AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 September 2012

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For the period from 1 January 2012 to 30 September 2012

C O N T E N T S

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Independent auditors' report on review of condensed consolidated interim financial information to the members of AFI DEVELOPMENT PLC

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of AFI Development PLC as at 30 September 2012 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and other explanatory notes (interim financial information). The Company's Board of Directors is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

Marios G. Gregoriades
Certified Public Accountant and Registered Auditor
For and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

Nicosia, 22 November 2012

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January 2012 to 30 September 2012

	Note	For the three months ended 1/7/12-30/9/12 US$ '000	For the three months ended 1/7/11-30/9/11 US$ '000	For the nine months ended 1/1/12-30/9/12 US$ '000	For the nine months ended 1/1/11-30/9/11 US$ '000
Revenue					
Rental income		37,371	34,644	109,483	83,179
Construction consulting/management services		421	218	2,238	799
		37,792	34,862	111,721	83,978
Other income		448	253	2,553	455
Operating expenses		(17,391)	(22,092)	(53,511)	(48,565)
Administrative expenses	5	(3,934)	(5,841)	(16,318)	(13,256)
Other expenses	6	(1,195)	(349)	(1,553)	(2,620)
		15,720	6,833	42,892	19,992
Profit on disposal of investments in subsidiaries	19	119	-	2,713	-
Impairment of prepayment for investments		-	-	-	(1,178)
Valuation (loss)/gain on investment property	9,10	(73,250)	175,435	(245,660)	198,538
Impairment loss on inventory of real estate	12	-	-	(65,445)	-
Impairment loss on property, plant and equipment		-	-	-	(2,759)
Net valuation (loss)/gain		(73,250)	175,435	(311,105)	195,779
Net proceeds from sale of trading properties		4,830	5,722	12,348	14,764
Carrying value of trading properties sold	13	(3,658)	(5,060)	(8,766)	(9,314)
Profit on disposal of trading properties		1,172	662	3,582	5,450
Results from operating activities		(56,239)	182,930	(261,918)	220,043
Finance income		19,177	3,270	19,945	6,381
Finance costs		(13,431)	(27,246)	(47,087)	(31,896)
Net finance income/(cost)	7	5,746	(23,976)	(27,142)	(25,515)
(Loss)/profit before income tax		(50,493)	158,954	(289,060)	194,528
Tax expense/(benefit)	8	14,573	(40,708)	12,500	(47,539)
(Loss)/profit for the period		(35,920)	118,246	(276,560)	146,989
(Loss)/profit attributable to:					
Owners of the Company		(35,732)	118,072	(269,790)	146,412
Non-controlling interests		(188)	174	(6,770)	577
(Loss)/profit for the period		(35,920)	118,246	(276,560)	146,989
Earnings per share					
Basic and diluted earnings per share (cent)		(3.41)	11.27	(25.75)	13.97

The notes on pages 7 to 20 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2012 to 30 September 2012

	For the three months ended 1/7/12-30/9/12 US$ '000	For the three months ended 1/7/11-30/9/11 US$ '000	For the nine months ended 1/1/12-30/9/12 US$ '000	For the nine months ended 1/1/11-30/9/11 US$ '000
(Loss)/profit for the period	(35,920)	118,246	(276,560)	146,989
Other comprehensive income				
Realised translation difference on disposal of subsidiaries transferred to income statement	(60)	-	(161)	-
Foreign currency translation differences – foreign operations	38,484	(99,505)	24,722	(34,822)
Total comprehensive income for the period	2,504	18,741	(251,999)	112,167
Total comprehensive income attributable to:				
Owners of the Company	2,726	18,615	(244,966)	111,603
Non-controlling interests	(222)	126	(7,033)	564
Total comprehensive income for the period	2,504	18,741	(251,999)	112,167

The notes on pages 7 to 20 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2012 to 30 September 2012

