OOO Titon LLC and ZAO UMM Stroyenergomekhanizatsiya, registered in Russia. Both entities own a number of long-term lease agreements with Moscow government for land plots needed for the completion of Kossinskaya project. Both companies were acquired through Rognerstar Finance Ltd a Cypriot newly registered company which was incorporated during the year and owned 100% by the Company.

100% of Hermielson Investments Ltd, a Cypriot company, that holds 100% shareholding of ZAO Firm Gloria, registered in Russia, owner of land rights of one of the Group's pipeline projects.

100% shareholding of Bundle Trading Ltd, a Cypriot company that acquired 98.6% shareholding of ZAO MTOK registered in Russia.

90% shareholding of Bioka Investments Ltd, a Cypriot company which acquired 100% shareholding of OOO Nordservis, which is registered in Russia. OOO Nordservis is a co-investor to an investment agreement between the Moscow Government and a third party for the construction of a multi-purpose botanic gardens complex located in Moscow.

95% shareholding of Beslaville Management Ltd, a Cypriot company which owns 100% shareholding of OOO Zheldoruslugi, registered in Russia. OOO Zheldoruslugi is the owner of properties, land and buildings, situated in Moscow which are required for the completion of the Tverskaya Zastava Plaza IV project. In addition, the Company has concluded an agreement to buy out the remaining 5% in Beslaville Management Ltd with the pre-agreed price of US$1,424 thousand per each additional 1% interest in the company.

100% shareholding of LL Avia Management S.A., a BVI company which is the owner of an aircraft.

AFI DEVELOPMENT PLC

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8. ACQUISITION OF SUBSIDIARIES (continued)

Acquisition of subsidiaries (continued)

The above acquisitions had the following effect on the Group's assets and liabilities.

	2008 US$ '000	2007 US$ '000
Investment property under development	124,484	621,139
Property, plant and equipment	28,417	44,902
VAT recoverable	1,683	808
Inventory	37	4
Short-term loans receivable	1	5,065
Trade and other receivables	235	8,556
Cash and cash equivalents	4,576	10,343
Long-term loans and borrowings	(379)	(16,252)
Deferred tax liabilities	(318)	(118)
Short-term loans and borrowings	(108)	(16,564)
Trade and other payables	(3,389)	(5,566)
Income tax payable	(80)	-
Net identifiable assets	155,159	652,317
Net identifiable assets acquired by the Group based on % of acquisition of each subsidiary	154,328	651,920
Goodwill on acquisition	-	218
Consideration satisfied in cash	154,328	652,138
Less cash acquired	(4,576)	(10,343)
Net cash outflow from the acquisition of subsidiaries	149,752	641,795

The fair value of the net identifiable assets acquired approximates the consideration paid and therefore no goodwill arose on acquisition of each entity apart from the US$218 thousand in regard to the 2007 acquisition of non significant subsidiaries.

9. OTHER INCOME

Other income consist of:	2008 US$ '000	2007 US$ '000
Profit on sale of property, plant and equipment	3,832	-
Commissions received	182	105
Sundry	168	9
	4,182	114

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10. OTHER EXPENSES

Other expenses consist of:	2008 US$ '000	2007 US$ '000
Impairment loss on investment property under development	-	1,369
VAT written off	946	-
	946	1,369

VAT written off represents non recoverable VAT. Impairment loss on investment property under development represents the write off of initial costs on a project that the Group discontinued its development.

11. NET FINANCE INCOME

	2008 US$ '000	2007 US$ '000
Interest income on loans receivable	(5,441)	(4,940)
Interest/investment income on bank deposits and cash equivalents	(24,981)	(35,476)
Net foreign exchange gain	-	(32,501)
Finance income	(30,422)	(72,917)
Interest expense on loans and borrowings	1,263	1,108
Interest expense on bank loans	24,640	16,878
Interest capitalised	(23,143)	(15,853)
Other finance expenses	800	145
Net foreign exchange loss	24,156	-
Finance expenses	27,716	2,278
Net finance income	(2,706)	(70,639)

12. INCOME TAX (BENEFIT)/EXPENSE

	2008 US$ '000	2007 US$ '000
Current tax (benefit)/expense		
Current year	14,686	10,061
Adjustment for prior years	(2,132)	(263)
	12,554	9,798
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(31,149)	48,446
Tax losses utilised	176	85
	(30,973)	48,531
Total income tax (benefit)/expense	(18,419)	58,329

The provision for taxation either current or deferred is based on the tax rates applicable to the country of residence of each Group entity. Cypriot entities are subject to 10% corporate rate whereas Russian subsidiaries are subject to 24% up to 31 December 2008. As of 1 January 2009 Russian corporate tax rate decrease to 20% which is partially the reason for the reversal of deferred tax this year.

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12. INCOME TAX EXPENSE (continued)

Reconciliation of effective tax rate	2008 %	2008 US$'000	2007 %	2007 US$'000
(Loss)/profit for the year after tax		(107,856)		215,621
Total income tax benefit/(expense)		(18,419)		58,329
Profit before income tax		(126,275)		273,950
Income tax using the Company's domestic tax rate	(10.00)	(12,628)	10.00	27,395
Effect of tax rates in foreign jurisdictions	(0.97)	(1,229)	9.94	27,226
Tax exempt income	(26.85)	(33,899)	(18.71)	(51,245)
Non deductible expenses	18.09	22,847	19.23	52,682
Over provided in prior years	(1.69)	(2,132)	0.10	(263)
Utilisation of previously unrecognised tax losses	0.14	176	0.05	145
Tax losses carried forward	6.69	8,446	0.87	2,389
	(14.59)	(18,419)	21.48	58,329

The current tax liabilities of US$2,703 thousand for the year ended 31 December 2008 (2007: US$4,404 thousand) represent the amount of income tax payable in respect of current and prior periods net of payments made up to the year end.

