**AFI DEVELOPMENT PLC**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

**AFI DEVELOPMENT PLC**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

C O N T E N T S

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

Telephone +357 22 209000
Fax +357 22 678200
Internet www.kpmg.com.cy

**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 June 2012 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-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, 21 August 2012



**Limassol**
P.O.Box 50161, 3601
Telephone +357 25 829000
Fax +357 25 363842

**Larnaca**
P.O.Box 40075, 6300
Telephone +357 24 200000
Fax +357 24 200200

**Paphos**
P.O.Box 60288, 8101
Telephone +357 26 943050
Fax +357 26 943062

**Paralimni / Ayia Napa**
P.O.Box 33200, 5311
Telephone +357 23 820080
Fax +357 23 820084

**Polis Chrysochou**
P.O.Box 66014, 8330
Telephone +357 26 322098
Fax +357 26 322722

**AFI DEVELOPMENT PLC**

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January 2012 to 30 June 2012

| | Note | For the three months ended 1/4/12-30/6/12 US$ '000 | For the three months ended 1/4/11-30/6/11 US$ '000 | For the six months ended 1/1/12-30/6/12 US$ '000 | For the six months ended 1/1/11-30/6/11 US$ '000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Rental income | | 36,805 | 33,221 | 72,112 | 48,535 |
| Construction consulting/management services | | 277 | 299 | 1,817 | 581 |
| | | 37,082 | 33,520 | 73,929 | 49,116 |
| Other income | | 1,983 | 143 | 2,105 | 202 |
| Operating expenses | | (18,964) | (16,165) | (35,241) | (26,473) |
| Administrative expenses | 5 | (9,905) | (4,257) | (13,263) | (7,415) |
| Other expenses | 6 | (112) | (346) | (358) | (2,271) |
| | | 10,084 | 12,895 | 27,172 | 13,159 |
| Profit on disposal of investments in subsidiaries | 19 | 257 | - | 2,594 | - |
| Impairment of prepayment for investments | | - | (1,178) | - | (1,178) |
| Valuation (loss)/gain on investment property | 9,10 | (173,478) | 23,103 | (172,410) | 23,103 |
| Impairment loss on inventory of real estate | 12 | (65,445) | - | (65,445) | - |
| Impairment loss on property, plant and equipment | | - | (2,759) | - | (2,759) |
| **Net valuation (loss)/gain** | | (238,923) | 20,344 | (237,855) | 20,344 |
| Net proceeds from sale of trading properties | | 4,055 | 1,926 | 7,518 | 9,042 |
| Carrying value of trading properties sold | 13 | (3,217) | (1,253) | (5,108) | (4,254) |
| Profit on disposal of trading properties | | 838 | 673 | 2,410 | 4,788 |
| **Results from operating activities** | | (227,744) | 32,734 | (205,679) | 37,113 |
| Finance income | | 1,930 | 1,632 | 4,074 | 14,429 |
| Finance costs | | (28,765) | (15,928) | (36,962) | (15,968) |
| **Net finance cost** | 7 | (26,835) | (14,296) | (32,888) | (1,539) |
| **(Loss)/profit before income tax** | | (254,579) | 18,438 | (238,567) | 35,574 |
| Tax expense | 8 | 6,066 | (6,355) | (2,073) | (6,831) |
| **(Loss)/profit for the period** | | (248,513) | 12,083 | (240,640) | 28,743 |
| **(Loss)/profit attributable to:** | | | | | |
| Owners of the Company | | (241,946) | 11,882 | (234,058) | 28,340 |
| Non-controlling interests | | (6,567) | 201 | (6,582) | 403 |
| (Loss)/profit for the period | | (248,513) | 12,083 | (240,640) | 28,743 |
| **Earnings per share** | | | | | |
| Basic and diluted earnings per share (cent) | | (23.09) | 1.13 | (22.34) | 2.70 |

