AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 September 2011

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For the period from 1 January 2011 to 30 September 2011

C O N T E N T S

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of AFI Development PLC as at 30 September 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and other explanatory notes (interim financial information). The Company's Board of Directors is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

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

KPMG Limited
Certified Public Accountants and Register Auditors

Nicosia, 21 November 2011

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January 2011 to 30 September 2011

	Note	For the three months ended 1/7/11-30/9/11 US$ '000	For the three months ended 1/7/10-30/9/10 US$ '000	For the nine months ended 1/1/11-30/9/11 US$ '000	For the nine months ended 1/1/10-30/9/10 US$ '000
Revenue					
Rental income		34,644	11,067	83,179	32,109
Construction consulting/management services		218	259	799	685
		34,862	11,326	83,978	32,794
Other income		253	32	455	62
Operating expenses		(22,092)	(3,536)	(48,565)	(11,314)
Administrative expenses		(5,841)	(3,158)	(13,256)	(8,841)
Other expenses	5	(349)	(1,792)	(2,620)	(3,982)
		6,833	2,872	19,992	8,719
Impairment of prepayment for investments		-	-	(1,178)	(7,511)
Valuation gain/(loss) on investment property		175,435	-	198,538	(40,362)
Impairment loss on trading properties		-	-	-	(1,251)
Impairment loss on property, plant and equipment		-	-	(2,759)	(12,882)
Net valuation gain/(loss)		175,435	-	195,779	(54,495)
Net proceeds from sale of trading properties		5,722	3,087	14,764	21,100
Carrying value of trading properties sold		(5,060)	(971)	(9,314)	(13,051)
Profit on disposal of trading properties		662	2,116	5,450	8,049
Results from operating activities		182,930	4,988	220,043	(45,238)
Finance income		3,270	5,471	6,381	5,439
Finance costs		(27,246)	(2,181)	(31,896)	(10,012)
Net finance costs	6	(23,976)	3,290	(25,515)	(4,573)
Profit/(loss) before income tax		158,954	8,278	194,528	(49,811)
Tax expense	7	(40,708)	845	(47,539)	(4,094)
Profit/(loss) for the period		118,246	9,123	146,989	(53,905)
Attributable to:					
Owners of the Company		118,072	8,932	146,412	(54,078)
Non-controlling interest		174	191	577	173
Profit/(loss) for the period		118,246	9,123	146,989	(53,905)
Earnings per share					
Basic and diluted earnings per share (cent)		11.27	0.85	13.97	(5.16)

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2011 to 30 September 2011

	For the three months ended		For the nine months ended	
	1/7/11-30/9/11 US$ '000	1/7/10-30/9/10 US$ '000	1/1/11-30/9/11 US$ '000	1/1/10-30/9/10 US$ '000
Profit/(loss) for the period	118,246	9,123	146,989	(53,905)
Other comprehensive income				
Foreign currency translation differences-foreign operations	(99,505)	22,916	(34,822)	1,135
Total comprehensive income for the period	18,741	32,039	112,167	(52,770)
Attributable to:				
Owners of the Company	18,615	31,818	111,603	(52,934)
Non-controlling interest	126	221	564	164
Total comprehensive income for the period	18,741	32,039	112,167	(52,770)

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2011 to 30 September 2011

	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 2010	524	1,763,933	(142,745)	80,949	1,702,661	2,867	1,705,528
Total comprehensive income for the period							
Loss for the period	-	-	-	(54,078)	(54,078)	173	(53,905)
Total other comprehensive income	-	-	1,144	-	1,144	(9)	1,135
Total comprehensive income for the period	-	-	1,144	(54,078)	(52,934)	164	(52,770)
Transactions with owners of the Company, recognised directly in equity							
Issue of bonus shares	524	(524)	-	-	-	-	-
Share option expense	-	-	-	60	60	-	60
Total transactions with owners, recorded directly in equity	524	(524)	-	60	60	-	60
Balance at 30 September 2010	1,048	1,763,409	(141,601)	26,931	1,649,787	3,031	1,652,818
Balance at 1 January 2011	1,048	1,763,409	(142,632)	106,571	1,728,396	3,225	1,731,621
Total comprehensive income for the period							
Profit for the period	-	-	-	146,412	146,412	577	146,989
Total other comprehensive income	-	-	(34,809)	-	(34,809)	(13)	(34,822)
Total comprehensive income for the period	-	-	(34,809)	146,412	111,603	564	112,167
Transactions with owners of the Company, recognised directly in equity							
Share option expense	-	-	-	62	62	-	62
Balance at 30 September 2011	1,048	1,763,409	(177,441)	253,045	1,840,061	3,789	1,843,850

