AFI DEVELOPMENT PLC

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

AFI DEVELOPMENT PLC

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

C O N T E N T S

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Lev Leviev - Chairman
	Izzy Cohen
	Alexander Khaldey
	Avraham Barzilay
	Avinadav Grinshpon
	Moshe Amit
	Christakis Klerides
	John Robert Camber Porter
Secretary	Emerald Secretarial Limited
Independent Auditors	KPMG Limited
Bankers	Joint Stock Commercial Savings Bank of the Russian Federation
	Open Joint Stock Company VTB Bank
	Bank Leumi le-Israel BM
	Deutsche Bank
	Morgan Stanley
	Israel Discount Bank
	Bank “Credit Moscow”
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 2009.

PRINCIPAL ACTIVITIES

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

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

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

As at 31 December 2009 the Group has a portfolio of 4 yielding properties, 11 investment projects under development, 2 trading properties, 7 land bank projects and 5 hotel projects at various stages of development in 17 locations in Russia and Ukraine. These comprise commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow focused on upscale apartment buildings and residential districts in the Moscow Region aimed at the upper middle class segment of the market.

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 amounted to US$44,511 thousand (2008: loss US$126,275 thousand). The loss after taxation attributable to the Group's shareholders amounted to US$3,691 thousand (2008: US$108,674 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 loss for the period is transferred to retained earnings. For year 2008 the Board of Directors declared, on 18 November 2008, and paid on 4 December 2008, a dividend of US$0.3817 per share, totalling to an amount of US$200,000 thousand.

MAIN RISKS AND UNCERTAINTIES

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

FUTURE DEVELOPMENTS

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

SHARE CAPITAL

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

BRANCHES

The Group operates seven branches and or representative offices of Cypriot and BVI entities in the Russian Federation. These are Bellgate Construction Ltd branch, which operates Mall of Russia project. The Dulverton Ltd branch and the Westec Four Winds Ltd branch which operate Four Winds I and II projects respectively. During the year ended 31 December 2008 the Group established 3 new branches Amerone Ltd branch, Bugis Finance branch operating investment properties and Bastet Estates Ltd branch acting as a sales agents for residential properties. During the last quarter of 2009 the Group established Falgaro Investments Ltd branch acting as a sales agent for residential properties.

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS' REPORT

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2009 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, KPMG Limited, have expressed their willingness to continue offering their services. A resolution reappointing the auditors and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Secretary

Nicosia, 7 March 2010

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1502 Nicosia, Cyprus

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Independent Auditors' Report

To the Members of AFI Development Plc

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AFI Development Plc and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of income statement, comprehensive income and changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

KPMG Limited, a private company limited by shares, registered in Cyprus under registration number HE 132822 with its registered office at 14, Esperidon Street, 1087, Nicosia, Cyprus.

Board Members
N.G. Syrimis, A.K. Christofides, E.Z. Hadjizacharias, P.G. Loizou, A.M. Gregoriades, A.A. Demetriou, D.S. Vakis, A.A. Apostolou, S.A. Loizides, M.A. Loizides, S.G. Sofocleous, M.M. Antoniades, C.V. Vasiliou, P.E. Antoniades, M.J. Halios, M.P. Michael, P.A. Peleties, G.V. Markides, M.A. Papacosta, K.A. Papanicolaou, A.I. Shiammoutis, G.N. Tziortzis, H.S. Charalambous, C.P. Anayiotos, I.P. Ghalanos, M.G. Gregoriades, H.A. Kakoullis, G.P. Savva, C.A. Kalias, C.N. Kallis

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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 AFI Development Plc and its subsidiaries as at 31 December 2009, and of their financial performance and their 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 and Regulatory 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 consolidated 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 consolidated 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 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 Limited
Chartered Accountants

Nicosia, 7 March 2010

KPMG Limited, a private company limited by shares, registered in Cyprus under registration number HE 132822 with its registered office at 14, Esperidon Street, 1087, Nicosia, Cyprus.

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AFI DEVELOPMENT PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	2009 US$ '000	2008 US$ '000
Revenue			
Rental income		36,153	31,367
Construction consulting/management fees		906	2,668
		37,059	34,035
Other income	8	3,361	4,182
Operating expenses		(9,430)	(11,937)
Administrative expenses		(10,944)	(17,124)
Other expenses	9	(693)	(946)
		19,353	8,210
(Loss)/profit on disposal of investment in subsidiaries	29	(97)	249
Valuation gains/(losses) on investment properties	13,14	38,923	(134,192)
Impairment losses on trading properties	19,20	(16,048)	(20,792)
Net valuation gains/(losses) on properties		22,875	(154,984)
Proceeds from sale of trading properties		25,900	78,635
Carrying value of trading properties sold		(19,085)	(61,091)
Profit on disposal of trading properties		6,815	17,544
Results from operating activities		48,946	(128,981)
Finance income		17,699	30,422
Finance costs		(22,134)	(27,716)
Net finance (costs)/income	10	(4,435)	2,706
Profit/(loss) before income tax		44,511	(126,275)
Income tax (expense)/benefit	11	(47,166)	18,419
Loss for the period		(2,655)	(107,856)
Loss attributable to:			
Owners of the Company		(3,691)	(108,674)
Non-controlling interest		1,036	818
Loss for the period		(2,655)	(107,856)
Loss per share			
Basic and diluted loss per share (cent)	12	(0.70)	(20.75)

The notes on pages 12 to 57 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 US$ ’000	2008 US$ ’000
Loss for the period	(2,655)	(107,856)
Other comprehensive income:		
Foreign currency translation differences for foreign operations	(20,623)	(128,394)
Realised translation difference on disposal of subsidiaries	-	(2,415)
Total comprehensive income for the period	(23,278)	(238,665)
Total comprehensive income attributable to:		
Owners of the parent	(24,279)	(239,321)
Non-controlling interest	1,001	656
	(23,278)	(238,665)

The notes on pages 12 to 57 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to the owners of the Company					Non-controlling interest	Total
	Share Capital US$ '000	Share Premium US$ '000	Translation Reserve US$ '000	Retained Earnings US$ '000	Total US$ '000	US$ '000	US$ '000
Balance at 1 January 2008	524	1,763,933	8,490	393,004	2,165,951	379	2,166,330
Total comprehensive income for the period							
Profit or loss	-	-	-	(108,674)	(108,674)	818	(107,856)
Other comprehensive income							
Foreign currency translation differences	-	-	(130,647)	-	(130,647)	(162)	(130,809)
Total comprehensive income for the period	-	-	(130,647)	(108,674)	(239,321)	656	(238,665)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends	-	-	-	(200,000)	(200,000)	-	(200,000)
Share option expense	-	-	-	885	885	-	885
Total contributions by and distributions to owners	-	-	-	(199,115)	(199,115)	-	(199,115)
Changes in ownership interests in subsidiaries that do not result in a loss of control							
Acquisition of non-controlling interest	-	-	-	-	-	831	831
Total transactions with owners	-	-	-	(199,115)	(199,115)	831	(198,284)
Balance at 31 December 2008	524	1,763,933	(122,157)	85,215	1,727,515	1,866	1,729,381
Balance at 1 January 2009	524	1,763,933	(122,157)	85,215	1,727,515	1,866	1,729,381
Total comprehensive income for the period							
Profit or loss	-	-	-	(3,691)	(3,691)	1,036	(2,655)
Other comprehensive income							
Foreign currency translation differences	-	-	(20,588)	-	(20,588)	(35)	(20,623)
Total comprehensive income for the period	-	-	(20,588)	(3,691)	(24,279)	1,001	(23,278)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share option expense	-	-	-	(575)	(575)	-	(575)
Balance at 31 December 2009	524	1,763,933	(142,745)	80,949	1,702,661	2,867	1,705,528

