AFI DEVELOPMENT PLC

ANNUAL REPORT 2012

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AFIDEVELOPMENT

Introduction

AFI Development Plc ("AFI Development" or "the Company") is one of the leading real estate development and investment groups focused mainly on the Russian market.

AFI Development is a publicly traded subsidiary of Africa Israel Investments Ltd, an international real estate investment and development group based in Israel with over 70 years of experience in real estate development. Incorporated in Cyprus in 2001, AFI Development builds large scale, integrated and high profile commercial and residential properties to international standards.

AFI Development has been listed on the Main Market of the London Stock Exchange since 2007. It aims to deliver shareholder value through a commitment to innovation and continuous project development, coupled with the highest standards of design, construction and quality of customer service.

In 2010, AFI Development obtained a premium listing on the London Stock Exchange, becoming the only public development company operating in Russia to attain this distinctive listing status.

AFI Development focuses on developing and redeveloping high quality commercial and residential real estate assets across Russia, with Moscow being its main market. The Company's existing portfolio comprises commercial projects focused on offices, shopping centers, hotels, residential projects and mixed-use properties. AFI Development's strategy is to sell the residential properties it develops and to either lease the commercial properties or sell them for a favorable return.

Forward-looking Statements

This document may contain "forward-looking statements" with respect to the Company's financial condition, results of operations and business and certain of the Company's plans and objectives.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "will", "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal" or "estimates." By their nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- general economic and political conditions in the jurisdictions in which the Company operates and changes to the associated legal, regulatory, competition and tax environments;
- changes in the economies and markets in which the Company operates;
- changes in the markets from which the Company raises finance;
- the impact of legal or other proceedings against, or which may affect, the Company; and
- changes in interest rates and foreign exchange rates.

Any written or oral forward-looking statements, made in this document or subsequently, which are attributable to the Company or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realized. Subject to compliance with applicable law and regulations, the Company does not intend to update these forward-looking statements and does not undertake any obligation to do so.

Chairman Statement

LEV LEVIEV

EXECUTIVE CHAIRMAN
OF THE BOARD OF DIRECTORS

I am pleased to report that in 2012 our Company demonstrated strong operational results, which evidence the significant progress we have made in our key projects during the year. AFIMALL City, our flagship project, showed a steady increase in footfall and tenants' sales volume during its first year of operation, supported by our marketing initiatives and the successful completion of the underground parking. Our efforts have been recognised with AFIMALL City receiving an award at the "International Property Awards Europe", alongside our Aquamarine III project. We believe that the Mall is now able to fully capitalise on its position as one of the most attractive retail establishments in Moscow.

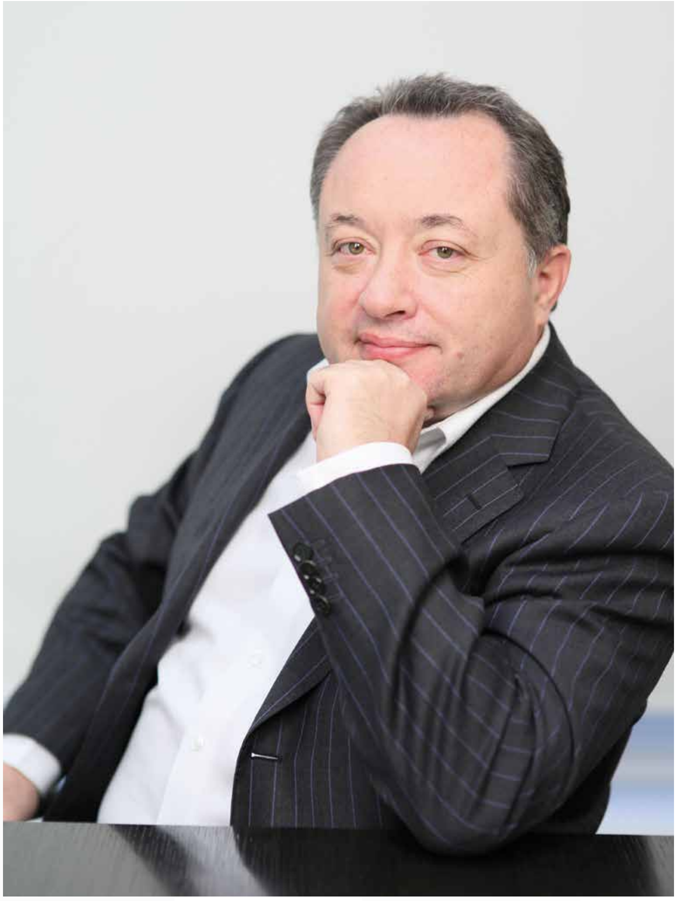
During 2012, we successfully put into operation our Ozerkovskaya project and subsequently acquired the 50% share held by our joint venture partner Super Passion, allowing us to become the sole owner of this project. We also put into operation the Plaza Spa Hotel Zheleznovodsk, which successfully completed its maiden summer season.

The disposal of our 50% stake in Westec Four Winds Limited will allow us to realise a US$ 50 million capital gain on the project and serves to highlight our commitment to disposing of assets at opportune moments, to maximise profit. We will continue to seek such opportunities in the future.

