27 March 2008

AFI DEVELOPMENT PLC
(“AFI Development” or the “Company”)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

AFI Development announces 93% rise in net profits to US$215.6 million

AFI Development PLC, a leading real estate company focused on developing property in Russia and the CIS, today announces preliminary results for the year ended 31 December 2007.

Financial highlights:

- Net Asset Value per share is US$11.2
- Net Asset Value, based on the valuation of our projects portfolio independently verified by Jones Lang LaSalle LLC, is US$5.9 billion, up 4.6 per cent since 30 June 2007 and 14.1 per cent since IPO
- The Company’s investment portfolio is valued at US$5.2 billion, up 15.8 per cent since 30 June 2007 and 41.4 per cent since IPO
- Profit before tax for the year rose to US$275.5 million (31 December 2006: US$113.3 million)
- Profit after tax for the year rose to US$215.6 million (31 December 2006: US$111.9 million)
- Total investment of US$967.3 million during the year
- Strong cash position and the Company continues to secure financing at reasonable terms
- Profit per share of 44 cents

Operational highlights:

- Portfolio to the end of the reporting period included 29 projects in 15 locations, with a total area of 3.64 million sqm
- Strategy enhanced to include Ukraine and other CIS states and to incorporate all of Africa Israel’s Russian real estate assets under the exclusive mandate of AFI Development
- Excellent progress on AFI Development’s ongoing projects. Highlights include:
    - Four Winds office buildings completed ahead of schedule and fully let
    - Aquamarine II office building completed on time and fully let
    - Ground works have commenced at Otradnoye Phase I
    - Ground works have commenced at Ozerkovskaya Phase III
    - New Moscow City Government Resolution for Kuntsevo is expected the first half of 2008 and tenant relocation is now underway
- Seven new projects added to the portfolio since our IPO, including:
    - Pochtovaya project (Phases I, II and III)
    - Kossinskaya (Phases I and II)
    - Moscow City Hotel
    - The Botanic Garden project
- Consolidation of our stakes in the Tverskaya Zastava Plaza IV, Volgograd and Botanic Garden projects completed.

Lev Leviev, Chairman of AFI Development, commented:

“In my first statement as Chairman of AFI Development, I am pleased to be reporting on a year of excellent performance and considerable progress across our operations. Since our listing on the London Stock Exchange, we have successfully delivered on our IPO promises and have continued to consolidate our position as one of the leading developers in the highly dynamic and fast growing Russian real estate market.

“The strength of our local management and the notable advances in our construction, acquisition and leasing programmes have been key factors behind the substantial rise in the Company’s net asset value and profit in 2007, which is particularly satisfactory in light of the more challenging conditions being experienced in the global financial and real estate markets. We believe that our performance provides clear evidence of the qualities which differentiate both the dynamic Russian real estate market and, more specifically, the significant potential of our Company’s portfolio.”

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

“2007 has been a landmark year for AFI Development. Operationally, we have achieved a number of significant milestones, including commencing the construction of our schemes, securing major lettings and making major strides in our acquisitions programme, both through the purchase of new sites and the consolidation of some of our pipeline assets by acquiring complementary plots. These successes have been clearly reflected in our 14.1 per cent rise in NAV since the IPO and a 143.2 per cent increase in profit before tax in 2007.

“With the backing of our dedicated and experienced management team, strong financial resources and ongoing demand for high quality commercial and residential real estate assets, both from investors and occupiers in Moscow, Russia’s regional cities and Ukraine, AFI Development is extremely well placed to continue to deliver significant capital growth for the benefit of all of our shareholders going forward.”

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CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT

In our first joint statement, we are delighted to report a year of excellent performance and considerable progress across our operations.

In this landmark year, we completed the listing of the Company's global depositary receipts on the London Stock Exchange in May 2007, raising gross proceeds of US$1.4 billion. Of this sum, 61 per cent has already been invested in progressing our project portfolio and our acquisitions programme, in line with the strategic aims set out at the time of our IPO. Additionally, we have committed US$180 million since the end of the reporting period for new acquisitions and consolidation of assets, including the acquisition of stakes from our related companies in Ukraine and in the Kislovodsk and Perm regions of Russia. As a result, investment in new projects in our portfolio since IPO now totals US$838 million, or 59.9 per cent of the gross proceeds of the IPO.

The strength of our local management and the notable advances in our construction, acquisition and leasing programmes have been key factors behind the substantial rise in the Company's net asset value and profit in 2007. This is particularly satisfactory in light of the more challenging conditions being experienced in the global financial and real estate markets and is clear evidence of the qualities which differentiate both the dynamic Russian real estate market and, more specifically, the significant potential of our Company's portfolio.

Results

The key elements of our financial performance in 2007 is the 14.1 per cent growth in Net Asset Value ("NAV") to US$5.9 billion from US$5.1 billion at IPO whilst profit before tax has risen 143.2 per cent to US$275.5 million at 31 December 2007, from US$113.3 million at 31 December 2006.

Our cash position at the year end remains strong and our project financing continues to benefit from the availability of debt financing at reasonable terms, which underlines the confidence from leading local and international banks in our strategy and track record of delivery. In addition to the funds raised in the IPO, we have secured credit facilities of more than US$500 million with several major banking groups, including Deutsche Bank and Sberbank.

Valuation

At 31 December 2007, our portfolio was valued at US$5.2 billion by Jones Lang LaSalle LLC ("JLL"). This figure represents a 15.8 per cent increase in the value of the overall portfolio since the last valuation as at 30 June 2007 and a 41.4 per cent increase in the value of the overall portfolio since the initial valuation as at 31 March 2007.

Based on the year end valuation, our NAV totals US$5.9 billion or US$11.2 per share. This figure represents a 4.6 per cent increase in NAV and in NAV per share since the previous portfolio valuation as of 30 June 2007 and a 14.1 per cent increase in NAV and rise in NAV per share since the IPO. This increase in NAV has been driven principally by an increase in rental rates, new acquisitions, progress across our assets under construction and success in securing zoning permissions.

Strategic update

AFI Development continues to make excellent headway in executing and delivering on its business plan and strategy as set out at the time of its IPO.

Our strategic objective is to deliver large scale, multi-phase, mixed-use projects in locations with strong market fundamentals, supported particularly by socio-economic and demographic trends. In addition, we carefully select projects where the expertise and knowledge of our highly experienced management team can be deployed to create and enhance shareholder value to maximum effect.

To date, the Company's main focus has been on the development of high-yielding prime office and retail assets, complemented by residential and community schemes. We also remain committed to our decision to seek to divest ourselves of our residential properties in order to recycle our capital into the higher yielding commercial market.

We see ongoing strong potential for real estate markets in Moscow and certain regional cities in Russia where we believe there are particular growth opportunities. This drive into the regions was evidenced during 2007 by our increased presence in key markets such as St Petersburg, Perm and Volgograd. Our core focus, however, continues to be on Moscow, which offers superior returns within a buoyant property market, supported by the considerable demand from international and domestic tenants for high quality office, retail and mixed-use real estate developments.

Notwithstanding this particular focus, we are also mindful of the benefits of increasing our portfolio's diversification in terms of use and geography where the specific characteristics of individual schemes and opportunities meet our stringent acquisition criteria. In light of this, we announce today a number of strategic additions to our portfolio:

- The consolidation of all of the Russian property assets of our parent company, Africa Israel Investments Limited ("Africa Israel") into the AFI Development portfolio. This entails the acquisition of four hotels in Kislovodsk and Zheleznovodsk, previously owned by Africa-Israel Hotels Limited and the acquisition of an additional 20 per cent stake in our project in Perm from Danya International Holdings Limited; and

- Expanding the scope of our operations to Ukraine and other CIS states, where we believe we are well placed to benefit from the considerable potential these dynamic markets present owing to the considerable experience the Company's senior management team has built and the strongly complementary characteristics that exist between the Ukrainian real estate sectors and their wider economies.

Details of the above are set out in the portfolio update below.

Portfolio update

Since 1 July 2007, we have made significant advances within our portfolio. The key events can be summarised as follows:

New acquisitions

We acquired the Pochtovaya project (Phases I, II and III), Moscow City Hotel and the Botanic Garden project and have additionally consolidated our stake in our Tverskaya Zastava Plaza IV, Botanic Garden and Volgrograd projects. These acquisitions have together contributed US$311.1 million to our NAV.

Advancement of existing projects

During the second half of 2007, we made significant advances on several projects which led to adjustments to the developer's margin in the valuation of some of our projects. In particular, we began the construction of the first phase of our Otradnoye scheme and commenced the preparatory works on Ozerkovskaya Phase III. In addition, we completed works on the Four Winds office building and have begun the relocation of tenants from the site of our Kuntsevo project. During the reporting period we also completed the construction of the Aquamarine II office building, which forms part of Phase II of our Ozerkovskaya Embankment project and continued the construction phases at our Tverskaya Zastava and Moscow City shopping malls.

Significant leasing progress

The main reason for the adjustments to the current values of many of our projects was the rental values we have realised and demonstrated to our external valuers. Rental rates on prime offices in the Central Administrative District of Moscow have exceeded expectations, which has, in turn, resulted in an adjustment of rental assumptions for our Tverskaya Zastava, Ozerkovskaya, and Pochtovaya developments. We also recently commenced lettings activity at our two large malls we are constructing in Moscow, Moscow City and Tverskaya Zastava. The terms agreed with the first anchor tenants were higher than initially assumed by JLL, and we are now targeting an average rental rate of US$1,700 per sqm at the Tverskaya Zastava shopping mall and US$1,834 per sqm at the Moscow City shopping mall.

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Change in legal status

We have made significant steps forward in gaining regulatory permissions at several of our projects since 30 June 2007. For example, in Otradnoye we have obtained the construction permit; at Ozerkovskaya Phase II we have commissioned the Aquamarine II office building; in Kuntsevo, we have secured the Land Reservation Act for an area of two hectares, which allows us to begin the preparation of detailed town planning substantiation for this area, have secured the setting of the land boundaries for the development area and are now awaiting the issue of the new Moscow City Government Resolution for Kuntsevo, which is expected to advance the legal status of the Kuntsevo project in the following ways:

- Will set the exact addresses and the zoned use of the facilities under planning;
- Will specify the arrangements for funding of the preparation of town planning documentation;
- Will specify the procedures for establishing future economic and legal terms of the project implementation between the city and AFI Development or its subsidiaries.

At the same time, we are still in the process of conducting due diligence on Dinamo project and we have come to the conclusion that it may not be possible to cure certain of the defects identified during the due diligence that may affect current and/or future ownership rights. Accordingly, we have decided to remove project Dinamo from the current portfolio of assets, which negatively impacted our NAV.

The details of the Company's portfolio, comprising 29 projects, as at the reporting date are summarised in the table below. The market values included in this table are taken from the independent valuations prepared by JLL.

Property	**Market value at 31 December 2007 (US$000s) (AFI's share)**	**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 31 December 2007) (US$000s) (AFI's share)**	**Estimated market rental upon completion (excl. VAT & OpEx) (US$000s) (AFI's share)**
Tverskaya Zastava					
Shopping Centre	**286,390**	225,630	200,365	**662,942.5**	**68,371**
Plaza I	**496,220**	374,700	333,830	**1,220,049.6**	**63,857**
Plaza II	**379,470**	350,500	309,700	**862,796**	**69,024**
Plaza II(a)	**21,409**	17,900	16,730	**57,497.5**	**4,599**
Plaza IV	**209,960**	117,260	75,300	**878,401.3**	**70,272**
Four Winds 1&2	**223,625**	222,070	143,500	**269,667.75**	**16,805**
Moscow City Centre					
Shopping Centre					
Hotel	**1,142,500**	978,000	889,000	**1,648,281**	**143,636**
	61,600			**242,750**	**14,067**
Ozerkovskaya					
Phase 2	**165,275**	179,200	142,700	**231,952**	**5,941**
Phase 3	**111,089**	127,300	101,600	**229,767.75**	**20,042**
Phase 4	**64,765**	55,600	49,300	**164,210.9**	**15,017**
Otradnoye	**405,900**	403,700	370,000	**1,701,643.75**	
Paveletskaya					
Paveletskaya Embankment	**57,500**	49,400	45,300	**325,375.3**	**39,059**
H2O	**34,875**	31,000	27,000	**34,875**	**6,208**
Ruza	**94,800**	78,500	69,200	**235,218**	
Dinamo	**-**	118,600	118,600	**-**	**-**
Berezhkovskaya	**101,900**	147,400	117,700	**280,936**	**39,123**

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St Petersburg	**18,850**	17,170	16,675	**47,912**	**4,822**
Perm Phase I Phase II Phase III	 **7,600** **4,525** **675**	 7,100 4,300 300	 6,300 3,540 420	 **105,977.3** **98,674** **15,769.2**	 **803** **2,216**
Volgograd	**26,400**	5,700	4,500	**440,718**	**42,645**
Kuntsevo	**700,250**	650,000	650,000	**7,624,009.2**	**723,587**
Kislovodsk	**7,975**	4,800		**113,145.7**	**347**
Kossinskaya	**266,120**	219,300		**529,629.6**	**69,030**
Bolshaya Pochtovaya	**258,200**	123,300		**1,029,189**	**75,829**
Botanic Garden	**73,150**			**515,642.3**	**2,487**
Total	**US$5,221,023**	**US$4,508,730**	**US$3,691,260**	**US$19,567,031**	

In the table below we detail the current status and the data of all the Company's portfolio projects. A more detailed review on the progress on the key project appears below.

	Project	Description	Development Status	Beneficial ownership as at 31/12/2007	Estimated GLA/GSA, sqm						O/S investments	Completion date
					Office	Retail	Hotel	Residential	Car parking	Total		
Development	Shopping Centre	Retail	Construction	100%	-	35,776	-	-	34,427	70,203	324,299	2010
	Plaza I	Mixed-use	Concept	100%	47,663	6,038	24,555	12,989	56,650	147,895	337,629	2011
	Plaza II	Mixed-use	Concept	100%	60,537	3,208	-	-	26,075	89,820	212,441	2011
	Plaza IIa	Mixed-use	Concept	100%	4,220	101	-	-	3,502	7,823	17,467	2011
	Plaza IV	Mixed-use	Concept	95%	63,278	3,000	-	-	25,000	91,278	286,543	2011
Four Winds	Four Winds I	Office and retail	Yielding	50%	17,556	3,416	-	-	5,016	25,988	18,502	completed
	Four Winds II	Residential and retail	Construction	50%	-	4,854	-	17,875	13,692	36,421		2H 2008
Moscow City	Shopping Centre	Retail	Construction	75%	3,246	94,205	-	-	-	97,451	318,799	2H 2009
	City Hotel	Hotel	Concept	49.9%	19,463	5,730	10,371	-	-	35,564	152,868	2010
	Phase II	Offices and residential	Construction and yielding	50%	12,460	685		17,982	22,338	53,465	30,547	2H 2008
		Hotel	Construction	100%			7,380			7,380		
	Phase III	Offices and residential	Construction	50%	41,192	-	-	5,632	17,300	64,124	88,036	2H 2008
	Phase IV	Offices	Concept	70%	16,100	-	-	-	5,474	21,574	77,727	2010
Otradnoye	Otradnoye	Residential, offices and retail	Construction	residential - 94%; non-residential - 90%	17,960	22,000	-	450,100	106,400	596,460	996,329	2012
Paveletskaya	Paveletskaya Embankment	Offices	Renovation	100%	67,000	-	-	-	-	67,000	88,874	2H 2009
	Plaza H2O	Offices	Yielding	100%	8,918	-	-	-	-	8,918	-	completed
Ruza	Ruza	resort	Concept	100%	-	-	-	-	-	0	n/a	2012
Berezhkovskaya	Berezhkovskaya	Offices	Yielding+Concept	74%	74,600	-	-	-	25,000	99,600	189,747	2011
St Petersburg	Discount centre project	Retail	Concept	76%	-	15,400	-	-	-	15,400	18,020	2010
Perm	Phase I - III	Residential, Offices and retail	Concept	30%	16,205	11,100	-	122,232	59,047	208,584	94,105	2010

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Volgograd	Multi-functional complex	Mixed-use	Concept	100%	13,429	70,600	-	-	5,439	89,468	210,182	2011
Kuntsevo	Kuntsevo	Mixed-use	Concept	100%	933,314	125,100	-	-	217,000	1,275,414	3,163,710	n/a
Kislovodsk		resort	Concept	100%	-	1,000	17,525	33,100	0	51,625	108,723	2010
Bolshaya Pochtovaya	Phases I (Pochtovaya, 30)	Mixed-use	Concept	100%	107,000	15,000	10,000	45,000	68,279	245,279	515,823	2010
	Phases II -III (Pochtovaya,34,8)										307,239	2011
Kosinskaya	Kosinskaya (Titon, UMM)	Business Park, mixed-use	Concept	100%	105,465	55,480	0	0	0	160,945	52,926	2010
Botanic Garden	Serebryakova	Residential and retail	Construction	90%	1,459	2,289	-	68,233	902	72,883	294,159	2010
					1,616,354	**489,692**	**69,831**	**773,143**	**691,541**	**3,640,561**	**7,904,695**	

Tverskaya Zastava

a. Four Winds

Four Winds is a mixed-use development which forms part of the Company's Tverskaya Zastava project. The development is being delivered in two phases, the first of which, the office building, was completed in the fourth quarter of 2007, a quarter ahead of schedule.