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2011

	Note	30/9/11 US$ '000	31/12/10 US$ '000
Assets			
Investment property	8	1,316,310	192,973
Investment property under development	9	936,832	1,674,585
Property, plant and equipment	10	85,488	88,402
Long-term loans receivable		74	38
VAT recoverable		20,612	8,893
Intangible assets		153	153
Non-current assets		2,359,469	1,965,044
Trading properties	11	12,091	21,386
Trading properties under construction	12	172,793	174,804
Inventory		526	576
Short-term loans receivable		781	79
Trade and other receivables	13	90,561	136,706
Income tax receivable		-	689
Cash and cash equivalents		107,199	129,839
Current assets		383,951	464,079
Total assets		2,743,420	2,429,123
Equity			
Share capital	14	1,048	1,048
Share premium		1,763,409	1,763,409
Translation reserve	14	(177,441)	(142,632)
Retained earnings	14	253,045	106,571
Total equity attributable to owners of the Company	14	1,840,061	1,728,396
Non-controlling interest		3,789	3,225
Total equity		1,843,850	1,731,621
Liabilities			
Long-term loans and borrowings	15	600,701	434,352
Deferred tax liability		114,064	81,194
Deferred income		27,129	28,239
Non-current liabilities		741,894	543,785
Short-term loans and borrowings	15	25,184	33,883
Trade and other payables	16	131,447	119,834
Income tax payable		1,045	-
Current liabilities		157,676	153,717
Total liabilities		899,570	697,502
Total equity and liabilities		2,743,420	2,429,123

The condensed consolidated interim financial statements were approved by the Board of Directors on 21 November 2011.

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January 2011 to 30 September 2011

	Note	1/1/11-30/9/11 US$ '000	1/1/10-30/9/10 US$'000
Cash flows from operating activities			
Profit/(loss) for the period		146,989	(53,905)
Adjustments for:			
Depreciation	10	1,394	944
Interest income	6	(6,381)	(5,439)
Interest expense		25,275	5,370
Share option expense		62	60
Fair value adjustments		(194,601)	62,006
Loss on disposal of property, plant and equipment		38	116
Change in fair value of other investments		-	14
Unrealised (gain)/loss on foreign exchange	6	4,016	2,786
Income tax expense	7	47,539	4,094
		24,331	16,046
Change in trade and other receivables		(1,950)	19,175
Change in inventories		50	(48)
Change in trading properties under construction		8,667	11,232
Change in trade and other payables		23,723	(1,494)
Change in deferred income		(1,110)	(4,161)
Cash generated from operating activities		53,711	40,750
Income taxes paid		(10,407)	(6,926)
Net cash from operating activities		43,304	33,824
Cash flows from investing activities			
Interest received		614	1,893
Proceeds from sale of property, plant and equipment		29	-
Cash received from investment portfolio		-	2,808
Receipts in advance from the sale of an investment		-	2,506
Payment of expenses associated to the disposal of an investment		-	(1,950)
Change in advances and amounts payable to builders	13,16	2,825	3,715
Payments for construction of investment property under development	8, 9	(58,658)	(108,129)
Payments for acquisition of investment property	8	(156,862)	-
Change in VAT recoverable		28,863	1,655
Acquisition of property, plant and equipment	10	(5,720)	(3,152)
Payment for acquisition of intangible assets		-	(3)
Net cash used in investing activities		(188,909)	(100,657)
Cash flows from financing activities			
Payments for loans receivable		(740)	-
Proceeds from loans and borrowings		259,673	73,981
Repayment of loans and borrowings		(86,928)	(70,669)
Interest paid		(43,023)	(36,517)
Net cash from/(used in) financing activities		128,982	(33,205)
Effect of exchange rate fluctuations		(6,017)	(520)
Net decrease in cash and cash equivalents		(22,640)	(100,558)
Cash and cash equivalents at 1 January		129,839	210,830
Cash and cash equivalents at 30 September		107,199	110,272
The cash and cash equivalents consist of:			
Cash at banks		107,175	110,271
Cash in hand		24	1
		107,199	110,272