We have had a good start to 2013, and look forward to the rest of the year with confidence. The Russian economy is performing well compared to other European nations and we expect the demand for high quality real estate in attractive Moscow locations to continue through 2013. We look forward to progressing with our new developments as well as building upon the successful foundations we created for AFIMALL City during 2012. We will seek opportunities for AFI Development to increase its cash flow, to enhance its position in the Moscow real estate market and to generate positive returns for shareholders.

Thanks to strong growth in rental income, our revenues for 2012 recorded a 21% year-on-year increase to US$ 163 million. This trend was further supported by successful sales of properties, including the above-mentioned 50% holding in the Four Winds project. We were consequently able to achieve a significant, three-fold year-on-year increase in gross profit to US$ 59 million, whilst further building on our strong cash position with cash and cash equivalents up by 109% to US$ 178 million as at 31 December 2012.

We believe that our strategy of focusing on high quality projects in Moscow is producing good results that will generate both strong cash-flow and significant capital returns over future years. In 2013, we intend to continue implementing this strategy, benefiting from our completed projects and advancing the progress of our new developments.



Executive Director's Statement

MARK GROYSMAN

EXECUTIVE DIRECTOR

The year 2012 has been one of major achievements for AFI Development. Most notably, AFIMALL City, our flagship project, has become firmly established as one of the leading retail schemes in Moscow. Our operational initiatives to increase footfall to the Mall have borne fruit and we have seen an increase in footfall levels. At the same time, we restructured our financing arrangements as part of our long-standing commitment to reducing costs.

In line with our strategy, we continued to dispose of mature yielding properties, where appropriate, in order to realise a capital gain. In 2012, we sold our 50% holding in the Westec Four Winds Limited (holding company of the Four Winds project), for a total consideration of US$ 103.4 million, expecting to realise a net profit of around US$ 50 million. The improvement in our operational results during 2012 is evidenced by the threefold increase in gross profit for 2012 to US$ 59 million compared to approximately US$ 20 million in 2011.

During 2012, we also completed and put into operation two other projects within our development portfolio - Ozerkovskaya III, an office complex forming part of the "Aquamarine" mixed-use development, and Plaza Spa Hotel Zheleznovodsk.

The Company currently has several projects in various stages of development. The Otradnoe (Odintsovo) project is scheduled to begin construction in Q2 2013 and the development process continues for the Kossinskaya, Bolshaya Pochtovaya and Paveletskaya II projects. Significant progress was made at the Tverskaya Zastava projects, where we signed a land lease agreement with the Moscow city authorities for the Tverskaya Plaza IC development.

The Russian economy continues to perform well in a European context, with 2012 GDP growth of 3.4%[1], although inflation has remained high at 6.6%[2]. Although GDP growth presented slight slowdown, the Russian market has

[1] Rosstat
[2] Cushman & Wakefield Marketbeat 2012-2013

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continued to perform well with further expansion in private consumption and investments. The consumer sector continues to be a major economic driver, while solid growth in real incomes and consumer loans translated into an increase in real retail sales of 6.3% year-on-year in 2012[3]. As a result, the trends of domestic and international retail brand expansion in Moscow's malls have continued, leading vacancy rates at quality shopping malls in Moscow to remain close to zero. Moscow remains the preferred location for real estate investors and prime yields here remained at 9%[4] for both prime retail and offices during 2012. Prime office rents reached US$ 1,000-1,150 sq. m. per annum in the fourth quarter, slightly below that of the previous year.

MANAGEMENT UPDATE

Mr Izzy Cohen, non-executive director, resigned from the Company Board of Directors on 22 July 2012. Mr Cohen's resignation followed his stepping down as CEO of Africa Israel Investments Ltd, the Company's majority shareholder.

On 21 August 2012, the Board of Directors of AFI Development, following the recommendation by the Nomination Committee, appointed Mr Avraham Novogrocki, the new CEO of Africa Israel Investments Ltd, as Company non-executive director to replace Mr Cohen.

On 22 November 2012, the Board of Directors of AFI Development, following the recommendation of the Nomination Committee, appointed Mr Lev Leviev, previously non-executive director and Chairman, to the position of Executive Chairman of the Company.

The appointment of Mr Leviev had no impact on the functions and responsibilities of the Executive Director of the Company and CEO of OOO AFI RUS, Mr Mark Groysman. Mr Groysman remains responsible for the on-going operations of AFI Development, while Mr Leviev concentrates on managing government relations of the Company, leading strategic transactions and originating and managing strategic international partnerships.

On 28 February, the Board of Directors received a resignation notice (effective as of 1 March 2013) from Mr Michalis Sarris, non-executive director, following his appointment as Minister of Finance in the new government of the Republic of Cyprus. The Company intends to seek a new non-executive director to replace Mr Sarris, and will update the market as and when a replacement has been found.

VALUATION

As at 31 December 2012, based on Cushman & Wakefield LLC ("C&W") independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US$ 1.5 billion, while the value of the portfolio of investment property under development stood at US$ 0.6 billion. Additionally, C&W's combined valuation of Westec Four Winds Limited office and retail projects was US$ 176.5 million (based on the 50% share of AFI Development).

Consequently, the total value of Company assets, based predominantly on the independent valuation as of 31 December 2012, was US$ 2.5 billion. This figure represents an 8% decrease in the value of the portfolio compared to the balance sheet value as of 31 December 2011.

