23 August 2007

AFI Development plc ("AFI Development" / "Company")

INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2007

AFI DEVELOPMENT RECORDS 9 PER CENT INCREASE IN NET ASSET VALUE AND NAV PER SHARE SINCE IPO

AFI Development plc, a leading real estate company focused on developing property solely in Russia, today announces interim results for the six months ended 30 June 2007.

The Company successfully raised gross proceeds of US$1.4bn in its IPO on the London Stock Exchange in May 2007.

Financial Highlights:

- Net Asset Value per share is US$10.60 as at 30 June 2007
- Net Asset Value, based on the valuation of our projects portfolio independently verified by Jones Lang LaSalle LLC ("JLL"), rose 9 per cent to US$5.6 billion (at IPO: US$5.1 billion)
- The Company's investment portfolio is valued at US$4.5 billion (31 March 2007: US$3.69 billion), up 22 per cent since 31 March 2007. On a like-for-like basis, excluding acquisitions, the portfolio has increased in value by 13 per cent or US$471 million since 31 March 2007
- Profit before tax for the six months to 30 June 2007 increased to US$65.7 million (30 June 2006: US$5.64 million)
- Profit after tax for the six months to 30 June 2007 rose to US$50.2 million (30 June 2006: US$5.4 million)
- The Company invested US$428.7 million during the first six months of 2007

Performance Highlights:

- Portfolio now includes 24 projects with a total of 3.7 million sqm; pipeline includes 15 projects
- Excellent progress on AFI Development's ongoing projects. Highlights include:
  - Construction of the office development at Ozerkovskaya has been completed as scheduled and the building was fully pre-let to a single tenant at US$13.4 million per annum for a five year term
  - Construction on the hotel and residential sections of the Ozerkovskaya scheme is progressing ahead of schedule
  - The Kuntsevo project has received additional planning permissions
  - Land lease agreement has been signed for the construction of the Otradnoye development
  - Over 80 per cent of Four Winds' office building has been pre-let with market-leading rental rates
  - Sales programme for the residential units at the Ozerkovskaya scheme has commenced
  - Credit facility of US$280 million has been obtained from Sberbank for the construction of the shopping mall at the Tverskaya Zastava development
- In the period following the IPO, the Company has converted the Kossinskaya and Kislovodsk projects from pipeline to portfolio. Details are as follows:
  - Kossinskaya: mixed use office and retail development, providing over 110,000 sqm of office space and the potential of 70,000 sqm of retail space in Eastern Moscow
  - Kislovodsk: 7.56 hectares of lake front land to comprise a resort area that will include residential units, Spa hotel, retail, and aqua park.
- Acquisition of additional project at Pochtovaya. The details of the project are:
  - Pochtovaya: over 230,000 sqm mixed-use development on the Yauza Riverfront in central Moscow, which will provide office and residential space and a hotel.

Erez Meltzer, Chairman, commented:

"We are pleased to report excellent progress and high levels of activity during the first six months of 2007. The strength of our local presence and our management team's successful track record in delivering substantial high quality schemes continues to provide us with a significant competitive advantage in the dynamic Russian property market.

"We have delivered strong growth in Net Asset Value and profits and in the value of our like-for-like portfolio. These achievements, combined with our successful ongoing acquisitions programme, demonstrate the strength of progress, as set out in our prospectus at the time of our IPO."

Alexander Khaldey, Chief Executive, added:

"With the ongoing demand for high quality commercial and residential real estate assets, both from investors and occupiers, we are confident that AFI Development is well positioned in the marketplace and has a strong platform from which to continue to deliver significant capital and income growth for the benefit of all our shareholders going forward."

Details of the interim results for the six months to 30 June 2007 can be found on the Company's website at www.afi-development.com.

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CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

We are pleased to report excellent progress and high levels of activity during the first six months of 2007. The strength of our local presence and our management team's successful track record in delivering substantial high-quality schemes continues to provide us with a significant competitive advantage in the dynamic Russian property market.

We have delivered strong growth in Net Asset Value ("NAV") and profits and in the value of our like-for-like portfolio. These achievements, combined with our successful ongoing acquisitions programme, demonstrate the strength of progress ahead of the business plan set out in our prospectus at the time of our IPO.

Results

Our financial performance for the first half of 2007 is headlined by a 9 per cent growth in NAV to US$5.61 billion from US$5.1 billion at IPO. This has been driven principally by a 22 per cent valuation gain within our investment portfolio.

We have produced a strong increase in profit before tax, growing 1,066 per cent to US$65.7 million (compared to US$5.6 million for the six months ended 30 June 2006). Our post-tax profit increased 829 per cent from US$5.4 million to US$50.2 million.

Valuation

	US$ millions		
	At IPO[1]	**At 30 June 2007**	**Change (%)**
Market value of portfolio (JLL)	$3.691	$4.162	13
Market value of new projects		347	
Total market value (JLL)	3,691	4,509	22
Book value[2]	529	894	69
Add value	3,162	3,616	14
Total equity	638	1,993	
Net proceeds from IPO	1,338		
NAV	$5,138	$5,608	9

[1] *Based on JLL's valuation as at 31 March 2007*
[2] *Includes 1) investment properties; 2) investment properties under development; 3) investments; 4) trading properties under development*

On a like-for-like basis, the market value of the portfolio has increased in value by US$471 million (13 per cent) over the three months since IPO to US$4.16 billion. The increase in the overall NAV is attributable to five major factors:

- Acquisition of new projects
- Yield compression in the range between 0.125 per cent to 0.5 per cent in some of our projects
- Increase in the assumed rental rates, especially with regard to the office component in our Tverskaya Zastava and Ozerkovskaya schemes (an increase of approximately 6 per cent)
- Calculations based on achieved and agreed rental rates as opposed to assumptions, especially at our Four Winds project
- Progress in our projects, e.g. significant change in the legal status of the Otradnoye project.

Strategic Direction

The Company's objective remains the development of large scale, multi-phase mixed-use projects in locations with strong market fundamentals throughout the Russian Federation. We cover four main sectors of the real estate market, from office and retail space to apartments and hotels.

Historically, the Company's focus has been on higher-yielding prime office and retail assets, with an existing exit strategy in place following the development of residential properties. As a rule, we are looking to divest our residential properties with the intention of recycling capital into the higher yielding commercial market.

We continue to capitalise on the skills of our highly experienced management team and its extensive knowledge of the Russian real estate market to continue to execute our current portfolio and to build our pipeline of investment prospects.

We see continued opportunities in Moscow and in regional cities that we have identified for imminent expansion. We are also monitoring a number of other developing cities where we have identified specific opportunities.

However, we believe that our core activity will continue to be focused on the Moscow market for the foreseeable future as the capital's real estate market continues to offer superior returns within a buoyant property market.

In addition, we continue to see considerable demand for high quality office, retail and mixed-use real estate developments, particularly in Moscow, which continues to attract a broad range of international and domestic tenants.