13. EARNINGS PER SHARE

Basic earnings per share	2008	2007 Continuing operations	2007 Discontinued operations	2007 Total
	US$ '000	US$ '000	US$ '000	US$ '000
(Loss) / profit attributable to ordinary shareholders	(108,674)	217,237	(1,573)	215,664
Weighted average number of shares	Shares in thousands	Shares in thousands	Shares in thousands	Shares in thousands
Issued ordinary shares at 1 January	523,847	423,847	423,847	423,847
Effect of shares issued during the year	-	66,667	66,667	66,667
Weighted average number of shares	523,847	490,514	490,514	490,514
(Loss) / earnings per share (cent)	(20.75)	44.29	(0.32)	43.97

Diluted earnings per share are not presented as their assumed conversion would have an anti-dilutive effect i.e. increase in earnings per share.

14. INVESTMENT PROPERTY

	2008 US$ '000	2007 US$ '000
Balance 1 January	287,865	-
Transfer from investment property under development	48,982	77,133
Fair value adjustment	(8,383)	201,908
Disposal	(107,668)	-
Effect of movement in foreign exchange rates	(34,521)	8,824
Balance 31 December	186,275	287,865

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property.

Investment property comprises of the building H2O which is part of the Paveletskaya development, the building situated at 71 Bolshaya Gruzinskaya street which is part of the Four Winds project, the Ozerkovsky Lane 3 building located at Ozerkovskaya Embankment 22-28 and Berezhkovskaya buildings located within the Dorogomilovsky district of Moscow.

During the 2nd quarter of 2008 the Company sold its interest in Aquamarine II office building. Aquamarine II formed part of Ozerkovskaya Embankment project, Phase II in the Central Administrative District of the City of Moscow. The project comprised of 16,372 sq. m. of built up facilities (12,678.5 sq. m. of gross lettable area). The Company had entered into a sale and purchase agreement with the buyer. The sale price for Aquamarine II was US$207 million at an implied exit yield of 6.8%. The building was fully let to a single tenant; the overall rental revenue under the existing lease agreement was US$14 million per annum. AFI Development PLC's interest in Aquamarine II was 50%. The remaining 50% belongs to a non-related third party, which is the Company's partner in Phases II and III of the Ozerkovskaya Embankment project.

15. INVESTMENT PROPERTY UNDER DEVELOPMENT

	2008 US$ '000	2007 US$ '000
Balance 1 January	1,062,545	370,316
Additions due to acquisitions of subsidiaries	124,484	621,139
Construction costs	272,631	198,098
Capitalised interest	15,919	10,435
Transfer (to)/from property, plant and equipment	(63,709)	343
Transfer to investment property	(48,982)	(77,133)
Transfer to trading properties under construction (note 19)	(90,644)	(63,708)
Fair value adjustment	(125,809)	(1,151)
Effect of movements in foreign exchange rates	(34,432)	4,206
Balance 31 December	1,112,003	1,062,545

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings under construction US$ '000	Land & Buildings US$ '000	Office Equipment US$ '000	Motor Vehicles US$ '000	Aircraft US$ '000	Total US$ '000
Cost						
Balance at 1 January 2008	-	-	1,982	1,657	44,974	48,613
Additions due to acquisitions of subsidiaries	-	25,018	3,335	72	-	28,425
Disposal of subsidiary	-	-	(96)	-	-	(96)
Additions	-	12,644	1,213	642	-	14,499
Transfer from investment property under development	39,038	24,671	-	-	-	63,709
Disposals	-	-	(380)	(107)	(44,974)	(45,461)
Effect of movement in foreign exchange rates	-	(3,370)	(800)	(296)	-	(4,466)
Balance at 31 December 2008	39,038	58,963	5,254	1,968	-	105,223
Accumulated depreciation						
Balance at 1 January 2008	-	-	1,079	728	1,243	3,050
Additions due to acquisitions of subsidiaries	-	-	8	-	-	8
Disposal of subsidiary	-	-	(31)	-	-	(31)
Charge for the year	-	-	578	489	6,871	7,938
Disposals	-	-	(101)	(92)	(8,114)	(8,307)
Effect of movement in foreign exchange rates	-	-	(83)	(185)	-	(268)
Balance at 31 December 2008	-	-	1,450	940	-	2,390
Carrying amount						
At 31 December 2008	39,038	58,963	3,804	1,028	-	102,833
Cost						
Balance at 1 January 2007	-	-	1,137	744	-	1,881
Additions due to acquisitions of subsidiaries	-	-	362	32	44,518	44,912
Additions	-	-	747	904	456	2,107
Transfer to investment property under development	-	-	(343)	-	-	(343)
Disposals	-	-	(3)	(77)	-	(80)
Effect of movement in foreign exchange rates	-	-	82	54	-	136
Balance at 31 December 2007	-	-	1,982	1,657	44,974	48,613
Accumulated depreciation						
Balance at 1 January 2007	-	-	571	323	-	894
Additions due to acquisitions of subsidiaries	-	-	10	-	-	10
Charge for the year	-	-	438	416	1,243	2,097
Disposals	-	-	(2)	(50)	-	(52)
Effect of movement in foreign exchange rates	-	-	62	39	-	101
Balance at 31 December 2007	-	-	1,079	728	1,243	3,050
Carrying amount						
At 31 December 2007	-	-	903	929	43,731	45,563

17. LOANS RECEIVABLE

	2008 US$ '000	2007 US$ '000
Long-term loans		
Loans to other related companies	-	4,296
Loans to joint venture	5,571	-
Loans to non-related companies	39	100
	5,610	4,396
Short-term loans		
Loans to joint ventures	-	3,863
Loan to key management personnel	571	560
Loans to non-related companies	69	75
	640	4,498

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2008 US$ '000	2007 US$ '000
Loans to joint ventures	USD	3m USD LIBOR + 4.5%	2010	4,411	-
	USD	6m USD LIBOR + 4.5%	2010	1,160	-
	USD	8.5%	2008	-	3,863
Loans to related parties	USD	3m USD LIBOR + 4.5%	2010	-	1,611
	RUR	3m USD LIBOR + 4.5%	2010	-	1,632
	USD	6m USD LIBOR + 4.5%	2010	-	1,053
Loan to key management personnel	USD	6m USD LIBOR + 4.5%	2008	571	556
	RUR	7.5%	2008	-	4
Loans to non-related companies	RUR	8.5%- 11%	2009-2014	108	120
	USD	10%	2009	-	55
				6,250	8,894

All above loans are unsecured.