The decrease in the value of the Company's assets is mainly attributable to a reduction in value of Bolshaya Pochtovaya, Kossinskaya, Tverskaya Plaza Ib and Tverskaya Plaza II investment projects under development as a result of changes in master planning and development policies of the Moscow government. As a result

[3,4,5] Commerical Real Estate Market Report Q4 2012 Jones Lang LaSalle

of these changes, a reduction in the value of the Company's assets of US$ 179 million was recognised in Q2 2012. The Company also recognised an impairment loss on real estate inventory of US$ 65 million as a result of its decision to write off the Botanic Garden project in Q2 2012.

LIQUIDITY

We completed 2012 with a strong liquidity position of approximately US$ 178 million cash and cash equivalents on our balance sheet and a debt to equity level of 35%. This strong position reflects the Company's ability to successfully balance liquidity requirements from a number of sources.

Our financing strategy aims to maximise the amount of debt financing for projects under construction while maintaining healthy loan-to-value levels. After delivery and commissioning, we aim to refinance the properties at more favourable terms, including longer amortisation periods, lower interest rates and higher principal balloon payments. Property rights and shares of property holding companies are mainly used as collateral for the debt. We strongly prefer, whenever possible, to use non-recourse project level financing.

KEY DEVELOPMENTS SINCE FINANCIAL YEAR END

In January 2013, AFI Development entered into an agreement to purchase the remaining 50% interest and to settle all outstanding liabilities of AFI Development to its partner in Krown Investments LLC (the holding company with the rights to the Ozerkovskaya project) from its joint venture partner, Super Passion Limited, for a total cash consideration of US$ 227.5 million. As a consequence of the acquisition, the Company became the sole owner of the Ozerkovskaya project at completion of the transaction.

On 28 January 2013, the Company's subsidiary Krown Investments Ltd refinanced its construction costs for Ozerkovskaya III project with a credit line from JSC VTB Bank. The credit line totalling US$ 220 million carries an annual interest rate of 3 months LIBOR + 5.7%. The credit line was fully drawn down in two tranches in February and in March 2013.

As a result of negotiations with the Moscow city authorities, the Company's development rights to the Botanic Garden project were recognised on 4 February 2013. After thorough assessment of risks to the Company's development rights in respect of the project, AFI Development agreed to make payments to the City of Moscow in return for additional development rights. The total aggregate amount of the payments for additional development rights is approximately US$ 18.5 million, which will be paid in several instalments.

Portfolio Update

AFIMALL CITY

In 2012, AFIMALL City passed the milestone of 12 months of operation. During this time, the Mall has continued to see increases in footfall, growing at the rate of 5% per month, with average daily footfall reaching 40,000 visitors in December 2012. The underground parking space, purchased by the Company in December 2011, has supported this momentum, creating an integrated parking area serving the shopping centre with a total of 2,075 parking spaces.

During 2012, we streamlined the operations of AFIMALL City by improving the quality of the tenant mix, rent collections and overall profitability of the centre. Though occupancy remained stable at 77% throughout the year, revenues, NOI and rent collections demonstrated growth. The increased customer footfall ensures AFIMALL City is well placed to sustain high levels of rental income over the coming years.

While these factors have led to increased revenues from the Mall, we have maintained our commitment to reducing costs. We have refinanced the project with a total credit line of RUR21 billion (around US$ 666 million), reducing the average interest rate from 9.62% to around 8.22%. This refinancing was provided by VTB Group. The large size and favourable terms of the lending arrangement are strong evidence of confidence of leading Russian lenders in AFI Development and in AFIMALL City in particular.

OZERKOVSKAYA III

At the start of 2013, AFI Development acquired the 50% share held by its joint venture partner, Super Passion Limited, in the Ozerkovskaya III (Aquamarine III) project, for a total cash consideration of US$ 230 million. The transaction was completed in February 2013, when AFI Development exercised its right under the agreement with Super Passion Limited to pay the consideration ahead of schedule applying a discount, which resulted in total consideration paid under the transaction in the amount of US$ 227.5 million.

During 2012, the Company received the operations permit for the property and it continues negotiations with potential purchasers and tenants for the project. In Q4 2012, Ozerkovskaya III was reclassified from Investment Property under Development to Investment Property in the Company's projects portfolio.

HOTELS

During 2012, the Company put into operation the Plaza Spa Hotel Zheleznovodsk (former Kalinina hotel), adding a second operating property in the Caucasus Mineral Waters region in southern Russia. The two operating hotels, Plaza Spa Hotel Kislovodsk and Plaza Spa Hotel Zheleznovodsk now operate under a single brand.

Plaza Spa Hotel Zheleznovodsk successfully completed its first summer season. The hotel won the "Best Resort Hotel 2012" award in the Russian "My planet" hotel awards competition.

The Aquamarine Hotel in Moscow and the Plaza Spa Hotel in Kislovodsk continued to achieve their operational targets for the year.

FOUR WINDS

In December 2012, AFI Development announced the sale of its 50% stake in Westec Four Winds Limited, the developer and operator of the Four Winds Office and residential project in Moscow. The deal was completed in January 2013 for a total consideration of approximately US$ 103 million. The Company's profit from the transaction is expected to amount to approximately US$ 50 million, which was partially booked in Q4 2012 with the remainder to be booked in Q1 2013. The underlying gross enterprise value of Westec Four Winds Limited, based on which the transaction consideration was calculated, was circa US$ 370 million (for 100%), while the last valuation by JLL stood at US$ 310 million.

This transaction is in line with our strategy to dispose of our completed developments, at an opportune time and for favourable consideration.