We made exciting progress at our Four Winds office development, with the announcement in October of several major lettings. The Company let 6,200 sqm of office space to Morgan Stanley, an international investment bank. In addition, space totalling over 10,900 sqm was let to Moody's, Total, another international bank, and other tenants. The leases are for five and seven years and Four Winds will be home to each company's Russian headquarters. As a result of the lettings, 100 per cent of the building's total office space has been let.

60 per cent of the apartments available in the residential phase of the development have been pre-sold. Construction works on the second phase, which comprises 17,875 sqm of apartments, 1,008 sqm of retail space, a 3,846 sqm fitness centre and 13,692 sqm of underground parking are due for completion during the fourth quarter of 2008.

Four Winds is expected to generate US$26 million of net operating income, which will be recognisable in 2008. At 31 December 2007, a valuation gain of US$147 million was posted to the Company's income statement.

b. Shopping Mall and Traffic Interchange

We have commenced the ground works for the traffic interchange and the underground shopping mall at Tverskaya Zastava Square. To date, we have completed 12 per cent of the slurry wall, diverted traffic, implemented the first traffic arrangements and removed 8.5 per cent of the external utility lines.

Together with Colliers International, the exclusive letting agent for the Tverskaya Zastava shopping mall, we have started signing up anchor tenants. The first memoranda of understanding were signed with a movie theatre operator and with a supermarket operator. We are currently targeting an average rental rate for the entire mall of US$1,700 per sqm per annum net of VAT and operating expenses.

c. Reconstruction of the Tverskaya Zastava Square Bridge

We have obtained a City Government Resolution appointing us as the developers of the bridge reconstruction at Tverskaya Zastava Square. The bridge is the extension of the traffic interchange that connects Tverskaya Street and Leningradsky Prospect overpassing the railway tracks adjacent to Belorussky railway station. Our involvement in this project adds to our efforts to improve the traffic situation in this location and contribute to sustainable infrastructure improvement in the city. In return for our investment in the urban infrastructure we were granted the right to use approximately 26,000 sqm of commercial space and our costs are expected to be set off against the value of the land and city's share in the various phases of the Tverskaya Zastava project.

d. Plazas

In October 2007, AFI Development increased its stake in the holding company of Plaza IV, from 25 per cent to 95 per cent. The Company paid US$89.77 million to purchase this additional 70 per cent. In addition, it has negotiated an unconditional option to buy the remaining five per cent held by the vendor at US$1.424 million for each additional one per cent that it decides to purchase.

As a result of this acquisition, the Company has effectively terminated its 50-50 development partnership with the vendor of Plaza IV's parent company.

Upon completion, Plaza IV is expected to comprise a total of 63,278 sqm of Class A office space, 3,000 sqm of retail space and 25,000 sqm of underground parking. The aggregate gross lettable area of all of the phases of the Tverskaya Zastava project, including the shopping centre, is expected to total 469,428 sqm. We are currently finalizing the approval procedures with regard to the zonings of all the Plazas (Plaza I, II, IIa and IV) and expect to start the ground works in the fourth quarter of 2008.

Moscow City

a. Central Core – Shopping Mall

The construction of the facility is ongoing and we are nearing the completion of the shell structure, working towards the commencement of internal works and the cupola as well as the preparation for assembly of the façades, the specifications and the design of which were approved by the City Council.

Together with Colliers International, which serves as the exclusive letting agent for the Moscow City shopping mall, we have started signing up anchor tenants. The first memoranda of understanding have been signed with a supermarket operator and other anchor tenants. We are currently targeting an average rental rate for the entire mall at US$1,834 per sqm per annum net of VAT and operating expenses.

b. Central Core – Hotel

Consistent with our strategy to consolidate our projects and to acquire immediately adjacent plots, we have recently entered into a memorandum of understanding regarding the acquisition of a 49.9 per cent share in the land plot immediately adjacent to our Moscow City shopping mall project. The land plot comprises 0.7 hectares and is zoned for mixed-use development, including a hotel, shopping gallery and office premises. Our objective to create a homogenous, top-quality environment for our entire landholding by creating a unique, attractive location for tenants under common management and a new and unique new attraction in the city.

The memorandum calls for entering into a Sale and Purchase Agreement upon completion of due diligence, which we currently anticipate we will complete in the second quarter of 2008. In the meantime, the ground works for this property have commenced and the project is scheduled for completion in the first quarter of 2010. We are expecting our total costs for this project to be US$174 million and, according to the memorandum of understanding, our share in the revenue will amount to 50 per cent.

Kuntsevo

We have begun the process of relocating the tenants located within the land plot approved for the Kuntsevo project development. We have concluded our first two transactions in this regard for the aggregate amount of US$7 million.

In addition, we are awaiting the issue of the new Moscow City Government Resolution with regard to this project, which is expected to advance the legal status of the Kuntsevo project in the following ways:

- will set the exact addresses and the zoned use of the facilities under planning;
- will specify the arrangements for funding of the preparation of town planning documentation;
- will specify the procedures for establishing future economic and legal terms of the project implementation between the city and AFI Development or its subsidiaries

Otradnoye

We have commenced the ground works on Phase I of the Otradnoye project, which comprises approximately 150,000 sqm of sellable residential space. The Otradnoye project comprises three phases that are approximately equal in size. We expect to begin pre-sales of the residential units in the second quarter of 2008.

Ozerkovskaya

During the reporting period, we completed construction of the Aquamarine II office building, which forms part of Phase II of the Ozerkovskaya project. The building was commissioned in the fourth quarter of 2007 and is fully let to a single tenant, generating a total net operating income of US$11 million per annum (of which our share is 50 per cent). Valuation gains of US$48.7 million arising from this project were reflected in the 31 December 2007 income statement and the rental income will be reflected from mid-January 2008.

To date, we have completed the development of approximately 70 per cent of the residential space, 27 per cent of which is pre-sold for a total of US$31 million. Completion is expected in the fourth quarter of 2008.

In addition, 60 per cent of the construction works on the hotel phase have been completed and we expect to complete this project by the end of 2008 and to open to the public during the first half of 2009.

We have started the ground works for Phase III of the Ozerkovskaya compound and are advancing the regulatory framework with regard to Phase IV.

Botanic Garden

In the fourth quarter of 2007, we completed the consolidation of our holding in the Botanic Garden project through the acquisition of a further 39 per cent stake, taking our total interest in the project from 51 per cent to 90 per cent. The total acquisition costs amounted to US$58.4 million for the consolidated share. The project is located in northern Moscow, on the planned fourth transportation ring, near to the "Botanic Garden" metro station. The project forms part of the new City-backed programme to develop a new high-rise ring around the edge of Moscow city centre.

The construction phase of the project has begun and the development will comprise predominantly residential and mixed-use space with 68,233 sqm of mid-class residential, 2,289 sqm of retail space, 1,459 sqm of offices and 902 sqm of parking. We expect to start the pre-sales of the residential units in the Botanic Garden project in the second half of 2008.

The total budgeted costs of this project are estimated to be US$373 million.

Kossinskaya

Our Kossinskaya project is located in eastern Moscow, on the MKAD (Moscow Ring Road), and was the first project acquired following AFI Development's IPO. The project comprises two phases: Phase I is an existing Class B office building with a total built area of 111,700 sqm and a GLA of 105,465 sqm. In addition, we acquired the leasehold for an adjacent land plot of 3.8 hectares, which is channelled for Phase II, which comprises the development of a mixed-use development with a total leasable area of 55,480 sqm.

The total acquisition price for the Kossinskaya project was US$243 million, including the rights for the land plots and the building, as well as the estimated cost of fit-out works for the office building to completion. Our budgeted development costs for the second phase of the project are US$61 million. The project is scheduled for completion in two phases, with the office phase estimated to complete in the third quarter of 2008, with the second phase following in the fourth quarter of 2012.

Pochtovaya (I, II, and III)

The Pochtovaya project was acquired in three stages during the second half of 2007 and beginning of 2008, when we acquired Phase III of the project. The project is located in the Central Administrative District of Moscow on the Yauza riverfront and comprises three land plots, with a total area of 4.9 hectares. AFI Development has prepared plans for the construction, redevelopment and conversion of 344,570 sqm of mixed-use accommodation at this location, comprising 211,100 sqm of Class A office space, 20,800 sqm of upper mid class residential, a 10,000 sqm hotel, 4,000 sqm of street-level retail and 2,041 car parking spaces.

The first phase, which comprises 234,970 sqm and includes 20,800 sqm of upper mid-class residential, 4,000 sqm of street-level retail, a hotel of 10,000 sqm, 123,700 sqm of Class A office space and 1,492 car parking spaces, is at an advance stage of planning with full zoning and permits in place. We expect to start construction works in the fourth quarter of 2008. The second and third phases of the project comprise the conversion and redevelopment of existing buildings and the construction of new accommodation and are expected to be completed in 2012. The total acquisition cost for the Pochtovaya project was US$189 million.

Volgograd

In October 2007, the Company completed the purchase of the holding company for the Volgograd project, thereby increasing its stake in the scheme to 100 per cent. The holding company is party to an investment agreement with Volgograd's city administration for the development of a mixed-use project comprising a total built area of 150,000 sqm that is expected, on completion, to include retail space, office space, a hotel and parking spaces. A detailed architecture concept is currently being developed.

Prior to this transaction, AFI Development held a 78 per cent stake in the project and was obliged to finance 100 per cent of the development costs. The Company paid a prepayment of US$10 milllion of the aggregate amount of approximately US$17 million for its 100 per cent stake in the project.

New initiatives

As described in the strategic update above, we are delighted to announce today a number of new initiatives which will immediately ensure the increased diversification of the Company's activities and enhance its potential to create and enhance shareholder value.

Consolidation of Africa Israel's Russian Property Assets

As summarized above, in partnership with Africa Israel Investments Limited ("Africa Israel"), our parent company and majority shareholder, we have decided to consolidate all of Africa Israel's property assets in Russia under AFI Development Plc. These assets include four properties owned by Africa-Israel Hotels Ltd. ("AFIH"), which is a subsidiary of Africa Israel, located in the Caucasian Mineral Springs area in the Stavropol region in southern Russia.

The Board has recently adopted a decision to acquire these properties from AFIH. Three of the properties are located in Kislovodsk, where AFI Development has an existing project and one is located in Zheleznovodsk.

A detailed description of each property is as follows:

- Plaza Spa Hotel, *Kislovodsk* – an operating four-star hotel with the total capacity of 274 rooms. The asset has a total built up area of 25,362 sqm, located on a 1.24 hectares land plot, which is adjacent to Kislovodsk's famous park. AFI Development was the developer and construction manager for the hotel, which was originally commissioned in 2005. As a result of the acquisition, the Company will own a 50 per cent stake in this property, with the remainder owned by an unrelated third party. The hotel has recorded an average occupancy rate of above 80 per cent in 2007 and it will remain under the management of AFIH. Plaza Spa includes state-of-the-art medical and spa facilities. Plaza Spa Hotel estimated aggregate operational income for 2008 is approximately US$9 million. Plaza Spa Hotel was valued at US$60 million by JLL at 1 March 2008 (100 per cent interest).

- Park Plaza, *Kislovodsk* – a project that comprises 5.3 hectares of land in the resort area of Kislovodsk. We are assessing plans to develop a three-star hotel with a total area of 40,000 sqm or 500 rooms, spa and health treatment facilities and additional recreational zones. Part of the land plot also has permission for residential development. The total development costs for this project are estimated to be US$65.2 million. Ground and preparation works are underway and we expect to complete the development by the end of 2010. Park Plaza was valued at US$19.3 million by JLL at 1 March 2008 and at US$95 million upon completion.

- Versailles, *Kislovodsk* – a project located at the entrance to the Kislovodsk park, situated on a land plot of 0.6 hectares. The project comprises renovation of a historic building and construction of new facility that is expected to include a boutique hotel with a total built up area of 11,000 sqm and 53 suits. The total development costs for this project are estimated to be US$25.5 million. The renovation works are ongoing and we anticipate completing the development during the first half of 2009. Versailles was valued at US$11.9 million by JLL at 1 March 2008 and at US$39 million upon completion.

- Kalinina, *Zheleznovodsk* – the project is located in the core recreational area of Zheleznovodsk and comprises the conversion of an existing building into a modern three-star hotel. The total built up area is 11,500 sqm and the facility is expected to contain 175 rooms. The total development costs for this project are estimated to be US$18 million. The conversion works are ongoing and we expect to complete the development during the first half of 2009. Kalinina was valued at US$10.9 million by JLL at 1 March 2008 and at US$29 million upon completion.

The aggregate interest that AFI Development has purchased from AFIH in these properties was valued at US$72.1 million by JLL as at 1 March 2008, with value upon completion of US$223 million. The acquisition will be completed at US$70 million.

Perm

Our project in Perm was owned 30 per cent by the Company, 20 per cent by Danya Cebus, a subsidiary of Africa Israel, and 50 per cent by our local development partner. In conjunction with Africa Israel, we decided to consolidate Africa Israel's operations in the Perm region of Russia under the exclusive mandate of AFI Development, which we expect to achieve through the acquisition of Danya Cebus' share in the project.

The transaction will be performed through a share sale for a total amount of US$11.1 million, based on the latest valuation by JLL and including the portion of Danya Cebus' shareholder's loans above its pro-rata share (subject to the actual US$:RUR exchange rate at the date of closing). The transaction has not been completed yet and is subject to regulatory approval by the appropriate corporate bodies at Danya Cebus.

Ukraine

Following careful consideration of a number of specific opportunities, the Board has decided that further value can be created by broadening the scope of our operations to include CIS, and Ukraine in particular. The Ukrainian market bears a number of similar characteristics to the Russian market and we believe that AFI Development is well placed to benefit from the opportunities that this fast-growing market presents, both because of our management team's considerable experience in the market and through the complementary characteristics that exist between the Russian and Ukrainian real estate sectors and wider economies.

In order to ensure that we have a solid platform for growth in the Ukrainian market and that the Company possesses the optimum levels of local market knowledge and expertise, we have entered into an agreement to purchase AFI Ukraine, part of Africa Israel, including the Borispol City project and its management platform. The Borispol City project in AFI Ukraine's portfolio is well known to our management team and we are confident that we can deliver shareholder value through their completion.

The acquisition has been approved at cost value of US$30.26 million and is expected to be completed during the first half of 2008.

As a result, all of Africa Israel's and Nirro Group's future real estate development activity in Ukraine will be performed by AFI Development. The projects will be added to AFI Development's portfolio and will form part of the upcoming valuation to be released with our interim results statement.

Borispol City project

The Borispol City project is located in the vicinity of Kiev international airport in Borispol, and comprises several land plots with an aggregate area of 426 hectares, of which AFI Ukraine has to date acquired 121 hectares. Our beneficial share in the land plots range from 60 per cent to 92.5 per cent. The Company is considering the development of several large, phased mixed-use developments at this location, which are expected to include a large shopping mall, a residential complex and parking space, as well as offices.

Currently, we are in the process of acquiring and consolidating the remaining land plots under the memorandum of understanding that AFI Ukraine had signed with the partner, a non-related third party. The estimated aggregate cost of land is US$119 million, of which AFI Ukraine has paid US$30.26 million. Upon the completion of the land acquisition we will prepare and will seek to approve the project design for each future project with the local authorities.

Market Update

Throughout 2007, the Russian economy has demonstrated high and sustainable rates of growth on the back of accelerating investment dynamics. Improving industrial performance and petroleum-related revenues have created an in-built resilience for the Russian economy and while the impact of the global credit challenges on developing markets so far primarily manifested itself in the rise of loan costs, including those for Russian banks which had to limit credit granting, the availability and value of loan resources within Russia remain positive for the long term.