	Attributable to the owners of the Company					Non-controlling interests	Total
	Share Capital US$ '000	Share Premium US$ '000	Translation Reserve US$ '000	Retained Earnings US$ '000	Total US$ '000	US$ '000	US$ '000
Balance at 1 January 2011	1,048	1,763,409	(142,632)	106,571	1,728,396	3,225	1,731,621
Total comprehensive income for the period							
Profit for the period	-	-	-	146,412	146,412	577	146,989
Total other comprehensive income	-	-	(34,809)	-	(34,809)	(13)	(34,822)
Total comprehensive income for the period	-	-	(34,809)	146,412	111,603	564	112,167
Transactions with owners of the Company, recognised directly in equity							
Share option expense	-	-	-	62	62	-	62
Balance at 30 September 2011	1,048	1,763,409	(177,441)	253,045	1,840,061	3,789	1,843,850
Balance at 1 January 2012	1,048	1,763,409	(178,491)	277,503	1,863,469	3,887	1,867,356
Total comprehensive income for the period							
Loss for the period	-	-	-	(269,790)	(269,790)	(6,770)	(276,560)
Total other comprehensive income	-	-	24,824	-	24,824	(263)	24,561
Total comprehensive income for the period	-	-	24,824	(269,790)	(244,966)	(7,033)	(251,999)
Transactions with owners of the Company, recognised directly in equity							
Share option expense	-	-	-	515	515	-	515
Balance at 30 September 2012	1,048	1,763,409	(153,667)	8,228	1,619,018	(3,146)	1,615,872

The notes on pages 7 to 20 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012

	Note	30/9/12 US$ '000	31/12/11 US$ '000
Assets			
Investment property	9	1,443,130	1,403,580
Investment property under development	10	769,011	983,598
Property, plant and equipment	11	101,440	92,034
Long-term loans receivable		45	34
Inventory of real estate	12	-	66,221
VAT recoverable		906	5,370
Intangible assets		153	153
Non-current assets		2,314,685	2,550,990
Trading properties	13	2,811	11,053
Trading properties under construction	14	139,504	129,598
Inventory		1,556	665
Short-term loans receivable		807	786
Trade and other receivables	15	76,046	107,170
Income tax receivable		689	-
Cash and cash equivalents		71,807	84,820
Current assets		293,220	334,092
Total assets		2,607,905	2,885,082
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Translation reserve		(153,667)	(178,491)
Retained earnings		8,228	277,503
Total equity attributable to owners of the Company	16	1,619,018	1,863,469
Non-controlling interests		(3,146)	3,887
Total equity		1,615,872	1,867,356
Liabilities			
Long-term loans and borrowings	17	638,774	528,116
Long-term amounts payable		38,073	71,627
Deferred tax liabilities		126,391	142,093
Deferred income		23,031	22,622
Non-current liabilities		826,269	764,458
Short-term loans and borrowings	17	29,735	98,973
Trade and other payables	18	136,029	154,092
Current tax liabilities		-	203
Current liabilities		165,764	253,268
Total liabilities		992,033	1,017,726
Total equity and liabilities		2,607,905	2,885,082

The condensed consolidated interim financial statements were approved by the Board of Directors on 22 November 2012.

The notes on pages 7 to 20 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January 2012 to 30 September 2012

	Note	1/1/12-30/9/12 US$ '000	1/1/11-30/9/11 US$'000
Cash flows from operating activities			
(Loss)/profit for the period		(276,560)	146,989
Adjustments for:			
Depreciation	11	1,433	1,394
Interest income	7	(6,177)	(6,381)
Interest expense	7	42,794	25,275
Share option expense		515	62
Fair value adjustments		311,105	(194,601)
Negative goodwill on acquisition of joint venture		(1,929)	-
Profit on disposal of investments in subsidiaries		(2,713)	-
(Profit)/loss on disposal of property, plant and equipment		(44)	38
Unrealised (gain)/loss on foreign exchange	7	(13,768)	4,016
Tax (benefit)/expense	8	(12,500)	47,539
		42,156	24,331
Change in trade and other receivables		(7,775)	(1,950)
Change in inventories		(1,074)	50
Change in trading properties and tr. properties under construction		402	8,667
Change in trade and other payables		(20,841)	23,723
Change in deferred income		493	(1,110)
Cash generated from operating activities		13,361	53,711
Taxes paid		(3,696)	(10,407)
Net cash from operating activities		9,665	43,304
Cash flows from investing activities			
Interest received		1,032	614
Net cash inflow from the disposal of subsidiaries	19	5,789	-
Net cash inflow from the acquisition of joint venture		4,035	-
Proceeds from sale of property, plant and equipment		1,070	29
Change in advances and amounts payable to builders	15,18	4,644	2,825
Payments for construction of investment property under development	9, 10	(23,900)	(58,658)
Payment for the acquisition of investment property		(43,967)	(156,862)
Change in VAT recoverable		43,278	28,863
Acquisition of property, plant and equipment	11	(7,329)	(5,720)
Net cash used in investing activities		(15,348)	(188,909)
Cash flows from financing activities			
Change in loans receivable		(9)	(740)
Proceeds from loans and borrowings		577,507	259,673
Repayment of loans and borrowings		(535,212)	(86,928)
Interest paid		(47,655)	(43,023)
Net cash from/(used in) financing activities		(5,369)	128,982
Effect of exchange rate fluctuations		(1,961)	(6,017)
Net decrease in cash and cash equivalents		(13,013)	(22,640)
Cash and cash equivalents at 1 January		84,820	129,839
Cash and cash equivalents at 30 September		71,807	107,199
The cash and cash equivalents consist of:			
Cash at banks		71,723	107,175
Cash in hand		84	24
		71,807	107,199