The characteristics of Russia's regional capitals indicate that economic growth is stable, supported by industries focused on the country's natural resources. Our objective is to identify those regions where we believe the opportunity exists for us to capitalise on each region's prospects for economic growth, thereby passing on the benefits to our shareholders.

In line with this strategy we have expanded our activities into the St Petersburg, Perm and Volgograd markets.

Portfolio – Progress and Acquisitions

The details of the Company's portfolio, comprising 24 projects, as at the reporting date are summarised in the table below. The market values included in this table are from independent valuations by Jones Lang LaSalle LLC ("JLL").

Property	Market value at 30 June 2007 (US$000s) (AFI's share)	Market value at 31 March 2007 (US$000s) (AFI's share)	Market value at completion (valued at 30 June 2007) (US$000s) (AFI's share)	Market value at completion (valued at 31 March 2007) (US$000s) (AFI's share)
Tverskaya Zastava				
Shopping Centre	**225,630**	200,365	625,470	605,770.6
Plaza I	**374,700**	333,830	917,250	871,124.4
Plaza II	**350,500**	309,700	746,500	712,837
Plaza II(a)	**17,900**	16,730	47,925	45,575
Plaza IV	**117,900**	75,300	394,160	358,992
Four Winds 1 & 2	**222,070**	143,500	264,451	200,141
Moscow City Centre	**978,000**	889,000	1,432,571.5	1,376,955
Ozerkovskaya				
Phase 2	**193,400**	142,700	175,786.7	189,856.7
Phase 3	**113,800**	101,600	210,499.5	186,438.3
Phase 4	**55,600**	49,300	143,812	133,074
Otradnoye	**403,700**	370,000	1,483,812.4	1,483,812.4
Paveletskaya				
Paveletskaya Embankment	**49,400**	45,300	233,109.9	210,063.6
H2O	**31,000**	27,000	37,898.6	28,375
Ruza	**78,500**	69,200	167,404	141,540
Dinamo	**118,600**	118,600	368,287	368,287

Berezhkovskaya	**147,400**	117,700	374,860	374,860
St Petersburg	**17,170**	16,675	46,742	46,742
Perm				
Phase 1	**7,100**	6,300	68,963	69,500
Phase 2	**4,300**	3,540	61,387.8	61,388
Phase 3	**300**	420	11,272.8	10,977
Volgograd	**5,700**	4,500	194,981.3	188,745
Kuntsevo	**650,000**	650,000	5,721,121.5	5,721,121.5
Kislovodsk	**4,800**		51,030	
Kossinskaya	**219,300**		523,976.8	
Pochtovaya	**123,300**		876,832.1	
Total	**US$4,508,730**	**US$3,691,260**	**US$15,180,105**	**US$13,386,155**

The Board and the Company's management team are pleased with the number and quality of the investments made in the initial period of the Company's public life and believe that AFI Development is thereby well positioned to continue to meet its investment objectives and deliver the business plan outlined in its Prospectus. We are also encouraged by the strong pipeline of assets that continue to be identified by the Company, both on and off market. Together with the positive indicators, which point to continued real estate market maturation and growth, our outlook for the future remains positive.

We remain motivated by the strong potential to create and enhance shareholder value from our existing properties through active asset management.

We continue to actively manage our balance sheet by cautiously increasing the scale of gearing for our largest commercial projects, moving steadily closer to our goal of financing 70 per cent of total project development costs through debt.

Since the IPO the Company converted two projects from the pipeline to the portfolio (Kossinskaya and Kislovodsk) and acquired a new project at Pochtovaya, as outlined below.

- Kossinskaya

The Company acquired the Kossinskaya project comprising leasehold interests in three sites in Eastern Moscow, with a total area of approximately 10.3 hectares located on Kossinskaya Street in Eastern Moscow. The Company will fit-out 111,000 sqm of office space in readiness for occupation in the fourth quarter of 2007. The aggregate purchase and fit-out costs are approximately US$243 million.

AFI Development intends to procure development rights to design and construct up to 70,000 sqm of retail space at the Kossinskaya compound.

- Pochtovaya

The Company acquired the Pochtovaya project, which comprises 24,126 sqm of existing built up facilities on the Yauza River front on Bolshaya Pochtovaya Street, located in the Central Administrative District of the City of Moscow. The Company has also acquired the adjoining development rights in the form of Act of Permitted Use for the construction of a mixed use facility with a total built-up area of 231,680 sqm on a land plot with a total area of 2.67 hectares.

The Pochtovaya project is principally expected to comprise: 80,000 sqm zoned for hotel and residential use, 80,000 sqm of office space and 67,000 sqm of underground parking space. The acquisition price for the Pochtovaya project is US$104.3 million.

- Kislovodsk

We have signed an investment contract with the Administration of Kislovodsk, a resort town in the south of Russia, for the redevelopment of the Old Lake, which is the only body of water located in the town. Under the investment contract we undertook to improve and regenerate the Old Lake and have received the right to develop a spa hotel, retail and entertainment facilities on a land plot with the total area of 7.56 hectares. We have signed a three-year land lease agreement with regard to this project.

Pre IPO acquisitions and transactions
(Further information can be obtained from the Company's Prospectus)

- In March 2007, we signed a stock purchase agreement for the purchase of interests in a company that holds a 76 per cent interest in land on which our retail project in St. Petersburg will be located.

- In February 2007, we entered into an agreement to purchase a company which owns buildings located on the Dinamo site at a cost of approximately US$149 million.

- In January 2007, we acquired Cristall Development. In February 2007, Cristall then formed Volga Stroyinkom Development which owns 78 per cent of the Volgograd project.

- Jointly with Danya Cebus we formed Krusto Enterprises Limited, a Cypriot company, Krusto, is expected to be the owner of 50 per cent of ZAO Kama Gate. The remainder of Kama Gate is held by our Russian partner, Prospect LLC, which owns the lease rights to land located in the Perm project.

Project milestones since the IPO

Since the IPO, the Company has made significant progress on its existing portfolio, which has contributed to the strong growth delivered over the period.

Tverskaya Zastava

- Shopping mall: We have signed a construction loan with the Sberbank for the total amount of US$280 million and the construction works are progressing according to schedule. In addition, we approached the City of Moscow for the approval of our participation in the reconstruction of the bridge forming part of the traffic interchange at the Tverskaya Zastava square. This would lead to our deeper involvement in the redevelopment of the area's infrastructure, which offers the potential addition of approximately 1,600 parking places to the Tverskaya Zastava scheme and the opportunity to enhance our control over the overall construction schedule.

- During the reporting period we successfully obtained interests in the companies which hold the ownership rights to buildings, properties and land, which are required by our Company for the completion of the Tverskaya Zastava Plaza II and Plaza IV projects.

- Four Winds: 82 per cent of the office building has been pre-let (with preliminary lease agreements and non-binding Letters of Intent). The tenants include prominent international institutions, such as Moody's, and two major international banking institutions. The rental levels achieved are significantly higher than initially expected and/or assumed by JLL as at 31 March 2007, with the current average rent of US$1,472 per sqm as opposed to US$1,018 per sqm as assumed by JLL at 31 March 2007. This has led to a considerable increase in the market value of both the office building and the Four Winds project as a whole.