TVERSKAYA ZASTAVA PROJECTS

During 2012, the Moscow authorities progressed with the implementation of the non-binding agreement with AFI Development, reached in November 2011.

The focus of the Company's activities at the Tverskaya Zastava is represented by the Plaza Ic project. Following the issue of the land plot master plan ("GPZU") by the Moscow city authorities, in November 2012 the Company registered a 10 year land lease for the construction of the project, a major milestone in the progress of the project.

BOTANIC GARDEN

In August 2012, AFI Development wrote-off its rights to the project following initiation of bankruptcy proceedings against the "main investor" under the investment contract, OAO "Novoe Koltso Moskvy" ("NKM"), while continuing its efforts to recover its costs and/or receive development rights to the project.

As a result of negotiations with the Moscow city authorities, the Company's development rights to the project have been recognised through an addendum to the investment contract for the Botanic Garden project. According to this addendum, NKM shall not have any claims to the investments made by AFI Development in the Botanic Garden project and its subsidiary, OOO "Nordservice", will become the only investor under the investment contract. In line with its decision on the investment contract, the city authorities have agreed to change the lessee in the short term land lease agreement from "NKM" to OOO "Nordservice".

The addendum to the investment contract of 4 February 2013 granted the Company development rights to gross buildable area of 247,705 sq. m. of office, residential and parking space (including 165,578 sq. m. of gross residential space) and to 21,120 sq. m. of on-ground parking space.

After thorough assessment of risks to the Company's development rights in respect of the project, the Company has agreed to make payments to the City of Moscow under the addendum to the investment contract in return for additional development rights. The total aggregate amount of the payments for additional development rights is approximately US$ 14.2 million plus Nordservice is to compensate the indebtedness of NKM under the investment contract in the amount of approximately US$ 4.3 million. Both will be paid in several installments. The decision was based on the opinion of external legal advisers of the Company that, in the event that the addendum is declared void or is cancelled (following a claim by the creditors of NKM), the amounts paid would be repayable back to the Company. It should be noted that the provision to write-off the Botanic Garden (made in August 2012) will not be cancelled at this stage.

BOLSHAYA POCHTOVAYA

The Company is currently working on the design and planning of the project and aiming to secure the land lease for construction in accordance with the new permitting documentation from the Moscow architectural authorities, issued in the second quarter of 2012, which stipulated that the construction density of the project must be reduced, compared to the previous development plan.

Despite the reduction of total buildable area, the city authorities approved the predominant residential use of the areas in this mixed-use development (versus the previously predominant office component), thus improving the potential profitability profile of the project.

PAVELETSKAYA PHASE II

During 2012, the Company made significant progress in further securing the development rights for this project. Permitting documentation for the project was received during the second half of the year from the town-planning land committee ("GZK") and the land plot master-plan ("GPZU") with new parameters for the future development of the project.

The Company is working on securing the land lease agreement to allow construction in accordance with the new development documentation as well as on the planning and design of the project.

UNDERSTANDING AFI DEVELOPMENT

Understanding AFI Development

In this section we provide an overview on AFI Development Group's structure, our operations and our development projects.

GROUP STRUCTURE

AFI Development PLC acts as a holding company for the Group's investments in subsidiaries, usually structured as special purpose vehicles organised to develop and operate particular projects, and joint ventures. The majority of our real estate projects are managed by our operating subsidiary, OOO AFI RUS, which acts as a management company for most of the subsidiaries. Another important operating company in AFI Development Group is OOO Stroyinkom-K, a Russian company licensed to perform various technical and supervisory functions in the development and construction process, which is heavily regulated in Russia. It serves as project manager for most of our Russian projects which are under development.

AFI Development Hotels Ltd. is a subsidiary, which operates the Company's hospitality projects.

AFI Ukraine Ltd. is a dedicated subsidiary holding stakes in the Company's projects in the Ukraine.

A list of significant subsidiaries and jointly controlled entities of AFI Development PLC can be found in Note 39 to the consolidated financial statements. A simplified structure of the AFI Development Group is presented in the Exhibit 1 below (this is not a legal structure, it is intended to illustrate how the Company's holding structure and operations are organised):

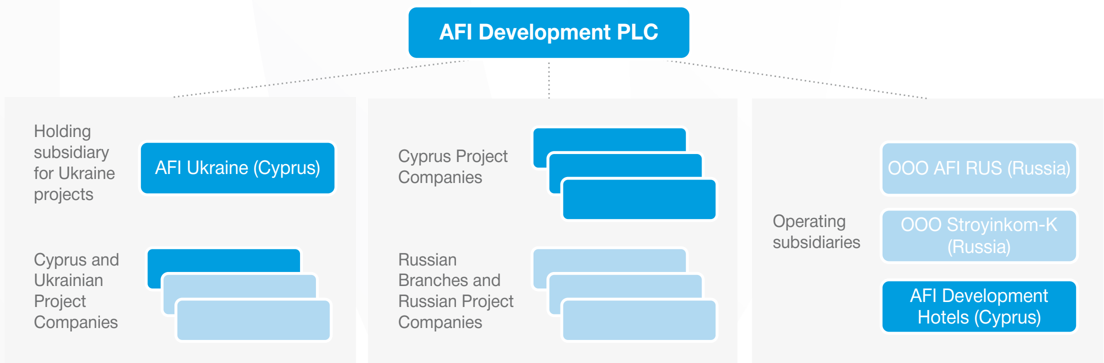


Exhibit 1: Simplified structure of the AFI Development Group

AFI DEVELOPMENT STRATEGY

AFI Development is focused on developing and redeveloping high quality, integrated, large-scale, commercial and residential real estate assets including offices, shopping centres, hotels, mixed-use properties and residential projects. As part of our strategy, we aim to sell the residential units we develop and to lease the commercial properties, whilst not excluding opportunistic sales of select developments. We are committed to growing our high quality income-generating real estate portfolio.