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18. VAT RECOVERABLE

Represents VAT paid on construction costs and expenses which according to the Russian VAT law can be recovered upon completion of the construction. The VAT is expected to be recovered after more than 12 months from the balance sheet date.

Under a revised Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities. The Group was successful in recovering some VAT during the year, however, it is estimated that the major part of the VAT recoverable as at the year end will be recovered in more than 12 months. The amount estimated that will be recovered within 12 months is included in trade and other receivables, note 20.

19. TRADING PROPERTIES UNDER CONSTRUCTION

	2008 US$ '000	2007 US$ '000
Balance 1 January	172,177	91,064
Construction costs	28,925	11,749
Fair value adjustment	(20,792)	-
Transfer from investment property under development (note 14)	90,644	63,708
Capitalised interest	7,224	5,418
Effect of movements in exchange rates	(7,143)	238
Balance 31 December	271,035	172,177

Trading properties under construction comprise of:

The Botanic garden project, which was transferred from investment properties under development on 31 December 2008. The project involves the construction of residential development to include apartments, retail offices and parking facilities.

Four Winds II and Ozerkovskaya emb.26 projects which were transferred from investment properties under development during 2007. Both projects involve the construction of residential building complexes and are estimated that both will be completed within the first quarter of 2009. The Group has sold during the year a number of these residential flats.

Otradnoye project is owned by RAPO, a subsidiary company. The project involves the construction of a mixed use, primarily residential building complex, on a 35 hectare plot of land, consisting of residential and commercial premises, public facilities, amenities and parking.

20. TRADE AND OTHER RECEIVABLES

	2008 US$ '000	2007 US$ '000
Advances to builders	111,939	135,653
Amounts receivable from related companies	4,292	383
Prepayments for acquisition of investments	30,179	34,355
Deferred expenditure	2,411	5,298
Trade receivables	17,940	1,290
Other receivables	34,123	48,217
VAT recoverable	25,808	9,262
Tax receivables	1,316	337
	228,008	234,795

Advances to builders

The advances made to builders in respect of work to be done on the projects under construction, are interest free.

Prepayments for acquisition of investments

Includes US$12,750 thousand prepaid for the acquisition of 100% shareholding of Roppler Engineering Inc. and US$10,916 thousand prepaid for the acquisition of 100% shareholding of OOO Avtograd. All of which were made prior to 2008.

Deferred expenditure

Relates to the recognition of the additional profit on disposal of the 50% of OOO Krown Investments recognised in 2007 and represents the remaining financing of the other partner of the 24 apartments. See note 27 for further details.

Other receivables

2008: Includes an amount of US$20,958 thousand prepaid for the acquisition of 100% of shareholding in Pinkerton Limited owning 100%of the share capital of JSC WTIC Mercury, registered in the Russian Federation. The Group decided not to proceed with the acquisition and funds will be returned.

2007: On 12 February 2007, the Group entered into a framework agreement with Ramis Limited regarding the purchase of a 100% participatory interest in the charter capital of OOO Milinar, a Russian limited liability company, which is holding or will be holding ownership rights to several buildings with a total area of 96,217.6 sq. m. called project Dinamo. The Group has already invested approximately US$30 million in the project out of a total investment cost of US$149 million. While the Group is still in the process of conducting due diligence, the Group has been unable to confirm Milinar's ownership rights with respect to some of the buildings identified in the framework agreement. In addition, it may not be possible to cure certain of the defects identified during the due diligence that may affect Milinar's current and/or future ownership rights in such buildings. Accordingly, the Group has decided to remove Project Dinamo from its current portfolio of assets.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	2008 US$ '000	2007 US$ '000
Cash at banks	272,489	812,365
Cash in hand	9	8
	272,498	812,373

22. SHARE CAPITAL AND RESERVES

Share capital	2008 US$ '000	2007 US$ '000
Authorised:		
1,000,000,000 shares of US$0.001 each	1,000	1,000
Issued and fully paid:		
523,847,027 shares of US$0.001 each	524	524

Share premium

It represents the share premium on the shares issued on 31 December 2006 for the conversion of the shareholders' loans to capital US$421,325 thousand. It also includes the share premium on the issued shares which were represented by GDRs listed in the LSE in 2007. It is the result of the difference between the offering price, US$14, and the nominal value of the shares, US$0.001, after deduction of all listing expenses. An amount of US$1,399,900 thousand less US$57,292 thousand transaction costs was recognised during the year 2007.

Employee Share option plan

The company has established an employee share option plan which is operated by the Board of Directors. Eligible are employees and directors, excluding independent directors, of the Company and employees and directors of the ultimate holding company, Africa Israel investments Ltd and its subsidiaries. The employees share option plan is discretionary and options will be granted only when the Board so determines at an exercise price derived from the closing middle market price preceding the date of grant.

Options over 1,920,041 GDRs were granted up to 31 December 2008 to Russian and Israeli employees and directors with an exercise price of US$14 vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The contractual life is ten years.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations to the Group presentation currency.