The notes on pages 12 to 57 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Note	2009 US$ '000	2008 US$ '000
Assets			
Investment property	13	140,476	186,275
Investment properties under development	14	1,290,191	1,112,003
Property, plant and equipment	15	102,749	102,833
Other investments	16	42,959	-
Long-term loans receivable	17	38	5,610
VAT recoverable	18	29,780	22,189
Goodwill		150	150
Total non-current assets		1,606,343	1,429,060
Trading properties	19	42,050	-
Trading properties under construction	20	171,229	271,035
Inventory		324	91
Short-term loans receivable	17	73	640
Trade and other receivables	21	126,748	228,008
Cash and cash equivalents	22	210,830	272,498
Assets classified as held for sale	23	190,044	-
Total current assets		741,298	772,272
Total assets		2,347,641	2,201,332
Equity			
Share capital		524	524
Share premium		1,763,933	1,763,933
Translation reserve		(142,745)	(122,157)
Retained earnings		80,949	85,215
Total equity attributable to owners of the Company	24	1,702,661	1,727,515
Non-controlling interest		2,867	1,866
Total equity		1,705,528	1,729,381
Liabilities			
Long-term loans and borrowings	25	322,096	158,744
Deferred tax liabilities	26	44,592	6,321
Total non-current liabilities		366,688	165,065
Short-term loans and borrowings	25	94,005	139,562
Trade and other payables	27	151,702	140,339
Income tax payable	11	1,892	2,703
Deferred income	28	27,826	24,282
Total current liabilities		275,425	306,886
Total liabilities		642,113	471,951
Total equity and liabilities		2,347,641	2,201,332

The consolidated financial statements were approved by the Board of Directors on 7 March 2010.

Lev Leviev
Chairman

Alexander Khaldey
Director

The notes on pages 12 to 57 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Cash flows from operating activities			
Loss for the period		(2,655)	(107,856)
Adjustments for:			
Depreciation	15	898	7,938
Interest income	10	(10,449)	(30,422)
Interest expense		3,038	2,790
Share option expense	24	(575)	885
Fair value adjustments		(22,875)	154,984
Loss/(profit) on disposal of investment in subsidiaries	29	97	(249)
Profit from sale of property, plant and equipment		(66)	(3,775)
Unrealised (gain)/loss on foreign exchange		(6,978)	24,156
Income tax expense/(benefit)		47,166	(18,419)
		7,601	30,032
Change in trade and other receivables		12,454	(21,923)
Change in amounts receivable from related companies	21	(966)	(3,909)
Change in inventories		233	(15)
Change in trading properties under construction		(8,382)	(6,566)
Change in trade and other payables		(21,885)	37,557
Change in down payments received for construction		(1,448)	(12,810)
Change in amounts payable to related companies	27	1,529	(20)
Change in deferred income		3,544	19,047
		(7,320)	41,393
Income taxes paid		(7,799)	(14,335)
Net cash from operating activities		(15,119)	27,058
Cash flows from investing activities			
Proceeds from sale of investment in subsidiaries	29	-	93,222
Receipts in advance for the sale of an investment		70,311	-
Net cash outflow for acquisition of subsidiaries	7	(31,894)	(149,752)
Interest received		10,100	29,624
Proceeds from sale of property, plant and equipment		423	40,929
Change in advances to builders	21	66,898	23,714
Payments for investment properties under development		(185,342)	(248,631)
Prepayments for investment properties under development		-	(19,550)
Payments for VAT recoverable		(7,540)	(617)
Payments for acquisition of property, plant and equipment		(4,497)	(5,170)
Net cash used in investing activities		(81,541)	(236,231)
Cash flows from financing activities			
Payments for loan receivable		(64)	(2,104)
Proceeds from repayment of loans receivable		-	49
Proceeds from loans and borrowings		187,985	245,466
Repayment of loans and borrowings		(71,668)	(253,574)
Dividends paid		-	(200,000)
Interest paid		(39,740)	(30,603)
Net cash from/(used in) financing activities		76,513	(240,766)
Effect of exchange rate fluctuations		1,438	(89,936)
Net decrease in cash and cash equivalents		(18,709)	(539,875)
Reclassification to other investments		(42,959)	-
Cash and cash equivalents at 1 January		272,498	812,373
Cash and cash equivalents at 31 December	22	210,830	272,498

The notes on pages 12 to 57 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 Ltd 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 Bank of New York-Mellon, 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 2009 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Companies Law of Cyprus, Cap. 113.

The consolidated financial statements were authorised and issued by the Board of Directors on 7th March 2010.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis 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 basis is also modified in regard to investment properties, investment property under development and other investments which are presented at fair value and trading properties, trading properties under construction which are presented after any impairment to their value.

Functional and presentation currency

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

Use of estimates and judgements

The preparation of the consolidated 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.

2. BASIS OF PREPARATION (continued)

Use of estimates and judgements (continued)
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 7 – business combinations
- Note 11 – provision for tax liabilities
- Note 13 – valuation of investment property
- Note 14 – valuation of investment properties under development
- Note 16 – valuation of other investments
- Note 19 – valuation of trading properties
- Note 20 – valuation of trading properties under construction
- Note 21 – recoverability of receivables
- Note 26 – utilisation of tax losses
- Note 29 – estimated cost of disposed assets and liabilities
- Note 34 – contingencies

Change in accounting policies
Overview
Starting as of 1 January 2009, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements
- Measurement of investment properties under development

(i) Determination and presentation of operating segments
As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the management, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 "Operating Segments". Previously operating segments were determined and presented in accordance with IAS 14 "Segment Reporting". The new accounting policy in respect of segment operating disclosures is presented as follows:

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the management committee to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. BASIS OF PREPARATION (continued)

Change in accounting policies (continued)

(i) Determination and presentation of operating segments (continued)

Segment results that are reported to the management committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

(ii) Presentation of financial statements

The Group applies revised IAS 1 “Presentation of Financial Statements” (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been-represented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(iii) Measurement of investment properties under development

As of 1 January 2009 the Group measures investment properties under development at fair value. The change of accounting policy is due to the requirement of the improved IAS 40 “Investment property”. The change of accounting policy was applied prospectively and valuation gain was transferred to profit or loss on 1st January 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently, by all Group entities, to all periods presented in these consolidated financial statements, in dealing with items which are considered material in relation to the Group’s consolidated financial statements, except as explained in the note above which addresses changes in accounting policies.

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

Basis of consolidation

Subsidiaries

Subsidiaries are 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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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 revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group 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.

Jointly controlled entities

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement 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 that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

Translation of foreign entity's financial statements

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign entity's financial statements (continued)
When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the translation reserve.

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 2009	30.2442	2.9
31 December 2008	29.3804	19.7
Average rate during:		
Year ended 31 December 2009	31.9333	27.8
Year ended 31 December 2008	24.9791	(2.0)

Financial Instruments

Non derivative financial instruments
Non-derivative financial instruments comprise of financial assets at fair value through profit or loss, loans receivable, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

The Group recognises loans and receivables and deposits on the date that they are originated. All other non-derivative financial instruments are recognised initially at the trade date at which the Group become party to the contractual provision of the instrument. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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.

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Loans and receivables
Loan and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Cash and cash equivalents
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.

Share capital
Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

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, use in the production or supply of goods or services 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 profit or loss.

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 in other comprehensive income and presented in the revaluation reserve in equity unless there was previous impairment loss on the specific property up to which the gain is recognised in the profit or loss. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in such transfers is recognised immediately in profit or loss.

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.

Investment properties under development
Property that is being constructed or developed for future use as investment property is classified as investment property under development and accounted for at fair value until construction or development is complete, at which time it is reclassified as investment property.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties under development (continued)
Certain development assets within the Group's portfolio that are in the very early stages of the development process were categorised as "land bank" without ascribing current market value to them. Any value ascribed to such land bank projects other that their cost, would result in a profit or loss to be recorded in the income statement. This approach was adopted due to abnormal market volatility and will be reviewed in the future once market conditions are more stable.

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 assets to a working condition for their intended use and capitalise borrowing cost. Purchased software that is integral to the functionality of the related property, plant and equipment is capitalised as part of that equipment.

All Hotels are treated as property, plant and equipment due to our significant influence on their management.