In addition to being large scale and highly complex, our projects are regenerative for their local environments and involve significant improvements to existing infrastructure. As such, we aim to enhance the overall value of the neighbourhoods which we enter, creating more comfortable living and working conditions.

Moscow is a rapidly expanding city in an economy that is undergoing a period of sustained growth. AFI Development has been part of this expansion for the last ten years and aims to develop projects that meet the needs of a growing, global city. We create new urban environments in the districts we develop, changing the everyday experience of Muscovites for the better.

During our years of successful operations in Moscow, we have worked closely with the City authorities. As such, Moscow authorities have long recognised the high value-add nature of our projects and we have every confidence in our continued successful cooperation with the authorities going forward.

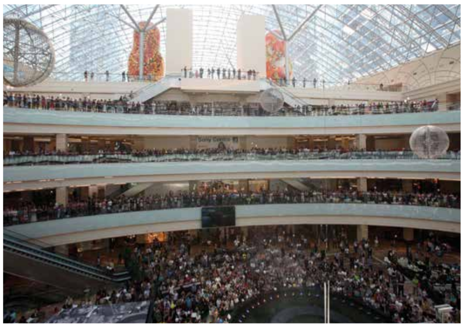
Our experienced management team, with strong knowledge and a proven track record of operating in the Russian market, aims to maintain a diversified portfolio whilst using a flexible, phased development approach. This enhances our ability to leverage our development platform and complete our projects on a cost-efficient basis while making our projects cash-generative at the earliest possible opportunity.

The high quality of our developments enables us to attract the most desirable international and local tenants on favourable terms. To ensure high retention rates, we aim to sign leases of increasing length with our tenants and place greater emphasis on on-going tenant relations.

Our expectation for the medium to long-term is that the Moscow real estate market will continue to offer a high volume of business activity, high development potential due to its size, its position as the largest financial centre in Russia and as one of the largest capital cities in Europe. As such, we plan to maintain our development focus on this market into the medium to long-term, with expectations of further market improvement. At the same time, we will continue to review our land bank outside of Moscow and reactivate select projects based on availability of financing and strength of demand.


Sony Centre

YIELDING PROPERTIES



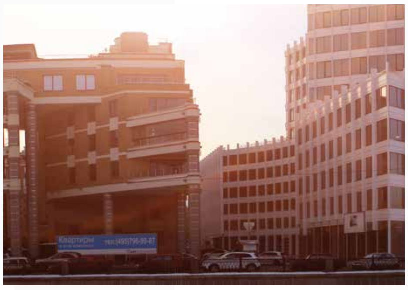
AFIMALL City

AFIMALL City is a retail and entertainment development, located in the high-rise business district of Moscow, "Moscow-City". With a total GBA of nearly 304,205 sq. m. (including parking), and GLA of nearly 107,000 sq. m., the project has a shopping gallery of nearly 400 shops and an 11-screen movie theatre with a number of additional outstanding leisure facilities. AFIMALL City is one of Europe's largest and most ambitious retail developments in recent years. The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience unmatched in any other retail development in Moscow.

AFIMALL City can be easily accessed from two metro stations (Vystavochnaya, Mezhdunarodnaya) and from the Third Transportation Ring.

Type	**Retail**
Company share	100%
GBA, (sq. m.)	304,205
GLA, (sq. m.)	107,208
Parking, units	2,075
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)	1,160
Status	Yielding





OZERKOVSKAYA
(AQUAMARINE) PHASE III

Type	Office
Company share	100%*
GBA, (sq. m.)	73,346
GLA, (sq. m.)	55,422
Parking, units	551
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)*	389 (for 100% share)
Status	In negotiations with tenants for sale/lease

Ozerkovskaya (Aquamarine) III is an office complex forming part of the "Aquamarine" mixed-use development, located on the Ozerkovskaya embankment in the very heart of the historical Zamoskvorechie district of Moscow. The project consists of four Class A buildings with common underground parking and creates attractive working conditions through state-of-the-art architecture, innovative design and efficient use of space. Due to these characteristics "Aquamarine III" sets new standards for quality and an aspirational environment among Moscow's commercial developments. The project is located within the Garden Ring, and is served by two metro stations.

BEREZHKOVSKAYA
– RIVERSIDE STATION

Type	**Office, business park**
Company share	74%
GBA, (sq. m.)	11,612
GLA, (sq. m.)	10,250
Parking, units	150
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)*	32
Status	Yielding

*AFI Development share only

The project comprises completed reconstruction of four Class B+ office buildings, forming a gated business park. The project is conveniently located in central Moscow, between the Garden Ring and the Third Transportation Ring, and is within walking distance from Kievskaya transportation hub.