The notes on pages 7 to 20 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 September 2012

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 has changed to 165 Spyrou Araouzou, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. The Company is a 64.88% (31/12/2011: 63.7%) subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE"). The remaining shareholding of "A" shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange ("LSE"). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 "B" shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as "A" shares.

These condensed consolidated interim financial statements of the Company for the period from 1 January 2012 to 30 September 2012 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.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all of the information required for the full annual financial statements.

Estimates

The preparation of interim financial statements 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.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2011.

Functional and presentation currency

These 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.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 September 2012

2. BASIS OF PREPARATION (continued)

Functional and presentation currency (continued)

Foreign operations

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 that entity are translated in accordance with IAS 21 'The effects of changes in foreign exchange rates'.

The table below shows the exchange rates of Russian Roubles, which is the functional currency of the Russian subsidiaries of the Group, to the US Dollar which is the presentation currency of the Group:

As of:	Exchange rate Russian Roubles for US$1	% change quarter	% change YTD
30 September 2012	30.9169	(5.8) %	(4.0) %
30 June 2012	32.8169	11.9 %	1.9 %
31 March 2012	29.3282	(8.9) %	(8.9) %
31 December 2011	32.1961	1.0 %	5.6 %
30 September 2011	31.8751	13.5 %	4.6 %
30 June 2011	28.0758		(7.9) %

Average rate during:		% change period / prior period
Nine-month period ended 30 September 2012	31.0724	7.9 %
Six-month period ended 30 June 2012	30.5666	7.4 %
Three-month period ended 31 March 2012	30.0278	3.5 %
Nine-month period ended 30 September 2011	28.7884	(4.7) %

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011.

4. OPERATING SEGMENTS

The Group has 4 reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different types of real estate products and services and are managed separately because they require different marketing strategies as they address different types of clients. For each strategic business unit the Group's management reviews internal management reports on at least a monthly basis. The following summary describes the operation in each of the Group's reportable segments:

- Development Projects – Commercial projects: Include construction of property for future lease.
- Development Projects – Residential projects: Include construction and selling of residential properties.
- Asset Management: Includes the operation of investment property for lease.
- Other – Land bank: Includes the investment and holding of property for future development.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 September 2012

4. OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's management team. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	Development projects				**Asset management**		**Other - land bank**			
	Commercial projects		Residential projects						Total	
	30/9/12 US$'000	30/9/11 US$'000	30/9/12 US$'000	30/9/11 US$'000	30/9/12 US$'000	30/9/11 US$'000	30/9/12 US$'000	30/9/11 US$'000	30/9/12 US$'000	30/9/11 US$'000
External revenues	-	-	12,348	14,764	110,734	83,175	987	803	124,069	98,742
Inter-segment revenue	-	1	2	2	440	352	282	282	724	637
Reportable segment profit before tax	7,886	(598)	(324)	8,290	28,572	11,154	(17,247)	(16,745)	18,887	2,101
	30/9/12 US$'000	31/12/11 US$'000	30/9/12 US$'000	31/12/11 US$'000	30/9/12 US$'000	31/12/11 US$'000	30/9/12 US$'000	31/12/11 US$'000	30/9/12 US$'000	31/12/11 US$'000
Reportable segment assets	435,713	563,820	142,532	202,049	1,894,269	1,922,926	46,541	52,584	2,519,055	2,741,379

Note:
Development projects – all investment projects under construction, including construction of residential properties
Asset management – yielding property management (all commercial properties)

Reconciliation of reportable segment revenues and profit or loss	1/1/12-30/9/12 US$ '000	1/1/11-30/9/11 US$ '000
Revenues		
Total revenue for reportable segments	124,793	99,379
Elimination of inter-segment revenue	(724)	(637)
Consolidated revenue	124,069	98,742