Retained earnings

The amount at each reporting date is available for distribution. Aggregate dividend of US$200,000 thousand, (US$0.3817 per GDR or share), was declared and paid during the year ended 31 December 2008.

23. LOANS AND BORROWINGS

	2008 US$ '000	2007 US$ '000
Non-current liabilities		
Secured bank loans	128,583	16,155
Unsecured loan from shareholder	-	316
Unsecured loans from other related companies	-	3,177
Secured loan from non-related company	30,000	51,700
Unsecured loans non-related companies	161	1,529
	158,744	72,877
Current liabilities		
Secured bank loans	105,025	231,311
Unsecured loan from S&T Equity (Overseas) Ltd	-	3,890
Unsecured loans from joint venture	-	609
Secured loan from non-related company	21,005	10,000
Unsecured loans from other non-related companies	13,532	13,262
	139,562	259,072

The secured bank loans comprise of the following:

(i) A non-revolving credit line was obtained from VTB Bank for RUR 8,448 million on 28 August 2008. Up to 31 December 2008 Tranche 1 for the amount of RUR 1,680 million, equivalent to US$68 million, were drawn at 14,25% interest rate (rouble terms**)** and Tranche 2 for the total amount of RUR 6,768 million equivalent to US$230 million, carrying interest of 13,75% (rouble terms). The funds drawn under the credit line are being used to finance the construction of the Moscow-City Mall project. The credit line is secured by a pledge over 100% of the shares of Bellgate Constructions Limited, a lien over 75% of the development rights regarding the project, and a mortgage of commercial spaces when completed. AFI Development's guarantee is one of the elements of collateral for this credit line.

(ii) A non-revolving credit line was obtained from the Sberbank for US$280 million during the year ended 31 December 2007. Up to 31 December 2008 US$71,122 thousand (2007: US$16,101 thousand) were drawn. The funds drawn under the credit line will be used to finance the construction of the Tverskaya Zastava Shopping Centre project. This credit line carries interest of 4.5% above 6 months USD LIBOR. The credit line is secured by a pledge over 51% of the shares in the asset company, a lien over the development rights regarding the Tverskaya Zastava shopping mall project, and a mortgage over the shopping mall and its parking when completed. As from 2nd October 2008 interest rate of Sberbank loan granted to Tverskaya Zastava Shopping Centre project was increased to 8% above 6 months USD LIBOR.

(iii) The secured loan from non-related party is from Quasar Capital Limited with Deutsche Bank London Branch acting as facility agent. According to the loan agreement dated 13 February 2006 the total amount of the loan granted was US$60 million, it carries interest at an annual rate of 2.4% above 6 months USD LIBOR and will be paid in fixed instalments with the last being on 13 February 2011. The amount of US$21,005 thousand is payable within one year. The full amount of the loan is guaranteed by Africa Israel Investments Ltd, registered in Israel, which is the ultimate shareholder of the Company.

23. LOANS AND BORROWINGS (continued)

(iv) A long term secured bank loan facility from Citibank N.A. was obtained for the refinance of the acquisition of the aircraft for US$40,000 thousand on 17 April 2008 and was repaid during December 2008. The loan carried interest at an annual rate of 1.55% above USD 3 month LIBOR.

(v) Short term secured loan from Deutsche Bank, London Branch, amounting to US$200 million granted to the Company during the year ended 31 December 2007 was fully repaid during August 2008.

(vi) Short term secured bank loans include a new non-revolving credit line which was obtained from MDM Bank for US$16,758 thousand during the year ended 31 December 2008 out of which US$16,700 were drawn. The funds drawn under the credit line are being used to finance the construction of the Four Winds project. This credit line carries interest of 12% annually (dollar terms). Starting from 30 September 2008 the interest rate was increased by the bank to 20% annually (dollar terms). The loan is secured by non-residential premises and parking places of Four Winds Plaza I & II projects.

(vii) Short term secured bank loans also include a non-revolving credit line which was obtained from MDM Bank for €55 million during the period ended 31 December 2007 out of which only €35 million were drawn until 31 December 2008. The funds drawn under the credit line are being used to finance the construction of the Four Winds Project. This credit line carries interest of 12% and 14% annually (euro terms). Starting from 30 September 2008 interest rate was increased by the bank to 20% annually (euro terms). The loan is secured by non-residential premises and parking places of Four Winds Plaza I & II projects

(viii) A non-revolving credit line which was obtained from VTB Bank for RUR 1,488 million on 1 August 2008. This credit line carries interest of 12.4 % (rouble terms).

(ix) Short term loan from S & T Equity (Overseas) Ltd was originally given by Brent Industrial Holdings Limited to Westec Four Winds Limited and was assigned later to S & T Equity (Overseas) Ltd. Up to 1 October 2006 the loan carried interest at an annual rate of 5% thereafter it bears interest at an annual rate of 8.5%. There were no securities or guarantees given for the loan. S&T Equity Overseas Ltd is the other 50% shareholder of Westec Four Winds Limited. The loan was repaid by the end of the year.

(x) An express credit line was obtained from CITI Smith Barney Bank for US$ 20.095 thousand on June 2008. The credit line carries an interest of 3.072% p.a. The loan is secured by the portfolio of securities held by CITI Smith Barney and is payable on demand.