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 profit or loss.

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 profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Buildings	1-2%
Office equipment	10-33⅓%
Motor vehicles	33⅓%

Depreciation methods, useful economic lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets
Goodwill
Goodwill (negative goodwill) arises upon the 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 profit or loss.

Acquisitions of non-controlling interests
Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

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 of rights to the land that 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 profit or loss as cost of trading properties sold up to the end of the reported period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading Properties (continued)

Direct costs and expenses are charged to projects on a specific basis, whereas borrowing costs are allocated among the projects 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.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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 asset's 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 profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, investment property under development, 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 each year at the same time.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Non-financial assets (continued)

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

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

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

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, 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, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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 that the employees unconditionally become 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.

Revenue

Sale of trading properties

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

Construction Management fee

Revenue from construction management is recognised in the profit or loss 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 profit or loss on a straight line basis over the term of the lease.

Finance income and costs

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

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method, net of interest capitalised.

Foreign currency gains and losses are reported on a net basis.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax is recognised in respect of 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 affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to 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.

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards and Interpretations

During the current year, the Company adopted all the new and revised International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2009. This adoption did not have a material effect on the financial statements of the Company except for the application of International Accounting Standard 1 (Revised) "Presentation of Financial Statements" which has a material effect on the presentation of financial statements and the improvements to IFRSs of 2008, specifically improvements to IAS 40 "Investment property", which had a material impact on the financial statements in 2009.

- IAS 1 (revised): "Presentation of Financial Statements: A revised Presentation"
- Amendment to IFRS 7 "Financial Instruments: Disclosures"
- Amendments to IAS 20 Accounting for "Government Grants and Disclosure of Government Assistance"
- IAS 23 (revised): "Borrowing costs"
- IAS 32: "Financial Instruments: Presentation" and IAS 1: "Presentation of Financial Statements" (Amendments): "Puttable Financial Instruments and obligations arising on Liquidation"
- Amendments to IAS 38 "Intangible Assets"
- Amendments to IAS 40 "Investment Property"
- Improvements to IFRSs (2008)

All IFRSs issued by the International Accounting Standards Board (IASB), which are effective for the year ended 31 December 2009, have been adopted by the EU, with the exception of IFRIC 12: "Service Concession Arrangements" and certain provisions of IAS 39: "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2009:

Standards and Interpretations adopted by the EU

- IFRS 1:"First Time Adoption of IFRSs'' and IAS 27: "Consolidated and Separate Financial Statements" (Amendments): "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" (effective for annual periods beginning on or after 1 July 2009).
- Revisions to IFRS 3, ''Business Combinations'' and Amendments to IAS 27, "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009).
- IAS27 (amendments): "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009).
- Amendment to IAS39 ''Financial Instruments: Recognition and Measurement: Eligible Hedged Items'' (effective for annual periods beginning on or after 1 July 2009).
- IFRIC16: "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods on or after 1 October 2008, (EU: 30 June 2009)).
- IFRIC17: "Distributions of Non Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009).
- IFRIC18:''Transfers of Assets from Customers'' (effective from 1 July 2009).
- Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2009 or 1 January 2010).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Standards and Interpretations not adopted by the EU

- Amendments to IFRS1 Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010).
- Amendments to IFRS2 Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010).
- IFRS9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013).
- IAS24 (revised): “Related Party Disclosures” (effective for annual periods beginning on or after 1 January 2011).
- IFRIC14: “Prepayments of a Minimum Funding Requirement” (effective for annual periods on or after 1 January 2010).
- IFRIC19: “Extinguishing Financial Liabilities with Equity Instruments” (effective from 1 July 2010).

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. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of property, plant and equipment is the estimated amount for which they could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The market value of land and building and buildings under development is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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. As fair values have to be reported quarterly, commencing 2009, instead of performing a full revaluation of the property portfolio twice a year, a two-step approach to the valuation of the investment properties and of the investment properties under development has been adopted: first, at the end of every quarter, the independent valuation company reviews the investment property portfolio to determine whether there has been a significant movement in the properties’ values compared with their current book value. Should the independent valuation company determine that there has indeed been a material change in the values of certain properties, these properties are revalued and their book values are adjusted accordingly. Where there has been no such change in the values, no revaluation is ordered and the corresponding book values remain intact.

4. DETERMINATION OF FAIR VALUES (continued)

Investment property (continued)
The aggregate portfolio will be, however, revalued once a year with the resulting valuation to be published with the annual results. 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 and willingly.

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 is then 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 when appropriate counter-notices have been served validly and within the appropriate time.

Share-based payment transactions
The fair value of employee share 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.

5. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework

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.

The Company's Audit Committee overseas how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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 and buyers of residential including outstanding receivables. Approximately 12 percent of the Group's rental revenue is attributable to revenue from a single customer. However, geographically there is no concentration of credit risk.

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.

Investments

The Group limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a high credit rating .Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except as disclosed in note.

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2009 there was one guarantee outstanding under the non-revolving credit line from VTB Bank for RUR8,488 million (2008: none).

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.

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 as at 31 December 2009:

- A US$60,000 thousand term loan facility agreement with Quasar Capital Ltd as original lender and Deutsche Bank AG, London Branch, as facility agent. This loan is intended for the financing of the Ozerkovskaya Embankment project.
- A non-revolving credit line from the Joint Stock Commercial Savings Bank of the Russian Federation ("Sberbank") for US$280,000 thousand. The funds drawn under the credit line are required to be used to finance the construction of the Tverskaya Zastava Shopping Centre project.
- A non-revolving credit line from VTB Bank for RUR 1,488 million.
- A second non-revolving credit line from VTB Bank for RUR 8,448 million. The funds drawn under this credit line are being used to finance the construction of the Moscow-City Mall project.
- Loans from Joint-Stock Commercial Bank "Moscow Business World" (MDM Bank), which were initially acquired by Westec Four Winds Limited, joint venture of the Group for the financing of Four Winds Plaza I and II projects and which were re-financed on 9 October 2009 to Dulverton Limited, joint venture of the Group. Under the new credit line agreement Dulverton Limited received a loan of US$ 150 million, (the Group's 50% share is US$75,000 thousand), to repay the two previous loans acquired by Westec Four Winds Limited and for financing operating activities.
- An express credit line from Smith Barney for US$7,730 thousand.

5. FINANCIAL RISK MANAGEMENT (continued)

Market risk

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

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

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, Euro and Ukrainian Hryvnia.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

5. FINANCIAL RISK MANAGEMENT (continued)

Operational risk (continued)
Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

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

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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

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

6. OPERATING SEGMENT

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

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

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

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6. OPERATING SEGMENT (continued)

	Development projects				Asset management		Other - land bank			
	Commercial projects		Residential projects						Total	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
External revenues	380	-	-	-	35,767	31,367	6	-	36,153	31,367
Inter-segment revenue	7	-	7	-	281	-	524	-	819	-
Profit from sale of residential	-	-	6,815	17,544	-	-	-	-	6,815	17,544
Operation expense	(1)	(172)	2	(10)	(8,159)	(7,551)	(1,193)	(4,204)	(9,351)	(11,937)
Administrative expenses	(371)	(493)	(6)	-	(824)	(955)	(9,154)	(6,634)	(10,355)	(8,082)
Depreciation	(119)	(272)	-	-	(318)	(7,066)	(461)	(599)	(898)	(7,937)
Interest revenue	6,073	5,591	8	-	391	331	4,250	24,500	10,722	30,422
Interest expense	(2,662)	(63)	(7)	-	(604)	-	(450)	(3,497)	(3,723)	(3,560)
FX gain/(loss)	1,191	(37,958)	(546)	(1,168)	(231)	-	6,564	14,971	6,978	(24,155)
Reportable segment profit before income tax	4,491	(33,367)	6,266	16,366	26,022	16,126	(438)	24,537	36,341	23,662
Other material non-cash items:										
Net valuation gains/(losses) on properties	133,900	(128,223)	(16,048)	(47,338)	(50,531)	20,577	(44,446)	-	22,875	(154,984)
Reportable segment assets	1,150,065	868,701	301,763	321,332	423,569	430,360	221,742	245,761	2,097,139	1,866,154
Reportable segment liabilities	636,308	408,715	12,021	40,750	(2,356)	19,185	1,312	1,276	647,285	469,926

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

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6. OPERATING SEGMENT (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items.