	1/1/12-30/9/12 US$ '000	1/1/11-30/9/11 US$ '000
Profit or loss		
Total profit or (loss) for reportable segments	18,887	2,101
Other profit or loss	445	(2,174)
Profit on disposal of investments in subsidiaries	2,713	-
Impairment loss of prepayment for investment	-	(1,178)
Valuation (loss)/gain on investment property	(245,660)	198,538
Impairment loss on inventory of real estate	(65,445)	-
Impairment loss on property, plant and equipment	-	(2,759)
Consolidated (loss)/profit before tax	(289,060)	194,528

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 September 2012

5. ADMINISTRATIVE EXPENSES

	For the three months ended		For the nine months ended	
	1/7/12-30/9/12 US$ '000	1/7/11-30/9/11 US$ '000	1/1/12-30/9/12 US$ '000	1/1/11-30/9/11 US$ '000
Professional fees	2,084	898	6,394	3,171
Depreciation	44	652	131	1,394
Provision for Doubtful Debts	60	1,590	3,838	1,590
Share option expense	348	-	515	62
Donations	1,052	1,048	3,152	3,150
Other administrative expense	346	1,653	2,288	3,889
	3,934	5,841	16,318	13,256

6. OTHER EXPENSES

	For the three months ended		For the nine months ended	
	1/7/12-30/9/12 US$ '000	1/7/11-30/9/11 US$ '000	1/1/12-30/9/12 US$ '000	1/1/11-30/9/11 US$ '000
Prior year's VAT non recoverable	1,006	448	1,290	1,794
Write off of trade receivables	171	26	171	588
Sundries	18	(125)	92	238
	1,195	349	1,553	2,620

7. FINANCE COST AND FINANCE INCOME

	For the three months ended		For the nine months ended	
	1/7/12-30/9/12 US$ '000	1/7/11-30/9/11 US$ '000	1/1/12-30/9/12 US$ '000	1/1/11-30/9/11 US$ '000
Interest income	2,103	3,270	6,177	6,381
Net foreign exchange gain	17,074	-	13,768	-
Finance income	19,177	3,270	19,945	6,381
Interest expense on loans and borrowings	(144)	(171)	(483)	(531)
Interest expense on bank loans	(14,772)	(11,617)	(49,978)	(39,633)
Interest capitalised	1,741	1,970	7,667	14,889
Net change in fair value of financial assets	(24)	(79)	(118)	(397)
Other finance costs	(232)	(2,015)	(4,175)	(2,208)
Net foreign exchange loss	-	(15,334)	-	(4,016)
Finance costs	(13,431)	(27,246)	(47,087)	(31,896)
Net finance income/(costs)	5,746	(23,976)	(27,142)	(25,515)

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 September 2012

8. TAX EXPENSE

	For the three months ended		For the nine months ended	
	1/7/12-30/9/12 US$ '000	1/7/11-30/9/11 US$ '000	1/1/12-30/9/12 US$ '000	1/1/11-30/9/11 US$ '000
Current tax	1,498	1,686	2,973	12,141
Deferred tax (benefit)/expense	(16,071)	39,022	(15,473)	35,398
Total income tax (benefit)/expense	(14,573)	40,708	(12,500)	47,539

9. INVESTMENT PROPERTY

	30/9/12 US$ '000	31/12/11 US$ '000
Balance 1 January	1,403,580	192,973
Transfer from investment property under development	40,600	822,376
(Disposals)/acquisitions	(3,160)	203,849
Renovations/additional cost	15,319	5,736
Fair value adjustment	(47,590)	247,663
Effect of movement in foreign exchange rates	34,381	(69,017)
Balance 30 September / 31 December	1,443,130	1,403,580

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. The same applies for investment property under development in note 10 below. The last valuation took place on 30 June 2012.

The transfer from investment property under development represents projects Tverskaya Plaza Ib and II which were reclassified on 30 June 2012 (see note 10 below for more information).

The increase due to the effect of the foreign exchange rates is a result of the strengthening of the Rouble compared to the US Dollar by 4% during first nine months of 2012.