The loans and borrowings are payable as follows:	2008 US$ '000	2007 US$ '000
Less than one year	139,562	259,072
Between one and five years	103,300	72,877
More than five years	55,444	-
	298,306	331,949

23. LOANS AND BORROWINGS (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2008 US$ '000	2007 US$ '000
Unsecured loan from shareholder	USD	1%	2009	-	316
Unsecured loans from other related companies	USD	6m LIBOR + 4.5%	2010	-	3,177
Secured loan from Quasar Capital Limited	USD	6m USD LIBOR + 2.4%	2010-11	30,000	51,700
	USD	6m USD LIBOR + 2.4%	2009	21,005	10,000
Secured loan from Sberbank	USD	6m USD LIBOR + 8%	2010	71,402	16,155
Secured loan from MDM Bank	EURO	20%	2009	25,515	26,340
Secured loan from MDM Bank	USD	20%	2009	8,443	-
Secured loan from CITI Smith	USD	3.072%	2009	20,095	-
Secured loan from Deutsche Bank AG	USD	6m USD LIBOR + 1.45%	2008	-	204,971
Secured loan from VTB Bank	RUR	13.75% - 14.25%	2011	57,181	-
Secured loan from VTB Bank	RUR	12,40%	2009	50,972	-
Unsecured loans from non-related companies	USD	12%	2009	1,438	1,424
	RUR	14.5%	2008	4,381	4,453
	RUR	0%	2008	7,101	8,500
	RUR	8.5% - 12%	2008-2014	151	146
	RUR	3% - 5%	2008-2011	622	268
Unsecured loans from joint ventures	RUR	9%	2007-2011	-	609
Unsecured loan - S&T Equity (Overseas) Ltd	USD	8.5%	2008	-	3,890
				298,306	331,949

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24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	2008 US$ '000	2007 US$ '000
Investment property	10,806	62,534
Investment property under development	5,558	(5,386)
Property, plant and equipment	(3,020)	182
Trading properties under construction	(1,848)	-
Trade and other receivables	235	(3,718)
Cash and cash equivalents	16	-
Inventory	1	-
Long term loans and borrowings	8	-
Trade and other payables	4,566	291
Other items	190	691
Tax losses carried forward	(10,191)	(3,701)
Deferred tax liability	6,321	50,893

25. TRADE AND OTHER PAYABLES

	2008 US$ '000	2007 US$ '000
Down payments received for sale of flats	-	37,089
Trade payables	453	1,171
Payables to related parties	471	491
Amount payable to builders	19,261	14,706
VAT and other taxes payable	1,647	968
Down payments received for construction projects	2,932	15,742
Provisions for construction costs	30,934	-
Other payables	84,641	13,649
	140,339	83,816

The above are payable within one year and bear no interest.

Other payables
Include an amount of $80,991 thousand payable to the 50% partner of the joint venture Krown LLC, which was disposed during the second quarter of 2008.

26. DEFERRED INCOME

Represents rental income received in advance, which corresponds to periods after the reporting date.

27. DISPOSAL OF SUBSIDIARIES

	2008 US$ '000	2007 US$ '000
The profit on disposal of subsidiaries consists of:		
Profit on disposal of OOO Krown	249	-
Profit on disposal of 50% shareholding of OOO Krown Investments	-	8,886
	249	8,886

The selling price net of transaction costs of the disposal of OOO Krown was US$93,150 thousand. The resulting loss on sale amounting to US$2,167 thousand and the realised exchange gain amounting to $2,416 thousand were recognised in the income statement at an amount of US$ 249 thousand profit.

The additional profit on disposal of the 50% of OOO Krown Investments recognised in 2007 represents the 50% of the estimated cost of the 24 apartments that, according to the sale agreement, will be financed by both partners whereas the revenue from their sale will be retained by the Group.

The above disposals had the following effect on the Group's assets and liabilities:

	2008 US$ '000 OOO OlympProject	2008 US$ '000 OOO Krown 50%	2007 US$ '000 OOO Krown Investments 50%
Investment property	-	(107,668)	-
Property, plant and equipment	(65)	-	-
Trade and other receivables	(14)	(4,676)	-
Cash and cash equivalents	(10)	-	-
Deferred tax liability	-	12,821	-
Short term loans and borrowings	-	30	-
Trade and other payables	15	2,513	-
Deferred income	-	1,663	-
Net identifiable assets	(74)	(95,317)	-
Consideration received in cash	82	93,150	142,063
Cash disposed of	(10)	-	-
Net cash inflow from the disposal of subsidiaries	72	93,150	142,063

	2008 US$ '000	2007 US$ '000
Total cash inflow from disposal of subsidiaries	93,222	142,063

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28. JOINTLY CONTROLLED ENTITIES

Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, income and expenses of the joint ventures:

	Ownership	Current assets US$ '000	Non-current assets US$ '000	Current liabilities US$ '000	Non-current liabilities US$ '000	Income US$ '000	Expenses US$ '000	Profit / (loss) US$ '000
2008:								
Nouana Limited	50%	1,293	16,147	52	18,955	763	(752)	11
OOO Tirel	50%	483	13,578	163	12,184	2,332	(1,755)	577
ZAO Kama Gate	50%	673	4,882	826	5,364	179	(717)	(538)
OOO Krown Investments	50%	56,639	27,960	14,408	61,751	39,001	(70,386)	(31,385)
Westec Four Winds Limited	50%	24,295	140,622	70,929	12,962	76,045	(90,063)	(14,018)
		83,383	203,189	86,378	111,216	118,320	(163,673)	(45,353)
2007:								
OOO Bizar	50%	292	2,046	603	78	1	(39)	(38)
OOO Krown Investments	50%	16,245	138,601	45,397	70,622	52,525	(16,005)	36,520
Westec Four Winds Limited	50%	29,563	202,689	73,682	38,638	151,863	(37,319)	114,544
		46,100	343,336	119,682	109,338	204,389	(53,363)	151,026

During the year ended 31 December 2008 the Group acquired 50% shareholding of Nouana Limited, registered in Cyprus and its Russian subsidiary, OOO Tirel.

Also the Group acquired 20% additional shareholding in ZAO Kama Gate, as a result it currently holds 50% in ZAO Kama Gate, registered in the Russian Federation.