PAVELETSKAYA
PHASE I OFFICE COMPLEX

Type	**Office, business park**
Company share	100%
GBA, (sq. m.)	16,246
GLA, (sq. m.)	14,085
Parking, units	126
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)	30.3
Status	Yielding

The Paveletskaya I office complex comprises a reconstructed Class B building. The complex is fully let to ZAO Greenatom, a subsidiary of the State Atomic Energy Corporation, Rosatom.

H_2O OFFICE COMPLEX

Type	**Office**
Company share	100%
GBA, (sq. m.)	10,698
GLA, (sq. m.)	8,990
Parking, units	81
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)	19
Status	Yielding

The project comprises a Class B office building recently reconstructed around the frame of a former administrative building. It is located in a dynamically developing business area on the border of Moscow's Central and Southern Administrative Districts.

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DEVELOPMENT PROJECTS

TVERSKAYA PLAZA IC

Type	Office
Company share	100%
GBA, (sq. m.)	51,200
GLA, (sq. m.)	32,454
Parking, units	280
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)	107
Status	Planning stage

The project is a class A office complex located at 50/2, 2nd Brestskaya street, Moscow. One key attraction of this project is the excellent access both by public and private transport, and its location in a well-developed and established business district. It is located in proximity to Four Winds Plaza and other class A office properties in the well-developed office area between the Garden Ring and Belorussky railway station.

TVERSKAYA
PLAZA IIA

Type	**Office**
Company share	100%
GBA, (sq. m.)	10,500
GLA, (sq. m.)	7,600
Parking, units	69
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)	32.0
Status	Concept Stage

The project is class A office complex located at 1, Butyrsky Val, Moscow. The project is located on the land plot facing the Belorussky railway station on the opposite side of the Tverskaya Zastava Square.

TVERSKAYA
PLAZA IV

Type	**Office**
Company share	95%
GBA, (sq. m.)	108,000
GLA, (sq. m.)	61,350
Parking, units	1,210
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million) *	160
Status	Concept Stage

*AFI Development share only

Plaza IV development project is located two hundred meters from Tverskaya Zastava square at 11 Grouzinsky Val, Moscow. The project comprises a major office development with supporting retail zone on the ground floor.

OTRADNOE
(ODINTSOVO)

Type	Residential
Company share	100%
GBA, (sq. m.)	677,413
GSA, (sq. m.) / GSA commercial (sq. m.)	450,432/18,776
Parking, units	2,656
Book value*, (US$ million)	112
Status	Construction permit received, preparing to start construction

* Otradnoe is a part of Company trading properties and therefore presented in the Financial statements at cost.

The Otradnoe residential district is located in the town of Odintsovo, a modern area considered to be one of the best and most environmentally clean towns in the Moscow region. The entire residential district takes up an area of 33.14 hectares, which will host eight 8-to-25 story buildings. The residential element will offer almost 9,000 Economy-Plus class apartments and a total sellable area of 450,432 sq. m. (Company share). The development of the residential district will include multi-functional infrastructure comprising of 2 schools, 2 kindergartens, a medical centre, a library equipped with a computer lab, sport centres, a beauty salon, a club for teenagers, and a children's sport school amongst other facilities.

According to the development strategy, the project involves a construction of a multi-storey residential micro district consisting of two phases:

- Phase I – construction of a 22-section residential building, named Korona (Crown), construction of infrastructure (Kindergarten, School) with total sellable area of 149,432 sq. m. (2,620 apartments);
- Phase II – construction of 8 residential buildings, construction of infrastructure (Kindergarten, school, outdoor multi-level parking) with total sellable area of 319,775 sq. m. (6,247 apartments):

Each phase includes commercial premises on the ground floor that are planned to be disposed to end users.

KOSSINSKAYA

Type	**Mixed-use retail/office**
Company share	100%
GBA, (sq.m)	111,770
GLA, (sq.m)	90,317
Parking, units	1,200
Valuation by Cushman&Wakefield as at 31.12.2011, (US$ million)	103
Status	Construction stage

Kossinskaya project is planned as a mixed-use complex with a unique concept for accommodation of small DIY shops and offices (architecture and engineering bureaus etc.). The immediate proximity to a dense residential area and convenient access to the main motorways and metro station make this project attractive to retailers and convenient for office employees. Active construction of residential properties in the Southeast region of Moscow region creates significant regional demand for quality construction services and products.

BOLSHAYA POCHTOVAYA

Type	**Residential**
Company share	100%
GBA, (sq.m)	170,350
GSA,(sq.m) / GSA commercial (sq.m)	56,952/34,208
Parking, units	1,771
Valuation by Cushman&Wakefield as at 31.12.2011, (US$ million)	141
Status	Planning stage

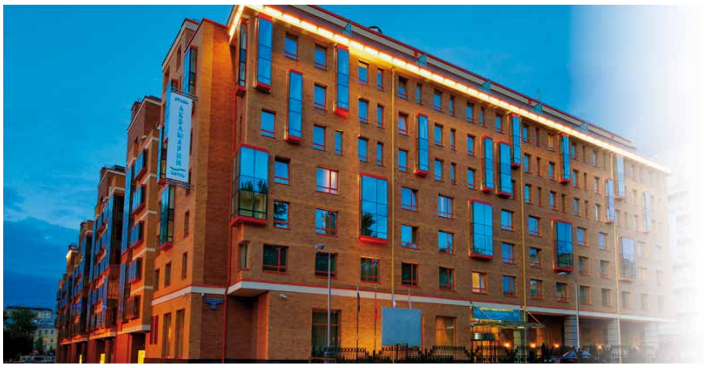
Bolshaya Pochtovaya is a mixed-use project with dominant residential use on a land area of 5.65 hectares. The future development is located in the Central Administrative district of Moscow. The land plot borders the Yauza river, which will significantly enhance the views from the project. The project is located in an attractive neighbourhood, which benefits from developed social infrastructure: transport, shops and cultural/leisure amenities.