10. INVESTMENT PROPERTY UNDER DEVELOPMENT

	30/9/12 US$ '000	31/12/11 US$ '000
Balance 1 January	983,598	1,674,585
Construction costs	8,581	58,860
Capitalised interest	7,287	18,156
Transfer to investment property	(40,600)	(822,376)
Transfer to VAT recoverable	-	8,256
Fair value adjustment	(198,070)	20,315
Effect of movements in foreign exchange rates	8,215	25,802
Balance 30 September / 31 December	769,011	983,598

The valuation loss on investment properties under development reflects a decrease in the value of the Company's four projects, which are classified as investment property under development - Pochtovaya, Kossinskaya, Tverskaya Plaza Ib and Tverskaya Plaza II. The projects were valued by the independent appraiser on 30 June 2012. The valuation loss results from changes in master planning and development policies of the Moscow government. The Company received information/confirmation of these changes and made revisions in its relevant projects during the period June - August 2012. The valuations of Tverskaya Plaza Ic, Tverskaya Plaza IIa and Tverskaya Plaza IV, the three projects forming part of the non-binding agreement with the Moscow government, remain unchanged and the Company is progressing in securing development rights and leasehold rights to respective land plots.

On 30 June 2012, further to their revaluation projects Tverskaya Plaza Ib and II, were transferred to Investment Property based on the fact that the Company was notified by Moscow City authorities that any development of these two plazas cannot exceed the parameters of the existing buildings. As a result the company has cancelled its plans of redevelopment of the two plazas but will retain and manage the current buildings at their existing condition.

The increase due to the effect of the foreign exchange rates is a result of the Rouble strengthening compared to the US Dollar by 4% during first nine months of 2012.

11. PROPERTY, PLANT AND EQUIPMENT

	30/9/12 US$ '000	31/12/11 US$ '000
Balance 1 January	92,034	88,402
Additions	7,329	9,646
Depreciation for the period/year	(1,433)	(1,829)
Acquisitions	49	-
Capitalised interest	369	-
Disposals	(1,026)	(95)
Reversal of impairment loss	-	1,320
Effect of movements in foreign exchange rates	4,118	(5,410)
Balance 30 September / 31 December	101,440	92,034

12. INVENTORY OF REAL ESTATE

On 31 December 2011, the Company reclassified its project “Botanic Gardens” from current assets “Trading properties under construction” to non-current assets as “Inventory of real estate”, because the project was held for future development of residential complexes which were not expected to be constructed within the Company’s 3-year operating cycle.

The impairment of the inventory of real estate reflects the Company's decision to write-off its Botanic Garden project. A subsidiary of the Company is a "co-investor" in the project together with a company fully owned by the City of Moscow, which is the main investor and beneficiary of land lease rights for Botanic Garden project. A claim filed with a Moscow court on 2 August 2012 by a third party creditor is seeking to declare the main investor bankrupt, while its assets were previously arrested for the benefit of the same creditor. The Company considers, based on opinion of its legal advisers, that any recovery of the Company's costs relating to its investments in the project is unlikely. Given the current circumstances, the Company has decided to write-off its rights in the project from its books. Notwithstanding, the Company will continue its efforts to recover its costs and/or receive the development rights to the project.

13. TRADING PROPERTIES

	30/9/12 US$ '000	31/12/11 US$ '000
Balance 1 January	11,053	21,386
Fair value adjustment	-	(414)
Disposals	(8,766)	(10,345)
Effect of movements in foreign exchange rates	524	426
Balance 30 September / 31 December	2,811	11,053

Trading properties comprise of the unsold apartments and parking spaces of Four Winds II complex and Ozerkovskaya emb. 26 residential building complex. During the period the Group has sold a number of the remaining apartments and parking places.

14. TRADING PROPERTIES UNDER CONSTRUCTION

	30/9/12 US$ '000	31/12/11 US$ '000
Balance 1 January	129,598	174,804
Acquisitions	-	23,174
Construction costs	8,364	837
Transfer to VAT recoverable	-	(1,227)
Capitalised interest	-	13
Reclassified as Inventory of real estate	-	(66,221)
Effect of movements in exchange rates	1,542	(1,782)
Balance 30 September / 31 December	139,504	129,598

Trading properties under construction comprise of “Otradnoye” project which involves primarily the construction of residential properties and approximately 678 parking places underneath AFIMALL City which the company has the intention to sell. The comparative period includes also, “Botanic Gardens” which was reclassified on 31 December 2011, as a non-current asset in “Inventory of real estate”, see note 12.