	2009 US$'000	2008 US$'000
Revenues		
Total revenue for reportable segments	36,972	31,367
Construction consulting/management services	906	2,668
Sale of residential	25,900	78,635
Elimination of inter-segment revenue	(819)	-
Consolidated revenue	62,959	112,670
Profit or loss		
Total profit or loss for reportable segments	36,341	23,662
Other profit or loss	3,706	5,047
Valuation gains on investment property	38,923	35,000
Impairment loss for trading properties	(16,048)	(189,984)
Impairment loss of financial assets	(18,411)	-
Consolidated profit/(loss) before income tax	44,511	(126,275)
Assets		
Total assets for reportable segments	2,097,139	1,866,154
Other assets	42,959	-
Other unallocated amounts	207,543	335,178
Consolidated total assets	2,347,641	2,201,332
Liabilities		
Total liabilities for reportable segments	647,285	469,926
Other unallocated amounts	(5,172)	2,025
Consolidated total liabilities	642,113	471,951

	Reportable segment totals US$'000	**Adjustments** US$'000	**Consolidated totals** US$'000
Other material items 2009			
Interest revenue	10,722	-	10,722
Interest expense	3,723	(1,239)	2,484
Net valuation gains on properties	22,875	-	22,875

6. OPERATING SEGMENT (continued)

	Reportable segment totals US$'000	Adjustments US$'000	Consolidated totals US$'000
Other material items 2008			
Interest revenue	30,422	-	30,422
Interest expense	3,560	(800)	2,760
Net valuation losses on propertied	154,984	-	154,984

Geographical segments
Geographically the segments operate in Russia and Ukraine. In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the properties.

	Revenues 2009 US$'000	Non-current Assets 2009 US$'000	Revenues 2008 US$'000	Non-current assets 2008 US$'000
Russia	62,952	1,558,627	112,638	1,404,338
Ukraine	7	47,716	32	24,722
	62,959	1,606,343	112,670	1,429,060

Major customer
Revenues from one customer of the asset management segment, represents approximately 12% of the Group's total rental revenue.

7. ACQUISITION OF SUBSIDIARIES

During 2009 the Group acquired the following subsidiaries:

100% of Ropler Engineering Inc, a British Virgin Islands company, which owns 100% shareholding of OOO Centr Dosuga Molodegi, registered in Russia. OOO Centr Dosuga Molodegi LLC holds land rights in Kunstevo project.

100% of Amakri Management Limited and 100% of Jaquetta Investments Limited, Cypriot companies, owning cumulatively 100% shareholding of ABG Sozidatel, which holds land rights in Zaporozhie project in Ukraine.

60% of OOO Stroycapital, registered in the Russian Federation. OOO Stroycapital holds the land rights in Volgograd project.

7. ACQUISITION OF SUBSIDIARIES (continued)

During 2008 the Group acquired the following subsidiaries:

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

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

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

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

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

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

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

	2009 US$ ’000	2008 US$ ’000
Investment property under development	45,156	124,484
Property, plant and equipment	-	28,417
VAT recoverable	50	1,683
Inventory	-	37
Short-term loans receivable	-	1
Trade and other receivables	425	235
Cash and cash equivalents	20	4,576
Long-term loans and borrowings	(26,142)	(379)
Deferred tax liabilities	-	(318)
Short-term loans and borrowings	(224)	(108)
Trade and other payables	(119)	(3,389)
Income tax payable	(2)	(80)
Net identifiable assets	19,164	155,159
Net identifiable assets acquired by the Group based on % of acquisition of each subsidiary	19,164	154,328
Amount paid in previous periods	12,750	-
Less cash acquired	(20)	(4,576)
Net cash outflow from the acquisition of subsidiaries	31,894	149,752

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8. OTHER INCOME

Other income consist of:	2009 US$ '000	2008 US$ '000
Profit on prior years' sales of investment	3,239	-
Profit on sale of property, plant and equipment	66	3,832
Commissions received	-	182
Sundry	56	168
	3,361	4,182

9. OTHER EXPENSES

	2009 US$ '000	2008 US$ '000
Prior years' VAT non recoverable	693	946

10. FINANCE INCOME AND FINANCE COST

	2009 US$ '000	2008 US$ '000
Interest income on loans receivable	6,283	5,441
Interest/investment income on bank deposits and cash equivalents	4,439	24,981
Net foreign exchange gain	6,977	-
Finance income	17,699	30,422
Interest expense on loans and borrowings	(1,630)	(1,263)
Interest expense on bank loans	(29,013)	(24,640)
Interest capitalised	28,159	23,143
Net change in fair value of financial assets	(18,935)	-
Other finance costs	(715)	(800)
Net foreign exchange loss	-	(24,156)
Finance costs	(22,134)	(27,716)
Net finance (costs)/income	(4,435)	2,706

11. INCOME TAX EXPENSE/ (BENEFIT)

	2009 US$ '000	2008 US$ '000
Current tax expense		
Current year	7,090	14,686
Adjustment for prior years	(102)	(2,132)
	6,988	12,554
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	40,172	(31,149)
Utilisation of previously unrecognised tax losses	6	176
	40,178	(30,973)
Total income tax expense/(benefit)	47,166	(18,419)

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11. INCOME TAX EXPENSE (continued)

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

Reconciliation of effective tax rate	2009		2008	
	%	US$ '000	%	US$'000
Loss for the period after tax		(2,655)		(107,856)
Total income tax expense/(benefit)		47,166		(18,419)
Profit/(loss) before income tax		44,511		(126,275)
Income tax using the Company's domestic tax rate	10.00	4,451	(10.00)	(12,628)
Effect of tax rates in foreign jurisdictions	(9.28)	(4,131)	(0.97)	(1,229)
Tax exempt income	(15.24)	(6,782)	(26.85)	(33,899)
Non deductible expenses	119.61	53,239	18.09	22,847
Over provided in prior years	0.64	287	(1.69)	(2,132)
Utilisation of previously unrecognised tax losses	0.01	6	0.14	176
Tax losses carried forward	0.22	96	6.69	8,446
	105.96	47,166	(14.59)	(18,419)

The current tax liabilities of US$1,892 thousand for the year ended 31 December 2009 (2008: US$2,703 thousand) represent the amount of income tax payable in respect of current and prior periods net of payments made up to the year end.

12. EARNINGS PER SHARE

Basic earnings per share	2009 US$ '000	2008 US$ '000
Loss attributable to ordinary shareholders	(3,691)	(108,674)
Weighted average number of shares	Shares in thousands	Shares in thousands
Issued ordinary shares at 1 January	523,847	523,847
Effect of shares issued during the year	-	-
Weighted average number of shares	523,847	523,847
Loss per share (cent)	(0.70)	(20.75)

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

13. INVESTMENT PROPERTY

	2009 US$ '000	2008 US$ '000
Balance 1 January	186,275	287,865
Transfer from investment property under development	-	48,982
Renovations/additional cost	6,434	-
Fair value adjustment	(50,531)	(8,383)
Disposal	-	(107,668)
Effect of movement in foreign exchange rates	(1,702)	(34,521)
Balance 31 December	140,476	186,275

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. The same applies for investment properties under development in note 14 below.

Investment property comprises of the H2O building which forms part of the Paveletskaya development, Four Winds office building situated at 21 1st Tverskaya-Yamskaya street, the Ozerkovsky Lane 3 building located at Ozerkovskaya Embankment 22-28 and Berezhkovskaya buildings located within the Dorogomilovsky district of Moscow.