Moscow remains the dominant Russian investment market, accounting for approximately 93 per cent of national investment transactions. Increased market transparency, growing investor confidence and an expanding base of high quality investment assets is positively influencing the market's liquidity and attracting foreign investors. Additionally, we are continuing to observe good levels of demand from international occupiers, who are looking to establish a presence in Russia in order to take advantage of the strong market fundamentals that exist there.

In addition, research from JLL observes that the political risks connected with the March 2008 presidential elections seem to have declined in the beginning of the year as foreign capital inflows reached record levels. A large portion of this is a result of the Foreign Direct Investment ("FDI"), through which international investment reached US$22.7 billion in the first half of 2007 compared with US$17.6 billion a year earlier.

For the first time, foreign investors and 'unlisted investment companies' contributed to the majority of total acquisitions on the Russian property market. More than 80 per cent of acquisitions were completed with capital from outside sources, compared with 2006, when the balance between foreign and domestic investment was approximately 60 per cent to 40 per cent, respectively.

(Source: Jones Lang LaSalle Moscow City Profile September 2007)

Office market

Moscow's office market continues to outperform expectations. Recent research from JLL noted that:

"On the back of more international companies entering the market and existing business expansion proceeding, the first six months of the year saw demand volume constitute two thirds of last year's figure".

(Source: Jones Lang LaSalle Moscow City Profile September 2007).

Escalating interest in the growing office segment accounts for prime rental rates growth as well as the rising number of projects both under construction and delivered in the market. Despite the growth in supply, demand for high quality properties within the city centre remains strong from both local and international occupiers. With prime office space at a premium, we continue to see willingness from occupiers to pay for high quality space in prestigious locations in Moscow.

With office quality increasing and vacancy rates among the lowest in Europe, Moscow continues to demonstrate very strong market fundamentals. However, over the past 12 months we have begun to see a widening of focus for developers, responding to an increase in demand from occupiers for more suburban locations.

Retail market

During the last two years Moscow has seen a significant increase in the supply of retail space, though it continues to be outstripped by demand from occupiers and consumers. The expansion of existing retail operators, along with the entrance of new local and international brands, is driving demand for high-quality shopping space and, as the number of shopping centres grows, we are observing increasingly that it is the quality of shopping centres that plays a crucial role in defining rental levels.

High-quality shopping centre rents, which traditionally apply to locations within the Garden Ring, rose by an estimated 20 per cent over the course of 2007, whilst vacancy rates for the same space remain below one per cent, despite a doubling in supply since 2004.

Stable growth in personal incomes over the last five years is resulting in the emergence of a prime target audience for high quality retail space. According to Rosstat, consumers spend over 70 per cent of their earnings on retail shopping, which, when combined with Moscow's higher levels of personal disposable income is driving the healthy, stable growth of consumption activity.

AFI DEVELOPMENT PLC

Against a backdrop of increasing demand for high quality retail space, we believe that AFI Development's retail schemes are well-positioned to attract the best occupiers and thus provide a good platform for future shareholder value creation.

(Source: Blackwood Commercial Real Estate Market Overview 2007)

Residential Real Estate

During 2007, the Russian residential real estate market followed several positive trends, including an increase in development activity. As a result, Russian housing stock increased by more than 60 million sqm in 2007, an increase of some 20 per cent compared with 2006. However, there continues to be sustained demand for real estate assets at all levels.

This demand has resulted in a phase of significant rental growth in Moscow's housing market during the second half of 2007 in particular, demonstrating the value that can be found in good quality housing stock, situated in locations with strong underlying fundamentals. On the back of low supply in the secondary market, housing prices grew 10-12 per cent (in USD equivalent) in 2007, with the highest growth rates being seen in the high-class, business and elite real estate sectors.

In addition, the residential sector has responded to changes in demand that have been brought about by the Government's "Comfortable and Affordable Housing Project". In Moscow, almost half of the capital's new housing projects in 2007 (over 2.2 million sqm) were aimed at providing affordable housing. The end result, however, was a decrease in availability of economy class housing on the open market, increasing Moscow house prices and boosting underlying interest in residential accommodation in the Moscow Region. Moscow's local authorities predict that this trend is set to continue, with the share of social housing, as a proportion of the total volume of housing stock, will increase up to 2.6 million sqm (with five million sqm projected to be built in total).

(Blackwood Residential Real Estate Market Overview 2007).

Regional Real Estate Investment

The regional property market is characterised by a limited stock of modern, high quality properties, allowing for vast development potential in key locations throughout the country.
Increasing numbers of high quality properties have begun to appear in the 'millioniki cities', especially Volgograd, Yekaterinburg, Samara, St Petersburg, Kazan and Krasnoyarsk.

Such developments are driven by an integrated approach to residential construction in the regions, which is increasingly accompanied by the construction of corresponding social infrastructure. Many towns, especially those closest to the capital ("satellite towns") are benefiting from infrastructure development, sound environment, an increased level of choice and prices that are more favourable than those in Moscow. These factors are combining to generate demand for locations outside the Moscow Region.

Ukraine and CIS

Russia, Ukraine and CIS countries remain some of the most attractive areas for investors, developers, and construction companies and continue to attract foreign investors in high numbers. Until fairly recently, economic growth in the CIS region has been driven mainly by Russia's buoyant economic health, with the majority of inflow attracted by a commodity price-driven expansion in net exports and consumer demand.

In particular, Ukraine's close relationship with Russia has not only stimulated economic growth and financial investment, but also overall domestic conditions, with GDP rising more than 52 per cent in real terms over the past six years and prevailing opinion is that this is set to grow further, buoyed by a resurgent Russian economy and the sustained growth and broadening wealth and property accumulation that accompanies it.

In terms of real estate, recent research suggests that Ukraine's market stands approximately seven to 10 years behind Russia and central Europe, which we believe presents us with an opportunity to deploy our experience and expertise at a time when the market can be enhanced through more established operational and financial management systems.

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(Source: Renaissance Capital: Ukraine, A dream of Europe, February 2008; and Renaissance Capital: "Outlook 2008: CIS equity – new investment horizons")

Board

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

Prospects

2007 has been a landmark year for AFI Development. Since the listing of its GDRs, it has successfully delivered on its IPO promises and has firmly established its position as one of the leading developers in the highly dynamic and fast growing Russian real estate market.

Operationally, we have achieved a number of significant milestones, including commencing the construction of our schemes, securing major lettings and making major strides in our acquisitions programme, both through the purchase of new sites and the consolidation of some of our pipeline assets by acquiring complementary plots. These successes have been clearly reflected in our 41.5 per cent rise in NAV since the IPO and a 143.2 per cent increase in profit before tax in 2007.

With the backing of our dedicated and experienced management team, strong financial resources and ongoing demand for high quality commercial and residential real estate assets, both from investors and occupiers in Moscow, Russia's regional cities and the Ukraine, AFI Development is extremely well placed to continue to deliver significant capital growth for the benefit of all of our shareholders going forward.

We look forward to the future with considerable confidence.

Lev Leviev	**Alexander Khaldey**
Chairman of the Board	**Chief Executive Officer**

27 March 2008

AFI DEVELOPMENT PLC

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

Overview

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

As at 31 December 2007, we had an existing portfolio of 29 development projects in 15 locations in Russia, comprising commercial projects focused on offices, shopping centres, hotels and mixed-use properties, and residential projects focused on upscale apartment buildings in prime locations in Moscow and on the development of residential districts in the Moscow Region aimed at the upper middle class segment of the market. According to Jones Lang LaSalle ("JLL"), a registered independent appraiser, at completion, the projects in our current portfolio will have approximately 3.6 million square metres of gross lettable area and gross sellable area. As at 31 December 2007, JLL valued our beneficial interest in the projects in our current portfolio in their existing state of development at approximately US$5.221 billion, subject to the assumptions set out in the valuation report attached to the Annual Report.

Our profits for the year increased from US$111.98 million in 2006 to US$215.62 million in 2007. During 2007, our profits were derived primarily from the revaluation of completed projects by JLL and total US$ 201.91 million, disposals of our interests in projects that at the time were either completed or under development for US$8.89 million and rental income totalling US$8.45 million.

As we are in the early stages of our business development and the majority of our properties remain subject to completion and are not yielding, our results of operations may vary significantly from period to period. See "Key Factors Affecting our Financial Results—Additional Factors That May Affect Our Future Financial Results".

Presentation of Financial Information

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

During 2007 we completed a corporate reorganization by acquiring a number of Russian and Cypriot entities, which are described in detail in the section entitled "Key Factors Affecting our Financial Results – Acquisitions". Our consolidated financial statements comprise the respective consolidated annual financial statements for the years ended 31 December 2006 and 2007 of AFI Development PLC (formerly Donkamill Holdings Limited) and all of its subsidiaries and the Company's interest in jointly controlled entities. These subsidiaries and jointly controlled entities are listed in Note 36 of our consolidated financial statements for the period ended 31 December 2007.

Key Factors Affecting our Financial Results

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

Macroeconomic Factors

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

AFI DEVELOPMENT PLC

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

	Year ended 31 December	
	2007	2006
Gross Domestic Product growth[(1)]	7.0%	6.5%
Consumer price index[(1)]	8.1%	9.7%

(1) Source: International Monetary Fund, or IMF. The Gross Domestic Product, or GDP, growth and consumer price index, or CPI, information for 2007 is estimated by the IMF.

Acquisitions

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

During 2006 the Company acquired the following projects or assets:

- In June 2006, we acquired 100 per cent of the H_2O office building for a total consideration of US$26.61 million. H_2O is a completed building that we acquired as part of a larger business park development at the Paveletskaya Embankment project.

- In October 2006, we acquired 4,577.6 sqm of commercial premises located at Tverskaya Zastava Square, at the location of the Tverskaya Zastava Plaza II project, for US$22 million.

- In April 2006, we acquired a 98.2 per cent interest in OAO “Moskovsky Kartonazhno—Poligrafichesky Kombinat”, (“MKPK”), which holds the rights to a group of commercial buildings that form part of the Paveletskaya Embankment project, for US$34.52 million. MKPK also operates a package manufacturing facility, of which we completed the sale during 2007. Accordingly, we present the results of operations of MKPK’s manufacturing activities as discontinued operations. We recorded a loss from discontinued operations of US$1.57 million in the year ended 31 December 2007, relating to MKPK’s manufacturing activities.

During 2007, we acquired the following projects or assets:

- In April 2007, we acquired a 74 per cent interest in Berezhkovskaya project, for US$31.77 million. Transfer of 50 per cent in the asset company has been completed and he Company works to register the increase of its share in the project, which is expected in 2008.

- In April 2007, we acquired a 90.17 per cent participatory interest in a Russian company, which holds ownership rights to buildings that are required for the completion of our Tverskaya Zastava Plaza II project. The total consideration was US$ 6.99 million.

- In April 2007, we acquired 100 per cent of Kossinskaya project for US$242.95 million.

- In July 2007, we acquired Phase I of the Pochtovaya project for US$95.20 million.

- In September 2007, we acquired Phase II of the Pochtovaya project for US$ 42.49 million.

- In July 2007, we acquired a 51 per cent interest in the Botanic Garden project for US$20.40 million. An additional 39 per cent interest in this project was acquired in December 2007 for US$38.02 million.

- In May 2007 we started the acquisition of our Tverskaya Zastava Plaza IV project. The consideration for the 25 per cent stake was US$29.68 million, which was increased in October with the acquisition of a further 70 per cent share for US$89.79 million. In addition, the Company has concluded an agreement to buy out the remaining five per cent in the project for the pre-agreed price of US$1.42 million per each additional one per cent stake.

- In partnership with Danya International Holdings Ltd., a related party, we have formed a joint venture, which is the owner of 50 per cent of the Perm project. The remainder is held by our Russian partner. Our share in the joint venture prior to the buy out of the stake from Danya Cebus was 60 per cent.

For additional information on our acquisitions during the period under review, see notes 9 and 37 to our consolidated financial statements.

Revenue Recognition

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

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

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

Capitalization of Costs for Properties under Development

We capitalize 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 capitalize 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 each project begins. As the majority of our development projects are still in the pre-construction or construction phases, to date we have capitalized the great majority of the overall costs related to our business activities. In our consolidated financial statements, we capitalized expenses related to the development of our investment and trading properties in aggregate amounts of US$186.82 million and US$225.7 million in the years ended 2006 and 2007, respectively.

Upon completion of construction works, property classified as investment property under development (which are those properties that are being constructed or developed for future use to earn rental income or for capital appreciation) is appraised to market value and reclassified as an investment property and any gain or loss on appraisal is recognized in our income statement. Trading properties, which include those projects where we intend to sell the entire project as a whole or in part (this principally includes our residential development projects), are 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.

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

Exchange Rates

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

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

Increasing Construction and Other Development Costs

During the periods 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 higher costs of living in Russia, particularly in Moscow.

Additional Factors That May Affect Our Future Financial Results

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

Sales of Properties

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

Recognition of Costs

Given that substantially all of our projects are in the pre-construction or construction stage, we have historically capitalized 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 capitalize the related costs and begin to recognize expenses related to the project in our income statement. We also intend to expand our operations in the field of property management and will expense all costs relating to our management activities. As a result, we expect our operating expenses and administrative expenses to increase significantly in future periods.

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

Recovery of VAT

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

Deferred Taxation

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

Fair Value Calculation

Our future results of operations may be affected by our measurement of the fair value of our investment properties and changes in the fair value of such properties. Upon completion of construction, the projects that we have classified as investment property under development are reassessed at fair value and reclassified as investment property, and any gain or loss as a result of reassessment is recognized in our income statement. Any change in fair value of the investment property is thereafter recognized 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.

Revenue

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

Competition

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

Recent Developments

Subsequent to 31 December 2007, the following events have taken place:

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

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

		500 rooms		
Kalinina	Zheleznovodsk	Three-star spa hotel 175 rooms	Renovation	100%

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

On 26 March 2008, the Company entered into agreement with Danya Cebus International Ltd., a related party, for the purchase of its 20 per cent share in the Perm project. The project is jointly held with a local unrelated partner (50 per cent). Under the sale and purchase agreement, we will purchase a 40 per cent share in the Cypriot entity that holds 50 per cent of the project, thereby increasing our holding in this entity to 100 per cent and, consequently, our share in the Perm project to 50 per cent. The parties have agreed to a purchase price of US$11.1 million, based on the latest JLL valuation as at 31 December 2007 and including the portion of Danya Cebus' shareholder's loans above its pro-rata share in the project (subject to the actual US$:RUR exchange rate at the date of closing). The transaction has not yet completed and is subject to approval by the appropriate corporate bodies at Danya International Holdings Ltd.

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

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

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

On 9 October 2007, AFI Development signed a share purchase agreement for the acquisition of a 100 per cent interest in our Volgograd project from a non-related party. The project is being developed under an investment agreement with the Volgograd government for the construction of a multi-purpose complex located at Bolonina st.1, in Volgograd, with a total area of circa 165,000 sqm.

On 14 December 2007, we entered into a memorandum of understanding with a non-related third party for the purchase of 100 per cent interest in the Phase III of the Pochtovaya project.

On 14 December 2007, we entered into a memorandum of understanding with a non-related third party for the purchase of 49.9% of Moscow City Hotel, a project immediately adjacent to our Moscow City Shopping Center project. The purchase is subject to certain conditions to be fulfilled by the seller.

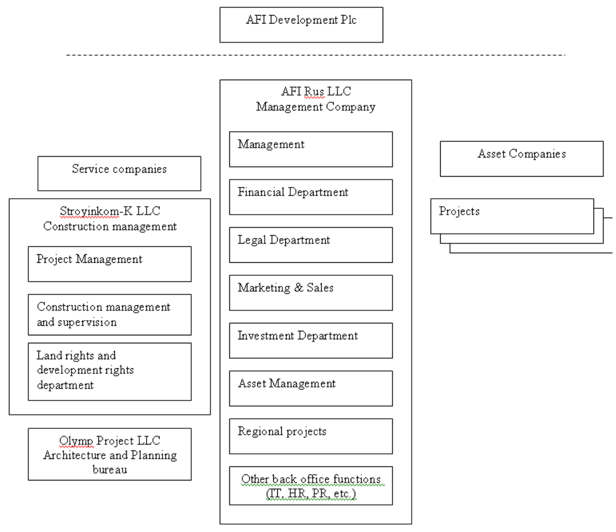
Management Structure

During 2007 the Company's Russian subsidiaries were restructure to support the growing portfolio of projects, entering of several large scale projects into active construction stage and in anticipation of considerable volume of yielding properties that is expected to come under our management in the coming years.