Kuntsevo

- The town planning concept for the development of the Kuntsevo project that was procured by our wholly owned subsidiary was approved by the Public Council of the Western Administrative District of Moscow.

- Following this approval, the Moscow Tender Committee and Town Planning Directorate of the Moscow Architecture Committee ("Moskomarkhitektura") for the Western Administrative District approved our wholly owned subsidiary as the developer of the detailed town planning substantiation within the boundaries of the land plot as approved by the Moscow Architecture Committee (Moskomarkhitektura) comprising approximately 20 hectares.

- We expect that, based on these approvals, the Western District Administration will issue an Enactment of Land Plot Reservation to our wholly owned subsidiary that will allow the preparation of the concept design. At the same time we will prepare adjusted concept documentation for the approval of the Moscow Architecture Committee.

- In accordance with our strategy of enhancing the value of the project by acquiring properties located within the boundaries of the development site at the concept stage, we are currently finalizing two acquisitions with regard to real estate property located on land plots that comprise the Kuntsevo project.

Otradnoye

- We entered into a short-term land lease agreement with the Municipality of the Odintsovo District of the Moscow Region for the construction of our Otradnoye project. Under the land lease agreement, the Company has taken possession of a plot of land with a total area of 31.75 hectares, zoned for residential construction. The construction is expected to start during the second half of 2007.

Moscow City

- We have successfully obtained the Act of Permitted Use and the Construction Permit and construction works are progressing as scheduled for the Moscow City shopping mall.

Ozerkovskaya

- Phase II – construction of the office building has been completed on schedule and the building was fully pre-let to a single tenant at US$13.4 million per annum for a period of five years, with annual indexation of five per cent. The construction of the hotel and residential elements of the project is progressing ahead of schedule.

- In the second quarter of 2007 we started the sales of the residential units and have already pre-sold apartments for the total consideration of US$19.5 million, representing average price per sqm of US$8,777 and representing 11 per cent of the sellable area.

Paveletskaya Embankment

- We have sold the second production line at the MKPK plant for US$1.2 million and the facility is ready for renovation works to begin.

Berezhkovskaya

- We have concluded seven preliminary lease agreements and one non-binding Letter of Intent for 37 per cent of the Gross Leasable Area of the existing buildings. The average rentals have been agreed at US$700 per sqm, net of VAT and operating expenses.

Future pipeline

In addition to our existing portfolio, and after we had converted two of the announced pipeline projects – Kossinskaya and Kislovodsk – to our portfolio, we currently have a pipeline of 15 projects, also located in Moscow, the Moscow Region and other major cities throughout Russia.

Board changes

After June 30, 2007, AFI Development announced two changes to its Board of Directors. In July Ms. Natalie Razumovski, Director at AFI Development and the CFO of Stroyinkom-K, our operating business in Moscow, resigned for unforeseen personal reasons. Ms. Razumovski made a significant contribution to the Company, most notably working together with our senior management team to support our transition into the public arena. We would like to thank her for the contribution she made to the Company and wish her every success in her future endeavours.

As a result, on 4 July 2007, Mr. Avi Barzilay, a Director of AFI Development and Vice President Finance of Africa Israel Properties Limited assumed full responsibility for the Company's financial affairs. Mr. Barzilay has been closely involved with AFI Development's financial and strategic affairs since the Company's incorporation in 2001 and we are confident that his knowledge and experience will add significant value to our ongoing operations.

As announced today, we are pleased to confirm today that Avi Barzilay has been formally appointed as Chief Financial Officer of AFI Development, with immediate effect.

Market

Russia's economic and real estate market conditions remain positive, with the Russian economy maintaining its status as a major and fast-growing economy. Personal incomes continue to rise, which is reflected in the demand for high quality residential property and by high retail turnover. The Russian economy has experienced positive trends in the last few years as a result of increases in GDP, reduced rates of inflation and a relatively stable currency. GDP growth rates in Russia are high compared to those in many industrialised countries.

The Russian real estate market remains strong, with continuing growth forecast in all sectors. The market is also showing signs of benefiting from increased participation by professional real estate property funds, which bring with them more sophisticated and transparent real estate investment management skills to the market. Real estate sector returns and client service has been further improved by the use of more integrated development strategies, which have been enhanced to include the refurbishment and redevelopment of existing buildings, the repositioning of assets and improvement of property management.

Demand for quality real estate assets, whether from tenants, investors or private residential purchasers currently outstrips supply and we do not anticipate this demand abating.

Outlook

We have made significant steps forward in delivering our strategy since AFI Development's admission to trading in May 2007, with significant increases in the value of the Company's net assets and NAV per share. We continue to make excellent progress with bringing our existing projects to fruition and are very pleased to have consolidated some of our pipeline of assets and we have continued to pursue new investment opportunities.

With the ongoing demand for high quality commercial and residential real estate assets, both from investors and occupiers, we are confident that AFI Development is well positioned in the marketplace and has a strong platform from which to continue to deliver significant capital and income growth for the benefit of all our shareholders going forward.

Erez Meltzer, Chairman of AFI Development, and Alexander Khaldey, Chief Executive
23 August 2007

FINANCIAL REVIEW

Presentation of Financial Information

Our consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), in effect at the time of preparing our consolidated financial statements. The accounting policies applied in the preparation of our consolidated financial statements in accordance with IFRS as issued by the IASB, and in effect at that time, did not differ from IFRS as adopted for use in the European Union. IFRS differs in various material respects from US GAAP and UK GAAP.

Furthermore, the IASB has recently promulgated certain new International Financial Reporting Standards, amendments to standards and amendments to interpretations.

These new standards and amendments were not yet effective for the period under review ended 30 June 2007 and have not been applied in preparing our consolidated financial statements. However, we do not expect that the application of these new standards and amendments will have a material effect on our consolidated financial statements.

Results

Profit before tax for the period under review increased by 1,066 per cent to US$65.70 million (30 June 2006: US$ 5.64 million).

Revenue

To date, we have derived revenues from two sources: (i) construction consulting and construction management fees, and (ii) rental income. In the period under review, we derived relatively small amounts of revenue from such fees and rental income. .

In the six months to 30 June, 2007 our revenue increased by US$1.02 million, or 67 per cent, from US$1.53 million in the corresponding period in 2006 to US$2.55 million in the current period under review. This increase was due to a US$781,000 or 113 per cent increase in rental income and a US$238,000, or 28 per cent, increase in construction consulting and construction management fees. The increase in construction consulting and construction management fees consisted primarily of construction consulting and construction management services provided to Krown Investments, which we began recording as revenues on a proportionate basis as a result of our sale of a 50 per cent interest in Krown Investments in September 2006. The increase in rental income was primarily due to the purchase of various premises, incidental to the development of our Plaza I and Plaza II developments at Tverskaya Zastava Square, and also the acquisition of the H_2O office building in 2006.