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 September 2011

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the "Company") was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 25 Olympion Street, Omiros & Araouzos Tower, 3035 Limassol, Cyprus. The Company is a 63.7% (31/12/10: 54%) subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE"). The increase in shareholding during the period was achieved through the acquisition of the shares representing 9.7%, held by Nirro Group S.A.. The remaining shareholding of "A" shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange ("LSE"). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 "B" shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as "A" shares.

These condensed consolidated interim financial statements of the Company for the period from 1 January 2011 to 30 September 2011 comprise of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities. The principal activity of the Group is real estate investment and development.

The principal activity of the Company is the holding of investments in subsidiaries and joint ventures.

2. BASIS OF PREPARATION

Statement of compliance

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

Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2010, with an additional estimation uncertainty for the rental revenue of AFIMALL City. As the AFIMALL City is at the initial operation period there is uncertainty in receiving all contracted rental fees, therefore the Company's management estimated that an amount of US$4.8 million will not be received and therefore was not recognised as rental revenue.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2010.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 September 2011

4. OPERATING SEGMENTS

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

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

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

	Development projects				**Asset management**		**Other - land bank**			
	Commercial projects		Residential projects						Total	
	30/9/11 US$'000	30/9/10 US$'000	30/9/11 US$'000	30/9/10 US$'000	30/9/11 US$'000	30/9/10 US$'000	30/9/11 US$'000	30/9/10 US$'000	30/9/11 US$'000	30/9/10 US$'000
External revenues	-	903	14,764	21,100	83,175	31,203	803	688	98,742	53,894
Inter-segment revenue	1	5	2	3	352	219	282	209	637	436
Reportable segment profit before tax	(598)	(4,938)	8,290	8,183	11,154	18,026	(16,745)	(9,801)	2,101	11,470
	30/9/11 US$'000	31/12/10 US$'000	30/9/11 US$'000	31/12/10 US$'000	30/9/11 US$'000	31/12/10 US$'000	30/9/11 US$'000	31/12/10 US$'000	30/9/11 US$'000	31/12/10 US$'000
Reportable segment assets	585,945	1,476,158	204,154	226,086	1,753,809	472,995	44,951	47,632	2,588,859	2,222,871

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

Reconciliation of reportable segment revenues and profit or loss

	1/1/11-30/9/11 US$ '000	1/1/10-30/9/10 US$ '000
Revenues		
Total revenue for reportable segments	99,379	54,330
Elimination of inter-segment revenue	(637)	(436)
Consolidated revenue	98,742	53,894

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 September 2011

4. OPERATING SEGMENTS (continued)

Reconciliation of reportable segment revenues and profit or loss (continued)

	1/1/11-30/9/11 US$ '000	1/1/10-30/9/10 US$ '000
Profit or loss		
Total profit or loss for reportable segments	2,101	11,470
Other profit or loss	(2,174)	725
Impairment loss of prepayment for investment	(1,178)	(7,511)
Valuation gain/(loss) on investment property	198,538	(40,362)
Impairment loss on trading properties	-	(1,251)
Impairment loss on property, plant and equipment	(2,759)	(12,882)
Consolidated profit/(loss) before tax	194,528	(49,811)

5. OTHER EXPENSES

	For the three months ended 1/7/11-30/9/11 US$ '000	For the three months ended 1/7/10-30/9/10 US$ '000	For the nine months ended 1/1/11-30/9/11 US$ '000	For the nine months ended 1/1/10-30/9/10 US$ '000
Land lease expense	-	779	-	2,361
Listing expenses	-	1,208	-	1,208
Prior year's VAT non recoverable	448	(195)	1,794	413
Write off of trade receivables	26	-	588	-
Other	(125)	-	238	-
	349	1,792	2,620	3,982