AFI DEVELOPMENT PLC

The local headcount was increased to 250 people in proportion to the increasing number of projects and tasks related to the public status. The Russian management company that included both General Management functions and Construction Management related functions was split into two separate units – AFI Rus LLC and Stroyinkom-K LLC.

As of today the organizational structure of the Russian subsidiaries is as follows:



Results of Operations

Description of Income Statement Line Items

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

Revenue

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

Construction consulting and construction management fees

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

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

Beginning in 2007, Westec put in place its own project management team. As a result, we have not provided project management services to Westec in the period under review and do not expect to provide it in the near future. We expect our revenue from construction consulting and construction management fees in 2008 to be at approximately the same level as in 2007. In particular, we anticipate that we will derive higher levels of project management service fees from our joint venture Krown Investments, as its development projects enter a more intense construction phase. We expect that these fees will offset the loss of those from Westec, RAPO and third party developers.

Rental income

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

1) Non-core assets:

   - Office building at Ozerkovskaya Lane – part of our Ozerkovskaya Phase IV project. We intend to demolish this building in order to build a mixed-use development at the site. This non-core asset accounted for approximately 9 per cent of our total rental income for the year ended 31 December 2007;

   - Office buildings at Bolshaya Pochtovaya – premises that form part of our Pochtovaya project. We intend to demolish these buildings in order to build predominantly office space at the site. These non-core assets accounted for approximately 18 per cent of our total rental income for the year ended 31 December 2007;

   - The non-residential premises at Gruzinsky Val – part of our Tverskaya Zastava Plaza II project. We intend to demolish this building in order to build a mixed-use development at the site. This non-core asset accounted for approximately 8 per cent of our total rental income for the year ended 31 December 2007;

   - The building we own at Paveletskaya, which is part of our Paveletskaya Embankment project. We intend to demolish this building in order to build an office at the site. This non-core asset accounted for approximately 13 per cent of our total rental income for the year ended 31 December 2007; and

   - The non-residential premises we own at Tverskaya Zastava Square, which is a part of our Tverskaya Plaza II project. We intend to demolish these premises as part of the overall development of Tverskaya Zastava II. These non-core assets accounted for approximately 24 per cent of our total rental income for the year ended 31 December 2007.

2) Core assets:

   - The H2O office building, which we acquired in 2006, and which forms part of the Paveletskaya Embankment development. This core asset accounted for approximately 26 per cent of our total rental income for the year ended 31 December 2007.
   - The Aquamarine II office building, which forms part of Ozerkovskaya development, Phase II, and which was completed in 2007, was fully let to a single tenant. The rental revenues will be recognized in our financial statements as of mid-January
   - Four Winds office building was completed in December 2007, consequently, no rental income was recognized so far. The building is fully let.

Operating expenses

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

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

Administrative expenses

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

Profit on disposal of investment in subsidiaries

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

Valuation gains on investment property

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

Operating profit before net finance costs

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

Finance income

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

Finance expenses

Our finance expense comprises net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalized. We recognize foreign exchange gains and losses principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Rouble. See "—Key Factors Affecting Our Financial Results—Exchange Rates". Our interest expense has historically been derived primarily from loans from shareholders and banks. All outstanding principal and interest on loans that had been provided to us by our shareholders as of 31 December 2006 were converted into equity effective 31 December 2006. However, we expect to increase borrowings from third parties in the future. To the extent that we increase our total borrowings, we would expect our finance expenses to rise in future periods. We capitalize our interest expense with respect to our development projects that are under construction, for which amounts are not reflected as expenses in our income statement. When capitalizing interest expense, (i) when funds are borrowed specifically for a particular project, we capitalize all actual borrowing costs related to the project less income earned on the temporary investment of such borrowings; and (ii) when funding for a project is obtained out of our general funds, we capitalize only funding costs related to the particular project based on the weighted average of the borrowing costs applicable to our general funds. See "—Key Factors Affecting Our Financial Results—Capitalization of Costs for Properties under Development".

Income tax expense

Income taxes are calculated based on tax legislation applicable to the country of residence of each of our subsidiaries and, as a company based and organized 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 corporate income tax at a rate of 24 per cent. However, to date, most of our Russian subsidiaries have experienced losses for Russian tax purposes. Profits on revaluation gains of investment property in companies based in Russia, from which we have derived the vast majority of our profits to date, are subject to deferred income tax at a rate of 24 per cent.

Loss from discontinued operations

In February 2006, we acquired a 98.2 per cent interest in OAO MKPK, a Russian entity engaged in packaging manufacturing and the owner of commercial buildings that are located on our Paveletskaya Embankment development site. Given that we are not engaged in manufacturing activities, our management decided to sell the manufacturing operations of MKPK and we have accordingly classified MKPK's manufacturing equipment as assets held for sale. For the year ended 31 December 2007, we have presented the results of MKPK's manufacturing activities separately as a loss from discontinued operations below the line item "profit from continuing operations" on our income statement. One of the production lines was sold in February 2007 and a second production line was sold in May 2007.

Results of Operations for the Years Ended 31 December 2006 and 2007

(US$ in millions)		
	2006	**2007**
Revenue		
Construction consulting/management fees	2.51	3.58
Rental income	1.36	8.45
Total revenue	**3.86**	**12.03**
Other income	0.04	0.11
Expenses		
Operating expenses	(1.68)	(6.75)
Administrative expenses	(3.91)	(9.94)
Other expenses	-	(1.37)
Total expenses	**(5.59)**	**(11.31)**
Profit on disposal of investment in subsidiaries	119.35	8.89
Valuation gains on investment property	-	201.91
Profit before net finance costs	**117.65**	**204.88**
Finance income	3.29	72.92
Finance expenses	(7.65)	(2.28)
Net finance costs	**(4.36)**	**70.64**
Profit before tax	**113.29**	**275.52**
Income tax expense	(1.22)	(58.33)
Profit from continuing operations	**112.07**	**217.19**

Loss from discontinued operations	(0.08)	(1.57)
Profit for the year	**111.98**	**215.62**

Revenue. Our revenue increased by US$8.17 million, or 211 per cent, from US$3.86 million in 2006 to US$12.03 million in 2007. This increase was driven by a US$7.09 million increase in rental income and a US$1.08 million increase in construction consulting and construction management fees. The increase in construction consulting and construction management fees consisted primarily of consultancy and management services provided to Krown Investments that we began recording as revenues on a pro-rata basis as a result of our sale of a 50 per cent interest in Krown Investments in September 2006. For detail see "– Results of Operations – Rental income".

Operating expenses. Our operating expenses increased by US$5.06 million, or 301 per cent, from US$1.68 million in 2006 to US$6.75 million in 2007. This increase was primarily due to higher expenses resulting from an increase in the number of revenue producing properties we operated, including the acquisition of non-core assets and the operation of certain of our core assets. Additionally, a significant effect can be seen from the expenses that we began recording on a proportionate basis relating to the construction consulting and construction management services we provided to Krown Investments as a result of the sale of a 50 per cent interest in Krown Investments in September 2006.

Administrative expenses. Our administrative expenses increased by US$6.03 million, or 154 per cent, from US$3.91 million in 2006 to US$9.94 million in 2007. This increase relates in part to the purchase of an aircraft in 2007 and its depreciation for US$1.24 million, as well as other expenses related to its operation. Moreover, as a result of the introduction of an employee share option plan, which is operated by the Board of Directors, we incurred share option expenses of US$1.6 million for the year to 31 December 2007.

The increase in administrative expenses for 2007 and 2006 was primarily the result of research and evaluation of potential new projects for the Company, along with other associated professional services.

Other expenses. Other expenses for 2007 amounting to US$1.37 million were primarily related to the impairment loss on investment in such subsidiaries as Tain Investments for US$1.15 million. Following an assessment of the low future profitability of our Haritonevsky project (Tain Investments Company), we elected to revalue it to zero in 2007 and it is included in other expenses.

Profit on disposal of investment in subsidiaries. Our profit on disposal of investment in subsidiaries decreased by US$110.46 million, or 93 per cent, from US$119.35 million in 2006 to US$8.89 million in 2007. In 2006 we recognized a profit of US$112.37 million on the sale of a 50 per cent interest in Krown Investments and a US$10.65 million gain on the sale of our 100 per cent holding in Techinvestgroup.

Net finance costs

The following table sets forth our net finance costs for the years ended 31 December 2006 and 2007:

	2006	2007
	(US$ in millions)	
Interest income on loans receivable	1.65	4.94
Interest income on bank deposits and cash equivalents	0.25	35.48
Net foreign exchange gain	1.39	32.50
Finance income	**3.29**	**72.92**
Interest expense on loans and borrowings	(21.73)	(1.11)
Interest expense on bank loans	(3.85)	(16.88)
Interest capitalised	17.93	15.85
Other finance expenses	-	(0.15)
Finance expenses	**(7.65)**	**(2.28)**

Net finance income/(expenses)	**(4.36)**	**70.64**

Net finance costs are finance expenses less finance income. Our net finance income increased by US$75.00 million, or 1,720 per cent, from a US$4.36 million cost in 2006 to an income of US$70.64 million in 2007. This increase was due principally to a US$69.63 million increase in finance income and a US$5.37 million decrease in finance expense, which resulted from significant increases in both interest income and net foreign exchange gains.

Interest income

Our interest income increased by US$38.52 million, or 2,033 per cent, from US$1.90 million in 2006 to US$40.42 million in 2007. This increase was primarily due to higher levels of interest from bank deposits, derived from interest on the funds received from our IPO in 2007.

Net foreign exchange gain

We recorded a net foreign exchange gain of US$32.50 million in 2007, compared to a net foreign exchange gain of US$1.39 million in 2006. Our foreign exchange gain in 2007 was primarily due to an appreciation of the Rouble against the US Dollar in 2007 by 6.8%, which resulted in Rouble denominated loans receivable of our Cyprus subsidiaries being reduced when translated into US Dollars. See "—Description of Income Statement Line Items—Finance income".

Finance expenses

Finance expenses decreased from US$7.65 million in 2006 to US$2.28 million in 2007. The decrease in our finance expenses from 2006 to 2007 resulted from primarily offsetting changes in interest expenses which were the result of changes in our source of financing. Positive effects were primarily due to a decrease in overall debt levels in 2007, mainly with regard to shareholder loans. The total amount of loans from our principal shareholder, Moonbeam Enterprises Limited, amounting to US$421.75 million was converted to share capital on 31 December 2006 and does not appear on our balance sheet as at 31 December 2006. At the time of our IPO, all outstanding principal and interest under the loans were converted and exchanged for shares of AFI Development. This decrease was partially offset by interest expense related to loans taken from banks during 2007, including credit lines opened with Deutsche Bank, MDM Bank and Sberbank. For details see note 25 of our consolidated financial statements.

Our capitalised interest costs decreased from US$17.93 million in 2006 to US$15.85 million in 2007 reflecting the overall decrease in our level of borrowings. In 2006 and 2007, our capitalised interest expenses related primarily to expenditures on the Moscow City Shopping Centre, Ozerkovskaya Embankment and Tverskaya Zastava projects, certain of which (namely Ozerkovskaya Phase I and the Tverskaya Zastava Shopping Centre) were in the construction phase.

Income tax expense. Our income tax expense increased by US$57.11 million, from US$1.22 million in 2006 to US$58.33 million in 2007. Our income tax expense consists of current tax expense and deferred tax expense for 2006 as well as for 2007. During 2006 and 2007 we incurred the following income tax expenses:

	2006	**2007**
	(US$ in millions)	
Current tax expense	1.07	9.80
Deferred tax expense	0.16	48.53
Total income tax expense	**1.25**	**58.33**
Income tax expense from continuing operations	1.22	58.33
Income tax expense from discontinued operations	0.03	-

Total income tax expense	**1.25**	**58.33**

Current tax expense. Our current tax expense increased in 2007 by US$8.73 million, or by 818 per cent when compared to 2006. The reason for this increase is the higher levels of income generated from bank deposits and interest income accrued within AFI Development with regard to intercompany loans. For 2007, AFI Development generated US$90.39 million taxable income as opposed to US$3.29 million in 2006. The Cypriot rate of corporate income tax remained unchanged during 2006 and 2007 and profit on the disposal of investments in subsidiaries is not subject to income tax in Cyprus.

Deferred tax expense. Deferred tax expense increased by US$48.37 million in 2007 against 2006. The main reason for the increase in the deferred tax expense is the revaluation gain obtained for 2007 from the revaluation of investment properties including the Aquamarine II office building, H2O office building and the Four Winds office building for the total amount of US$201.91 million. The effective deferred tax rate is equal to 24 per cent, which is the Russian corporate income tax rate.

Loss from discontinued operations. In 2007, we recorded a US$1.57 million loss from discontinued operations related to the manufacturing operations of our subsidiary, MKPK, which we acquired in March 2006. See " —Description of Income Statement Line Items—Loss from discontinued operations". The results of MKPK's manufacturing operations in 2007 and 2006 are as follows:

	2006	**2007**
	(US$ in millions)	
Results of discontinued operations		
Revenue	19.53	6.06
Expenses	(19.59)	(7.63)
Results from operating activities	**(0.05)**	**(1.57)**
Income tax expense	(0.03)	-
Loss for the year	**(0.08)**	**(1.57)**

Profit for the year

Due to the factors described above, our profit increased by US$103.64 million, or 93 per cent., from US$111.98 million in 2006 to US$215.62 million in 2007. This increase was primarily due to an increase in gain from revaluation of investment property, rental income, and interest revenue.

Liquidity and Capital Resources

Cash Flows

For the years ended 31 December 2006 and 2007

The following table sets out our consolidated cash flows for the years ended 31 December 2007 and 2006.

	2006	**2007**
	(US$ in millions)	
Net cash used in operating activities	**(3.34)**	**10.82**
Net cash used in investing activities	**(268.59)**	**(796.89)**
Net cash from financing activities	**282.39**	**1,547.27**
Effect of exchange rate fluctuations	4.29	24.90
Net increase in cash and cash equivalents	14.75	786.10
Cash and cash equivalents at 1 January	11.52	26.27

Cash and cash equivalents at 31 December	**26.27**	**812.37**

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

Net cash used in operating activities

Net cash used in operating activities increased from US$3.34 million in 2006 to US$10.82 in 2007, resulting in an aggregate increase in aggregate cash inflow from operating activities of US$14.16. This increase was primarily attributable to a US$7.09 million increase in rental payments received from lessees of our core and non-core rental assets for 2007 compared with 2006. Also we have recorded a US$6.69 million increase in advances from tenants to US$6.77 million for 2007 compared with US$ 0.78 million in 2006.

Net cash used in investing activities

Net cash used in investing activities increased by US$528.30 million, from US$268.59 million in 2006 to US$796.89 million in 2007. This increase was due to a number of factors. We recorded a negative effect to the increase of cash outflow, which was the result of a significant number of acquisitions during the reporting period, an increase of construction costs incurred for new and old projects and an increase of advances to builders. The main negative effect was due to a US$526.16 million increase in cash used for acquisitions in 2007 compared with 2006. For a list of acquisitions and their purchase prices in 2007, please see "–Acquisitions". Construction costs and advances to builders increased by US$73.49 million and US$54.99 million respectively.

The increase was primarily due to the receipt of cash proceeds from the sales of investments in subsidiaries in 2006, including US$135 million from the sale of a 50 per cent interest in Krown Investments. In addition, we received US$35.02 million as interest on our IPO proceeds, which were deposited in several banks such as Bank Leumi, Goldman Sachs, Morgan Stanley and others.

Net cash from financing activities

Net cash from financing activities increased by US$1,264.88 million, from US$282.39 million in 2006 to US$1,547.27 million. This increase is principally due to the receipt of the Company's IPO proceeds. The initial public offering comprised the offer of a total of 100,000,000 GDRs, with one GDR representing one ordinary share. Each GDR had an offer price of US$14. On 11 May 2007, the Company was successful in having its 100,000,000 GDRs admitted to the Official List of the UK Listing Authority ("UKLA") and to trading on the Main Market of the London Stock Exchange plc ("LSE"). A total of approximately US$1,342.61 million was raised net of costs and will be used to finance the Company's real estate activities.

The inflow of the Company's IPO proceeds was decreased by the repayment of loans and borrowings payable to external non-related parties by newly acquired companies. We also recorded an increase of US$34.68 million in received loans and borrowings in 2007 compared to 2006 and increase of US$101.79 million in repaid loans and borrowings in 2007 compared to 2006 from IPO proceeds for the construction purposes financing.