PAVELETSKAYA
PHASE II

Type	**Residential**
Company share	100%
GBA, (sq. m.)	151,373
GSA,(sq. m.) / GSA commercial (sq. m.)	48,180/26,115
Parking, units	1,760
Valuation by Cushman & Wakefield) as at 31.12.2012 (US$ million)	117
Status	Planning stage

Paveletskaya Phase II is planned as an ultramodern residential complex in proximity to the Moscow city centre on Paveletskaya Embankment. The project is located in Danilovsky Subdistrict (the South Administrative district of Moscow), between the Garden ring and the Third Transportation Ring and can be easily accessed by private or public transport.

HOTELS



AQUAMARINE HOTEL

Type	City-hotel
Company share	100%
GBA, (sq. m.)	11,130
Number of rooms	159
Status	Operating

The four star hotel, which offers a full range of business and leisure facilities, is located in the historical center of Moscow, near the Kremlin, and forms part of AFI Development's major Ozekovskaya Embankment mixed-use development. Since the start of operations in 2010, the hotel is demonstrating occupancy rates of up to 70%.

PLAZA SPA HOTEL KISLOVODSK

Type	Hotel/Spa resort
Company share	50%
GBA, (sq. m.)	25,000
Number of rooms	274
Status	Operating

*AFI Development share only

Plaza Spa Hotel in Kislovodsk is a four star hotel located on a 1.5 hectare land plot. It comprises two hotel buildings, a spa, a health and fitness center, a swimming pool, saunas, restaurants and conference facilities. Located in the Caucasus mineral waters region, the Plaza Spa Kislovodsk caters to guests seeking treatment for disturbances of the cardiovascular and nervous systems, as well as respiratory diseases.

PLAZA SPA HOTEL ZHELEZNOVODSK

Type	Hotel/Spa resort
Company share	100%
GBA, (sq. m.)	9,526
Number of rooms	134
Status	Operating

The Spa Hotel Zheleznovodsk is a modern mid-class spa and medical resort in the Caucasus mineral waters region. The hotel is adjacent to the main park of Zheleznovodsk, featuring a thermal water source, and has a direct access to the park. A spa treatment area occupies approximately 1,100 sq. m., which includes 45 treatment rooms, saunas, a jacuzzi, an indoor swimming pool and extensive medical and diagnostic facilities.

COMPLETED PROJECTS

FOUR WINDS
PLAZA

Type	Office
Company share	50%
GBA, (sq. m.)	28,241
GLA, (sq. m.)	22,035
Parking, units	138
Status	Completed

*AFI Development share only

Four Winds Plaza is one of the most prestigious recently built class A office buildings in central Moscow. Designed by NBBJ and co-developed by AFI Development and Snegiri Development, Four Winds Plaza hosts the Russian headquarters of Morgan Stanley, Barclays Capital and Moody's among its high quality tenant mix. Four Winds Plaza is easily accessible from Mayakovskaya and Belorusskaya metro stations, as well as from 1st Tverskskaya Yamskaya streets and the Garden Ring. The Company disposed of its share in the project in January 2013.

FOUR WINDS
RESIDENTIAL

Type	Residential
GBA, (sq. m.)	41,364
GSA, (sq. m.)	18,097
GLA (sq. m.)	5,069
Number of apartments	111
Parking, units	323
Status	Completed

Four Winds Residential is a luxury residential building, with commercial area on the ground floor, which is part of the Four Winds mixed-use development. The construction was completed at the end of 2008. The project includes a fitness and retail zone, which is leased to third party tenants.

OZERKOVSAYA
(AQUAMARINE) PHASE II

Type	Residential
GBA, (sq. m.)	41,980
GSA,(sq. m.)	15,821
Number of apartments	114
Status	Completed

Ozerkovskaya (Aquamarine) II is a high-end residential complex includes 114 luxury apartments of between 70 and 300 square meters. The complex has its own amenities including a courtyard with a playground, a recreational area, flower garden and lawns, and a 240 sq. m pond, which is converted into an ice skating rink in winter.

Board of Directors

AFI Development PLC is managed by the Board of Directors, which consists of seven directors with vast experience in the fields of finance, banking, real estate and investment management.

Of the company's seven directors, four are independent.

LEV LEVIEV

Executive Chairman of the Board

Mr Leviev has served as the Chairman of the Board of Directors since 1 January 2008. On 22 November 2012 he became Executive Chairman. He holds a 47.23% stake in Africa Israel Investments Ltd and also serves as its Chairman. He is also the owner and the President of the LLD Diamonds Ltd Group and is the President of the Federation of Jewish Communities of the CIS.

MARK GROYSMAN

Executive Director

Mr Groysman joined the AFI Development Group in May 2011 as the CEO of OOO AFI RUS, the main Russian operating subsidiary. Mr Groysman was appointed Executive Director of AFI Development PLC on 1 January 2012. Mr Groysman has over 25 years of experience in real estate development, investments, asset and property management. Prior to joining AFI Development, Mr Groysman was the general manager of Sawatzky Property Management, the company he established in 1992 and which later become one of the leaders of the Moscow property management market. Mr Groysman graduated from the Israel Institute of Technology.