Current and future revenue

Construction consulting and construction management fees

We have historically derived construction consulting and construction management fees from project management services that we provide to both third party developers and our joint ventures. Currently, we receive revenues from providing these services only to our joint ventures.

Rental income

We expect that our revenue from rental income will continue to increase in the future once we complete the commercial properties that we are currently developing for lease. To date we have derived rental income primarily from buildings that we have purchased and which are rented on a short term basis, including the following:

- The non-residential premises we own at Tverskaya Zastava Square 3, which is a part of our Tverskaya Plaza II project. We intend to demolish these premises as part of the overall development of Tverskaya Zastava II.
- The building we own at 3 Ozerkovskaya Lane, which is part of our Ozerkovskaya Phase IV project. We intend to demolish this building in order to build a mixed-use development at the site.

- The H_2O office building we acquired in 2006, which forms part of the Paveletskaya Embankment development.

Apart from the H_2O building, which we acquired in 2006 after it had been renovated by its previous owners, we do not yet derive any rental income from projects that we have developed ourselves.

Operating expenses

Operating expenses consist mainly of expenses, such as employee wages and social benefits, and property operating expenses, which are directly attributable to revenues. As substantially all of our activities to date have involved real estate development projects that are still in the pre-construction or construction phase, we have historically capitalised the great majority of our overall costs. We recognise as expenses property operating costs, including outsourced building maintenance, utilities, security and other tenant services, related to our properties that generate rental income as expenses in our income statement.

Our operating expenses increased by US$891,000, or 147 per cent, from US$603,000 in the corresponding period in 2006 to US$1.49 million in the current period under review. This increase was primarily due to increased rent related expenses, and maintenance costs.

Administrative expenses

Our principal administrative expenses to date have been rental payments for the lease of our Russian management company's office premises at 29, 1st Brestskaya Street in Moscow.

These expenses increased by US$1.82 million, or 176 per cent, from US$1.04 million in the corresponding period in 2006 to US$2.85 million in the current period under review. This increase relates to the increase in our business activity.

Valuation gains on investment properties

We recognised revenues of US$49.95 million as a result of the revaluation of our property portfolio. The unrealised valuation gains are dictated by the fair value of the property as determined by a registered independent appraiser with an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as our investment properties. These gains relate to the revaluation of the H_2O building, which is part of the Paveletskaya Development, and the Aquamarine II project, which forms part of Phase II of our Ozerkovskaya Embankment project. Both buildings were constructed, renovated and completed and were ready for the intended use during the current period under review.

Income tax expense

Income taxes are calculated based on tax legislation applicable to the country of residence of each of our subsidiaries and, as such companies are based and organised in Cyprus, we are subject to income tax in Cyprus. We and our Cypriot subsidiaries are currently subject to a statutory corporate income tax rate of 10 per cent in Cyprus. Our Russian subsidiaries are subject to tax at an income tax rate of 24 per cent, though, to date most of our Russian subsidiaries have experienced losses for Russian tax purposes. Profits on disposal of investments in intermediate holding companies based in Cyprus, from which we have derived the vast majority of our profits historically, are not subject to income tax either in Cyprus or Russia.

The Company records a tax expense for deferred income taxes in respect of the revaluation gains on its properties based on the most recent JLL valuation report at the current tax rate applicable to the registered owner of such property. There can be no assurance that these properties will be disposed of at such values, or that the assumed tax rate will be the applicable tax rate in effect at the time of any such disposition.

Profit for the Period under review

Due to the factors described above, our profit after tax for the period increased by US$44.76 million, or 824 per cent, from US$5.43 million in the corresponding period in 2006 to US$50.19 million in the current period under review. This increase was primarily due to the revaluation of our properties by JLL.

Operating profit before net finance costs

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

Finance income

Our finance income comprises net foreign exchange gain, if any, and interest income. The interest income has increased significantly since the IPO.

Finance expenses

Our finance expenses comprise net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalised.

Loss from discontinued operations

Within the framework of our Paveletskaya Embankment project we have sold the second production line of the MKPK cardboard factory, resulting in a $361,000 (net of income tax) loss incurred in connection with MKPK's discontinued operations in 2007.

Liquidity and Capital Resources

IFRS requires us to identify a property as an investment property or a trading property at the time we acquire it and the determination, once made, cannot be changed even if our objectives with respect to such property change. Generally, our strategy is to sell the residential properties we develop and to lease the commercial properties we develop, subject to the continuous reassessment of such properties based on prevailing market conditions. Because of this strategy, we historically classified all of our commercial properties as investment properties and our residential properties as trading properties. The effect of this is that, when we sell all or a portion of one of our commercial properties, the principal cash flow effects of such a sale are reflected in cash from investing activities, rather than cash from operating activities, even though we have engaged in substantial development activity in respect of such properties. On the other hand, if we sell all or a portion of one of residential properties, the principal cash flow effects of such a sale are reflected in cash flows from operating activities.

Net cash used in operating activities

Net cash used in operating activities amounted to US$-301,000 in the current period under review, compared to cash generated from operating activities of US$801,000 in the corresponding period in 2006. This was due to the increase in administrative expenses due to the increase in rent expense and the increase in the number of employees.

Net cash used in investing activities

Net cash used in investing activities increased by US$160.37 million, or 147 per cent, from US$-109.31 million in the corresponding period in 2006 to US$-269.68 million in the current period under review. This increase was primarily due to payments made for the acquisition of new entities together with payments made to contractors and builders in respect of development properties.

Net cash from financing activities

Net cash from financing activities increased significantly by US$1.38 billion or 887 per cent from US$156.02 million in the corresponding period in 2006 to US$1.54 billion in the current period under review. Net cash from financing activities increased primarily due to our undertaking a public offering of GDRs on the London Stock Exchange.

Effect of exchange rate fluctuations

We recorded a decrease in the exchange rate fluctuations of US$-2.09 million between 1 January to 30 June 2007. Exchange rate fluctuations were US$2.12 million in the corresponding period in 2006, as compared with US$35,000 in the current period.

Capital Resources

During the period under review we met our cash needs principally through an equity offering and borrowings.

On 11 May 2007, we were successful in having our Global Depositary Receipts ("GDRs") admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange. Pursuant to the offering, we raised US$1.4 billion (net proceeds of US$1.34 billion) by issuing an aggregate of 100,000,000 GDRs, each representing one ordinary share at an offer price of US$14.00 per GDR. It is intended that the proceeds will continue to be used to fund our current development portfolio and to acquire new development projects in Moscow, the Moscow Region and other major cities in Russia. In this way the IPO funds will enable us to strategically advance and continue to build on our existing projects for the future.

We recently obtained a non-revolving credit line agreement from the Savings Bank of the Russian Federation, or Sberbank for US$280 million. The funds drawn under the credit line will be used to finance the construction of the Tverskaya Zastava Shopping Centre project. The credit line is secured by a pledge over 51 per cent of the shares in the asset company, a lien over the development rights regarding the Tverskaya Zastava shopping mall project, and a mortgage over the shopping mall when completed.