Effect of exchange rate fluctuations

We recorded a positive effect of exchange rate fluctuations of US$24.89 million in 2007 as compared to US$4.29 million in 2006, primarily due to the effect of the appreciation of the Rouble against the US Dollar in 2007 and its application to our monetary assets and liabilities. This significant increase is related to the growth of our construction activities for old and newly acquired projects and as a consequence of the fact that major parts of our construction contracts are concluded in US dollars.

Capital Resources

During the periods presented, we have met our cash requirements principally through borrowings and the proceeds from our IPO. For prior periods, the majority of our borrowings had been from, or had been guaranteed by, our principal shareholders, Moonbeam Enterprises Limited and Nirro Group S.A. In 2006, however, all of our outstanding loans from our principal shareholders, which totaled US$421.75 million in aggregate, were converted and exchanged for shares in AFI Development.

On 11 May 2007, the Company's GDRs were admitted to the Official List of the UKLA and to trading on the Main Market of the LSE. A total gross amount of approximately US$1.4 billion has been raised and is used to finance the Company's real estate activities. Aside from IPO funds, in 2006 and 2007 we obtained significant finance from international and local banking institutions, which are detailed below:

(i) A loan from MDM Bank Plc which was acquired for the financing of the Four Winds I & II projects. According to the loan agreement dated 19 April 2006, and its addendums, the available credit line is €55.59 million, of which only €35.90 million was drawn (the Company's 50 per cent share is €17.95 million). Part of the loan, €33.40 million carries interest at an annual rate of 12 per cent, with the remainder, €2.50 million, carries interest at an annual rate of 14 per cent. Its repayment date is 30 September 2008.

(ii) A secured bank loan of US$200 million has been granted to AFI Development Plc during the year ended 31 December 2007 from Deutsche Bank AG, London Branch. The loan, which is denominated in US dollars, carries interest of 1.45% above six-month USD LIBOR and is repayable on 23 August 2008. The guarantor of the borrower's obligations is Africa Israel Investments Ltd. ("Africa Israel"), registered in Israel, which is the ultimate controlling shareholder of the Company.

(iii) A non-revolving credit line was obtained from the Savings Bank of the Russian Federation ("Sberbank") for US$280 million during the year ended 31 December 2007. The funds drawn under the credit line will be used to finance the construction of the Tverskaya Zastava Shopping Centre project. The loan, which is denominated in US dollars, carries interest of 4.5 per cent floated above six-month USD LIBOR.

(iv) The secured loan from non-related parties is from Quasar Capital Limited with Deutsche Bank London Branch acting as facility agent. According to the loan agreement, dated 13 February 2006, the total amount of the loan granted was US$60 million, it carries interest at an annual rate of 2.4% above six-month USD LIBOR and will be paid with fixed instalments, the last being due on 13 February 2011. The full amount of the loan is guaranteed by Africa Israel Investments Ltd, registered in Israel, which is the ultimate holding company of the Company.

(v) A loan from S & T Equity (Overseas) Ltd which was originally secured from Brent Industrial Holdings Limited to Westec Four Winds Limited and was later assigned to S & T Equity (Overseas) Ltd. The loan previously bore an interest rate of 5.0 per cent, which increased to 8.5 per cent at the beginning of 2008 and is repayable on 31 December 2008. There were no securities or guarantees given for the loan. S&T Equity Overseas Ltd our partner in Westec Four Winds Limited.

(vi) In January and February of 2007, we entered into term loan agreements with Africa Israel, both directly and through our subsidiary Scotson Limited, in the principal amounts of US$62 million and US$16.7 million, respectively. The loans bore interest at a rate of three-month LIBOR plus 2.5 per cent per annum, and each had a maturity date of 31 March 2007. Both of these loans were repaid in March 2007 using a portion of the proceeds from the US$200 million term loan facility with Deutsche Bank AG, London Branch noted above.

Since the beginning of the year, AFI Development Plc has been negotiating medium-term debt financing of US$350 million for the Moscow City Project development with one of the biggest Russian banking groups. The above-mentioned structured deal assumes a loan facility up to US$100 million in April 2008 as a bridge-financing for one year maturity period and project financing for the remaining construction period at reasonable market price levels.

Over the coming 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. 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. Further information can be found in note 25 to our consolidated financial statements.

In line with the growth strategy outlined to our shareholders, we may acquire other real estate companies in order to expand our operations in Russia. Our cash requirements relating to potential acquisitions may vary significantly based on market opportunities. We may also finance these acquisitions by exchanging interests in our existing projects and properties with other parties. See "—Capital Requirements".

As of 31 December 2007, our debt was comprised of the following:

		Nominal	2006	2007
	Currency	interest rate	**(US$ in millions)**	
Secured loan from Deutsche Bank AG	USD	6m LIBOR + 1.45%	-	204.97
Unsecured loan from MoonBeam	USD	1%	-	0.32
Unsecured loans from Danya Cebus	USD	6m LIBOR + 4.5%	-	3.18
Secured loan from Quasar Capital Limited	USD	6m USD LIBOR + 2.4%	61.68	61.70
Secured loan from Sberbank	USD	6m LIBOR + 4.5%	-	16.16
Secured loan from MDM Bank Plc	EURO	12%	10.52	26.34
Unsecured loan from Krown Investments	RUR	9%	0.52	0.61
Unsecured loan - S&T Equity (Overseas) Ltd	USD	8.50%	3.81	3.89
Unsecured loans from non-related companies	RUR/USD	up to 14.5%	-	14.79
Total			**76.53**	**331.95**

As at 31 December 2007, our loans and borrowings were payable as follows:

	2006	**2007**
The loans and borrowings are payable as follows:	(US$ in millions)	
Less than one year	14.79	259.07
Between one and five years	51.75	72.88
More than five years	10.00	-
	76.53	**331.95**

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.

Our capital expenditures consist principally of investments in the development of investment properties under development and trading properties under construction. Our cash outlays for capital expenditures for the years ended 31 December 2007 and 2006 were US$225.7 million and US$186.82 million respectively.

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

Between 1 January 2007 and 31 December 2007, we spent US$641.80 million to acquire projects and properties. See "—Recent Developments". 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 summarizes our future obligations (including interest through 31 December 2007) under these contracts due by the periods indicated as of 31 December 2007.

	For 2006Y				**For 2007Y**			
	Less than a year	**Between one and five years**	**More than five years**	**Total**	**Less than a year**	**Between one and five years**	**More than five years**	**Total**
	(US$ in millions)				**(US$ in millions)**			
Contractual obligations								
Loans and borrowings	14.79	51.75	10.00	76.53	259.07	72.88	-	331.95
Operating leases payable	2.14	5.96	20.06	28.15	4.54	9.52	41.21	55.27
Committed investments								
Construction costs	441.24	357.98	—	799.23	533.01	327.31	—	860.31
Total	**458.17**	**415.68**	**30.06**	**903.91**	**796.61**	**409.70**	**41.21**	**1,247.53**

As of 31 December 2007, our principal loans and borrowings included secured bank loans from Deutsche Bank, Sberbank and MDM Bank. See note 25 to our consolidated financial statements.

Our operating leases include both land leases with the City of Moscow with respect to land underlying certain of our projects and a lease of office space in Moscow. See note 32 to our consolidated financial statements.

Committed construction and renovation costs arise under agreements with third parties for construction of properties. As of 31 December 2007, we were contractually committed to make future payments with respect to the following projects:

	2007	2006
Project name	**(US$ in millions)**	
Moscow City shopping centre	384.03	279.38
Tverskaya Zastava development	193.02	255.45
Otradnoye	176.63	108.13
Ozerkovskaya Embankment - Phase II	45.98	74.51
Four Winds I and II	33.13	44.12
Paveletskaya Embankment	27.53	37.64
Total	**860.31**	**799.23**

For the summary of the most significant contracts see note 33 to our consolidated financial statements:

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, 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.

Credit risk

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

Trade and other receivables

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

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

Liquidity risk

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

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

Market risk

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

a. Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2007, 80.6 per cent of our indebtedness was floating rate, represented by our loans from Quasar Capital, Sberbank, Deutsche Bank AG and Danya Cebus, which had total outstanding principal amount of US$286.00 million as of 31 December 2007. For more detail see note 25 to our consolidated financial statements.

b. Currency risk

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

Critical Accounting Policies

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

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

Estimates regarding fair value

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

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

Impairment of financial assets

We recognise impairment losses with respect to financial assets, including loans receivable and trade and other receivables, in our income statement if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. We test significant financial assets for impairment on an individual basis and assess our remaining financial assets collectively in groups that share similar credit characteristics. Impairment losses with respect to financial assets are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows of 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 both to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognizing or avoiding impairment charges

Impairment of non-financial assets

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

We assess at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, we then estimate the recoverable amount of the asset. Estimating the value in use requires us to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life and the appropriate discount rate, which is primarily based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognizing or avoiding impairment charges. During the period under review we recognized an impairment loss for Haritonevsky project for a total of US $1.15 million.

Deferred income taxes

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

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

Share-based payment transactions

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

Recent Accounting Pronouncements

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

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

AFI DEVELOPMENT PLC

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

AFI DEVELOPMENT PLC

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

C O N T E N T S

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Lev Leviev (Chairman) (appointed on 1 January 2008)
	Alexander Khaldey (appointed on 13 April 2007)
	Avraham Barzilay (appointed on 13 April 2007)
	Avinadav Grinshpon (appointed on 13 April 2007)
	Moshe Amit (appointed on 13 April 2007)
	Christakis Klerides (appointed on 13 April 2007)
	John Porter (appointed on 22 November 2007)
	Erez Meltzer (appointed on 13 April 2007, resigned on 31 December 2007)
	Natalie Razumovski (appointed on 13 April 2007, resigned on 4 July 2007)
	Emerald Nominee Services Limited (resigned on 13 April 2007)
Secretary	Emerald Secretarial Limited
Independent Auditors	KPMG
Bankers	ING Bank N.V. Joint Stock Commercial Savings Bank of the Russian Federation Open Joint Stock Company VTB Bank Bank Leumi le-Israel BM
Registered Office	Olympion, 25 Omiros & Araouzos Tower, 3035 Limassol, Cyprus

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS' REPORT

The Board of Directors of AFI Development Plc (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

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

On 11 May 2007 the Company was successful in having its 100,000,000 GDRs admitted to the Official List of the UK FSA and to trading on the Main Market of the LSE. A total of approximately US$1.34 billion has been raised and will be used to finance the Group's real estate activities.

The Group has made a number of strategic acquisitions for total amount of US$641,795 thousand during the reporting period which have affected the results of operations and financial condition. These acquisitions were made to acquire rights to buildings and/or land plots within the boundaries of certain of the proposed development projects. For more detail on these new projects see notes 9 and 36 to these consolidated financial statements.

As at 31 December 2007 the Group has an existing portfolio of 29 development projects in 15 locations in Russia comprising commercial projects focused on offices, shopping centres, hotels and mixed-use properties, and residential projects focused on upscale apartment buildings in prime locations in Moscow and on the development of residential districts in the Moscow Region aimed at the upper middle class segment of the market.

During 2007 the Company managed to reach completion stage of three buildings, the Aquamarine II, the H_2O and the offices of Westec Four Winds, which were evaluated by an external independent valuation company to the total amount of US$287,865 thousand. From this revaluation the Company has derived revenue of US$201,908 thousand which is disclosed in the Income Statement as Valuation gains on Investment property. For details see note 13 to these consolidated financial statements.

Apart from revaluation gain the Company derived revenue from rental activity of core and non-core assets for the amount of US$8,447 thousand for the reporting period. The Board of Directors expects that the Group's revenue from rental income will increase further in the future once the commercial properties that are currently developing for lease are complete.

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 7. The profit of the Group for the year before taxation and before any loss from discontinued operations amounted to US$275,523 thousand (2006: US$113,290 thousand). The profit after taxation attributable to the Group's shareholders amounted to US$215,664 thousand (2006: US$111,984 thousand), which the Board of Directors recommends to be transferred to the retained earnings.

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS' REPORT

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

MAIN RISKS AND UNCERTAINTIES

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

FUTURE DEVELOPMENTS

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

SHARE CAPITAL

During the year the following share capital changes took place:

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

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

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

The authorised, issued and fully paid share capital of the Company on incorporation was 1,000 shares of CY£1 each. In November 2006 at an Extraordinary General Meeting (EGM) of the shareholders the following resolutions were approved:

i The nominal value of the shares to be translated into US Dollars at the rate CY£1: US$2.10.

ii The shares to be split into shares of nominal value of US$0.001 each.

iii The authorised share capital to be increased to 1 billion shares of US$0.001 each by creating 997,900,000 new shares of US$0.001 each.

iv On 31 December 2006 the issued share capital to be increased to 423,847,027 shares of US$0.001 each with the issue of 421,747,027 shares of US$0.001 and offered to the existing shareholders at the price of US$1 each including a premium of US$0.999 each. The shares were fully paid by converting the balance of the long term loans by the shareholders on 31 December 2006 to capital.

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS' REPORT

BRANCHES

The Group operates two branches of Cypriot entities in the Russian Federation. Both branches are real estate project owners. One of them is Bellgate Construction Ltd branch which owns Moscow city project. The other one is Westec Four Winds Ltd branch which owns Four Winds I and II projects.

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2007 and at the date of this report are shown on page 1. The directors' date of appointment and resignation, if applicable, is indicated on page 1. The term of those that have not resigned will expire on the date of the next annual general meeting of the shareholders but all of them are eligible for re-election. There were no significant changes in the assignment of responsibilities of the Board of Directors.

POST BALANCE SHEET EVENTS

Events which took place after the reporting date and which have a bearing on the understanding of the financial statements are described in note 37 of the consolidated financial statements.

INDEPENDENT AUDITORS

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

By order of the Board

Emerald Secretarial Limited
Secretary

Nicosia, 26 March 2008

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Chartered Accountants
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1502 Nicosia, Cyprus

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

Independent Auditors' Report

To the Members of AFI Development Plc

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of AFI Development Plc (the "Company") and its subsidiaries (the "Group") on pages 7 to 53, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Website www.kpmg.com.cy

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

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

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

Other Matter

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

KPMG
Chartered Accountants

Nicosia, 26 March 2008

AFI DEVELOPMENT PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 US$ '000	2006 US$ '000
Revenue			
Construction consulting/management fees		3,583	2,505
Rental income		8,447	1,358
		12,030	3,863
Other income		114	39
Operating expenses		(6,747)	(1,684)
Administrative expenses		(9,938)	(3,913)
Other expenses	10	(1,369)	-
		(5,910)	(1,695)
Profit on disposal of investment in subsidiaries	29	8,886	119,345
Valuation gains on investment property	13	201,908	-
Results from operating activities		204,884	117,650
Finance income		72,917	3,288
Finance expenses		(2,278)	(7,648)
Net finance income/(expenses)	11	70,639	(4,360)
Profit before income tax		275,523	113,290
Income tax expense	12	(58,329)	(1,223)
Profit from continuing operations		217,194	112,067
Loss from discontinued operations (net of income tax)	7	(1,573)	(83)
Profit for the year		215,621	111,984
Attributable to:			
Equity holders of the Company		215,664	111,984
Minority interest		(43)	-
Profit for the year		215,621	111,984
Earnings per share			
Basic and diluted earnings per share (cent)	24	43.97	3,440.37
Continuing operations			
Basic and diluted earnings per share (cent)	24	44.29	3,443.92

The notes on pages 11 to 53 form an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

		Attributable to the equity holders of the Company					Minority interest	Total
		Share Capital	Share Premium	Translation Reserve	Retained Earnings	Total		
	Note	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
Issuance of share capital	23	100	1,342,608	-	-	1,342,708	-	1,342,708
Share option expense		-	-	-	1,595	1,595	-	1,595
Profit for the year		-	-	-	215,664	215,664	(43)	215,621
Effect of acquisition of subsidiaries		-	-	-	-	-	397	397
Translation adjustments		-	-	2,443	-	2,443	25	2,468
Balance at 31 December 2007		524	1,763,933	8,490	393,004	2,165,951	379	2,166,330
Balance at 1 January 2006		2	3	649	63,761	64,415	-	64,415
Issuance of share capital	23	422	421,325	-	-	421,747	-	421,747
Effect of acquisition of companies under common control		-	(3)	-	-	(3)	-	(3)
Profit for the year		-	-	-	111,984	111,984	-	111,984
Realised exchange difference on sale of investment in subsidiaries	29	-	-	(1,002)	-	(1,002)	-	(1,002)
Translation adjustments		-	-	6,400	-	6,400	-	6,400
Balance at 31 December 2006		424	421,325	6,047	175,745	603,541	-	603,541