Moreover, the Group acquired during the year 24% additional interest in the share capital of OOO Bizar, registered in the Russian Federation. The Company acquired during 2007 50% shareholding in OOO Bizar, therefore it currently holds a total of 74% which for the year ended 31 December 2008 is being consolidated as a subsidiary.

29. FINANCIAL INSTRUMENTS

Currency risk

Sensitivity analysis

The following shows the magnitude of changes in respect of a number of major factors influencing the Group's profit before taxes. The assessment has been made on the year-end figures.

A 10% strengthening of the United States Dollar against the following currencies at 31 December would have increased/(decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

29. FINANCIAL INSTRUMENTS (continued)

Currency risk (continued)

***Sensitivity analysis* (continued)**

	Equity US$ '000	Profit for the year US$ '000
31 December 2008		
Russian Roubles	(62,458)	3,629
Euro		2,319
31 December 2007		
Russian Roubles	(31,900)	(2,605)
Euro	-	2,627

A 10% weakening of the United States Dollar against the above currencies at 31 December would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount 2008 US$ '000	Carrying amount 2007 US$ '000
Fixed rate instruments		
Financial assets	110,108	477,384
Financial liabilities	(135,709)	(45,946)
	(25,601)	431,438
Variable rate instruments		
Financial assets	6,142	106,698
Financial liabilities	(142,502)	(286,003)
	(136,360)	(179,305)

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

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29. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

***Cash flow sensitivity analysis for variable rate instruments* (continued)**

	Equity US$ '000	Profit for the year US$ '000
31 December 2008		
Variable rate instruments	-	(1,364)
31 December 2007		
Variable rate instruments	-	(1,801)

An increase of 100 basis points in interest rates at the reporting date would have the equal but opposite effect on the above instruments to the amounts shown above, on the basis that all other variables remain constant.

Fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However judgement is required to interpret market data to determine the estimated fair value.

The fair values of financial assets and liabilities are not materially different than their carrying amount shown in the balance sheet.

Russian Business Environment

The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

30. OPERATING LEASES

Leases as lessee

Non cancellable operating lease rentals are payable as follows:

	2008 US$ '000	2007 US$ '000
Less than a year	2,044	4,537
Between one and five years	5,475	9,517
More than five years	31,065	41,213
	38,584	55,267
Amount recognised as an expense during the year	1,015	218

30. OPERATING LEASES (continued)

Leases as lessee (continued)

Under the Russian law the ownership of land in the Russian Federation is rare and especially within Moscow region, in which all of the property with only a few exceptions, is owned by the City of Moscow. The majority of land is occupied by private entities pursuant to lease agreements between occupants, of the building located on the land, and the City of Moscow. The Group has several long-term operating leases for land. These leases, also called "investment contracts", are entered into with the intention and right to develop the land and carry out construction. Typically they run for an initial period of one to five years which is the period of development and upon completion of development the developer has the right to renew for a long term period of usually up to 49 years. Under both leases the lessee is required to make periodic lease payments, generally on a quarterly basis to the City of Moscow.

There is also the option of long term land lease prior to commencement of construction which the developer can acquire with a lump sum payment that is determined from time to time by the City of Moscow and is based on the size of the land, its location and the proximity to amenities. The Group has two such land rights and they run for period of 49 years.

Leases as lessor

The Group leases out investment property under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2008 US$ '000	2007 US$ '000
Less than a year	27,795	17,055
Between one and five years	233,254	96,884
More than five years	9,449	14,875
	270,498	128,814
Amount recognised as income during the year	31,367	8,447

31. CAPITAL COMMITMENTS

Up to 31 December 2008 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	Commitment 2008 US$ '000	Commitment 2007 US$ '000
Moscow City shopping centre	140,857	384,027
Tverskaya Zastava development	175,700	193,019
Otradnoye	145,754	176,627
Ozerkovskaya Embankment - Phase II	22,276	42,047
Four Winds I and II	38,315	33,129
Paveletskaya Embankment	-	27,531
	522,902	856,380

The following is a summary of the most significant contracts giving rise to future capital commitments:

Moscow City Shopping Centre project includes a contract with Enka Insaat Ve Sanayi Anonim Sirketi ("Enka') and Mosinzhstroy GUP who are acting as the general constructors of the project. The amount of future capital commitment according to the contract is US$140,857 thousand.

Tverskaya Zastava development includes a contract also with Enka who is acting as the general constructor of the project. The amount of future capital commitments according to the contract is US$175,700 thousand.

Otradnoye project includes two contracts with Danya Cebus Rus LLC, a related party who will act as the general constructor. The amount of future capital commitments according to these contracts is US$145,754 thousand.

Four Winds I and II project includes a contract with Rasen Construction Ltd who is acting as the general constructor of the project. The amount of future capital commitments according to the contract is US$38,315 thousand.

32. CONTINGENCIES

The Group has no material contingent assets or liabilities arising from litigation, potential claims or other matters. In regard to the "investment contracts" signed with the City of Moscow, the Board of Directors believes that there will be no material contingent liabilities in relation to meeting specific completion time deadlines as specified in the "investment contracts", nor will there be any material contingent liability in cases where such deadlines may need to be renegotiated.

33. RELATED PARTIES

Outstanding balances with related parties

	2008 US$ '000	2007 US$ '000
Assets		
Long-term loans to other related companies	-	4,296
Short-term loans to joint ventures	5,571	3,863
Short-term loans to key management	571	560
Amounts receivable from subsidiaries	-	316
Amounts receivable from joint ventures	3,976	14
Advances issued to other related companies	2,953	-
Amounts receivable from other related companies	315	53
Liabilities		
Long-term loan from shareholder	-	316
Long-term loans from other related companies	-	3,177
Short-term loan from joint venture	-	609
Short-term loans from other related companies	-	3,890
Amounts payable to ultimate shareholder	246	-
Amount payable to shareholder	16	-
Amount payable to joint venture	30	-
Amounts payable to other related companies	177	167
Amounts payable to key management personnel	2	324

All outstanding balances with these parties are priced at an arm's length basis and are to be settled in cash. For repayment dates, securities and interest rates of the loans see notes 17 and 23. None of the other balances is secured.