During January and February of 2007, we entered into term loan agreements with our parent company, Africa-Israel Investments Ltd. both directly and through our subsidiary Scotson Limited for the principal amounts of US$62 million and US$16.7 million, respectively. The loans bear interest at a rate of three-month LIBOR plus 2.5 per cent per annum, and each have a maturity date of 31 March 2007. Both of these loans were repaid in March 2007 using a portion of the proceeds from the term loan facility with Deutsche Bank AG, London Branch noted below.

On 22 February 2007, we entered into a US$200 million term loan facility with Deutsche Bank AG, London Branch. We received a disbursement of the entire principal amount of the facility on 23 February 2007. The funds enable us to fund our general operational requirements. Funds drawn under this agreement bear interest at 1.45 per cent above the six-month LIBOR per annum. Accrued interest is paid every six months, starting on 23 February 2007. The entire principal amount of the facility matures on 23 July 2008, however, we may elect to repay the loan on an earlier date provided that we give written notice to Deutsche Bank AG, London Branch 30 days prior to the repayment. The loan is secured by a guarantee of our parent company, Africa Israel Investments Limited, which shall be effective until our obligations under the agreement are satisfied in full. As guarantor, our parent company has undertaken that it will retain a 51 per cent interest in our shares for the term of the loan facility.

Over the next few years, we expect to finance most of our future capital expenditure and working capital needs through debt financing, cash flows from operating activities, and proceeds from the sale of investments in subsidiaries as well as by utilizing the net proceeds above. The availability of debt financing may be influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We have also pledged shares of certain of our subsidiaries and properties in connection with our borrowings.

As of 30 June 2007 our debt comprised the following:

Lender	Currency	Annual interest rate (actual at 30 June 2007)	US$
Deutsche Bank AG	US$	Six-month US$ LIBOR + 2.4%	61,674,313
Deutsche Bank	US$	Six-month US$ LIBOR + 1.45%	204,894,833
MDM Bank Plc	EUR	12%	14,307,338
S&T Equity (Overseas) Ltd	US$	5%	3,735,713
Unsecured loan from Danya Cebus	RUR	US$ LIBOR + 4.5%	2,036,809
Radlet Business	RUR	0.25%	1,818,788
Unsecured loan from Krown Investment - JV	RUR	8.5%	556,109
Shareholders' Loans from Moonbeam	US$	Three-month US$ LIBOR + 2.5%	51,831
Shareholders' Loans from Moonbeam	US$	1%	259,185
Others			383,094
TOTAL			**289,718,823**

As at 30 June 2006 and 2007, our loans and borrowings were payable as follows:

	As at 30 June	
	2006	**2007**
	(US$ in thousands)	
Less than one year ………………………..	14,786	18,918
Between one and five years ………………	51,746	270,801
More than five years ……………………...	10,000	0

Capital Requirements

We require capital to finance the following:

- Capital expenditures, consisting of cash outlays for capital investments in real estate development projects and the acquisition of real estate properties and land rights (ownership or leasehold);
- acquisitions of other companies with real estate holdings or activities;
- repayment of debt;
- changes in working capital; and
- general corporate activities.

Real estate development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our growth strategy, including investing in new properties and development projects in our target market segments, while making additional investments into our existing properties and real estate development projects.

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

Between 1 January 2007 and 30 June 2007, we spent US$428.7 million to acquire projects and properties. Our cash requirements relating to potential acquisitions may vary significantly, depending on market opportunities and the availability of attractive acquisition opportunities.

Commitments and Contingent Liabilities

Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain other committed obligations. The following table summarises our future obligations (including interest up until 30 June 2007) under these contracts due as of 30 June 2007.

	Less than a year (US$ 000's)	Between one and five years	More than five years	Total
Contractual obligations				
Loans and borrowings	18,918	270,801		289,719
Operating leases	4,333	5,581	19,664	29,578
Committed investments				
Construction costs	310,328	415,042		725370
Total	$333,579	$691,424	$19,664	$1,044,667

Our operating leases include both land leases with the City of Moscow with respect to land underlying certain of our projects, and a lease of office space in Moscow by our subsidiary Stroyinkom-K. Committed construction and renovation costs arise under agreements with third parties for construction of properties. As of 30 June 2007, we were contractually committed to make future payments with respect to the following projects**:**

Project name	Commitment (US$ 000's)
Moscow City Shopping Centre …………………………………………….	213,567
Tverskaya Zastava development ………………………………………...	383,128
Otradnoye ……………………………………………………………….	4,009
Ozerkovskaya Embankment – Phase II ……………………………………	60,136
Four Winds 1 & 2 ………………………………………………………..	30,645
Paveletskaya Embankment ……………………………………………..	33,884
Total ……………………………………………………………………….	**$725,369**

These capital commitments, however, form only a portion of our total expected expenditure for these projects. We have budgeted a total of US$2.60 billion to bring these particular projects to completion.

A summary of our most significant commitments under construction contracts as at 30 June 2007 is set out below.

- In December 2006, we entered into a construction agreement with Enka Insaat Sanayi S.A., or Enka, a Turkish construction company, for approximately US$228 million (including VAT) for the design and construction of a portion of the above ground part of the central core of the Moscow International Business Centre at the Moscow City Shopping Centre Project. The project is scheduled to be completed within 23 months from the date when construction begun. As of 30 June 2007, the amount of future capital commitment in respect of the construction agreement was approximately US$200.04 million (including VAT).

- In connection with our development of a shopping centre and traffic interchange at Tverskaya Zastava Square, in September 2006, we entered into a construction agreement with Enka pursuant to which Enka would develop the design documentation and act as general contractor for the construction of the complex. The contract price is approximately US$268 million (including VAT). Pursuant to the agreement, Stroyinkom-K was required to make an advance payment of approximately US$26.80 million (including VAT) with the balance being payable on a monthly basis. As of 30 June 2007, the amount of future capital commitments in respect of the construction agreement was approximately US$237.27 million (including VAT).

- In connection with our development of a mixed-use complex located at 26 Ozerkovskaya Embankment, in September 2006, we entered into a US$51.90 million (including VAT) construction agreement with Danya Cebus pursuant to which Danya Cebus would construct the above-ground part of the residential sections "B" and "V" and the hotel (section "G") for the project. We have also entered into an approximately RUB 14 million construction agreement (including VAT) with Danya Cebus pursuant to which Danya Cebus would construct and install a supporting wall at 28 Ozerkovskaya Embankment for the Phase II project located at 26 Ozerkovskaya Embankment. As at 30 June 2007, the amount of future capital commitments under these contracts was approximately US$36.43 million.

- In March 2005, our joint venture Westec entered into a construction contract with "Rasen Construction", which is acting as general contractor in connection with the Four Winds 1 and 2 projects, with a contract price of US$77.76 million (including VAT). In November 2006, the contract was amended to reflect a new contract price of US$84.46 million (including VAT). As at 30 June 2007, the amount of future capital commitments according to the contract is approximately US$27.11 million.