AFI DEVELOPMENT PLC

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 US$ '000	2006 US$ '000
Assets			
Investment property	13	287,865	-
Investment property under development	14	1,062,545	370,316
Property, plant and equipment	15	45,563	986
Long-term loans receivable	16	4,396	144
VAT recoverable	17	19,889	9,843
Goodwill	18	150	150
Total non-current assets		1,420,408	381,439
Trading properties under construction	19	172,177	91,064
Inventory	20	39	11
Short-term loans receivable	16	4,498	3,953
Trade and other receivables	21	234,795	199,577
Cash and cash equivalents	22	812,373	26,272
Assets classified as held for sale	8	-	3,441
Total current assets		1,223,882	324,318
Total assets		2,644,290	705,757
Equity			
Share capital		524	424
Share premium		1,763,933	421,325
Translation reserve		8,490	6,047
Retained earnings		393,004	175,745
Total equity attributable to the equity holders of the Company	23	2,165,951	603,541
Minority interest		379	-
Total equity		2,166,330	603,541
Liabilities			
Long-term loans and borrowings	25	72,877	61,746
Deferred tax liabilities	26	50,893	122
Total non-current liabilities		123,770	61,868
Short-term loans and borrowings	25	259,072	14,786
Trade and other payables	27	83,816	24,497
Income tax payable	12	4,404	950
Deferred income	28	6,898	115
Total current liabilities		354,190	40,348
Total liabilities		477,960	102,216
Total equity and liabilities		2,644,290	705,757

The consolidated financial statements were approved by the Board of Directors on 26 March 2008

………………………… ……………………

Lev Leviev — Alexander Khaldey

Chairman — Director

The notes on pages 11 to 53 form an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Cash flows from operating activities			
Profit for the year		215,621	111,984
Adjustments for:			
Depreciation	15	2,097	456
Interest income	11	(40,416)	(1,895)
Interest expense	11	2,133	7,648
Share option expense	23	1,595	-
Valuation gains on investment property	13	(201,908)	-
Gain on sale of investment in subsidiaries	29	(8,886)	(108,700)
Impairment loss on investment property under development		1,369	-
Loss from sale of property, plant and equipment	15	9	24
Unrealised gain on foreign exchange		(32,501)	-
		(60,887)	9,517
Increase in trade and other receivables	21	(32,247)	(5,432)
Increase in amounts receivable from related companies	21	(235)	(149)
Increase in inventories	20	(24)	(2)
Increase in trading properties under construction	19	(11,749)	(14,221)
Decrease in assets held for sale		3,441	1,518
Increase in trade and other payables	27	38,492	1,722
Increase in down payments received for construction		15,200	2,639
Increase/(decrease) in amounts payable to related companies	27	71	(5)
Increase in deferred income		6,774	78
Income tax expense		58,329	1,223
		17,165	(3,112)
Income taxes paid		(6,344)	(227)
Net cash from/(used in) operating activities		10,821	(3,339)
Cash flows from investing activities			
Proceeds from sale of investment in subsidiaries	29	142,063	14,651
Net cash outflow from the acquisition of subsidiaries	9	(641,795)	(115,639)
Interest received		39,626	1,895
Proceeds from sale of property, plant and equipment	15	19	6
Increase in advances to builders	21	(93,003)	(38,010)
Payments for investment properties under development	14	(198,098)	(124,613)
Prepayments for investment properties under development	21	(34,355)	-
Payments for VAT recoverable		(9,238)	(5,995)
Payments for acquisition of property, plant and equipment	15	(2,107)	(881)
Net cash used in investing activities		(796,888)	(268,586)
Cash flows from financing activities			
Proceeds from issuance of shares and listing of GDRs	23	1,342,708	-
Payments for loan receivable		(7,474)	(40)
Proceeds from repayment of loans receivable		8,546	1,750
Proceeds from loans and borrowings		328,021	293,344
Repayment of loans and borrowings		(110,780)	(8,982)
Interest paid		(13,748)	(3,682)
Net cash from financing activities		1,547,273	282,390
Effect of exchange rate fluctuations		24,895	4,286
Net increase in cash and cash equivalents		786,101	14,751
Cash and cash equivalents at 1 January		26,272	11,521
Cash and cash equivalents at 31 December	22	812,373	26,272

The notes on pages 11 to 53 form an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 April 2007 the company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 25 Olympion Street, 3035 Limassol, Cyprus. The Company is a 71.70% indirect subsidiary of Africa Israel Investments Group which is listed in the Tel Aviv Stock Exchange (TASE). The 9.7% of its share capital is held by Nirro Group S.A. and the remaining shareholding is held by a custodian bank in exchange for the GDR's issued and listed in the London Stock Exchange.

The consolidated financial statements of the Company as at and for the year ended 31 December 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 as presented in note 36 "Group Entities".

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgement

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

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

2. BASIS OF PREPARATION (continued)

Use of estimates and judgements (continued)

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

- Note 9 – business combinations
- Note 12 – provision for tax liabilities
- Note 13 – valuation of investment property
- Note 14 – valuation of investment property under development
- Note 18 – valuation of goodwill
- Note 21 – recoverability of receivables
- Note 26 – utilisation of tax losses
- Note 29 – estimated cost of disposed assets and liabilities
- Note 34 – contingencies

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

Subsidiaries

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

Acquisitions from entities under common control

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Jointly controlled entities

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

Translation of foreign entity's financial statements

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

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

As of:	Exchange rate Russian Roubles for US$1	% Change
31 December 2007	24.5462	(6.8)
31 December 2006	26.3311	(8.5)
Average rate during:		
Year ended 31 December 2007	25.4940	(5.9)
Year ended 31 December 2006	27.0938	(4.3)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Non derivative financial instruments

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

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

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

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

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

Investment Property

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property under development

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

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

Capitalisation of financing costs

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

Property, plant and equipment

Recognition and measurement

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

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

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

Subsequent costs

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

3. SIGNIFIANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation

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

Office equipment	10-33⅓%
Motor vehicles	33⅓%
Aircraft (50% residual value)	3 years

Depreciation methods, useful economic lives and residual values are reviewed at each reporting date.

Intangible assets

Goodwill

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

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

Trading Properties

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

Trading properties under construction

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading Properties (continued)

Trading properties under construction (continued)

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

Deferred income

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

Non- current assets held for sale

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

Impairment

Financial assets

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

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

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

All impairment losses are recognised in the income statement.

Non-financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Non-financial assets

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

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

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

Employee benefits

Short-term benefits

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

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

Share-based payment transactions

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

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

Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Sale of trading properties

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

Construction Management fee

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

Rental income

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

Finance income and expenses

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

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

Income tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

New Standards and Interpretations not yet adopted
The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2007:

Standards and Interpretations adopted by the EU

IFRS 8: "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). The application of the standard is not expected to have a significant impact on the consolidated financial statements.

IFRIC 11: "IFRS 2: Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007). The application of the interpretation is not expected to have a significant impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and Interpretations not yet adopted (continued)

Standards and Interpretations not adopted by the EU

IAS 1 (revised): "Presentation of Financial Statements: A Revised Presentation" (effective for annual periods beginning on or after 1 January 2009). The application of the revised standard is not expected to have a significant impact on the consolidated financial statements.

IAS 23 (revised): "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009). The application of the revised standard is not expected to have a significant impact on the consolidated financial statements.

IFRIC 12: "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008). The application of the interpretation is not expected to have a significant impact on the consolidated financial statements.

IFRIC 13: "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). The application of the interpretation is not expected to have a significant impact on the consolidated financial statements.

IFRIC 14 IAS 19: "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction" (effective for annual periods on or after 1 January 2008). The application of the interpretation is not expected to have a significant impact on the consolidated financial statements.

4. DETERMINATION OF FAIR VALUES

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

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

4. DETERMINATION OF FAIR VALUES (continued)

Investment property

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

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

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

Share-based payment transactions

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

5. FINANCIAL RISK MANAGEMENT

Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the

Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies.

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

Credit risk

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

Trade and other receivables

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

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

Liquidity risk

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

5. FINANCIAL RISK MANAGEMENT (continued)

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

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

The Group maintains the following lines of credit:

- Credit line obtained from Deutsche Bank AG, London branch, by AFI Development Plc for US$200,000 thousand for financing of such projects as Moscow City Shopping Centre, Four Winds, Ozerkovskaya Embankment and Tverskaya Zastava.
- On 13 February 2006, AFI Development Plc entered into a US$60,000 thousand term loan facility agreement with Quasar Capital Ltd as original lender and Deutsche Bank AG, London Branch, as facility agent. This loan is intended for the financing of the Ozerkovskaya Embankment project.
- Loan from Joint-Stock Commercial Bank “Moscow Business World” (MDM Bank) which was acquired for the financing of Four Winds Plaza I and II projects. According to the loan agreement dated 19 April 2006 and its addenda the available credit line is Euro 55,593 thousand out of which only Euro 35,904 thousand were drawn (the Group’s 50% share is Euro 17,952 thousand).
- A non-revolving credit line was obtained from the Joint Stock Commercial Savings Bank of the Russian Federation (“Sberbank”) for US$280,000 thousand during the year ended 31 December 2007. The funds drawn under the credit line are required to be used to finance the construction of the Tverskaya Zastava Shopping Centre project.

Market risk

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

For several years, the demand by the investment market for all kinds of buildings has been very high. The reasons are still the same, namely relatively low interest rates compared to the higher real estate yields, the large amount of available funds in the market, the desire of domestic and foreign institutional investors to allocate a more important part of their capital in real estate and the absence of alternative investment opportunities. Properties in good locations and/or with long term lease contracts are therefore very attractive and the acquisition yields therefore continue to decrease while the interest rates increase. The rental market is strongly related to the economy.

5. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

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

Capital management

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

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

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

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

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

6. SEGMENT REPORTING

Business segments
The Group operates only as one segment, which is real estate development, and therefore no business segmental reporting information is presented.

Geographical segments
All of the Group's operations and developments are located within the Russian Federation and therefore no geographical segments are presented.

7. DISCONTINUED OPERATIONS

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

	2007 US$ '000	2006 US$ '000
Results of discontinued operations		
Revenue	6,059	19,532
Expenses	(7,632)	(19,586)
Results from operating activities	(1,573)	(54)
Income tax expense	-	(29)
Loss for the year	(1,573)	(83)

8. ASSETS CLASSIFIED AS HELD FOR SALE

The manufacturing equipment within MKPK is presented as assets classified as held for sale following the commitment of the Group's management to sell its manufacturing operations.

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The company was acquired for future development of its land and as the Group is not engaged in manufacturing activities it had commenced in 2006 efforts to sell the discontinued operation. One of the production lines was sold in February 2007 and the second production line was sold in May 2007.

Assets classified as held for sale	2007 US$ '000	2006 US$ '000
Property, plant and equipment	-	2,353
Inventories	-	1,088
	-	3,441

9. ACQUISITION OF SUBSIDIARIES AND COMPANIES UNDER COMMON CONTROL

Acquisition of subsidiaries

During 2007 the Group acquired the following subsidiaries:

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

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

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

Acquisition of subsidiaries (continued)

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

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

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

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

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

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

During 2006 the Group acquired the following subsidiaries:

100% of OOO Aristeya and Bugis Finance Ltd and 98.2% of MKPK whose principal assets are land rights. MKPK owns a carton producing factory which the Group disposed by the sale of both its production lines in 2007.

100% shareholding of OOO Ultrastroy and OOO UltraInvest, which are registered in the Russian Federation. These two companies hold the 50% shareholding of OOO RAPO and together with the 50% shareholding of RAPO held by OOO Inzhstroy, a subsidiary of the Group, the Group now owns 100% shareholding. RAPO is treated as a subsidiary company.

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

Acquisition of subsidiaries (continued)

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

	2007 US$ '000 Bizar	2007 US$ '000 Nedra	2007 US$ '000 Stroyenergo-mkhanizatsiya	2007 US$ '000 Titon	2007 US$ '000 Gloria	2007 US$ '000 MTOK	2007 US$ '000 Nord-service	2007 US$ '000 Avia Management	2007 US$ '000 Beslaville Zheldoruslugi	2007 US$ '000 Non-significant subsidiaries	2006 US$ '000 Aristeya	2006 US$ '000 MKPK	2006 US$ '000 Bugis Finance	2006 US$ '000 RAPO Ultrastroy / Ultrainvest
	50%	90.17%	100%	100%	100%	98.6%	90%	100%	95%	100%	100%	98.2%	100%	50%
Investment property under development	31,772	7,229	30,400	216,104	105,214	43,425	67,614	-	119,381	-	27,663	27,766	22,000	-
Property, plant and equipment	-	-	-	-	-	343	-	44,518	-	41	-	2,794	-	-
VAT recoverable	-	-	-	644	83	-	-	-	81	-	-	257	-	185
Trading properties under construction	-	-	-	-	-	-	-	-	-	-	-	-	-	34,624
Inventory	-	-	-	-	-	4	-	-	-	-	-	2,165	-	-
Short-term loans receivable	-	-	-	-	4,227	-	783	-	-	55	-	-	-	900
Trade and other receivables	-	84	-	1,468	1,711	375	4,811	-	9	98	-	2,161	-	2,133
Cash and cash equivalents	-	3,498	-	2	163	6,558	-	-	56	66	-	849	-	5
Long-term loans and borrowings	-	-	-	(1,819)	-	-	(14,158)	-	-	(275)	(1,052)	-	-	(4,451)
Deferred tax liabilities	-	-	-		-	(118)	-	-	-	-	-	-	-	(31)
Short-term loans and borrowings	-	-	-	(109)	(15,745)	-	(710)	-	-	-				
Trade and other payables	(5)	-	-	(3,740)	(286)	(1,453)	(3)	-	(10)	(69)	-	(1,470)	-	(5)
Net identifiable assets/(liabilities)	31,767	10,811	30,400	212,550	95,367	49,134	58,337	44,518	119,517	(84)	26,611	34,522	22,000	33,360
Net identifiable assets/(liabilities) acquired by the Group	31,757	10,456	30,400	212,550	95,367	49,050	58,419	44,518	119,477	(84)	-	-	-	-
Goodwill on acquisition	-	-	-	-	-	-	-	-	-	218	-	-	-	-
Consideration satisfied in cash	31,767	10,456	30,400	212,550	95,367	49,050	58,419	44,518	119,477	134	26,611	34,522	22,000	33,360
Less cash acquired	-	(3,498)	-	(2)	(163)	(6,558)	-	-	(56)	(66)	-	(849)	-	(5)
Net cash outflow from the acquisition of subsidiaries	31,767	6,958	30,400	212,548	95,204	42,492	58,419	44,518	119,421	68	26,611	33,673	22,000	33,355

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

Acquisition of subsidiaries (continued)

	2007 US$ '000	2006 US$ '000
Total cash outflow for the acquisition of investments in subsidiaries	641,795	115,639

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

Acquisition of companies under common control

In November 2006 the Group acquired 100% of the shares of Borenco Enterprises Limited and Scotson Limited both registered in Cyprus and both previously controlled by the same shareholder as the Group, Moonbeam Enterprises Limited. The shares were transferred at their nominal value. These acquisitions were accounted for as if they have occurred at the beginning of the earliest comparative period presented according to the accounting policy described in note 3.

10. OTHER EXPENSES

Other expenses consist of:	2007 US$ '000	2006 US$ '000
Impairment loss on investment property under development	1,369	-

Represents the write off of initial costs on a project that the Group discontinued its development.