Transactions with the key management personnel

	2008 US$ '000	2007 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	2,638	2,940

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The person is a member of the key management personnel of the entity or its parent (includes the immediate, intermediate or ultimate parent). Key management is not limited to directors; other members of the management team also may be key management.

33. RELATED PARTIES (continued)

Other related party transactions

	2008 US$ '000	2007 US$ '000
Revenue		
Shareholder – interest income	-	12
Joint venture – consulting services	2,357	2,241
Joint venture – rental income	2	16
Joint venture – interest income	1,247	4,095
Other related companies – rental income	1	179
Other related companies – consulting services	32	6
Other related companies – interest income	-	817
Key management personnel – interest income	58	-
Expenses		
Shareholder – interest expense	-	573
Joint venture – operating expenses	-	45
Joint venture – interest expense	11	45
Other related companies – operating expenses	-	512
Other related companies – administrative expenses	-	6
Other related companies – interest expense	227	135

34. GROUP ENTITIES

Ultimate controlling party: Lev Leviev — Israel

Ultimate holding company: Africa Israel Investments Limited — Israel

Holding company: Moonbeam Enterprises Limited — Cyprus

Significant Subsidiaries	**Ownership interest 2008**	**Ownership interest 2007**	**Country of incorporation**
1. OOO Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
2. OOO MayStroy	100	100	Russian Federation
3. OOO InzhStroy AG	100	100	Russian Federation
4. OOO IncomStroy	100	100	Russian Federation
5. OOO Tain Investments	100	100	Russian Federation
6. OOO AFI Development (formerly Tain Investments)	100	100	Russian Federation
7. OOO Ozerkovka	100	100	Russian Federation
8. OOO Corin Development	100	100	Russian Federation
9. OOO LessyProf	100	100	Russian Federation
10. OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK)	98.8	98.2	Russian Federation
11. Bellgate Construction Limited	100	100	Cyprus
12. Moscow City Centre PLC	100	100	United Kingdom
13. Slytherin Development Limited	100	100	Cyprus
14. OOO Ultrastroy	100	100	Russian Federation
15. OOO Ultrainvest	100	100	Russian Federation

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34. GROUP ENTITIES (continued)

Significant Subsidiaries	Ownership interest 2008	2007	Country of incorporation
16. OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
17. Severus Trading Limited	100	100	Cyprus
18. OOO Aristeya	100	100	Russian Federation
19. Talena Development Limited	100	100	Cyprus
20. Temalis Limited	100	100	Cyprus
21. Buildola Properties Limited	100	100	Cyprus
22. Bugis Finance Limited	100	100	British Virgin Islands
23. Borenco Enterprises Limited	100	100	Cyprus
24. OOO StroyInkom-K	100	100	Russian Federation
25. OOO PSO Dorokhovo	100	100	Russian Federation
26. Scotson Limited	100	100	Cyprus
27. OOO Rostransconsult	100	100	Russian Federation
28. ZAO Armand	100	100	Russian Federation
29. OOO Project+	100	-	Russian Federation
30. OOO Volga StroyInkom Development	100	100	Russian Federation
31. OOO Volga Land Development	100	100	Russian Federation
32. Krusto Enterprises	100	60	Cyprus
33. Keyri Trading & Investments Ltd	100	100	Cyprus
34. OOO Favorit	100	100	Russian Federation
35. OOO KO Proekt	100	100	Russian Federation
36. OOO KO Development	76	76	Russian Federation
37. ZAO Nedra Publishing	90.17	90.17	Russian Federation
38. OOO Titon	100	100	Russian Federation
39. ZAO UMM Stroyenergomekhani zatsiya	100	100	Russian Federation
40. Rognerstar Finance Limited	100	100	Cyprus
41. Hermielson Investments Ltd	100	100	Cyprus
42. ZAO Firm Gloria	100	100	Russian Federation
43. Bundle Trading Limited	100	100	Cyprus
44. ZAO MTOK	98.6	98.6	Russian Federation
45. Bioka Investments Limited	90	90	Cyprus
46. OOO Nordservis	90	90	Russian Federation
47. Guzela Limited	100	100	Cyprus
48. AFI Development Hotels Limited (formerly Kanylia Investment Limited)	100	100	Cyprus
49. Eitan Limited	100	-	Cyprus
50. OOO Eitan	100	-	Russian Federation
51. OOO Eitan K	100	-	Russian Federation
52. Sherzinger Limited	100	100	Cyprus
53. Rubiosa Management Limited	100	100	Cyprus
54. Bastet Estates Limited	100	-	Cyprus