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15. TRADE AND OTHER RECEIVABLES

	30/9/12 US$ '000	31/12/11 US$ '000
Advances to builders	26,761	26,393
Amounts receivable from related companies (note 22)	2,945	2,575
Trade receivables net	21,674	13,290
Other receivables	14,724	15,523
VAT recoverable	8,517	47,749
Tax receivables	1,425	1,640
	76,046	107,170

16. SHARE CAPITAL AND RESERVES

Share Capital	30/9/12 US$ '000	31/12/11 US$ '000
Authorised		
2,000,000,000 shares of US$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A shares of US$0.001 each	524	524
523,847,027 B shares of US$0.001 each	524	524
	1,048	1,048

Employee Share option plan

The Company has established an employee share option plan operated by the Board of Directors, which is responsible for granting options and administrating the employee share option plan. 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. No payment will be required for the grant of the options. In any 10 year period not more that 10 per cent of the issued ordinary share capital may be issued or be issuable under the employee share option plan.

As for 31 December 2011, there were valid options over 1,593,676 GDRs granted with an exercise price of US$7 which have already vested 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 vesting was not subject to any performance conditions. All 1,593,676 options granted have a contractual life of ten years from the date of grant.

On 21 May 2012, the Board of Directors approved the grant of additional options to Company's employees. Options over 16,763,104 B shares, 1.6% of the issued share capital, were granted with an exercise price equal to US$0.7208, 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 vesting is not subject to any performance conditions. Their contractual life is ten years from the date of grant. Since then 1,047,691 options were cancelled, corresponding to employees who left the company.

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16. SHARE CAPITAL AND RESERVES (continued)

Employee Share option plan (continued)
If a participant ceases to be employed his options will normally lapse subject to certain exceptions. In the event of a takeover, reorganisation or winding up vested options may be exercised or exchanged for new equivalent options where appropriate. Shares/GDRs issued under the plan will rank equally with all other shares at the time of issue. The Board of Directors may satisfy (with the consent of the participant) an option by paying the participant in cash or other assets the gain as an alternative of issuing and transferring the shares/GDRs. The Board of Directors may amend the rules of the plan at any time.

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 and the foreign exchange differences on loans designated as loans to an investee company which are accounted for as part of the investor’s investment (IAS21.15) as their repayment is not planned or likely to occur in the foreseeable future. These foreign exchange differences are recognised directly to Translation Reserve.

Retained earnings
The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the nine-month period ended 30 September 2012.

17. LOANS AND BORROWINGS

	30/9/12 US$ ’000	31/12/11 US$ ’000
Non-current liabilities		
Secured bank loans	638,774	528,111
Unsecured loan from non-related company	-	5
	638,774	528,116
Current liabilities		
Secured bank loans	14,167	84,436
Unsecured loans from other non-related companies	15,568	14,537
	29,735	98,973

The changes in loans and borrowings that took place during the nine months ended 30 September 2012 were the following:

Drawdown of the loan by VTB Bank OJSC, dated 22 February 2012, for financing the acquisition of parking area under AFIMALL City, of US$45,777 thousand (RUR 1,333 million).

On 29 June 2012 a drawdown of the first tranche of a new loan facility agreement (see details below) with a subsidiary bank of the VTB Group ("the Bank") signed on 26 June 2012 by its subsidiary Bellgate Construction Ltd ("Bellgate").

On 3 July 2012, the Company repaid the amount of RUR 1,333 million principal plus RUR 7.9 million interest (total equivalent to aprox. US$40.8 million) which was received under the loan facility dated 22 February 2012 signed with VTB Bank regarding the acquisition of AFIMALL City parking. All necessary funds for the AFIMALL Parking acquisition and construction works financing have been provided for in the new loan facility with a subsidiary of VTB Bank.

17. LOANS AND BORROWINGS (continued)

On 3 August 2012 a drawdown of the second tranche, of US$69,386 thousand (RUR 2,252 million), of the new loan facility dated 26 June 2012.

On 8 August 2012 the loan facility dated 17 August 2007 provided by Sberbank of Russia for Avtostoynka Tverskay Zastava project financing, was fully repaid in the amount US$71 million, comprised of US$70.6 million of principal debt and US$0.4 million of interest payment

This new loan facility agreement offers a credit line totalling RUR 21 billion, which can be drawn down in 5 tranches, each with a designated purpose: the majority of the funds are designated to refinance existing loans previously issued by VTB Bank (OJSC). The remaining funds are designated for the refinancing of construction costs related to the AFIMALL City parking and for the financing of the outstanding payments constituting part of the consideration for the acquisition of the parking.