6. FINANCE COST AND FINANCE INCOME

	For the three months ended 1/7/11-30/9/11 US$ '000	For the three months ended 1/7/10-30/9/10 US$ '000	For the nine months ended 1/1/11-30/9/11 US$ '000	For the nine months ended 1/1/10-30/9/10 US$ '000
Interest income	3,270	1,473	6,381	5,439
Net foreign exchange gain	-	3,998	-	-
Finance income	3,270	5,471	6,381	5,439
Interest expense on loans and borrowings	(171)	(309)	(531)	(983)
Interest expense on bank loans	(11,617)	(11,257)	(39,633)	(36,774)
Interest capitalised	1,970	9,964	14,889	32,387
Net change in fair value of financial assets	(79)	(505)	(397)	(1,624)
Other finance costs	(2,015)	(74)	(2,208)	(232)
Net foreign exchange loss	(15,334)	-	(4,016)	(2,786)
Finance costs	(27,246)	(2,181)	(31,896)	(10,012)
Net finance (costs)/income	(23,976)	3,290	(25,515)	(4,573)

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 September 2011

7. TAX EXPENSE

	For the three months ended		For the nine months ended	
	1/7/11-30/9/11 US$ ’000	1/7/10-30/9/10 US$ ’000	1/1/11-30/9/11 US$ ’000	1/1/10-30/9/10 US$ ’000
Current tax	1,686	125	12,141	5,168
Deferred tax expense/(benefit)	39,022	(970)	35,398	(1,074)
Total income tax expense/(benefit)	40,708	(845)	47,539	4,094

8. INVESTMENT PROPERTY

	30/9/11 US$ ’000	31/12/10 US$ ’000
Balance 1 January	192,973	140,476
Transfer from investment property under development	822,376	23,592
Acquisitions	156,862	-
Renovations/additional cost	4,808	1,371
Fair value adjustment	201,384	29,506
Effect of movement in foreign exchange rates	(62,093)	(1,972)
Balance 30 September / 31 December	1,316,310	192,973

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group’s investment property. The same applies for investment property under development in note 9 below. The last valuation took place on 30 June 2011.

The decrease due to the effect of the foreign exchange rates is a result of the depreciation of Rouble against the US Dollar by 13.7% during third quarter of 2011. The currying amount of the Company’s assets decreased by US$147 million (including a US$118 million dollars decrease in investment property and investment property under development). In addition, the Company updated its assessment of the fair value of the investment property and investment property under development, applying a 0.25% yields increase, compared to the same parameters taken in June-2011 valuations. The mentioned increase was applied based on the Company’s independent appraiser’s market research opinion. This assessment revealed that in the event that there was a sustained exchange rate movement between the Rouble and US Dollar in the longer term, six months or more, there may be a reason for property yields to move to reflect this. In such a case, they anticipated yield movements may be in the order of 25bps. Following the FX effect and the fair value assessment, as mentioned above, the Company recorded a valuation gain of approximately US$63mn in the third quarter of 2011 (before tax).

8. INVESTMENT PROPERTY (continued)

On 10 March 2011 AFIMALL City opened to the public. On that date it was reclassified from investment property under development to investment property. Its fair value did not materially differ from its carrying amount, US$797,026 thousand, and therefore no fair value gain or loss was recognised. So as to ensure sufficient parking space is available for customers of the Mall while the main parking area is being completed, the Company rented the required amount of parking space from the owners of adjacent buildings. During the period, the Company reached a non binding understanding with the Moscow City administration regarding the purchase from the City of Moscow of its 25% share in AFIMALL City and 2,700 parking lots adjacent to AFIMALL City, for a total consideration of approximately US$ 310 million.