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 June 2012

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | 1/4/12-30/6/12 US$ '000 | 1/4/11-30/6/11 US$ '000 | 1/1/12-30/6/12 US$ '000 | 1/1/11-30/6/11 US$ '000 |
| **(Loss)/profit for the period** | (248,513) | 12,083 | (240,640) | 28,743 |
| **Other comprehensive income** | | | | |
| Realised translation difference on disposal of subsidiaries transferred to income statement | (307) | - | (101) | - |
| Foreign currency translation differences - foreign operations | (79,458) | 9,171 | (13,762) | 64,683 |
| **Total comprehensive income for the period** | (328,278) | 21,254 | (254,503) | 93,426 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the Company | (321,539) | 21,102 | (247,692) | 92,988 |
| Non-controlling interests | (6,739) | 152 | (6,811) | 438 |
| **Total comprehensive income for the period** | (328,278) | 21,254 | (254,503) | 93,426 |

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 June 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 | - | - | - | 28,340 | 28,340 | 403 | 28,743 |
| Total other comprehensive income | - | - | 64,648 | - | 64,648 | 35 | 64,683 |
| **Total comprehensive income for the period** | - | - | 64,648 | 28,340 | 92,988 | 438 | 93,426 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | |
| Share option expense | - | - | - | 62 | 62 | - | 62 |
| **Balance at 30 June 2011** | 1,048 | 1,763,409 | (77,984) | 134,973 | 1,821,446 | 3,663 | 1,825,109 |
| | | | | | | | |
| **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 | - | - | - | (234,058) | (234,058) | (6,582) | (240,640) |
| Total other comprehensive income | - | - | (13,634) | - | (13,634) | (229) | (13,863) |
| **Total comprehensive income for the period** | - | - | (13,634) | (234,058) | (247,692) | (6,811) | (254,503) |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | |
| Share option expense | - | - | - | 167 | 167 | - | 167 |
| **Balance at 30 June 2012** | 1,048 | 1,763,409 | (192,125) | 43,612 | 1,615,944 | (2,924) | 1,613,020 |

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 JUNE 2012

| | Note | 30/6/12 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 | 95,014 | 92,034 |
| Long-term loans receivable | | 40 | 34 |
| Inventory of real estate | 12 | - | 66,221 |
| VAT recoverable | | 1,078 | 5,370 |
| Intangible assets | | 153 | 153 |
| **Non-current assets** | | 2,308,426 | 2,550,990 |
| | | | |
| Trading properties | 13 | 5,992 | 11,053 |
| Trading properties under construction | 14 | 132,750 | 129,598 |
| Inventory | | 1,196 | 665 |
| Short-term loans receivable | | 796 | 786 |
| Trade and other receivables | 15 | 75,497 | 107,170 |
| Income tax receivable | | 1,087 | - |
| Cash and cash equivalents | | 128,080 | 84,820 |
| **Current assets** | | 345,398 | 334,092 |
| | | | |
| **Total assets** | | 2,653,824 | 2,885,082 |
| | | | |
| **Equity** | | | |
| Share capital | | 1,048 | 1,048 |
| Share premium | | 1,763,409 | 1,763,409 |
| Translation reserve | | (192,125) | (178,491) |
| Retained earnings | | 43,612 | 277,503 |
| **Total equity attributable to owners of the Company** | 16 | 1,615,944 | 1,863,469 |
| Non-controlling interests | | (2,924) | 3,887 |
| **Total equity** | | 1,613,020 | 1,867,356 |
| | | | |
| **Liabilities** | | | |
| Long-term loans and borrowings | 17 | 570,543 | 528,116 |
| Long-term amounts payable | | 35,092 | 71,627 |
| Deferred tax liabilities | | 141,869 | 142,093 |
| Deferred income | | 21,803 | 22,622 |
| **Non-current liabilities** | | 769,307 | 764,458 |
| | | | |
| Short-term loans and borrowings | 17 | 130,664 | 98,973 |
| Trade and other payables | 18 | 140,833 | 154,092 |
| Current tax liabilities | | - | 203 |
| **Current liabilities** | | 271,497 | 253,268 |
| | | | |
| **Total liabilities** | | 1,040,804 | 1,017,726 |
| | | | |
| **Total equity and liabilities** | | 2,653,824 | 2,885,082 |