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

14. INVESTMENT PROPERTY UNDER DEVELOPMENT

	2009 US$ '000	2008 US$ '000
Balance 1 January	1,112,003	1,062,545
Additions due to acquisitions of subsidiaries	45,156	124,484
Construction costs	185,342	272,631
Capitalised interest	25,997	15,919
Transfer from trading properties under construction (note 20)	25,773	-
Transfer to property, plant and equipment	-	(63,709)
Transfer to investment property	-	(48,982)
Transfer to trading properties under construction (note 20)	-	(90,644)
Transfer to assets classified as held for sale	(190,044)	-
Fair value adjustment	89,454	(125,809)
Disposal	(75)	-
Effect of movements in foreign exchange rates	(3,415)	(34,432)
Balance 31 December	1,290,191	1,112,003

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14. INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)

Certain development assets within the Group's portfolio that are in the very early stages of the development process were categorised as "land bank" without ascribing current market value to them. Any value ascribed to such land bank projects other that their cost, would result in a profit or loss to be recorded in the income statement. This approach was adopted due to abnormal market volatility and will be reviewed in the future once market conditions are more stable.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings under construction US$ '000	Land & Buildings US$ '000	Office Equipment US$ '000	Motor Vehicles US$ '000	Aircraft US$ '000	Total US$ '000
Cost						
Balance at 1 January 2009	39,038	58,963	5,254	1,968	-	105,223
Additions	995	2,901	320	281	-	4,497
Disposals	-	-	(156)	(499)	-	(655)
Effect of movement in foreign exchange rates	(497)	(129)	(2,909)	257	-	(3,278)
Balance at 31 December 2009	39,536	61,735	2,509	2,007	-	105,787
Accumulated depreciation						
Balance at 1 January 2009	-	-	1,450	940	-	2,390
Charge for the year	-	147	365	386	-	898
Disposals	-	-	(68)	(230)	-	(298)
Effect of movement in foreign exchange rates	-	101	(78)	25	-	48
Balance at 31 December 2009	-	248	1,669	1,121	-	3,038
Carrying amount						
At 31 December 2009	39,536	61,487	840	886	-	102,749
Cost						
Balance at 1 January 2008	-	-	1,982	1,657	44,974	48,613
Additions due to acquisitions of subsidiaries	-	25,018	3,335	72	-	28,425
Disposal of subsidiary	-	-	(96)	-	-	(96)
Additions	-	12,644	1,213	642	-	14,499
Transfer from investment property under development	39,038	24,671	-	-	-	63,709
Disposals	-	-	(380)	(107)	(44,974)	(45,461)
Effect of movement in foreign exchange rates	-	(3,370)	(800)	(296)	-	(4,466)
Balance at 31 December 2008	39,038	58,963	5,254	1,968	-	105,223
Accumulated depreciation						
Balance at 1 January 2008	-	-	1,079	728	1,243	3,050
Additions due to acquisitions of subsidiaries	-	-	8	-	-	8
Disposal of subsidiary	-	-	(31)	-	-	(31)
Charge for the year	-	-	578	489	6,871	7,938
Disposals	-	-	(101)	(92)	(8,114)	(8,307)
Effect of movement in foreign exchange rates	-	-	(83)	(185)	-	(268)
Balance at 31 December 2008	-	-	1,450	940	-	2,390
Carrying amount						
At 31 December 2008	39,038	58,963	3,804	1,028	-	102,833

16. OTHER INVESTMENTS

The amount represents interest bearing bonds classified at fair value through profit or loss. Initially, these bonds were treated as cash and cash equivalents and reclassified on 30 June 2009. As of 31 December 2009 the fair value decreased and an amount of $18,411 thousand was recognized in the profit or loss as an impairment loss.

17. LOANS RECEIVABLE

	2009 US$ '000	2008 US$ '000
Long-term loans		
Loans to joint venture	-	5,571
Loans to non-related companies	38	39
	38	5,610
Short-term loans		
Loan to key management personnel	-	571
Loans to non-related companies	73	69
	73	640

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2009 US$ '000	2008 US$ '000
Loans to joint ventures	USD	3m USD LIBOR + 4.5%	2010	-	4,411
	USD	6m USD LIBOR + 4.5%	2010	-	1,160
Loan to key management personnel	USD	6m USD LIBOR + 4.5%	2008	-	571
Loans to non-related companies	RUR	11%-"CBR Rate"*1.1	2014	111	108
				111	6,250

All above loans are unsecured.

18. VAT RECOVERABLE

Represents VAT paid on construction costs and expenses which according to the Russian VAT law can be recovered upon completion of the construction. The VAT is expected to be recovered after more than 12 months from the balance sheet date. Due to the uncertainties in the Russian tax and VAT law, the management has assessed the recoverability of this VAT and has provided for any amounts that their recoverability was deemed doubtful or questionable (see note 9).

18. 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.

19. TRADING PROPERTIES

	2009 US$ '000	2008 US$ '000
Balance 1 January	-	-
Transfer from trading properties under construction	58,236	-
Impairment loss	(3,407)	-
Disposals	(13,622)	-
Effect of movements in exchange rates	843	-
Balance 31 December	42,050	-

Trading properties comprise of:

Four Winds II complex and Ozerkovskaya emb. 26 residential building complex. The Group has sold during the period a number of these residential flats.

20. TRADING PROPERTIES UNDER CONSTRUCTION

	2009 US$ '000	2008 US$ '000
Balance 1 January	271,035	172,177
Construction costs	8,382	28,925
Fair value adjustment	(12,641)	(20,792)
Transfer from investment properties under development (note 14)	-	90,644
Transfer to trading properties	(58,236)	-
Transfer to investment properties under development (note 14)	(25,773)	-
Capitalised interest	2,162	7,224
Disposals	(5,463)	-
Effect of movements in exchange rates	(8,237)	(7,143)
Balance 31 December	171,229	271,035

Trading properties under construction comprise of Botanic Garden and Otradnoye projects. Both projects involve primarily the construction of residential properties.

21. TRADE AND OTHER RECEIVABLES

	2009 US$ '000	2008 US$ '000
Advances to builders	38,763	111,939
Amounts receivable from related companies	5,258	4,292
Prepayments for acquisition of investments	10,000	30,179
Deferred expenditure	-	2,411
Trade receivables	8,915	17,940
Other receivables	39,909	34,123
VAT recoverable	22,850	25,808
Tax receivables	1,053	1,316
	126,748	228,008

Advances to builders

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

Prepayments for acquisition of investments

2009: Represent an amount prepaid for acquisition of 100% shareholding of OOO Avtograd.
2008: Includes US$12,750 thousand prepaid for the acquisition of 100% shareholding of Roppler Engineering Inc. and US$10,000 thousand prepaid for the acquisition of 100% shareholding of OOO Avtograd.

Deferred expenditure

2008: Relates to the recognition of additional profit on disposal of the 50% of OOO Krown Investments recognised in 2007 and represents the remaining financing of the other partner for 24 apartments.

Other receivables

Includes an amount of US$21,473 (2008: US$20,958) thousand prepaid to Straitline B.V. for the acquisition of 100% of shareholding in Pinkerton Limited owning 100% of the share capital of JSC WTIC Mercury, registered in the Russian Federation with regard to the Moscow City Hotel project. As announce in the Company's Annual Report for 2008 the Group decided to discontinue the investment by terminating all the agreements with the partner and funds will be returned. For further details, please refer to note 34 "Contingencies".

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22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	2009 US$ '000	2008 US$ '000
Cash at banks	210,822	272,489
Cash in hand	8	9
	210,830	272,498

23. NON CURRENT ASSETS HELD FOR SALE

On 6th of August 2009, the Company entered into a sale and purchase agreement for the project Kosinskaya, through the sale of subsidiary Rognerstar Finance Limited which holds 100% of OOO Titon. All assets included in both companies where presented as held for sale following the agreement to sell. A fair value gain of US$13,921 thousand was recognised on the measurement of the investment property under development to adjust its current amount to its fair value less cost to sell, i.e. net present value of the selling price.