On 30 September 2011 the Company completed the acquisition of the 25% share in AFIMALL City from the City of Moscow for a consideration of RUR5 billion, equivalent to approximately US$157 million. Upon completion of the transaction, management estimated the fair value of 100% of the asset as of 30 September 2011 to an amount equivalent to US$1,077 million. This estimate was based on the fair value of the asset as of 30 June 2011, which was evaluated at US$820 million (75%) by an independent appraiser, updated to reflect the increase in yields by 25bps. As a result, Company recorded a gain on revaluation of approximately US$112 million, before tax (US$90 million after tax).

It has to be noted that the completed acquisition does not deal with the parking lot adjacent to AFIMALL City. However, this is covered by the aforementioned non-binding understanding, and the Company is continuing its negotiations with respect to this matter with the Moscow City Government.

During the period the Company also completed Paveletskaya phase I project and reclassified it to investment property. At the date of reclassification its fair value did not materially differ from its carrying amount, US$25,350 thousand, and therefore no fair value adjustment was recognised.

9. INVESTMENT PROPERTY UNDER DEVELOPMENT

	30/9/11 US$ '000	31/12/10 US$ '000
Balance 1 January	1,674,585	1,290,191
Construction costs	53,850	152,951
Capitalised interest	14,879	42,809
Transfer to investment property	(822,376)	(23,592)
Transfer to trading properties	-	(301)
Transfer from assets classified as held for sale	-	144,035
Transfer to VAT recoverable	(2,799)	(13,724)
Fair value adjustment	(2,846)	85,100
Effect of movements in foreign exchange rates	21,539	(2,884)
Balance 30 September / 31 December	936,832	1,674,585

The transfer to investment property, which took place during the first quarter of 2011, comprises projects AFIMALL City and Paveletskaya phase I, which were completed during the period, see note 8 above.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 September 2011

9. INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)

During the period, the Company reached a non-binding understanding with the Moscow City administration to transfer its development rights in the Tverskaya Zastava shopping centre to the City of Moscow in exchange for being fully compensated for its development costs incurred in the project to date. Such compensation may take the form of the City of Moscow granting additional building rights for the Company's other projects. As part of the non-binding understanding reached with the City of Moscow it is intended that AFI Development will remain the owner of the projects surrounding Tverskaya, equating to nearly 350,000 sq.m. of commercial and residential space. It is also intended that such projects will retain their key development criteria and it is the Company's understanding that the current planning documentation will remain in place. The Management believes that the compensation will be not less than the book value.

During the second quarter, a wholly owned subsidiary of the Company recorded a revaluation gain at the amount of US$13,137 thousand for the Paveletskaya Phase II project. The cost of the project was written off in previous years due to the Moscow real estate market situation and the uncertainty of the project's development. With the improvement of the Moscow real estate market during the years 2010 and 2011, the Company reassessed the development of the project and it is now in the pre-development stage. Therefore a revaluation based on an independent appraiser’s opinion was recorded.

For the year ended 31 December 2010 the fair value adjustment is presented net of a write-off of the cost of Kuntsevo project. The Company made a progress in promoting its Kuntsevo project vis-à-vis the Moscow city authorities, including certain progress in obtaining necessary permits for the planning of this project. However, in light of the recent change in the Moscow city government, AFI Development Plc estimates that there might be additional delays in promoting the project and obtaining the aforementioned permits. There is no certainty whether and when the necessary permits will be obtained, and therefore, the Company decided, for accounting purposes, to write-off this project until more certainty is reached in relation to the development of the project.

10. PROPERTY, PLANT AND EQUIPMENT

	30/9/11 US$ ’000	31/12/10 US$ ’000
Balance 1 January	88,402	102,749
Additions	5,720	4,734
Depreciation for the period/year	(1,394)	(1,274)
Disposals	(67)	(62)
Impairment during the period	(2,759)	(16,893)
Effect of movements in foreign exchange rates	(4,414)	(852)
Balance 30 September / 31 December	85,488	88,402

The impairment charge, for both the period ended 30 September 2011 and the year ended 31 December 2010, represents the decrease in fair value of the Kislovodsk’s area hotels “Kalinina” and “Versailles”.