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

Foreign currency risk
The functional currency of our Russian subsidiaries is the Rouble, whereas our functional currency is the US Dollar. The majority of our revenue, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US Dollars. In addition, as at 30 June 2007, the majority of our borrowings are in US Dollars. Although most transactions are settled in Roubles, the price for real estate property is tightly linked to the US Dollar. We are exposed to fluctuations in the Rouble against the US Dollar and the Euro principally as a result of our Russian subsidiaries having US Dollar and Euro denominated payables and receivables, which may generate foreign income gains and losses at our Russian subsidiaries. *(See also "Additional Factors that may Affect our Financial Results – Exchange Rates.")*

Interest rate risk
We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. At 30 June 2007, 92 per cent of our indebtedness was floating rate, linked to LIBOR. *(Please see "Capital Resources" above for details on these loans.)*

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

Credit risk
Because we are in an early stage of the Company's development and have only a limited number of yielding properties, we have not yet developed a comprehensive credit policy to monitor our credit risk exposure to tenants and purchasers. We expect to develop such credit policies in the near future as we approach completion of our most advanced-stage major development projects.

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

A detailed description of certain of the main accounting policies we use in preparing our consolidated financial statements is set out in the notes.

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

management estimates. *(See also "Additional Factors that May Affect our Future Financial Results - Fair Value Calculation" above.)*

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

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

Estimating the discounted present value of the estimated future cash flows of a financial asset is inherently uncertain and requires us to make both an estimate of the expected future cash flows from the asset, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognising or avoiding impairment charges. In the period under review, we did not record any bad debt expenses.

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

We assess at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, we then estimate the recoverable amount of the asset. Estimating the value in use requires us to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life, and the appropriate discount rate, which is generally based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognising or avoiding impairment charges. We have not recognised any impairment losses with respect to our non-financial assets during the period under review.

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

Significant management judgment is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our consolidated financial statements the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period under review over which the deferred tax assets and liabilities will be recoverable. If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

Company Share Option Scheme

We have established an employee share option scheme which is operated by our Board of Directors. The option plan is discretionary and options will only be granted when the Board so determines.

To date, the Company has allocated 2,284,552 options at an exercise price of US$14 per share.

Explanations Regarding the Accounting

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

- ***Rental income***. We recognise rental income from investment properties leased out under operating leases in our income statement on a straight line basis over the term of the lease.
- ***Construction consulting and construction management fees.*** We recognise revenues from construction, consulting, and construction management services in our income statement in proportion to the stage of completion of the related project at the relevant reporting date. We assess the stage of completion by reference to surveys of work performed.
- ***Sales of trading properties***. We recognise revenue from the sale of trading properties in our income statement when the significant risks and rewards of ownership of the property are transferred to the buyer. When we receive revenue in connection with the sale of trading property that is under construction, we record such revenue net of the carrying amount of the trading property on our balance sheet at the time of sale.

Capitalisation of Costs for Properties under Development
We capitalise all costs directly related to the purchase and construction of properties being developed as both investment properties and trading properties, including costs to acquire land rights and premises, design costs, permit costs, costs of general contractors, costs relating to the lease of the underlying land and the majority of our employee costs related to such projects. In addition, we capitalise financing costs related to development projects only during the period of construction of the projects. We do not, however, commence capitalizing financing costs related to expenditures on a project until construction on such project actually begins. As substantially all of our development projects are still in the pre-construction or construction phases, to date we have capitalised the great majority of the overall costs related to our business activities.

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

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

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

Increasing Construction and Other Development Costs

During the period under review, we have experienced increases in development and construction costs, including costs of contractors, labour, pre-project documentation and land and property acquisition costs. Labour costs have been increasing due to labour shortages and high costs of living in Russia, particularly in Moscow.

Additional Factors that May Affect Our Future Financial Results

As we complete a greater number of projects, additional factors, including those set forth below, may impact our future financial position and results of operations.

- ***Sales of Properties***

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

- ***Fair Value Calculation***

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

- ***Recognition to Costs***

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

- ***Recovery of VAT***

We pay VAT to the Russian authorities with respect to construction costs and expenses on our projects, which we anticipate recovering on completion of construction. We have accordingly included recoverable VAT as an asset on our balance sheet, the size of which we expect will increase as the development of our projects advances. We may face delays recovering such VAT payments to the extent that we have procedural complications to reclaiming such VAT or, in certain cases, to the extent we do no complete a project, we may not be eligible to recover such VAT payments.

- ***Deferred Taxation***

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

- ***Revenue***

Generally, our strategy is to lease the commercial properties we develop, subject to our continual reassessment of such properties based on prevailing market conditions. Amounts we receive pursuant to the lease of our commercial properties will be recorded as revenue on our income statement. As a result, we expect our revenue to increase in future periods as our projects become income yielding.

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Independent report on review of condensed consolidated interim financial information to the Members of AFI DEVELOPMENT PLC

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of AFI Development PLC as at 30 June 2007 and the related condensed consolidated statements of 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".

KPMG

Chartered Accountants

Nicosia, 22 August 2007

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the period from 1 January 2007 to 30 June 2007

	Note	1/1/07-30/6/07 US$ '000	1/1/06-30/6/06 US$ '000
Revenue			
Construction consulting/management services		1,079	841
Rental income		1,469	688
		2,548	1,529
Other income		61	185
Operating expenses		(1,494)	(603)
Administrative expenses		(2,853)	(1,035)
		(1,738)	76
Profit on disposal of investment in subsidiaries		-	6,973
Valuation gains on investment property	5	49,951	-
Results from operating activities		48,213	7,049
Finance income		18,972	1,301
Finance expenses		(1,486)	(2,715)
Net finance income/(costs)		17,486	(1,414)
Profit before income tax		65,699	5,635
Income tax expense		(15,151)	(203)
Profit from continuing operations		50,548	5,432
Loss from discontinued operations (net of income tax)		(361)	-
Profit for the period		50,187	5,432
Attributable to:			
Equity holders of the Company		50,188	5,432
Minority interest		(1)	-
Profit for the period		50,187	5,432
Basic earnings per share (cent)		10.98	1.28
Diluted earnings per share (cent)		10.96	1.28
Continuing operations			
Basic earnings per share (cent)		11.06	1.28
Diluted earnings per share (cent)		11.04	1.28

The notes below form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2007 to 30 June 2007

	Attributable to the equity holders of the Company					Minority Interest	Total
	Share capital	Share premium	Translation reserve	Retained earnings	Total		
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2007	424	421,325	6,047	175,745	603,541	-	603,541
Issue of share capital	100	1,337,706	-	-	1,337,806	-	1,337,806
Profit for the period	-	-	-	50,188	50,188	(1)	50,187
Share option expense		-	-	263	263	-	263
Translation adjustments	-	-	770	-	770	-	770
Effect of acquisition of a subsidiary	-	-	-	-	-	1	1
Balance at 30 June 2007	524	1,759,031	6,817	226,196	1,992,568	-	1,992,568
Balance at 1 January 2006	2	3	649	63,761	64,415	-	64,415
Loss for the period	-	-	-	5,432	5,432	-	5,432
Translation adjustments	-	-	3,256	-	3,256	-	3,256
Balance at 30 June 2006	2	3	3,905	69,193	73,103	-	73,103