	2009 US$ '000	2008 US$ '000
Assets classified as held for sale		
Investment property under development	190,044	-

24. SHARE CAPITAL AND RESERVES

Share capital	2009 US$ '000	2008 US$ '000
Authorised:		
1,000,000,000 shares of US$0.001 each	1,000	1,000
Issued and fully paid:		
523,847,027 shares of US$0.001 each	524	524

Share premium

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

24. SHARE CAPITAL AND RESERVES (continued)

Employee Share option plan

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

Options over 1,089,295 GDRs were granted up to 31 December 2009 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 2009.

25. LOANS AND BORROWINGS

	2009 US$ '000	2008 US$ '000
Non-current liabilities		
Secured bank loans	312,096	128,583
Secured loan from non-related company	10,000	30,000
Unsecured loans non-related companies	-	161
	322,096	158,744
Current liabilities		
Secured bank loans	10,087	54,053
Unsecured bank loans	49,566	50,972
Secured loan from non-related company	20,345	21,005
Unsecured loans from other non-related companies	14,007	13,532
	94,005	139,562

The secured bank loans comprise of the following:

(i) A non-revolving credit line was obtained from VTB Bank for RUR 8,448 million on 28 August 2008. Up to 31 December 2009 RUR4,888 million where drawn. The credit line initially carried interest of 14.25% (ruble terms) which increased to 16% (ruble terms) since April 2009. The funds drawn under the credit line are being used to finance the construction of the Moscow-City Mall project. The credit line is secured by a pledge over 100% of the shares of Bellgate Constructions Limited, a lien over 75% of the development rights regarding the project, and a mortgage of commercial spaces when completed. AFI Development's guarantee is one of the elements of collateral for this credit line.

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25. LOANS AND BORROWINGS (continued)

(ii) A non-revolving credit line was obtained from the Sberbank for US$280 million during the year ended 31 December 2007. Up to 31 December 2009 US$77,531 thousand (2008: US$71,122 thousand) were drawn. The funds drawn under the credit line will be used to finance the construction of the Tverskaya Zastava Shopping Centre project. This credit line carries interest of 8% above 6 months US$ LIBOR. The credit line is secured by a pledge over 51% of the shares in the asset company, a lien over the development rights regarding the Tverskaya Zastava shopping mall project, and a mortgage over the shopping mall and its parking when completed.

(iii) 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$60 million, it carries interest at an annual rate of 2.4% above 6 months US$ LIBOR and will be paid in fixed instalments with the last being on 13 February 2011. The current balance as at 31 December 2009 is US$30,345 out of which an amount of US$20,345 thousand is payable within one year. The full amount of the loan is guaranteed by Africa Israel Investments Ltd, registered in Israel, which is the ultimate shareholder of the Company.

(iv) On 9 October 2009 the 50% owned subsidiary Dulverton Limited entered into a credit line agreement with OAO "MDM Bank" for the re-financing of the existing loan facilities over the Four Winds project. Under this credit line agreement, Dulverton Limited has received a loan of US$150 million to be repaid in 31 accelerating quarterly instalments commencing with a first instalment of US$0,6 million payable in the second quarter of 2010 and increasing to a thirtieth instalment of US$3,5 million payable in the third quarter of 2017 with a subsequent bullet repayment of US$86 million in the fourth quarter of 2017. The loan bears an annual interest of 13% and was used to pay the two previous existing loans of Westec Four Winds Limited and for financing operating activities.

(v) A non-revolving credit line which was obtained from VTB Bank for RUR 1,488 million on 1 August 2008. This credit line carries interest of 16% (rouble terms). It was redeemed on the 28th February 2010.

(vi) An express credit line was obtained from Smith Barney Bank for US$ 20,095 thousand on June 2008. Outstanding balance as at 31 December 2009 is US$7,730 thousand. The credit line carries an interest of 3.072% p.a. The loan is secured by the portfolio of securities held by Smith Barney and is payable on demand.

The following two loans, which were repaid by the re-financing loan facility obtained by Dulverton Limited as described in (iv) point above, were outstanding as at 31 December 2008:

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

25. LOANS AND BORROWINGS (continued)

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

The loans and borrowings are payable as follows:	2009 US$ '000	2008 US$ '000
Less than one year	94,005	139,562
Between one and five years	263,046	103,300
More than five years	59,050	55,444
	416,101	298,306

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2009 US$ '000	2008 US$ '000
Secured loan from Quasar Capital Limited	USD	6m USD LIBOR + 2.4%	2011	30,345	51,005
Secured loan from Sberbank	USD	6m USD LIBOR + 8%	2014	76,946	71,402
	USD	6m USD LIBOR + 8%	2010	707	-
Secured loan from MDM Bank	USD	13%	2017	73,750	-
	USD	13%	2010	1,651	-
Secured loan from MDM Bank	EUR	20%	2009	-	25,515
Secured loan from MDM Bank	USD	20%	2009	-	8,443
Secured loan from Smith Barney	USD	3.07%	On demand	7,730	20,095
Secured loan from VTB Bank	RUR	16%	2011	161,400	57,181
Unsecured loan from VTB Bank	RUR	16%	2010	49,566	50,972
Unsecured loans from non-related companies	USD	12%	2010	1,452	1,438
	RUR	18.5%	2010	4,905	4,381
	RUR	0%	2010	6,974	7,101
	RUR	12%	2010	51	151
	RUR	3% - 5%	2010	624	622
				416,101	298,306

26. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:

	2009 US$ '000	2008 US$ '000
Investment property	3,102	10,806
Investment property under development	57,304	5,558
Property, plant and equipment	(1,525)	(3,020)
Trading properties under construction	72	(1,848)
Trade and other receivables	70	235
Cash and cash equivalents	5	16
Inventory	-	1
Long term loans and borrowings	(538)	8
Trade and other payables	202	4,566
Other items	(34)	190
Tax losses carried forward	(14,066)	(10,191)
Deferred tax liability	44,592	6,321

27. TRADE AND OTHER PAYABLES

	2009 US$ '000	2008 US$ '000
Trade payables	234	453
Payables to related parties	2,000	471
Amount payable to builders	12,983	19,261
VAT and other taxes payable	1,416	1,647
Down payments received for construction projects	1,484	2,932
Provisions for construction costs	625	30,934
Receipts in advance from sale of investment	70,311	-
Other payables	62,649	84,641
	151,702	140,339

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

Receipts in advance from sale of investment

On 6th of August 2009, the Company has entered into a sale and purchase agreement for the Kosinskaya project, through the sale of subsidiary Rognerstar Finance Limited. Under the original terms, sale proceeds of US$195 million where expected to be received within one year, by August 2010. Up to 31 December 2009 the Company received US$70 million and since then the Company negotiates with the buyer an amended payment schedule, which will extend the receipt of the total proceeds to the end of 2010.

Other payables

Include an amount of US$ 57,508 thousand (2008: US$ 80,991 thousand) payable to the 50% partner of the joint venture Krown LLC, which was disposed during the second quarter of 2008.

28. DEFERRED INCOME

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

29. DISPOSAL OF SUBSIDIARIES

	2009 US$ '000	2008 US$ '000
The profit on disposal of subsidiaries consists of:		
Loss on disposal of investment in subsidiaries	(97)	-
Profit on disposal of OOO Krown	-	249
	(97)	249

Represents amount realised on the disposal of the subsidiaries listed below.

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

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

	2009 US$ '000 Sundry Subsidiaries*	2008 US$ '000 OOO OlympProject	2008 US$ '000 OOO Krown 50%
Investment property	-	-	(107,668)
Investment property under development	(75)	-	-
Property, plant and equipment	-	(65)	-
Trade and other receivables	(14)	(14)	(4,676)
Cash and cash equivalents	(8)	(10)	-
Long term loans and borrowings	68	-	-
Deferred tax liability	-	-	12,821
Short term loans and borrowings	3	-	30
Trade and other payables	98	15	2,513
Deferred income	-	-	1,663
Net identifiable assets	72	(74)	(95,317)
Consideration received in cash	8	82	93,150
Cash disposed of	(8)	(10)	-
Net cash inflow from the disposal of subsidiaries	-	72	93,150

	2009 US$ '000	2008 US$ '000
Total cash inflow from disposal of subsidiaries	-	93,222

* Comprises of a number of subsidiaries which are individually insignificant, namely Temalis Limited, Sewaka Limited, Guzela Limited, OOO Ko Development, OOO Rostranconsult and OOO StroyInkom Realt.