The condensed consolidated interim financial statements were approved by the Board of Directors on 21 August 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 June 2012

| | Note | 1/1/12-30/6/12 US$ '000 | 1/1/11-30/6/11 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the period | | (240,640) | 28,743 |
| *Adjustments for:* | | | |
| Depreciation | 11 | 966 | 742 |
| Interest income | 7 | (4,074) | (3,111) |
| Interest expense | 7 | 29,619 | 15,457 |
| Share option expense | | 167 | 62 |
| Fair value adjustments | | 237,855 | (19,166) |
| Negative goodwill on acquisition of joint venture | | (1,929) | - |
| Profit on disposal of investments in subsidiaries | | (2,644) | - |
| Loss on disposal of property, plant and equipment | | 11 | 38 |
| Unrealised loss/(gain) on foreign exchange | 7 | 3,306 | (11,318) |
| Tax expense | 8 | 2,073 | 6,831 |
| | | 24,710 | 18,278 |
| Change in trade and other receivables | | (3,926) | (874) |
| Change in inventories | | (199) | (7) |
| Change in trading properties under construction | | 528 | 3,768 |
| Change in trade and other payables | | (9,149) | 27,584 |
| Change in deferred income | | (736) | (46) |
| **Cash generated from operating activities** | | 11,228 | 48,703 |
| Taxes paid | | (2,595) | (2,776) |
| **Net cash from operating activities** | | 8,633 | 45,927 |
| **Cash flows from investing activities** | | | |
| Interest received | | 626 | 681 |
| 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 | | 139 | 3 |
| Change in advances and amounts payable to builders | 15,18 | (13) | (1,634) |
| Payments for construction of investment property under development | 9, 10 | (16,233) | (52,254) |
| Payment for the acquisition of investment property | | (43,967) | - |
| Change in VAT recoverable | | 39,114 | 2,269 |
| Acquisition of property, plant and equipment | 11 | (5,898) | (4,163) |
| **Net cash used in investing activities** | | (16,408) | (55,098) |
| **Cash flows from financing activities** | | | |
| Change in loans receivable | | (6) | - |
| Proceeds from loans and borrowings | | 508,121 | 9,274 |
| Repayment of loans and borrowings | | (416,622) | (14,223) |
| Interest paid | | (33,954) | (28,556) |
| **Net cash from/(used in) financing activities** | | 57,539 | (33,505) |
| Effect of exchange rate fluctuations | | (6,504) | 8,906 |
| **Net increase/(decrease) in cash and cash equivalents** | | 43,260 | (33,770) |
| Cash and cash equivalents at 1 January | | 84,820 | 129,839 |
| **Cash and cash equivalents at 30 June** | | 128,080 | 96,069 |
| **The cash and cash equivalents consist of:** | | | |
| Cash at banks | | 128,003 | 96,059 |
| Cash in hand | | 77 | 10 |
| | | 128,080 | 96,069 |

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 June 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 is 25 Olympion Street, Omiros & Araouzos Tower, 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 June 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.

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 six months/ year |
|---|---|---|---|
| 30 June 2012 | 32.8169 | 11.9 % | 1.9 % |
| 31 March 2012 | 29.3282 | (8.9) % | |
| 31 December 2011 | 32.1961 | | 5.6 % |
| 30 June 2011 | 28.0758 | | (7.9) % |
| | | | |
| Average rate during: | | | |
| Six-month period ended 30 June 2012 | 30.5666 | | 7.5 % |
| Three-month period ended 31 March 2012 | 30.0278 | 3.5 % | |
| Six-month period ended 30 June 2011 | 28.4474 | | (8.8) % |

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 June 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 | |
| | 30/6/12 US$'000 | 30/6/11 US$'000 | 30/6/12 US$'000 | 30/6/11 US$'000 | 30/6/12 US$'000 | 30/6/11 US$'000 | 30/6/12 US$'000 | 30/6/11 US$'000 | 30/6/12 US$'000 | 30/6/11 US$'000 |
| External revenues | - | - | 7,518 | 9,042 | 73,307 | 48,535 | 622 | 581 | 81,447 | 58,158 |
| Inter-segment revenue | - | 1 | 1 | 1 | 259 | 221 | 190 | 291 | 450 | 514 |
| Reportable segment profit before tax | 930 | (4,512) | 3,188 | 3,922 | 4,107 | 18,888 | (13,111) | (148) | (4,886) | 18,150 |
| | 30/6/12 US$'000 | 31/12/11 US$'000 | 30/6/12 US$'000 | 31/12/11 US$'000 | 30/6/12 US$'000 | 31/12/11 US$'000 | 30/6/12 US$'000 | 31/12/11 US$'000 | 30/6/12 US$'000 | 31/12/11 US$'000 |
| Reportable segment assets | 435,780 | 563,820 | 138,611 | 202,049 | 1,886,800 | 1,922,926 | 43,164 | 52,584 | 2,504,355 | 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