The notes below form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AS AT 30 JUNE 2007

	Note	30/6/07 US$ '000	31/12/06 US$ '000
Assets			
Investment property	5	93,936	-
Investment properties under development	6	675,011	363,708
Investments	7	35,098	-
Property, plant and equipment		1,744	986
Long-term loans receivable		1,699	144
VAT recoverable		14,145	9,843
Goodwill		150	150
Total non-current assets		821,783	374,831
Trading properties under construction	8	89,073	79,044
Inventory		466	11
Short-term loans receivable		5,430	3,953
Trade and other receivables	9	160,653	199,577
Cash and cash equivalents		1,302,252	26,272
Assets classified as held for sale		-	3,441
Total current assets		1,557,874	312,298
Total assets		2,379,657	687,129
Equity			
Share capital		524	424
Share premium		1,759,031	421,325
Translation reserve		6,817	6,047
Retained earnings		226,196	175,745
Total equity	10	1,992,568	603,541
Liabilities			
Long-term loans and borrowings	11	270,801	61,746
Deferred tax liability		11,762	122
Total non-current liabilities		282,563	61,868
Short-term loans and borrowings	11	18,918	14,786
Trade and other payables	12	79,050	5,869
Income tax payable		4,334	950
Deferred income		2,224	115
Total current liabilities		104,526	21,720
Total liabilities		387,089	83,588
Total equity and liabilities		2,379,657	687,129

The condensed consolidated interim financial statements were approved by the Board of Directors on the 22 August 2007.

The notes below form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
For the period from 1 January 2007 to 30 June 2007

	1/1/07-30/6/07 US$'000	1/1/06-30/6/06 US$'000
Cash flows from operating activities		
Profit for the period	65,699	5,635
Adjustments for:		
Depreciation	793	130
Interest income	(13,030)	(563)
Interest expense	1,486	2,282
Share option expense	263	-
Fair value adjustment	(49,951)	-
Gain on sale of investment in subsidiaries	-	(10,638)
Profit from sale of property, plant and equipment	-	(6)
	5,260	(3,160)
(Increase)/decrease in trade and other receivables	(13,155)	3,949
(Increase)/decrease in inventories	(455)	1
Increase in trading properties under construction	(8,350)	(4,853)
Decrease in assets held for sale	3,441	-
Increase in trade and other payables	11,117	4,755
Increase in deferred income	2,109	148
	(33)	840
Income taxes paid	(268)	(39)
Net cash flow from operating activities	(301)	801
Cash flows from investing activities		
Interest received	12,836	563
Proceeds from sale of investments	137,654	(26)
Net cash outflow from the acquisition of subsidiaries	(231,914)	-
Proceeds from sale of property, plant and equipment	-	31
Increase in advances to builders	(50,406)	(5,038)
Payments for investment properties under development	(61,268)	(102,787)
Prepayments for investment properties under development	(35,641)	-
Payments for acquisition of investments	(35,098)	-
Increase in VAT recoverable	(4,302)	(1,451)
Payments for acquisition of property, plant and equipment	(1,538)	(601)
Net cash flow from investing activities	(269,677)	(109,309)
Cash flows from financing activities		
Proceeds from issuance of shares and listing of GDRs	1,343,476	-
Payments for loans receivable	241	2,683
Proceeds from loans receivable	(3,079)	(3,264)
Proceeds from loans and borrowings	208,293	159,098
Repayment of loans and borrowings	(48)	(2,117)
Interest paid	(2,960)	(384)
Net cash flow from financing activities	1,545,923	156,016
Effect of exchange rate fluctuations	35	2,120
Increase in cash and cash equivalents	1,275,980	49,628
Cash and cash equivalents at 1 January	26,272	11,521
Cash and cash equivalents at 30 June	1,302,252	61,149
The cash and cash equivalents consist of:		
Cash at banks	1,302,243	61,140
Cash in hand	9	9
	1,302,252	61,149

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2007 to 30 June 2007

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 March 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 25 Olympion Street, 3035 Limassol, Cyprus. The Company is a 71.2% subsidiary of Moonbeam Enterprises Limited, member of Africa Israel Investments Group which is listed in the Tel Aviv Stock Exchange (TASE) and 9.7% of its share capital is held by Nirro Group S.A. The remaining shareholding is held by a custodian bank in exchange for the GDR's issued and listed in the London Stock Exchange.

The condensed consolidated interim financial statements of the Company for the period from 1 January 2007 to 30 June 2007 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. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated 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 2006.

4. 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. Except as described below, in preparing the 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 that applied to the consolidated financial statements as at and for the year ended 31 December 2006.

During the six months ended 30 June 2007 management has assessed the fair value of certain completed properties reclassified as investment properties based on independent appraiser valuations.

5. INVESTMENT PROPERTY

	30/6/07 US$ '000	31/12/06 US$ '000
Balance 1 January		
Transfer from investment properties under development	43,261	-
Fair value adjustment	49,951	-
Effect of movement in foreign exchange rates	724	-
Balance 30 June / 31 December	93,936	-

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

Investment property comprises the building H_2O which is part of the Paveletskaya development and the building situated in Bolshaya Tatarskaya Street 35 which is part of "Aquamarine" complex. Both buildings were completed, renovated and constructed respectively and were ready for their intended use during the six-month period ended 30 June 2007.

6. INVESTMENT PROPERTIES UNDER DEVELOPMENT

	30/6/07 US$ '000	31/12/06 US$ '000
Balance 1 January	363,708	185,073
Additions due to acquisitions of subsidiaries	288,309	77,429
Construction costs	60,317	124,613
Capitalised interest	5,279	14,995
Transfer from property, plant and equipment	-	37
Disposals	-	(39,610)
Transfer to investment property	(43,261)	-
Effect of movement in foreign exchange rates	659	1,171
Balance 30 June / 31 December	675,011	363,708

7. INVESTMENTS

Represent an amount paid for the acquisition of 25% shareholding of Beslaville Management Ltd from Hogan Management Ltd. The share purchase and subscription agreement provides for the acquisition of an additional 25% for the price of US$30 million. Beslaville is the owner of properties, land and buildings, situated in Moscow which are required for the completion of the Tverskaya Zastava Plaza IV project.