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, income and expenses of the joint ventures:

	Ownership	Current assets US$ '000	Non-current assets US$ '000	Current liabilities US$ '000	Non-current liabilities US$ '000	Income US$ '000	Expenses US$ '000	Profit / (loss) US$ '000
2009:								
Nouana Limited	50%	146	4,640	96	6,745	370	(873)	(504)
OOO Tirel	50%	1,476	13,210	980	11,307	3,739	(3,045)	694
ZAO Kama Gate	50%	-	-	-	-	46	(524)	(478)
OOO Krown Investments	50%	39,020	40,257	15,192	62,782	5,499	(11,874)	(6,375)
Westec Four Winds Limited	50%	12,251	150,774	17,293	44,927	35,405	(26,375)	9,031
Dulverton Limited	50%	149,967	223,689	18,495	139,094	55,921	(43,353)	12,568
		202,860	432,570	52,056	264,855	100,980	(86,044)	14,936
2008:								
Nouana Limited	50%	1,293	16,147	52	18,955	763	(752)	11
OOO Tirel	50%	483	13,578	163	12,184	2,332	(1,755)	577
ZAO Kama Gate	50%	673	4,882	826	5,364	179	(717)	(538)
OOO Krown Investments	50%	56,639	27,960	14,408	61,751	39,001	(70,386)	(31,385)
Westec Four Winds Limited	50%	24,295	140,622	70,929	12,962	76,045	(90,063)	(14,018)
		83,383	203,189	86,378	111,216	118,320	(163,673)	(45,353)

31. FINANCIAL INSTRUMENTS

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount 2009 US$'000	Carrying amount 2008 US$'000
Other investments	16	42,959	-
Long term loans receivable	17	38	5,610
Short term loans receivable	17	73	640
Cash and cash equivalents	22	210,830	272,498
Trade and other receivables	21	77,985	83,479
		331,885	362,227

31. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying Amount US$'000	Contractual Cash flow US$'000	6 months Or less US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000	More than 5 years US$'000
Secured bank loans	344,798	(454,285)	(17,607)	(43,455)	(208,747)	(105,250)	(79,226)
Unsecured loans	63,573	(64,465)	(64,321)	-	(144)	-	-
Trade and other payable	79,282	(79,282)	(79,282)	-	-	-	-
Bank overdraft	7,730	(7,730)	(7,730)	-	-	-	-

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 2008.

	Equity US$ '000	Profit for the year US$ '000
31 December 2009		
Russian Roubles	(25,816)	392
Euro	-	-
Ukrainian Hryvnia	(3,574)	(803)
31 December 2008		
Russian Roubles	(62,458)	3,629
Euro	-	2,319
Ukrainian Hryvnia	(1,714)	(2,379)

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.

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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	
	2009	2008
	US$ '000	US$ '000
Fixed rate instruments		
Financial assets	43,952	110,108
Financial liabilities	(300,373)	(135,709)
	(256,421)	(25,601)
Variable rate instruments		
Financial assets	123,705	6,142
Financial liabilities	(115,728)	(142,502)
	7,977	(136,360)

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 2008.

	Equity	Profit for the year
	US$ '000	US$ '000
31 December 2009		
Variable rate instruments	-	80
31 December 2008		
Variable rate instruments	-	(1,364)

A decrease 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:

	2009 US$ '000	2008 US$ '000
Less than a year	5,632	2,044
Between one and five years	14,749	5,475
More than five years	22,223	31,065
	42,604	38,584
Amount recognised as an expense during the year	2,054	1,015

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 are entered into with the intention and right to develop the land and carry out construction. Typically they run for an initial period of one to five years which is the period of development and upon completion of development the developer has the right to renew for a long term period of usually up to 49 years. Under both leases the lessee is required to make periodic lease payments, generally on a quarterly basis to the City of Moscow.

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

Leases as lessor

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

	2009 US$ '000	2008 US$ '000
Less than a year	39,483	27,795
Between one and five years	289,683	233,254
More than five years	81,139	9,449
	410,305	270,498
Amount recognised as income during the year	36,153	31,367

33. CAPITAL COMMITMENTS

Up to 31 December 2009 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	**Commitment**	
	2009	2008
	US$ '000	US$ '000
Mall of Russia	15,985	140,857
Tverskaya Zastava development	-	175,700
Otradnoye	143,260	145,754
Ozerkovskaya Embankment - Phase II	3,164	22,276
Four Winds I and II	7,396	38,315
	169,805	522,902

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

Mall of Russia project includes a contract with Enka Insaat Ve Sanayi Anonim Sirketi ("Enka') and Danya Cebus Rus LLC who are acting as the general constructors of the project. The amount of future capital commitment according to the contract is US$15,985 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$143,260 thousand.

Four Winds I and II project includes a contract with Rasen Construction Ltd who is acting as the general constructor of the project. The amount of future capital commitments according to the contract is US$7,396 thousand.

34. CONTINGENCIES

On 23 December 2009, a supervision procedure was ordered by a Russian court upon ZAO Kama Gate, a Russian company, in which the Company holds 50%, and which is the project owner company of the Perm project. The Company is examining the possible impact of initiating the supervision procedure on its rights to the Perm project. Taking a conservative approach, the Company has decided to write off its investment in this project.

The Company is in arbitration proceedings against Straitline B.V., from which it claims EUR 15 million and RUB 75 million in relation to a Memorandum of Understanding dated 14 December 2007 concerning the acquisition of 50% in the Moscow City Hotel project. Straitline B.V. has filed a counterclaim in amount of US$ 162.5 million. Currently the parties negotiate a settlement. Based on the advice the Company received from its legal advisers, who represent the Company in these proceedings, there is a remote risk that the amounts claimed by the Company from Straitline B.V. will not be paid. The management believes that the counterclaim filed by Straitline B.V. has no merit.

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35. RELATED PARTIES

Outstanding balances with related parties	2009 US$ '000	2008 US$ '000
Assets		
Short-term loans to joint ventures	-	5,571
Short-term loans to key management	-	571
Amounts receivable from ultimate holding company	503	-
Amounts receivable from joint ventures	4,384	3,976
Advances issued to other related companies	302	2,953
Amounts receivable from other related companies	372	315
Liabilities		
Amounts payable to ultimate holding company	266	246
Amount payable to shareholder	-	16
Amount payable to joint venture	-	30
Amounts payable to other related companies	1,735	177
Amounts payable to key management personnel	-	2

All outstanding balances with these parties are priced at an arm's length basis and are to be settled in cash. For repayment dates, securities and interest rates of the loans see notes 17 and 25. None of the other balances is secured.