| | 1/1/12-30/6/12 US$ '000 | 1/1/11-30/6/11 US$ '000 |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 81,897 | 58,672 |
| Elimination of inter-segment revenue | (450) | (514) |
| Consolidated revenue | 81,447 | 58,158 |

| | 1/1/12-30/6/12 US$ '000 | 1/1/11-30/6/11 US$ '000 |
|---|---|---|
| **Profit or loss** | | |
| Total profit or (loss) for reportable segments | (4,886) | 18,150 |
| Other profit or loss | 1,580 | (1,742) |
| Profit on disposal of investments in subsidiaries | 2,594 | - |
| Impairment loss of prepayment for investment | - | (1,178) |
| Valuation (loss)/gain on investment property | (172,410) | 23,103 |
| Impairment loss on inventory of real estate | (65,445) | - |
| Impairment loss on property, plant and equipment | - | (2,759) |
| Consolidated (loss)/profit before tax | (238,567) | 35,574 |

**AFI DEVELOPMENT PLC**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

5. ADMINISTRATIVE EXPENSES

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | 1/4/12-30/6/12 | 1/4/11-30/6/11 | 1/1/12-30/6/12 | 1/1/11-30/6/11 |
| | US$ ’000 | US$ ’000 | US$ ’000 | US$ ’000 |
| Professional fees | 3,419 | 1,797 | 4,310 | 2,273 |
| Depreciation | 376 | 368 | 966 | 742 |
| Provision for Doubtful Debts | 3,735 | - | 3,778 | - |
| Share option expense | 167 | 16 | 167 | 62 |
| Donations | 1,050 | 1,051 | 2,100 | 2,102 |
| Other administrative expense | 1,158 | 1,025 | 1,942 | 2,236 |
| | 9,905 | 4,257 | 13,263 | 7,415 |

6. OTHER EXPENSES

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | 1/4/12-30/6/12 | 1/4/11-30/6/11 | 1/1/12-30/6/12 | 1/1/11-30/6/11 |
| | US$ ’000 | US$ ’000 | US$ ’000 | US$ ’000 |
| Prior year’s VAT non recoverable | 112 | - | 284 | 1,346 |
| Sundries | - | 346 | 74 | 925 |
| | 112 | 346 | 358 | 2,271 |

7. FINANCE COST AND FINANCE INCOME

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | 1/4/12-30/6/12 | 1/4/11-30/6/11 | 1/1/12-30/6/12 | 1/1/11-30/6/11 |
| | US$ ’000 | US$ ’000 | US$ ’000 | US$ ’000 |
| Interest income | 1,930 | 1,632 | 4,074 | 3,111 |
| Net foreign exchange gain | - | - | - | 11,318 |
| Finance income | 1,930 | 1,632 | 4,074 | 14,429 |
| | | | | |
| Interest expense on loans and borrowings | (172) | (57) | (339) | (360) |
| Interest expense on bank loans | (18,556) | (14,245) | (35,206) | (28,016) |
| Interest capitalised | 3,023 | 2,563 | 5,926 | 12,919 |
| Net change in fair value of financial assets | (9) | (260) | (94) | (318) |
| Other finance costs | (1,971) | (92) | (3,943) | (193) |
| Net foreign exchange loss | (11,080) | (3,837) | (3,306) | - |
| Finance costs | (28,765) | (15,928) | (36,962) | (15,968) |
| | | | | |
| Net finance costs | (26,835) | (14,296) | (32,888) | (1,539) |

**AFI DEVELOPMENT PLC**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

## 8. TAX EXPENSE

| | For the three months ended 1/4/12-30/6/12 US$ '000 | For the three months ended 1/4/11-30/6/11 US$ '000 | For the six months ended 1/1/12-30/6/12 US$ '000 | For the six months ended 1/1/11-30/6/11 US$ '000 |
|---|---|---|---|---|
| Current tax | 1,184 | 8,174 | 1,475 | 10,455 |
| Deferred tax (benefit)/expense | (7,250) | (1,819) | 598 | (3,624) |
| Total income tax (benefit)/expense | (6,066) | 6,355 | 2,073 | 6,831 |

## 9. INVESTMENT PROPERTY

| | 30/6/12 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 | 7,174 | 5,736 |
| Fair value adjustment | 9,577 | 247,663 |
| Effect of movement in foreign exchange rates | (14,641) | (69,017) |
| Balance 30 June / 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 decrease due to the effect of the foreign exchange rates is a result of the weakening of the Rouble compared to the US Dollar by 1.9% during first half of 2012.