11. TRADING PROPERTIES

	30/9/11 US$ '000	31/12/10 US$ '000
Balance 1 January	21,386	42,050
Transfer from investment property under development	-	301
Impairment during the period/year	-	(1,251)
Disposals	(9,314)	(19,785)
Effect of movements in foreign exchange rates	19	71
Balance 30 September / 31 December	12,091	21,386

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 the remaining residential flats.

12. TRADING PROPERTIES UNDER CONSTRUCTION

	30/9/11 US$ '000	31/12/10 US$ '000
Balance 1 January	174,804	171,229
Construction costs	647	3,758
Capitalised interest	10	653
Effect of movements in exchange rates	(2,668)	(836)
Balance 30 September / 31 December	172,793	174,804

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

13. TRADE AND OTHER RECEIVABLES

	30/9/11 US$ '000	31/12/10 US$ '000
Advances to builders	27,032	36,206
Amounts receivable from related companies	6,052	9,007
Trade receivables	23,528	19,411
Other receivables	14,786	15,176
VAT recoverable	18,013	55,796
Tax receivables	1,150	1,110
	90,561	136,706

Advances to builders

On 31 December 2010 Advances to builders included an amount of US$5,803 prepaid to Danya Cebus Rus LLC, related party of the Group, for the construction of the AFIMALL City. This amount is now zero after the completion of the Mall during the current period.

14. SHARE CAPITAL AND RESERVES

Share Capital	30/9/11 US$ ’000	31/12/10 US$ ’000
Authorised		
2,000,000,000 shares of US$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US$0.001 each	524	524
523,847,027 B ordinary shares of US$0.001 each	524	524
	1,048	1,048

Employee Share option plan

The Company has established an employee share option plan operated by the Board of Directors, which is responsible for granting options and administrating the employee share option plan. Eligible are employees and directors, excluding independent directors, of the Company and employees and directors of the ultimate holding company, Africa Israel Investments Ltd and its subsidiaries. The employees share option plan is discretionary and options will be granted only when the Board so determines at an exercise price derived from the closing middle market price preceding the date of grant. No payment will be required for the grant of the options. In any 10 year period not more that 10 per cent of the issued ordinary share capital may be issued or be issuable under the employee share option plan.

Options over 974,855 GDRs and 974,855 class B shares were granted up to 30 September 2011 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 vesting is not subject to any performance conditions. All 1,949,710 options granted have vested and their contractual life is ten years.

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

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations to the Group presentation currency and the foreign exchange differences on loans designated as loans to an investee company which are accounted for as part of the investor’s investment (IAS21.15) as their repayment is not planned or likely to occur in the foreseeable future. These foreign exchange differences are recognised directly to Translation Reserve.

Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the nine-month period ended 30 September 2011.

AFI DEVELOPMENT PLC

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For the period from 1 January 2011 to 30 September 2011

15. LOANS AND BORROWINGS

	30/9/11 US$ '000	31/12/10 US$ '000
Non-current liabilities		
Secured bank loans	600,701	434,352
Current liabilities		
Secured bank loans	10,670	9,112
Secured loan from non-related company	-	10,161
Unsecured loans from other non-related companies	14,514	14,610
	25,184	33,883

There were no significant movements of loans and borrowings during the period apart for the following:

(i) The 50% owned subsidiary Dulverton Limited has refinanced its existing loan facilities over the Four Winds office project through Nordea Bank. Under the refinancing terms, the credit line was increased from US$143 million to US$170 million at an interest rate of 3 months LIBOR+4.5%, compared to the interest rate of 10.5% under the agreement with MDM bank. Part of the loan proceeds were used to repay loan with MDM bank.

(ii) The wholly owned subsidiary, Bellgate Constructions Ltd, has signed an additional agreement with VTB bank of RUR5 billion for the financing of the 25% buy-out of AFIMALL City from Moscow Government. The loan agreement provides for a two year loan repayable on 28 August 2013, carrying interest of 11.5% with a further reduction to 9.5% upon receipt of the ownership certificate for the property.

(iii) A secured loan which was obtained from the non-related company, Quasar Capital Limited, for US$60 million on 13 February 2006 and carried interest of 2.4% above 6 months US$ LIBOR was repaid in full during the period.