8. TRADING PROPERTIES UNDER CONSTRUCTION

	30/6/07 US$ '000	31/12/06 US$ '000
Balance 1 January	79,044	26,806
Additions due to acquisitions	-	34,624
Construction costs	8,350	25,654
Capitalised interest	1,614	2,937
Disposal	-	(11,433)
Effect of movements in exchange rates	65	456
Balance 30 June / 31 December	89,073	79,044

9. TRADE AND OTHER RECEIVABLES

	30/6/07 US$ '000	31/12/06 US$ '000
Receivable from sale of investments	821	138,475
Amounts receivable from related companies	682	149
Advances to builders	91,504	41,098
Prepayments for acquisition of investments	35,641	-
Trade receivables	17,687	12,319
Other receivables	7,842	6,950
Deferred expenditure	1,528	-
VAT recoverable	4,651	551
Tax receivables	297	35
	160,653	199,577

Prepayments for acquisition of investments:

Include an amount of US$30.254 thousand prepaid for the acquisition of 100% shareholding of OOO Milinar and an amount of US$5.000 thousand prepaid for the acquisition of 51% shareholding of Bioka Investments Ltd.

10. SHARE CAPITAL AND RESERVES

Share Capital	30/6/07 US$ '000	31/12/06 US$ '000
Authorised		
1,000,000,000 shares of US$0.001 each	1,000	1,000
Issued and fully paid		
523,847,027 shares of US$0.001 each	524	
423,847,027 shares of US$0.001 each		424

10. SHARE CAPITAL AND RESERVES (continued)

On 11 May 2007 the Company was successful in having its global depositary receipts "GDRs" admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange. 100,000,000 GDRs were issued for the purposes of the offering which represent new shares issued by the Company and held under custody of Bank of New York. Each GDR had an offer price of US$14. A total of approximately US$1.34 billion has been raised and will be used to finance the Group real estate activities.

Share premium

The movement of the period represents the share premium on the issued shares which were represented by GDRs listed in the LSE as explained above. It is the result of the difference between the offering price, US$14, and the nominal value of the shares, US$0.001, after deduction of all listing expenses.

Employee Share option plan

The company has established an employee share option plan which is operated by the Board of Directors. Eligible are employees and directors, excluding independent directors, of the Company and employees and directors of the holding company 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 grand.

Options over 1,508,906 shares were granted on 3 May 2007 to Russian employees and directors with an exercise price of US$14 vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The contractual life is ten years.

Options over 351,796 shares were granted on 13 June 2007 to Israeli employees and directors with all other features being the same as above.

11. LOANS AND BORROWINGS

	30/6/07 US$ '000	31/12/06 US$ '000
Long-term loans		
Secured bank loans	266,569	61,684
Unsecured loan from shareholder	311	-
Unsecured loan from joint venture	65	62
Secured loan from related company	2,037	-
Secured loan from non related company	1,819	-
	270,801	61,746
Short-term loans		
Secured bank loan	14,307	10,517
Unsecured loan from joint venture	491	462
Unsecured loans from other related companies	3,736	3,807
Secured loans from non-related companies	384	-
	18,918	14,786

11. LOANS AND BORROWINGS (continued)

A long-term secured bank loan of US$200 million has been granted to AFI Development Plc during the six month period ending 30 June 2007 from Deutsche Bank AG, London Branch. The loan, which is denominated in US dollars, carries interest of 1.45% above 6 months USD LIBOR and is repayable on 23 August 2008. Guarantor of the borrower's obligations is Africa Israel Investments, registered in Israel, which is the ultimate shareholder of the Company.

12. TRADE AND OTHER PAYABLES

	30/6/07 US$ '000	31/12/06 US$ '000
Trade payables	2,231	1,305
Amounts payable to related companies	865	420
Amounts payable to builders	1,737	581
Down payments received for construction projects	8,691	542
VAT and other taxes payable	501	253
Other payables	65,025	2,768
	79,050	5,869

Other payables

Include an amount of US$43,096 thousand owed for the acquisition of 100% shareholding of OOO Titon and US$9,704 thousand for the acquisition of 100% shareholding of ZAO UMM Stroyenergomekhanizatsiya. Both these amounts are owed to Asnar Management Limited to be paid in installments the last of which will be no later than 1 October 2007.

13. 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 2006.

14. GROUP ENTITIES

During the six month period ended 30 June 2007 the Group acquired the following:

100% of ZAO Armand, 100% of OOO Volga StroyInkom Development and 100% of OOO Volga Land Development, all of which are registered in the Russian Federation.

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

14. GROUP ENTITIES (continued)

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

100% of Keyiri Trading & Investments Limited, a Cypriot company that holds 100% of OOO Favorit. Favorit, a Russian registered entity, holds 76% interest in the land plot on which the St. Petersburg project will be located. KO Proekt, subsidiary of Buildola Properties Limited acquired 76% shareholding of OOO KO Development that will develop the St. Petersburg project. The remaining 24% of KO Development is currently held by the Group's local partner in St. Petersburg. The St. Petersburg project will consist of a retail shopping outlet and in addition a metro station is planned to be constructed in proximity to the St. Petersburg development. St. Petersburg is at the concept stage of development and design and construction have not yet begun. In addition, KO Development will enter into a land lease agreement with Favorit with respect to the land plot on which the St. Petersburg project will be located, for the period of the construction.

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

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

15. SUBSEQUENT EVENTS

The following events have taken place during the period and will be completed after the period end:

On 12 February 2007, the Group entered into an agreement with Ramis, regarding the purchase of a 100% participatory interest in the charter capital of OOO Milinar, a Russian limited liability company, which is holding or will be holding ownership rights to buildings located at Leninskaya Sloboda str., 19 with a total area of 96,217.6 sq. m. called Dinamo project. The Group's total investment in the acquisition of the participatory interest in OOO Milinar will approximately amount to US$149 million out of which approximately US$30 million were prepaid in the six-month period ended 30 June 2007.

During the period we have signed an investment contract with the Administration of Kislovodsk, a resort town in the south of Russia, for the redevelopment of the Old Lake, which is the only body of water located in the town. Under the investment contract we undertook to improve and regenerate the Old Lake and have received the right to develop a Spa hotel, retail and entertainment facilities on a land plot with the total area of 7.56 hectares. We have signed a three-year land lease agreement with regard to this project.

15. SUBSEQUENT EVENTS (continued)

The following events have taken place subsequent to 30 June 2007:

On 9 July 2007, the Company entered into an agreement to acquire 24,126 sq. m. of built up facilities on the Yauza River on Bolshaya Pochtovaya Street in the Central Administrative District of the City of Moscow. In addition the Company has agreed to acquire the adjoining development rights in the form of Act of Permitted Use for the construction of a mixed use facility with the total built up area of 231,680 sqm on a land plot with a total area of 2.67 hectares. The land plot will be used for the construction of Pochtovaya project that is expected to include 80,000 sqm zoned for hotel and residential use, 80,000 sqm of office space and 67,000 sqm of underground parking space. The acquisition price for the Pochtovaya project is US$104.3 million and the outstanding development costs for the project are expected to total US$465.2 million.

We recently obtained a non-revolving credit line agreement from the Savings Bank of the Russian Federation, or Sberbank for US$280 million. The funds drawn under the credit line will be used to finance the construction of the Tverskaya Zastava Shopping Centre project. The credit line is secured by a pledge over 51% of the shares in the asset company, a lien over the development rights regarding the Tverskaya Zastava shopping mall project, and a mortgage over the shopping mall when completed.