**AFI DEVELOPMENT PLC**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

## 10. INVESTMENT PROPERTY UNDER DEVELOPMENT

| | 30/6/12<br>US$ '000 | 31/12/11<br>US$ '000 |
|---|---|---|
| Balance 1 January | 983,598 | 1,674,585 |
| Construction costs | 9,059 | 58,860 |
| Capitalised interest | 5,347 | 18,156 |
| Transfer to investment property | (40,600) | (822,376) |
| Transfer to VAT recoverable | - | 8,256 |
| Fair value adjustment | (181,987) | 20,315 |
| Effect of movements in foreign exchange rates | (6,406) | 25,802 |
| Balance 30 June / 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 decrease due to the effect of the foreign exchange rates is a result of the Rouble weakening compared to the US Dollar by 1.9% during first half of 2012.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | 30/6/12<br>US$ '000 | 31/12/11<br>US$ '000 |
|---|---|---|
| Balance 1 January | 92,034 | 88,402 |
| Additions | 5,898 | 9,646 |
| Depreciation for the period/year | (966) | (1,829) |
| Acquisitions | 49 | - |
| Capitalised interest | 349 | - |
| Disposals | (150) | (95) |
| Reversal of Impairment loss | - | 1,320 |
| Effect of movements in foreign exchange rates | (2,200) | (5,410) |
| Balance 30 June / 31 December | 95,014 | 92,034 |

**AFI DEVELOPMENT PLC**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

## 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 30 June 2012 Financial Statements. Notwithstanding, the Company will continue its efforts to recover its costs and/or receive the development rights to the project.

## 13. TRADING PROPERTIES

| | 30/6/12<br>US$ '000 | 31/12/11<br>US$ '000 |
|---|---|---|
| Balance 1 January | 11,053 | 21,386 |
| Fair value adjustment | - | (414) |
| Disposals | (5,108) | (10,345) |
| Effect of movements in foreign exchange rates | 47 | 426 |
| Balance 30 June / 31 December | 5,992 | 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

| | 30/6/12<br>US$ '000 | 31/12/11<br>US$ '000 |
|---|---|---|
| Balance 1 January | 129,598 | 174,804 |
| Acquisitions | - | 23,174 |
| Construction costs | 5,108 | 837 |
| Transfer to VAT recoverable | - | (1,227) |
| Capitalised interest | - | 13 |
| Reclassified as Inventory of real estate | - | (66,221) |
| Effect of movements in exchange rates | (1,956) | (1,782) |
| Balance 30 June / 31 December | 132,750 | 129,598 |

Trading properties under construction comprise of "Otradnoye" project which involves primarily the construction of residential properties. 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.

**AFI DEVELOPMENT PLC**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

## 15. TRADE AND OTHER RECEIVABLES

| | 30/6/12 US$ '000 | 31/12/11 US$ '000 |
|---|---|---|
| Advances to builders | 25,977 | 26,393 |
| Amounts receivable from related companies (note 22) | 3,003 | 2,575 |
| Trade receivables net | 20,311 | 13,290 |
| Other receivables | 12,171 | 15,523 |
| VAT recoverable | 12,508 | 47,749 |
| Tax receivables | 1,527 | 1,640 |
| | 75,497 | 107,170 |

## 16. SHARE CAPITAL AND RESERVES

| **Share Capital** | 30/6/12 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.

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 three-month period ended 30 June 2012.

17. LOANS AND BORROWINGS

| | 30/6/12<br>US$ '000 | 31/12/11<br>US$ '000 |
|---|---|---|
| **Non-current liabilities** | | |
| Secured bank loans | 570,537 | 528,111 |
| Unsecured loan from non-related company | 6 | 5 |
| | 570,543 | 528,116 |
| **Current liabilities** | | |
| Secured bank loans | 116,069 | 84,436 |
| Unsecured loans from other non-related companies | 14,595 | 14,537 |
| | 130,664 | 98,973 |

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

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

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

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.