16. TRADE AND OTHER PAYABLES

	30/9/11 US$ '000	31/12/10 US$ '000
Trade payables	5,012	1,845
Payables to related parties	9,323	1,751
Amount payable to builders	4,301	10,650
VAT and other taxes payable	4,657	2,299
Receipts in advance from sale of investment	45,867	45,867
Other payables	62,287	57,422
	131,447	119,834

Payables to related parties

Include an amount of US$6,830 thousand (31/12/10: US$NIL) payable to Danya Cebus Rus LLC, related party of the Group, for new contracts signed in relation to the completion of AFIMALL City.

16. TRADE AND OTHER PAYABLES (continued)

Receipts in advance from sale of investment
Represents the amount refundable to the buyer of Kosinskaya project, for more details see note 17 below.

Other payables
Include an amount of US$51,969 thousand (31/12/10: US$51,869 thousand) payable to the 50% partner of the joint venture Krown Investments LLC.

17. CONTINGENCIES

On 6th of August 2009, the Group has entered into a sale and purchase agreement for the sale of Kosinskaya project, through the sale of OOO Titon, the subsidiary of Rognerstar Finance Limited, which is the subsidiary of AFI Development Plc. Under the original terms, sale proceeds of US$195 million were expected to be received within one year, by August 2010. By the expected date of receipt the Group had received US$72.5 million and was negotiating with the buyer an amended payment schedule, in order to extend the receipt of the total proceeds to the end of 2010. As of the expected dated of receipt the buyer has not paid the full amount and the title of the assets was still under the ownership of the Company. In addition, the Company also decided to derecognise US$25 million from “receipts in advance from sale of investment” as this amount represents the minimum amount that is not refundable according to the contract.

The buyer has served AFI Development Plc a warrant for indictment, submitted in the District Court of Nicosia, Cyprus, whereby the buyer demands, inter alia, repayment of the amount of approximately US$47 million and approximately US$25 million out of the purchase price, reimbursement in the amount of approximately US$17 million for damages and additional reimbursement of US$2.5 million per each month of delay in the aforementioned payments. As of the date of these financial statements, the buyer has submitted a statement of claim but has not yet submitted any supporting documentation in relation to these claims. AFI Development Plc intends to serve its response within the time frames set forth under the applicable law however, is currently negotiating with the buyer regarding possible settlement options. Management believes that the current provision in the financial statements will cover any future payments for the resolution of this matter.

18. FINANCIAL RISK MANAGEMENT

The Group’s financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2010.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 September 2011

19. RELATED PARTIES

Outstanding balances with related parties	30/9/11 US$ '000	31/12/10 US$ '000
Assets		
Amounts receivable from joint ventures	4,434	4,388
Advances issued to other related companies	-	5,803
Amounts receivable from other related companies	1,618	4,619
Liabilities		
Amounts payable to ultimate holding company	448	157
Amounts payable to other related companies	8,875	1,594

Transactions with the key management personnel	30/9/11 US$ '000	30/9/10 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	1,917	1,542

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

Other related party transactions	30/9/11 US$ '000	30/9/10 US$ '000
Revenue		
Joint venture – consulting services	799	643
Joint venture – interest income	5,761	3,483
Expenses		
Ultimate holding company – operating expenses	452	-

20. GROUP ENTITIES

During the nine-month period ended 30 September 2011 the Group did not acquire or dispose any material subsidiaries.

21. SUBSEQUENT EVENTS

Subsequent to 30 September 2011 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- On the 21 November 2011 the Board of Directors of the Company approved the Settlement and Release Agreement on Rognestar Finance Limited, owner of the “Kosinskaya” project. According to the agreement, the Company will settle all mutual claims with Bedhunt Holdings Ltd by paying the total settlement amount of US$44 million. The settlement amount will be paid to an escrow account in 10 tranches with the final tranche payable on 1 July 2012. With full payment of the settlement amount transferred to Bedhunt Holdings Ltd, the Company will be entitled to register the shares of Rognestar Finance Limited in its name.