The Company has discretion over the currency of each tranche, which can be drawn down either in US dollars or in Russian roubles. The loan facility has differentiated interest rates which are currency dependent: 9.5% for loans drawn down in Russian roubles and 3 months LIBOR plus 6.7% for loans drawn down in US dollars. The interest on the loans is payable on a quarterly basis, throughout the term of the credit line. Bellgate has undertaken to make equal quarterly payments of US$ 6.5 million, starting from 2014, on account of the principal of the loans, while it has been agreed that the remainder of the loan will mature in April 2018. The terms of the loan facility agreement are substantially similar to those of the loan facility agreement entered into in February 2012 with VTB Bank (OJSC) in relation to the financing of the acquisition of the AFIMALL City parking (for more information regarding the said loan facility, please see Annex A to Q1 2012 results announcement, published by the Company on 22 May 2012). However, certain conditions of the new loan facility will differ from the aforementioned loan, including the following:

a) The guarantee of AFI Development Plc over the obligations of Bellgate under the loan facility agreement will be in the amount of US$ 1 million, the nominal value of Bellgate's shares;
b) Additional mortgage over the premises of "Aquamarine" Hotel will be registered in favour of the Bank. This shall be removed in the case that Bellgate redeems US$20 million of principal;
c) Additional guarantee will be provided to the Bank by Semprex LLC, a Russian company which is an indirect subsidiary of AFI Development Plc, and owner of the "Aquamarine" Hotel. This shall be removed in the case that Bellgate redeems US$20 million of principal;
d) The turnover covenant has been changed from monthly bank accounts turnovers of not less than RUR 200 million to quarterly revenues (including VAT) exceeding agreed thresholds, determined as amounts gradually increasing from RUR 651 million for Q3 2012 to the amount of RUR 1,139 million for Q1 2018. The penalty for not meeting the covenant is changed from 1% additional interest for the next month to 0.5% additional interest for the next quarter.

The loan facility agreement contains other generally acceptable terms, such as the borrower undertaking to maintain the aggregate value of the pledged assets, securing the loan facility, providing the lender with periodic reporting and similar common conditions.

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17. LOANS AND BORROWINGS (continued)

In addition during the period Bellgate had successfully registered the mortgage, related to the loans provided by VTB Bank OJSC, over the premises of AFIMALL City (excluding the parking). Under the existing loan facility agreements with VTB Bank OJSC, registration of the mortgage triggered an immediate decrease of about 2% in the interest rates charged on loans related to the Mall and its parking.

18. TRADE AND OTHER PAYABLES

	30/9/12 US$ '000	31/12/11 US$ '000
Trade payables	10,054	8,276
Payables to related parties (note 22)	6,237	6,893
Amount payable to builders	11,068	6,056
VAT and other taxes payable	5,733	7,245
Receipts in advance from sale of investment	-	21,998
Amount payable for the acquisition of properties	41,569	41,473
Amount payable to joint venture partners	51,385	48,869
Other payables	9,983	13,282
	136,029	154,092

Payables to related parties

Include an amount of US$5,753 thousand (31/12/11: US$5,066) payable to Danya Cebus Rus LLC, related party of the Group, for new contracts signed in relation to the completion of AFIMALL City.

Receipts in advance from sale of investment

Represented an amount refundable to the buyer of Kosinskaya project agreed in November 2011 in order to settle all mutual claims with Bedhunt Holdings Ltd, the buyer, by paying the total settlement amount of US$44 million. This amount was fully settled in April 2012. Upon full settlement of the Company's obligation according to the settlement agreement dated November 2011, the Group received title of the shares of Rognestar Finance Limited.

19. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES

	30/9/12 US$ '000	30/9/11 US$ '000
The profit on disposal of subsidiaries consists of:		
Profit on disposal of OOO Ozerkovka	2,635	-
Loss on disposal of Roppler Engineering Limited and its subsidiary OOO CDM	(289)	-
Translation gain recognised on disposal of OOO Kama Gate	367	-
	2,713	-

The selling price of the disposal of OOO Ozerkovka was US$6 million. The resulting profit on sale amounting to US$2,827 thousand and the realised exchange loss amounting to $192 thousand were recognised in the income statement at an amount of US$ 2,635 thousand profit.

19. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES (continued)

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

	30/9/12 US$ '000 OOO Ozerkovka	30/9/12 US$ '000 Roppler Ltd & OOO CDM
Investment property	(3,160)	-
Trade and other receivables	(42)	(540)
Cash and cash equivalents	(98)	(115)
Short term loans and borrowings	-	359
Deferred income	84	-
Trade and other payables	22	19
Current tax liabilities	21	-
Net identifiable assets	(3,173)	(277)
Consideration received in cash	6,000	2
Cash disposed of	(98)	(115)
Net cash inflow from the disposal of each subsidiary	5,902	(113)
Net cash inflow from disposal of subsidiaries	5,789	

20. CONTINGENCIES

There weren't any contingent liabilities as at 30 September 2012.

21. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2011.

22. RELATED PARTIES

Outstanding balances with related parties	30/9/12 US$ '000	31/12/11 US$ '000
Assets (note 15)		
Amounts receivable from joint ventures	2,623	2,546
Amounts receivable from other related companies	322	29
Liabilities (note 18)		
Amounts payable to ultimate holding company	433	38
Amounts payable to other related companies	5,804	6,855

22. RELATED PARTIES

Transactions with the key management personnel	30/9/12 US$ '000	30/9/11 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	1,640	1,917

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 may also be key management.

Other related party transactions	30/9/12 US$ '000	30/9/11 US$ '000
Revenue		
Joint venture – consulting services	834	799
Joint venture – interest income	5,126	5,761
Expenses		
Ultimate holding company – administrative expenses	241	-
Ultimate holding company – operating expenses	-	452
Construction services capitalised		
Related company - construction services	8,643	49,021

23. GROUP ENTITIES

During the nine-month period ended 30 September 2012 the Group acquired 50% stake (joint venture) of Craespon Management Limited with its subsidiary OOO Sanatoriy Plaza. During the period the group disposed its subsidiaries, OOO Ozerkovka, Roppler Engineering Limited and OOO CDM as shown in note 19 above.

24. 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 apart from the following:

- On 19 November 2012 Crown Investments LLC signed a letter of early redemption of a part of the loan payable to OAO Sberbank under Loan facility agreement no. 4387 dated 18 June 2010, addendum no. 3 dated 5 September 2012. On 19 November 2012 Crown Investments LLC repaid US$ 10,189 thousand (RUB 315 million) out of the principal amount and US$ 726 thousand (RUB 22,442 thousand) interests accrued from 21 September 2012 to 19 November 2012.

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24. SUBSEQUENT EVENTS (continued)

- On xx November 2012 AFI Development announced that its subsidiary, Bellgate Constructions Limited ("Bellgate"), reached an agreement with VTB Bank OJSC ("VTB Bank") on the disposal of parking space, part of the underground parking underneath AFIMALL City. The parties expect the transaction documents to be executed in the coming weeks. The transaction is structured in two stages: at the first stage Bellgate and VTB Bank enter into a sale- purchase transaction for 21,354 sq.m. of parking space. At the second stage the parties will make an exchange transaction, in which 9,247 sq.m. owned (at completion) by VTB Bank are exchanged for 7,847 sq. m. owned by Bellgate. The exchange transaction is to be completed no later than three years from execution date of the sale-purchase transaction. This two-tier transaction structure stems from the fact that part of the particular space that VTB Bank is interested to purchase is located on the land plot, to which Bellgate has not yet registered the leasehold rights. The consideration for the sale-purchase transaction is US$57,119 thousand (not including Russian VAT). The consideration for the exchange transaction, to be paid by Bellgate to VTB Bank, is US$ 2,627 thousand (not including Russian VAT). All payments are to be made in Russian Roubles. VTB Bank will be able to start using the parking space once the construction is fully completed by Bellgate.

- On 22 November 2012 the Board of Directors of AFI Development following the recommendation of the Nomination Committee, appointed Mr Lev Leviev, currently Non-Executive Director and Chairman, to the position of Executive Chairman of the Company. In his new role Mr Leviev shall provide strategic leadership, lead key negotiations with the Moscow Authorities, with other government authorities in regions of AFI Development operations and with its counterparties in transactions of strategic importance.

- On 22 November 2012, the Board of Directors approved the grant of share options to Mr Lev Leviev following his appointment as Executive Chairman. Options over 31,430,822 B shares, 3% of the issued share capital, were granted with an exercise price equal to US$0.XXX, 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 vesting is not subject to any performance conditions.