34. GROUP ENTITIES (continued)

Significant Subsidiaries	Ownership interest 2008	2007	Country of incorporation
55. OOO Semprex	100	100	Russian Federation
56. Beslaville Management Limited	95	95	Cyprus
57. OOO Zheldoruslugi	95	95	Russian Federation
58. OOO RealProject	95	-	Russian Federation
59. OOO OlympProject	-	90	Russian Federation
60. Amerone Development Limited	100	100	Cyprus
61. Hegemony Limited	100	-	Cyprus
62. OOO Extra Plus	100	-	Russian Federation
63. Inscribe Limited	100	-	Cyprus
64. OOO AFI RUS Parking Management	100	-	Russian Federation
65. OOO Cristall Development	100	100	Russian Federation
66. OOO North Investments	100	100	Russian Federation
67. Grifasi Investments Limited	100	-	Cyprus
68. Occuper Holdings Limited	100	-	Cyprus
69. OOO Adnera	100	-	Russian Federation
70. OOO AFI RUS	100	100	Russian Federation
71. LL Avia Management SA	100	100	British Virgin Islands
72. OOO StroynKom – Realt	100	100	Russian Federation
73. OOO AFI Region	100	-	Russian Federation
74. OOO AFI RUS Management	100	-	Russian Federation
75. OOO Bizar	74	50	Russian Federation
76. OOO Sever Region K	100	-	Russian Federation
77. AFI Ukraine Limited	100	-	Cyprus
78. OOO AFI-DS 1	100	-	Ukraine
79. OOO AFI-DS 2	100	-	Ukraine
80. OOO AFI-DS 3	100	-	Ukraine
81. OOO Budinkom-Ukraine	100	-	Ukraine
82. AFI D Finance SA	100	-	British Virgin Islands
83. Falgaro Investments Limited	100	-	Cyprus

Significant jointly controlled entities	Ownership interest 2008	2007	Country of incorporation
1. OOO Krown Investments	50	50	Russian Federation
2. Westec Four Winds Limited	50	50	Cyprus
3. Dulverton Limited	50	-	Cyprus
4. Nouana Limited	50	-	Cyprus
5. OOO Tirel	50	-	Russian Federation
6. ZAO Kama Gate	50	30	Russian Federation

34. GROUP ENTITIES (continued)

During the year ended 31 December 2008 the Group acquired or incorporated the following subsidiaries:

100% of Occuper Holdings Ltd, a Cypriot company, which owns 100% shareholding of OOO Adnera, registered in Russia. OOO Adnera holds ownership rights in real estate required for the Phase III of the Bolshaya Pochtovaya project in Moscow.

100% of OOO AFI RUS SM, registered in the Russian Federation.

24% additional interest in the share capital of OOO Bizar, registered in the Russian Federation. The Company acquired during 2007 50% shareholding in OOO Bizar, therefore it currently holds a total of 74%.
50% of Noana Limited and 100% of Eitan Cyprus Limited, Cypriot companies, that hold investment in four properties located in the Caucasian Mineral Springs area, in the Kislovodsk region, in the southern part of the Russian Federation.

100% shareholding of AFI Ukraine Limited, a Cypriot company, and LLC “AFI DS-1”, LLC “AFI DS-2”, LLC “AFI DS-3” and LLC Bundikom-Ukrane, registered in Ukraine. These companies are the owners of the Boryspol project in the vicinity of Kiev international airport.

40% additional shareholding of Krusto Enterprises Ltd. The Company acquired during 2007 60% shareholding in Krusto Enterprises Ltd, as a result, the Company will currently hold 50% in ZAO Kama Gate, registered in the Russian Federation.

During the year ended 31 December 2007 the Group acquired or incorporated the following subsidiaries:

100% of ZAO Armand, OOO Volga StroyInkom Development, OOO Volga Land Development, OOO Semprex, OOO OlympProject, OOO North Investments and OOO StroyInkom- Realt all of which are registered in the Russian Federation.

60% of Krusto Enterprises Ltd, which is registered in Cyprus. Krusto Enterprises Ltd, together with a Russian partner established ZAO Kama Gate in the Russian Federation, as a joint venture with each owning 50% of its share capital.

50% of OOO Bizar, registered in the Russian Federation.

100% of Keyiri Trading & Investments Limited, a Cypriot company that holds 100% of OOO Favorit. OOO Favorit, a Russian registered entity, holds 76% interest in the land plot on which the St. Petersburg project will be located. 100% of OOO KO Proekt, subsidiary of Buildola Properties Limited which acquired 76% shareholding of OOO KO Development that will develop the St. Petersburg project. The remaining 24% of KO Development is currently held by the Group’s local partner in St. Petersburg.

34. GROUP ENTITIES (continued)

90.17% participatory interest in the charter capital of ZAO Nedra Publishing, which holds ownership rights to buildings required for the completion of Tverskaya Zastava Plaza II project.
100% shareholding of OOO Titon and ZAO UMM Stroyenergomekhanizatsiya, registered in the Russian Federation. Both entities own a number of long-term lease agreements with Moscow government for land plots needed for the completion of Kossinskaya project. Both companies were acquired through Rognerstar Finance Limited a Cypriot newly registered company which was incorporated during the year and is owned 100% by the Company.

100% of Hermielson Investments Limited, a Cypriot company, that holds 100% shareholding of ZAO Firm Gloria, registered in the Russian Federation.

100% shareholding of Bundle Trading Limited, a Cypriot company, that acquired 98.6% shareholding of ZAO MTOK, registered in the Russian Federation.

90% shareholding of Bioka Investments Limited, a Cypriot company, which acquired 100% shareholding of OOO Nordservis, registered in the Russian Federation. OOO Nordservis is a co-investor to an investment agreement between the Moscow Government and a third party for the construction of a multi-purpose botanic gardens complex located in Moscow.

95% shareholding of Beslaville Management Ltd, a Cypriot company, which owns 100% shareholding of OOO Zheldoruslugi, registered in Russia. OOO Zheldoruslugi is the owner of properties, land and buildings, situated in Moscow, which are required for the completion of the Tverskaya Zastava Plaza IV project. In addition, the Company has concluded an agreement to buy out the remaining 5% in Beslaville Management Ltd with the pre-agreed price of US$1,424 thousand per each additional 1% interest in the company.

100% shareholding of LL Avia Management S.A., a BVI company which is the owner of an aircraft.

35. SUBSEQUENT EVENTS

There were no events which took place after the balance sheet date which have a bearing on the understanding of these financial statements