Transactions with the key management personnel	2009 US$ '000	2008 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	2,137	2,638

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

Other related party transactions	2009 US$ '000	2008 US$ '000
Revenue		
Ultimate holding company – other income	503	-
Joint venture – consulting services	775	2,357
Joint venture – rental income	-	2
Joint venture – interest income	5,924	1,247
Other related companies – rental income	-	1
Other related companies – consulting services	8	32
Other related companies – other income	523	-
Key management personnel – interest income	31	58
Expenses		
Ultimate holding company – administrative expenses	266	-
Joint venture – interest expense	-	11
Other related companies – interest expense	-	227

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 2009	2008	Country of incorporation
1. OOO Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
2. OOO MayStroy	100	100	Russian Federation
3. OOO InzhStroy AG	100	100	Russian Federation
4. OOO IncomStroy	100	100	Russian Federation
5. OOO Tain Investments	100	100	Russian Federation
6. OOO AFI Development (formerly Tain Investments)	100	100	Russian Federation
7. OOO Ozerkovka	100	100	Russian Federation
8. OOO Corin Development	100	100	Russian Federation
9. OOO LessyProf	100	100	Russian Federation
10. OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK)	99.1	98.8	Russian Federation
11. Bellgate Construction Limited	100	100	Cyprus
12. Moscow City Centre PLC	100	100	United Kingdom
13. Slytherin Development Limited	100	100	Cyprus
14. OOO Ultrastroy	100	100	Russian Federation
15. OOO Ultrainvest	100	100	Russian Federation
16. OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
17. Severus Trading Limited	100	100	Cyprus
18. OOO Aristeya	100	100	Russian Federation
19. Talena Development Limited	100	100	Cyprus
20. Temalis Limited	-	100	Cyprus
21. Buildola Properties Limited	100	100	Cyprus
22. Bugis Finance Limited	100	100	British Virgin Islands
23. Borenco Enterprises Limited	100	100	Cyprus
24. OOO StroyInkom-K	100	100	Russian Federation
25. OOO PSO Dorokhovo	100	100	Russian Federation
26. Scotson Limited	100	100	Cyprus
27. OOO Rostransconsult	-	100	Russian Federation
28. ZAO Armand	100	100	Russian Federation
29. OOO Project+	100	100	Russian Federation
30. OOO Volga StroyInkom Development	100	100	Russian Federation
31. OOO Volga Land Development	100	100	Russian Federation
32. Krusto Enterprises Limited	100	100	Cyprus
33. Keyri Trading & Investments Ltd	100	100	Cyprus
34. OOO Favorit	100	100	Russian Federation
35. OOO KO Proekt	100	100	Russian Federation
36. OOO KO Development	-	76	Russian Federation

36. GROUP ENTITIES (continued)

Significant Subsidiaries	Ownership interest 2009	2008	Country of incorporation
37. ZAO Nedra Publishing	90.17	90.17	Russian Federation
38. OOO Titon	100	100	Russian Federation
39. ZAO UMM Stroyenergomekhanizatsiya	100	100	Russian Federation
40. Rognerstar Finance Limited	100	100	Cyprus
41. Hermielson Investments Ltd	100	100	Cyprus
42. ZAO Firm Gloria	100	100	Russian Federation
43. Bundle Trading Limited	100	100	Cyprus
44. ZAO MTOK	99.38	98.6	Russian Federation
45. Bioka Investments Limited	90	90	Cyprus
46. OOO Nordservis	90	90	Russian Federation
47. Guzela Limited	-	100	Cyprus
48. AFI Development Hotels Limited (formerly Kanylia Investment Limited)	100	100	Cyprus
49. Eitan (Cyprus) Limited	100	100	Cyprus
50. OOO Eitan	100	100	Russian Federation
51. OOO Eitan K	100	100	Russian Federation
52. Sherzinger Limited	100	100	Cyprus
53. Rubiosa Management Limited	100	100	Cyprus
54. OOO Stroycapital	60	-	Russian Federation
55. Bastet Estates Limited	100	100	Cyprus
56. OOO Semprex	100	100	Russian Federation
57. Beslaville Management Limited	95	95	Cyprus
58. OOO Zheldoruslugi	95	95	Russian Federation
59. OOO RealProject	95	95	Russian Federation
60. Amerone Development Limited	100	100	Cyprus
61. Hegemony Limited	100	100	Cyprus
62. OOO Extra Plus	100	100	Russian Federation
63. Inscribe Limited	100	100	Cyprus
64. OOO AFI RUS Parking Management	100	100	Russian Federation
65. OOO Cristall Development	100	100	Russian Federation
66. OOO North Investments	100	100	Russian Federation
67. OOO Region-K	100	-	Russian Federation
68. Grifasi Investments Limited	100	100	Cyprus
69. Occuper Holdings Limited	100	100	Cyprus
70. OOO Adnera	100	100	Russian Federation
71. OOO AFI RUS	100	100	Russian Federation
72. LL Avia Management SA	100	100	British Virgin Islands
73. OOO StroynKom – Realt	-	100	Russian Federation
74. OOO AFI Region	100	100	Russian Federation
75. OOO AFI RUS Management	100	100	Russian Federation
76. OOO Bizar	74	74	Russian Federation
77. OOO Sever Region K	100	100	Russian Federation
78. AFI Ukraine Limited	100	100	Cyprus
79. OOO AFI-DS 1	100	100	Ukraine

36. GROUP ENTITIES (continued)

Significant Subsidiaries	Ownership interest 2009	2008	Country of incorporation
80. OOO AFI-DS 2	100	100	Ukraine
81. OOO AFI-DS 3	100	100	Ukraine
82. OOO Budinkom-Ukraine	100	100	Ukraine
83. Jaquetta Investments Limited	100	-	Cyprus
84. Amakri Management Limited	100	-	Cyprus
85. OOO OR-Avner	100	-	Ukraine
86. OOO ABG-Sozidatel	100	-	Ukraine
87. AFI D Finance SA	100	100	British Virgin Islands
88. Falgaro Investments Limited	100	100	Cyprus
89. Ropler Engineering Limited	100	-	British Virgin Islands
90. OOO CDM	100	-	Russian Federation
Jointly controlled entities			
1. OOO Krown Investments	50	50	Russian Federation
2. Westec Four Winds Limited	50	50	Cyprus
3. Dulverton Limited	50	50	Cyprus
4. Nouana Limited	50	50	Cyprus
5. OOO Tirel	50	50	Russian Federation
6. ZAO Kama Gate	50	50	Russian Federation

During the year ended 31 December 2009 the Group acquired or incorporated the following subsidiaries:

100% of Ropler Engineering Inc, a British Virgin Islands company, which owns 100% shareholding of OOO Centr Dosuga Molodegi, registered in Russia. OOO Centr Dosuga Molodegi LLC holds the land rights in Kunstevo project.

100% of Amakri Management Limited and 100% of Jaquetta Investments Limited, Cypriot companies, owning cumulatively 100% shareholding of ABG Sozidatel, which holds land rights in Zaporozhie project in Ukraine.

60% of OOO Stroycapital, registered in the Russian Federation. OOO Stroycapital holds the land rights in Volgograd project.

37. SUBSEQUENT EVENTS

Subsequent to 31 December 2009 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

On 15 January 2010, Eitan K LLC entered into a loan agreement with Sberbank for a project finance facility for the completion of the Kalinina project in Zheleznovodsk, Russia. The loan amount is US$20 million and it bears an interest of circa 9.25% per annum ruble terms. The term of the loan is until December 2014 and it is secured by various pledges of rights of the projects in Mineral Caucasus area.

37. SUBSEQUENT EVENTS (continued)

On 18 January 2010, the Board of Directors decided to reactivate construction works in three projects: Paveletskaya (Phase I), Kalinina, and Ozerkovskaya Embankment (Phase III). The reactivation of construction in Ozerkovskaya Embankment project (Phase III) remains subject to securing external finance on reasonable terms.

On 20 January 2010, the Company announced that the Board had instructed the Company's management to review the possibility of seeking a Premium Listing on the London Stock Exchange.

On 10 February 2010 the Company announced that it had been notified by Africa Israel, that within the proposed debt restructuring of Africa-Israel's debt to the holders of its previously issued bonds (the "Settlement"), it is Africa-Israel's intention to convert part of its debt into AFI Development's equity amounting to 92,720,923 shares, representing circa 17.7% of the Company's equity capital. In order to facilitate this part of the Settlement, Africa-Israel intends to convert a corresponding amount of its shares in the Company into GDRs. Following the completion of the proposed Settlement, Africa-Israel is expected to remain AFI Development's majority shareholder with circa 54% of the Company's shares.
In addition, a substantial portion of Africa-Israel's shares in the Company are expected to be pledged to the bond holders.

On 26 February 2010 the Company announced that based on preliminary indications of its portfolio revaluation, it believed that the fair value of its portfolio of investment properties and investment properties under development would be reduced. This was expected to lead to the Company recording an impairment loss in its financial statements for the fourth quarter of 2009 of circa US$225 million leading to a loss of circa US$215 million after tax.