11. NET FINANCE INCOME/ (EXPENSES)

	2007 US$ '000	2006 US$ '000
Interest income on loans receivable	4,940	1,645
Interest income on bank deposits and cash equivalents	35,476	250
Net foreign exchange gain	32,501	1,393
Finance income	72,917	3,288
Interest expense on loans and borrowings	(1,108)	(21,727)
Interest expense on bank loans	(16,878)	(3,853)
Interest capitalised	15,853	17,932
Other finance expenses	(145)	-
Finance expenses	(2,278)	(7,648)
Net finance income/(expenses)	70,639	(4,360)

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12. INCOME TAX EXPENSE

	2007 US$ '000	2006 US$ '000
Current tax expense		
Current year	10,061	651
Adjustment for prior years	(263)	416
	9,798	1,067
Deferred tax expense		
Origination and reversal of temporary differences	48,446	400
Tax losses utilised/(recognised)	85	(244)
	48,531	156
Income tax expense from continuing operations	58,329	1,223
Income tax expense from discontinued operations	-	29
Total income tax expense	58,329	1,252

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

Reconciliation of effective tax rate	%	2007 US$'000	%	2006 US$'000
Profit for the year after tax		215,621		111,984
Total income tax expense		58,329		1,252
Profit before income tax		273,950		113,236
Income tax using the Company's domestic tax rate	10.00	27,395	10.00	11,324
Effect of tax rates in foreign jurisdictions	9.94	27,226	(0.64)	(726)
Tax exempt income	(18.71)	(51,245)	(10.55)	(11,942)
Non deductible expenses	19.23	52,682	0.29	323
(Over)/under provided in prior years	0.10	(263)	0.37	416
Utilisation of previously unrecognised tax losses	0.05	145	-	-
Tax losses carried forward	0.87	2,389	1.64	1,857
		58,329		1,252

The current tax liabilities of US$4,404 thousand for the year ended 31 December 2007 (2006: US$950 thousand) represent the amount of income tax payable in respect of current and prior periods net of payments made up to the year end.

13. INVESTMENT PROPERTY

	2007 US$ '000	2006 US$ '000
Balance 1 January	-	-
Transfer from investment property under development	77,133	-
Fair value adjustment	201,908	-
Effect of movement in foreign exchange rates	8,824	-
Balance 31 December	287,865	-

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

Investment property comprises the building H_2O which is part of the Paveletskaya development, the "Aquamarine II" building situated in 35 Bolshaya Tatarskaya street which is part of Ozerkovskaya Phase II complex and the building situated at 71 Bolshaya Gruzinskaya street which is part of the Four Winds project. All these buildings were completed, renovated and constructed respectively and were ready for their intended use during the year ended 31 December 2007.

14. INVESTMENT PROPERTY UNDER DEVELOPMENT

	2007 US$ '000	2006 US$ '000
Balance 1 January	370,316	185,073
Additions due to acquisitions of subsidiaries	621,139	77,429
Construction costs	198,098	143,241
Capitalised interest	10,435	14,995
Transfer from property, plant and equipment	343	37
Transfer to investment property	(77,133)	-
Transfer to trading properties under construction (note 19)	(63,708)	(12,020)
Impairment loss	(1,151)	-
Disposals	-	(39,610)
Effect of movements in foreign exchange rates	4,206	1,171
Balance 31 December	1,062,545	370,316

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15. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment US$ '000	Motor Vehicles US$ '000	Aircraft US$ '000	Total US$ '000
Cost				
Balance at 1 January 2007	1,137	744	-	1,881
Additions due to acquisitions of subsidiaries	362	32	44,518	44,912
Additions	747	904	456	2,107
Transfer to investment property under development	(343)	-	-	(343)
Disposals	(3)	(77)	-	(80)
Effect of movement in foreign exchange rates	82	54	-	136
Balance at 31 December 2007	1,982	1,657	44,974	48,613
Accumulated depreciation				
Balance at 1 January 2007	571	323	-	894
Additions due to acquisitions of subsidiaries	10	-	-	10
Charge for the year	438	416	1,243	2,097
Disposals	(2)	(50)	-	(52)
Effect of movement in foreign exchange rates	62	39	-	101
Balance at 31 December 2007	1,079	728	1,243	3,050
Carrying amount				
At 31 December 2007	903	929	43,731	45,563
Cost				
Balance at 1 January 2006	684	320	-	1,004
Additions	478	403	-	881
Transfer to investment property under development	(37)	-	-	(37)
Disposals	(56)	(8)	-	(64)
Effect of movement in foreign exchange rates	67	29	-	96
Balance at 31 December 2006	1,136	744	-	1,880
Accumulated depreciation				
Balance at 1 January 2006	307	115	-	422
Charge for the year	259	197	-	456
Disposals	(29)	(5)	-	(34)
Effect of movement in foreign exchange rates	34	16	-	50
Balance at 31 December 2006	571	323	-	894
Carrying amount				
At 31 December 2006	565	421	-	986

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16. LOANS RECEIVABLE

	2007 US$ '000	2006 US$ '000
Long-term loans		
Loans to other related companies	4,296	104
Loans to non-related companies	100	40
	4,396	144
Short-term loans		
Loans to joint ventures	3,863	3,782
Loans to other related parties	560	104
Loans to non-related companies	75	67
	4,498	3,953

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2007 US$ '000	2006 US$ '000
Loans to joint ventures	USD	8.5%	2008	3,863	-
	USD	5%	2007	-	3,782
Loans to related parties	USD	3m USD LIBOR + 4.5%	2010	1,611	-
	RUR	3m USD LIBOR + 4.5%	2010	1,632	-
	USD	6m USD LIBOR + 4.5%	2010	1,053	-
	USD	6m USD LIBOR + 4.5%	2008	556	-
	RUR	7.5%	2008	4	-
	RUR	8.5%	2008	-	104
	USD	0%	2007	-	104
Loans to non-related companies	RUR	8.5% - 11%	2008-2010	120	-
	USD	10%	2009	55	-
	RUR	8.5% - 9%	2007	-	107
				8,894	4,097

All above loans are unsecured.

17. VAT RECOVERABLE

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

17. VAT RECOVERABLE (continued)

Under a revised Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities. The Group was successful in recovering some VAT during the year, however, it is estimated that the major part of the VAT recoverable as at the year end will be recovered in more than 12 months. The amount estimated that will be recovered within 12 months is included in trade and other receivables, note 21.

18. GOODWILL

	2007 US$ '000	2006 US$ '000
Carrying amount		
At 31 December	150	150

Goodwill recognised on acquisition of subsidiaries is tested for impairment at each balance sheet date.

19. TRADING PROPERTIES UNDER CONSTRUCTION

	2007 US$ '000	2006 US$ '000
Balance 1 January	91,064	26,806
Additions due to acquisitions of subsidiaries	-	34,624
Construction costs	11,749	25,654
Capitalised interest	5,418	2,937
Transfer from investment property under development (note 14)	63,708	12,020
Disposals	-	(11,433)
Effect of movements in exchange rates	238	456
Balance 31 December	172,177	91,064

Trading properties under construction comprise:

Four Winds II and Ozerkovskaya emb.26 projects which were transferred from investment properties under development during 2007. Both projects involve the construction of residential building complexes and is estimated that both will be completed within the fourth quarter of 2008. Four Winds II project is estimated to cost approximately US$128,910 thousand and Ozerkovskaya emb. 26 project is estimated to cost approximately US$34,231 thousand. The comparative amount was reclassified to conform to current year's presentation.

Otradnoye project is owned by RAPO, a subsidiary company. The project involves the construction of a mixed use primarily residential building complex, on a 35 hectare plot of land, consisting of residential and commercial premises, public facilities, amenities and parking. The project which is at the design stage is located in Odintsovo, is estimated to cost approximately US$1,108 million and will be completed in phases between 2010-2012.

Udaltsova project is owned by Techinvestgroup, a subsidiary company. The project involved the construction of residential premises. The total estimated cost to completion was US$19.7 million. However, Techinvestgroup together with its project was disposed of during 2006 and an amount of US$10,645 thousand was recognised in the income statement as a profit on disposal.

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20. INVENTORY

Represents stock of spare parts.

21. TRADE AND OTHER RECEIVABLES

	2007 US$ '000	2006 US$ '000
Receivable from sale of investment in subsidiaries (see note 29)	-	138,475
Advances to builders	135,653	41,098
Amounts receivable from related companies	383	149
Prepayments for acquisition of investments	34,355	-
Deferred expenditure	5,298	-
Trade receivables	1,290	12,319
Other receivables	48,217	6,950
VAT recoverable	9,262	551
Tax receivables	337	35
	234,795	199,577

Prepayments for acquisition of investments

Includes US$21,629 thousand prepaid for the acquisition of 100% shareholding of OOO Pikerton, US$2,726 thousand prepaid for the acquisition of 100% shareholding of Occuper Holdings Limited and US$10,000 thousand prepaid for the acquisition of 100% shareholding of OOO Avtograd.

Deferred expenditure

Relates to the recognition of the additional profit on disposal of the 50% of OOO Krown Investments recognised in 2007 and represents the remaining financing of the other partner of the 24 appartments. See note 29 for further details.

Advances to builders

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

Other receivables

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

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22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	2007 US$ '000	2006 US$ '000
Cash at banks	812,365	26,263
Cash in hand	8	9
	812,373	26,272

23. SHARE CAPITAL AND RESERVES

Share capital	2007 US$ '000	2006 US$ '000
Authorised:		
1,000,000,000 shares of US$0.001 each	1,000	1,000
Issued and fully paid:		
2007: 523,847,027 shares of US$0.001 each	524	
2006: 423,847,027 shares of US$0.001 each		424

The authorised, issued and fully paid share capital of the Company on incorporation was 1,000 shares of CY£1 each. In November 2006 at an Extraordinary General Meeting (EGM) of the shareholders the following resolutions were approved:

i. The nominal value of the shares to be translated into US Dollars at the rate CY£1: US$2.10.
ii. The shares to be split into shares of nominal value of US$0.001 each.
iii. The authorised share capital to be increased to 1 billion shares of US$0.001 each by creating 997,900,000 new shares of US$0.001 each.
iv. On 31 December 2006 the issued share capital to be increased to 423,847,027 shares of US$0.001 each with the issue of 421,747,027 shares of US$0.001 and offered to the existing shareholders at the price of US$1 each including a premium of US$0.999 each. The shares were fully paid by converting the balance of the long term loans by the shareholders on 31 December 2006 to capital.

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

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

23. SHARE CAPITAL AND RESERVES (continued)

Share premium

The movement in the year 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. An amount of US$1,399,900 thousand less US$57,292 thousand transaction costs was recognised during the year. For the year ended 31 December 2006 the amount of US$421,325 thousand represents the share premium on the shares that were issued at the loan conversion as explained above.

Employee Share option plan

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

Options over 2,810,126 GDRs were granted up to 31 December 2007 to Russian and Israeli employees and directors with an exercise price of US$14 vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The contractual life is ten years.

Translation reserve

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

Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the year ended 31 December 2007.

24. EARNINGS PER SHARE

	2007			2006		
Basic earnings per share	Continuing operations US$ '000	Discontinued operations US$ '000	Total US$ '000	Continuing operations US$ '000	Discontinued operations US$ '000	Total US$ '000
Profit/(loss) attributable to ordinary shareholders	217,237	(1,573)	215,664	112,067	(83)	111,984
Weighted average number of shares	Shares in thousands	Shares in thousands	Shares in thousands	Shares in thousands	Shares in thousands	Shares in thousands
Issued ordinary shares at 1 January	423,847	423,847	423,847	1	1	1
Effect of split in 2006	-	-	-	2,099	2,099	2,099
Effect of shares issued during the year	66,667	66,667	66,667	1,155	1,155	1,155
Weighted average number of shares	490,514	490,514	490,514	3,255	3,255	3,255
Earnings/(loss) per share (cent)	44.29	(0.32)	43.97	3,443.92	(2.55)	3,440.37

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

25. LOANS AND BORROWINGS

	2007 US$ '000	2006 US$ '000
Non-current liabilities		
Secured bank loans	16,155	-
Unsecured loan from shareholder	316	-
Unsecured loan from joint venture	-	62
Unsecured loans from other related companies	3,177	-
Secured loan from non-related company	51,700	61,684
Unsecured loans non-related companies	1,529	-
	72,877	61,746
Current liabilities		
Secured bank loans	231,311	10,517
Unsecured loan from S&T Equity (Overseas) Ltd	3,890	3,807
Unsecured loans from joint venture	609	462
Secured loan from non-related company	10,000	-
Unsecured loans from other non-related companies	13,262	-
	259,072	14,786

The secured bank loans comprise the following:

(vii) Loan from MDM Bank which was acquired for the financing of Four Winds Plaza I & II projects. According to the loan agreement dated 19 April 2006 and its addenda the available credit line is Euro 55,593 thousand out of which only Euro 35,904 thousand were drawn (the Group's 50% share is Euro 17,952 thousand). Part of the loan, Euro 33,404 thousand carries interest at an annual rate of 12% and the remaining loan, Euro 2,500 thousand, carries interest at an annual rate of 14%. Its repayment date is 30 September 2008. The loan is secured by non residential premises and parking places of Four Winds Plaza I & II projects.

(viii) A secured bank loan of US$200 million has been granted to AFI Development Plc during the year ended 31 December 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.

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

25. LOANS AND BORROWINGS (continued)

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

The loan from S & T Equity (Overseas) Ltd was originally given by Brent Industrial Holdings Limited to Westec Four Winds Limited and was assigned later to S & T Equity (Overseas) Ltd. Up to 1 October 2006 the loan carried interest at an annual rate of 5% thereafter it bears interest at an annual rate of 8.5% and is repayable on 31 December 2008. There were no securities or guarantees given for the loan. S&T Equity Overseas Ltd is the other 50% shareholder of Westec Four Winds Limited.

The loans from the shareholders, Moonbeam Enterprises Ltd and Nirro Group S.A., were acquired to finance the construction projects in progress. According to the loan agreements dated 2 April 2002 and 20 July 2001 and their addendums, the loans carried interest of 2.5% per annum above 3 months USD LIBOR. According to the loans agreement with Moonbeam Enterprises Ltd the repayment date was 31 December 2010. However, on 31 December 2006 the loans were converted to capital and the amount of the loans was considered fully repaid. The loan from Nirro Group S.A. was repaid during 2006. The loan agreements did not provide for any guarantees by the borrower; however they stated that the borrower was at any time obliged to register and pledge a security to the lender upon request.

The loan from the related party, Parcost Overseas Ltd was acquired for the financing of the Blaster Plus construction project and the Tverskaya Zastava Shopping Mall project. According to the loan agreement dated 7 October 2001, the total amount of the loan received was US$2.25 million; it carried interest at an annual rate of 2.5% above 3 months USD LIBOR and was repayable within five years. The loan was considered fully repaid as it was also converted to capital on 31 December 2006.

The loans and borrowings are payable as follows:	2007 US$ '000	2006 US$ '000
Less than one year	259,072	14,786
Between one and five years	72,877	51,746
More than five years	-	10,000
	331,949	76,532

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25. LOANS AND BORROWINGS (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2007 US$ '000	2006 US$ '000
Unsecured loan from shareholder	USD	1%	2009	316	-
Unsecured loans from other related companies	USD	6m LIBOR + 4.5%	2010	3,177	-
Secured loan from Quasar Capital Limited	USD	6m USD LIBOR + 2.4%	2009-11	51,700	61,684
	USD	6m USD LIBOR + 2.4%	2008	10,000	-
Secured loan from Sberbank	USD	6m USD LIBOR + 4.5%	2010	16,155	-
Secured loan from MDM Bank	EURO	12%	2008	26,340	10,517
Secured loan from Deutsche Bank AG	USD	6m USD LIBOR + 1.45%	2008	204,971	-
Unsecured loans from non-related companies	USD	12%	2009	1,424	-
	RUR	14.5%	2008	4,453	-
	RUR	0%	2008	8,500	-
	RUR	8.5% - 12%	2008-2014	146	-
	RUR	3% - 5%	2008-2009	268	-
Unsecured loans from joint ventures	RUR	9%	2007-2011	609	524
Unsecured loan - S&T Equity (Overseas) Ltd	USD	8.5%	2008	3,890	3,807
				331,949	76,532

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26. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	2007 US$ '000	2006 US$ '000
Investment property	62,534	-
Investment property under development	(5,386)	787
Property, plant and equipment	182	37
Trading properties under construction	-	1
Trade and other receivables	(3,718)	(363)
Trade and other payables	291	(24)
Deferred income	-	3
Other items	691	(12)
Tax losses carried forward	(3,701)	(307)
Deferred tax liability	50,893	122

27. TRADE AND OTHER PAYABLES

	2007 US$ '000	2006 US$ '000
Down payments received for sale of flats	37,089	18,357
Trade payables	1,171	1,305
Payables to related parties	491	420
Amount payable to builders	14,706	852
VAT and other taxes payable	968	253
Down payments received for construction projects	15,742	542
Other payables	13,649	2,768
	83,816	24,497

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

Other payables
Include an amount of US$6,214 thousand owed for the acquisition of Kosinskaya project and an amount of US$500 thousand owed for the acquisition of 100% shareholding of Amerone Developments Limited. The first amount is owed to Asnar Management Limited and the second is owed to Ladyshile Holdings Limited. It also includes an amount of $4,215 thousand representing an advance financing payment on a joint venture agreement.