## 17. LOANS AND BORROWINGS (continued)

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.

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

| | 30/6/12 US$ '000 | 31/12/11 US$ '000 |
|---|---|---|
| Trade payables | 11,507 | 8,276 |
| Payables to related parties (note 22) | 7,265 | 6,893 |
| Amount payable to builders | 5,627 | 6,056 |
| VAT and other taxes payable | 5,991 | 7,245 |
| Receipts in advance from sale of investment | - | 21,998 |
| Amount payable for the acquisition of properties | 38,299 | 41,473 |
| Other payables | 72,144 | 62,151 |
| | 140,833 | 154,092 |

Payables to related parties

Include an amount of US$6,555 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.

Other payables

Include an amount of US$59,074 thousand (2011: US$48,869 thousand) payable to the 50% partner of the joint venture Krown Investments LLC.

## 19. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES

| | 30/6/12 US$ '000 | 30/6/11 US$ '000 |
|---|---|---|
| **The profit on disposal of subsidiaries consists of:** | | |
| Profit on disposal of OOO Ozerkovka | 2,626 | - |
| Loss on disposal of Roppler Engineering Limited and its subsidiary OOO CDM | (289) | - |
| Translation gain recognised on disposal of OOO Kama Gate | 257 | - |
| | 2,594 | - |

The selling price of the disposal of OOO Ozerkovka was US$6 million. The resulting profit on sale amounting to US$2,818 thousand and the realised exchange loss amounting to $192 thousand were recognised in the income statement at an amount of US$ 2,626 thousand profit.

**AFI DEVELOPMENT PLC**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

19. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES (continued)

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

| | 30/6/12 US$ '000 OOO Ozerkovka | 30/6/12 US$ '000 Roppler Ltd & OOO CDM |
|---|---|---|
| Investment property | (3,160) | - |
| Trade and other receivables | (51) | (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 | (3,182) | (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 June 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** | 30/6/12 US$ '000 | 31/12/11 US$ '000 |
|---|---|---|
| Assets (note 15) | | |
| Amounts receivable from joint ventures | 2,596 | 2,546 |
| Amounts receivable from ultimate holding company | 203 | - |
| Amounts receivable from other related companies | 204 | 29 |
| Liabilities (note 18) | | |
| Amounts payable to ultimate holding company | 430 | 38 |
| Amounts payable to other related companies | 6,835 | 6,855 |

## 22. RELATED PARTIES

| **Transactions with the key management personnel** | 30/6/12<br>US$ '000 | 30/6/11<br>US$ '000 |
|---|---|---|
| Key management personnel compensation comprised: | | |
| Short-term employee benefits | 1,139 | 1,483 |

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.

| **Other related party transactions** | 30/6/12<br>US$ '000 | 30/6/11<br>US$ '000 |
|---|---|---|
| **Revenue** | | |
| Joint venture – consulting services | 620 | 581 |
| Joint venture – interest income | 3,436 | 2,427 |
| | | |
| **Expenses** | | |
| Ultimate holding company – administrative expenses | 99 | 269 |
| | | |
| **Construction services capitalised** | | |
| Related company - construction services | 8,758 | 38,926 |

## 23. GROUP ENTITIES

During the six-month period ended 30 June 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 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 as described in note 17.

- On 5 July 2012 the Company announced that further to the announcement of 10 April 2012, the negotiations with the private company controlled by Mr Lev Leviev, in connection with the proposed acquisition of a shareholding of between 80% to 90% in a Russian company developing a residential project in the Moscow Region, were suspended by the parties.

**AFI DEVELOPMENT PLC**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2012 to 30 June 2012

24. SUBSEQUENT EVENTS (continued)

- On 17 July 2012 the Company announced that it had received notice from Mr Izzy Cohen, a non-executive director, of his resignation from the Board, effective as of 22 July 2012. Mr Cohen was therefore unavailable for re-election at the Company's Annual General Meeting, which took place on 2 August 2012. Mr Cohen's resignation follows his stepping down as CEO of Africa Israel Investments Ltd, the Company's majority shareholder.

- 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.

- On 21 August 2012 the Board of Directors approved the appointment of Mr. Avraham Novogrocki, CEO of Africa-Israel Investments Ltd, to the position of Non-Executive Director of the Company.