28. DEFERRED INCOME

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

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29. DISPOSAL OF SUBSIDIARIES

	2007 US$ '000	2006 US$ '000
The profit on disposal of subsidiaries consists of:		
Profit on disposal of 50% shareholding of OOO Krown Investments	8,886	112,365
Profit on disposal of OOO Techinvestgroup	-	10,645
Loss on disposal of OOO Blaster Plus	-	(3,665)
	8,886	119,345

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

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

	2007 US$ '000	2006 US$ '000 OOO Krown Investments 50%	2006 US$ '000 Techinvest-Group 100%
Investment properties under development	-	(35,945)	-
Long-term loan receivable	-	(117)	-
VAT recoverable	-	(641)	(365)
Trading properties under construction	-	-	(11,433)
Short-term loans receivable	-	(717)	-
Trade and other receivables	-	(649)	-
Cash and cash equivalents	-	(349)	(26)
Deferred tax liability	-	175	-
Trade and other payables	-	75	-
Net identifiable assets	-	(38,168)	(11,824)
Consideration received in cash	142,063	15,000	18,525
Cash disposed of	-	(349)	(26)
Net cash inflow from the disposal of subsidiaries	142,063	14,651	18,499

	2007 US$ '000	2006 US$ '000
Total cash inflow from disposal of subsidiaries	142,063	33,150

The selling price of the disposal of OOO Krown Investments was US$153,588 thousand. The resulting gain on sale amounting to US$111,831 thousand and the realised exchange gain amounting to US$534 thousand were recognised in the income statement. An amount of US$135,000 thousand was outstanding on 31 December 2006 which was received in full in February 2007.

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The selling price of the disposal of OOO Techinvestgroup was US$22,000 thousand. The resulting gain on sale amounting to US$10,177 thousand and the realised exchange gain amounting to US$468 thousand were recognised in the income statement.

30. JOINTLY CONTROLLED ENTITIES

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

	Ownership	Current assets US$ '000	Non-current assets US$ '000	Current liabilities US$ '000	Non-current liabilities US$ '000	Revenues US$ '000	Expenses US$ '000
2007:							
OOO Bizar	50%	292	2,046	603	78	1	(25)
OOO Krown Investments	50%	16,245	138,601	45,397	70,622	3,598	(265)
Westec Four Winds Limited	50%	29,563	202,689	73,682	38,638	3	(45)
		46,100	343,336	119,682	109,338	3,602	(335)
2006:							
OOO Krown Investments	50%	772	44,230	3	68,233	96	(57)
Westec Four Winds Limited	50%	2,423	18,184	1,615	18,041	1,486	(599)
		3,195	62,414	1,618	86,274	1,582	(656)

During the year ended 31 December 2007 the Group acquired 50% of the share capital of OOO Bizar, registered in the Russian Federation.

31. FINANCIAL INSTRUMENTS

Currency risk

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

A 10% strengthening of the United States Dollar against the following currencies at 31 December would have increased/(decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Equity US$ '000	Profit for the year US$ '000
31 December 2007		
Russian Roubles	(31,900)	(2,605)
Euro	-	2,627
31 December 2006		
Russian Roubles	(8,729)	473
Euro	-	1,052

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

31. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Profile

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

	Carrying amount	
	2007	2006
	US$ '000	US$ '000
Fixed rate instruments		
Financial assets	477,384	4,097
Financial liabilities	(45,946)	(14,848)
	431,438	(10,751)
Variable rate instruments		
Financial assets	106,698	-
Financial liabilities	(286,003)	(61,684)
	(179,305)	(61,684)

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	Equity	Profit for the year
	US$ '000	US$ '000
31 December 2007		
Variable rate instruments	-	(1,801)
31 December 2006		
Variable rate instruments	-	(617)

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

Fair values

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

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

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

31. FINANCIAL INSTRUMENTS (continued)

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

32. OPERATING LEASES

Leases as lessee
Non cancellable operating lease rentals are payable as follows:

	2007 US$ '000	2006 US$ '000
Less than a year	4,537	2,143
Between one and five years	9,517	5,955
More than five years	41,213	20,056
	55,267	28,154
Amount recognised as an expense during the year	218	1,018

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

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

One of the Group's subsidiaries leases its offices under operating lease. The lease is for a period of five years with an annual lease cost of US$1,280 thousand expiring on the 1 August 2010.

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32. OPERATING LEASES (continued)

Leases as lessor

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

	2007 US$ '000	2006 US$ '000
Less than a year	28,522	538
Between one and five years	193,773	-
More than five years	29,716	-
	252,011	538
Amount recognised as income during the year	8,447	1,358

33. CAPITAL COMMITMENTS

Up to 31 December 2007 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	**Commitment** 2007 US$ '000	2006 US$ '000
Moscow City shopping centre	384,027	279,376
Tverskaya Zastava development	193,019	255,451
Otradnoye	176,627	108,129
Ozerkovskaya Embankment - Phase II	45,978	74,506
Four Winds I and II	33,129	44,121
Paveletskaya Embankment	27,531	37,643
	860,311	799,226

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

Moscow City Shopping Centre project includes a contract with Enka Insaat Ve Sanayi Anonim Sirketi ("Enka') who will act as the general constructor of the project. The amount of future capital commitment according to the contract is US$384,027 thousand.

Tverskaya Zastava development includes a contract also with Enka who will act as the general constructor of the project. The amount of future capital commitments according to the contract is US$193,019 thousand.

Otradnoye project includes two contracts with Danya Cebus Rus LLC, a related party who will act as the general constructor. The amount of future capital commitments according to these contracts is US$176,627 thousand.

Four Winds I and II project includes a contract with Rasen Construction Ltd who will act as the general constructor of the project. The amount of future capital commitments according to the contract is US$33,129 thousand.

34. CONTINGENCIES

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

35. RELATED PARTIES

Outstanding balances with related parties

	2007 US$ '000	2006 US$ '000
Assets		
Long-term loans to other related companies	4,296	104
Short-term loans to joint ventures	3,863	3,782
Short-term loans to other related parties	560	104
Amounts receivable from ultimate shareholder	-	97
Amounts receivable from subsidiaries	316	-
Amounts receivable from joint ventures	14	-
Amounts receivable from other related companies	53	149
Liabilities		
Long-term loan from shareholder	316	-
Long-term loan from joint venture	-	62
Long-term loans from other related companies	3,177	-
Short-term loan from joint venture	609	462
Short-term loans from other related companies	3,890	-
Amounts payable to ultimate shareholder	-	182
Amounts payable to shareholders	-	26
Amounts payable to other related companies	167	212
Amounts payable to key management personnel	324	-

All outstanding balances with these parties are priced at an arm's length basis and are to be settled in cash. For repayment dates, securities and interest rates of the loans see notes 16 and 25. None of the other balances is secured.

Transactions with the key management personnel

	2007 US$ '000	2006 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	2,940	1,429

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.

35. RELATED PARTIES (continued)

Other related party transactions

	2007 US$ '000	2006 US$ '000
Revenue		
Shareholder – interest income	12	-
Joint venture – consulting services	2,241	-
Joint venture – rental income	16	-
Joint venture – interest income	4,095	325
Other related companies – rental income	179	219
Other related companies – consulting services	6	-
Other related companies – interest income	817	1
Other related companies – other income	-	36
Expenses		
Shareholder – interest expense	573	20,601
Joint venture – operating expenses	45	-
Joint venture – interest expense	45	-
Other related companies – operating expenses	512	151
Other related companies – administrative expenses	6	133
Other related companies – interest expense	135	230

36. GROUP ENTITIES

Ultimate controlling party:	Lev Leviev	Israel
Ultimate holding company:	Africa Israel Investments Limited	Israel
Holding company:	Moonbeam Enterprises Limited	Cyprus

Significant Subsidiaries	**Ownership interest 2007**	**Ownership interest 2006**	**Country of incorporation**
1. OOO Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
2. OOO MayStroy	100	100	Russian Federation
3. OOO Buildstroy	-	100	Russian Federation
4. OOO InzhStroy AG	100	100	Russian Federation
5. OOO IncomStroy	100	100	Russian Federation
6. OOO Tain Investments	100	100	Russian Federation
7. OOO Tain Management	100	100	Russian Federation
8. OOO Ozerkovka	100	100	Russian Federation
9. OOO Corin Development	100	100	Russian Federation
10. OOO LessyProf	100	100	Russian Federation
11. OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK)	98.2	98.2	Russian Federation

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12. Bellgate Construction Limited	100	100	Cyprus
13. Moscow City Centre PLC	100	100	United Kingdom
14. Slytherin Development Limited	100	100	Cyprus
15. OOO Ultrastroy	100	100	Russian Federation
16. OOO Ultrainvest	100	100	Russian Federation

36. GROUP ENTITIES (continued)

Significant Subsidiaries	**Ownership interest**		**Country of incorporation**
	2007	**2006**	
17. OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
18. Severus Trading Limited	100	100	Cyprus
19. OOO Aristeya	100	100	Russian Federation
20. Talena Development Limited	100	100	Cyprus
21. Temalis Limited	100	100	Cyprus
22. Buildola Properties Limited	100	100	Cyprus
23. Bugis Finance Limited	100	100	British Virgin Islands
24. Borenco Enterprises Limited	100	100	Cyprus
25. OOO StroyInkom-K	100	100	Russian Federation
26. OOO PSO Dorokhovo	100	100	Russian Federation
27. Scotson Limited	100	100	Cyprus
28. OOO Rostransconsult	100	100	Russian Federation
29. ZAO Armand	100	-	Russian Federation
30. OOO Volga StroyInkom Development	100	-	Russian Federation
31. OOO Volga Land Development	100	-	Russian Federation
32. Krusto Enterprises	60	-	Cyprus
33. ZAO Kama Gate	30	-	Russian Federation
34. Keyri Trading & Investments Ltd	100	-	Cyprus
35. OOO Favorit	100	-	Russian Federation
36. OOO KO Proekt	100	-	Russian Federation
37. OOO KO Development	76	-	Russian Federation
38. ZAO Nedra Publishing	90.17	-	Russian Federation
39. OOO Titon	100	-	Russian Federation
40. ZAO UMM Stroyenergomekhani zatsiya	100	-	Russian Federation
41. Rognerstar Finance Limited	100	-	Cyprus
42. Hermielson Investments Ltd	100	-	Cyprus
43. ZAO Firm Gloria	100	-	Russian Federation
44. Bundle Trading Limited	100	-	Cyprus
45. ZAO MTOK	98.6	-	Russian Federation
46. Bioka Investments Limited	90	-	Cyprus
47. OOO Nordservis	90	-	Russian Federation
48. Guzela Limited	100	-	Cyprus
49. Kanilia Investments Limited	100	-	Cyprus
50. Sherzinger Limited	100	-	Cyprus
51. Rubiosa Management Limited	100	-	Cyprus
52. Sewaka Holdings Limited	100	-	Cyprus
53. OOO Semprex	100	-	Russian Federation
54. Beslaville Management Limited	95	-	Cyprus

55. OOO Zheldoruslugi	95	-	Russian Federation
56. OOO OlympProject	90	-	Russian Federation
57. Amerone Development Limited	100	-	Cyprus
58. Cristall Development Limited	100	-	Russian Federation
59. OOO North Investments	100	-	Russian Federation

36. GROUP ENTITIES (continued)

Significant Subsidiaries	**Ownership interest**		**Country of incorporation**
	2007	**2006**	
60. OOO AFI RUS (formerly: Elite-Business)	100	100	Russian Federation
61. LL Avia Management SA	100	-	British Virgin Islands
62. OOO StroynKom – Realt	100	-	Russian Federation

Significant jointly controlled entities	**Ownership interest**		**Country of incorporation**
	2007	**2006**	
1. OOO Krown Investments	50	50	Russian Federation
2. Westec Four Winds Limited	50	50	Cyprus
3. OOO Bizar	50	-	Russian Federation

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

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

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

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

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

90.17% participatory interest in the charter capital of ZAO Nedra Publishing, which holds ownership rights to buildings required for the completion of Tverskaya Zastava Plaza II project.

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

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

36. GROUP ENTITIES (continued)

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

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

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

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

During the year ended 31 December 2006 the Group acquired and sold the following subsidiaries:

50% of subsidiary OOO Krown Investments was sold during 2006. The resulting gain on sale was recognised in the income statement of 2006.

Bellgate Constructions Ltd ("Bellgate") acquired during 2005, the 97% shareholding of OOO RAPO and OOO Inzhstroy AG the other 3%. In July 2005 Bellgate sold 50% shareholding of OOO RAPO to OOO Ultrastroy (20%) and to OOO Ultrainvest (30%) which were not part of the group then. On the same date Bellgate transferred the 47% to OOO Inzhstroy AG. During 2006, Slytherin Development Ltd acquired 100% shareholding of OOO Ultrastroy and OOO Ultrainvest. These two subsidiaries jointly own the 50% shareholding of OOO RAPO, which was sold to them in 2005 by Bellgate. Therefore the Group currently holds 100% shareholding of OOO RAPO.

During November 2006 the Company acquired the following entities, which were under common control: Borenco Enterprises Limited, registered in Cyprus, which owns 100% of OOO Stroyinkom-K registered in the Russian Federation and its principal activity is the management of construction projects, 100% of OOO AFI RUS (formerly: Elite-Business) registered in the Russian Federation which is a business service provider and 100% of PSO Dorokhovo registered in the Russian Federation. Its principal activity is agriculture.

Furthermore, the Company acquired 100% of Scotson Limited, registered in Cyprus whose principal activity is financing, which was also previously under common control. Scotson Limited owns 100% shareholding of OOO Rostransconsult.

37. SUBSEQUENT EVENTS

Subsequent to 31 December 2007 the following events have taken place:

On 26 March 2008, the Company entered into agreement with Africa Israel Hotels Ltd, a related party, pursuant to which the Company acquired the seller's interest in four properties located in Caucasian Mineral Springs area in the Krasnodar region in the southern part of the Russian Federation. The properties and the acquired interest are summarised below:

Property	Location	Description	Status	Beneficial ownership
Plaza Hotel	Kislovodsk	4 stars spa hotel 274 rooms	Operating	50%
Versailles	Kislovodsk	Boutique hotel 53 suites	Renovation	100%
Park Plaza	Kislovodsk	3 stars spa hotel 500 rooms	Concept	100%
Kalinina	Zheleznovodsk	3 stars spa hotel 175 rooms	Renovation	100%

An external valuation of the properties was required jointly by the Company and by the seller. The valuation as of end of February 2008 was carried out by JLL, ascribing an aggregate value of US$72,100 thousand to the aforesaid properties. The Company decided to purchase the properties for US$70,000 thousand. Under the sale and purchase agreement, Africa Israel Hotels Ltd will continue to operate the properties upon completion on arm's length terms.

On 26 March 2008 the Company entered into an agreement with Danya International Holdings Ltd, a related party, for the purchase of its 20% share in the Perm project. The project is jointly held with a local unrelated partner (50%). Under the sale and purchase agreement the Company will purchase the 40% share in the Cypriot entity that holds 50% stake in the project. As a result, the Company will hold 100% in the Cypriot entity that holds 50% of the project. The parties have agreed to a purchase price based on the latest JLL valuation as at 31 December 2007 and including the shareholders' loans. Consequently, the purchase price was agreed at US$11,100 thousand. The transaction is subject to approval by a qualified majority at a General Shareholders' Meeting of Danya Cebus Ltd.

On 26 March 2008, the Board has decided to expand the mandate of AFI Development Plc to include all CIS countries in addition to Russia. Following this decision, on 26 March 2008 the Company entered into agreement with Moonbeam Enterprises Ltd and Nirro Group S.A. for the acquisition of the sellers' operation in Ukraine, which consists of Boryspil project in the vicinity of Kiev international airport. The parties agreed to perform the transaction at cost, which at the time of the transaction was US$30,260 thousand.

37. SUBSEQUENT EVENTS (continued)

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

On 9 October 2007, the Group through Rubiosa Management Ltd, a Cypriot subsidiary, has signed a share purchase agreement for the acquisition of 100% interest in the Volgograd project.

On 14 December 2007, the Company has entered into a Memorandum of Understanding for the purchase of 100% of 100% interest in the Phase III of the Bolshaya Pochtovaya project in Moscow.

On 14 December 2007, the Company has entered into a Memorandum of Understanding for the purchase of 49.9% of Moscow city hotel, a project adjacent to the Company's Moscow city shopping centre project.