AVRAHAM NOVOGROCKI

Non-Executive Director

Mr Novogrocki joined the Board of Directors of AFI Development in August 2012. Mr Novogrocki is the CEO of Africa Israel Investments Ltd., major shareholder of AFI Development PLC. Prior to assuming the CEO role, Mr Novogrocki served as CEO of Africa-Israel Investments subsidiaries, namely Africa Israel Industries Ltd. (from 2008 to 2012) and Packer Steel Industries Ltd. (from 2007 to 2012), as well as Deputy CEO and CFO of Africa Israel Industries Ltd. In total, Mr. Novogrocki has been working in the Africa Israel Group for 15 years. Mr Novogrocki holds MBA and BA in Economics and Business Administration degrees of Bar-Ilan University, Israel.

CHRISTAKIS KLERIDES

Independent Non-Executive Director; Chairman of the Audit Committee, Senior Independent Director

Mr Klerides is senior independent non-executive director of AFI Development and Chairman of the Audit Committee. Mr Klerides was the Minister of Finance of Cyprus from 1999 to 2003 and currently provides finance and business consultancy services through his family-owned company, CMK Eurofinance Consultants Limited. Mr Klerides is a Fellow of the Chartered Association of Certified Accountants.

MOSHE AMIT

Independent Non-Executive Director; Chairman of the Remuneration Committee and the Nomination Committee

Mr Amit serves as an independent non-executive director of AFI Development PLC and is Chairman of the Remuneration Committee. He is also Chairman of the Board of Directors of Delek-the Israel Fuel Corporation Ltd and holds board memberships at a number of companies, including Blue Square Chain Properties & Investments Ltd. Mr Amit holds a banking diploma from the Israeli Banking Institute and a Bachelors degree in political science and sociology from Bar-Ilan University, Israel.

JOHN PORTER

Independent Non-Executive Director

Mr Porter serves as an independent non-executive director of AFI Development PLC. Among other directorships, he is also the Chairman of Sinocare Group, which owns and operates hospitals in the People's Republic of China. Sinocare serves the broad community and aims to raise the standard of health care for the Chinese middle class. Mr Porter has had a history of involvement with the life sciences, helping to found Natus Medical and serving for 5 years as a director of Ivax Corpnow (now part of Teva). Mr Porter holds degrees from the Universities of Oxford, Paris and Stanford. He serves on the Board of Advisors to the Said Business School, Oxford and has served two terms on the Board of Advisors to Stanford Business School.

MICHALIS SARRIS

*Independent Non-Executive Director**

Mr Sarris served as an independent non-executive director of AFI Development PLC. He is a former Minister of Finance of the Republic of Cyprus (2005 to 2008) and previously held a senior position with the World Bank. During the course of his career at the World Bank, Mr Sarris' work has covered a broad range of sectors in Africa, Latin America and East Asia. As Cyprus' Finance Minister, Mr Sarris prepared for and successfully introduced the Euro as its national currency. Mr Sarris received his B.Sc. in Economics at the London School of Economics. He continued his studies in the United States where he obtained his Doctorate in Economics.

*Mr Sarris resigned from AFI Development Board of Directors on 1 March 2013 following his appointment as Minister of Finance of the Republic of Cyprus.

PANAYIOTIS DEMETRIOU

Independent Non-Executive Director

Mr Demetriou serves as an independent non-executive director of AFI Development PLC. He is trained as a lawyer in both Cyprus and England (Barrister at Law). Mr Demetriou is a former Member of Cyprus Parliament and of the European Parliament as well as an Honorary Member of the Parliamentary Assembly of the Council of Europe. He currently provides legal services through his law office, Panayiotis Demetriou & Associates LLC.

MANAGEMENT TEAM

The Russian operations of the Company are concentrated in the main Russian operating subsidiary OOO AFI RUS. Led by its CEO, Mr. Mark Groysman, the senior management team of OOO AFI RUS consists of highly experienced professionals:

MARK GROYSMAN *CEO of OOO AFI RUS, Executive Director of AFI Development PLC*

CEO of OOO AFI RUS from May 2011, Mr Groysman is a seasoned real estate professional with over 25 years of experience in real estate development, investments, asset and property management. Prior to joining AFI Development, Mr Groysman was the general manager of Sawatzky Property Management, the company he established in 1992 and which later become one of the leaders of the Moscow property management market.

NATALIA PIROGOVA *Deputy CEO Finance and Economics, OOO AFI RUS*

Mrs Pirogova joined the management team in October 2011. She has long and successful track record in the Russian real estate with a focus on M&A deals and tax issues. For the last seven years Natalia was involved in the Russian business of Fleming Family and Partners Limited as the Financial Director and the Managing Partner and worked for Marbleton Advisers Limited as the Managing Director.

VYACHESLAV KHLOPUNOV *Deputy CEO Legal Affairs and Investments, OOO AFI RUS*

Mr Khlopunov joined AFI Development in June 2011. Prior to joining AFI Development, Mr Khlopunov headed a successful law practice specialising in real estate transactions. Mr Khlopunov is leading the legal team of OOO AFI RUS and is in charge with investment and divestment activities of the group. Mr Khlopunov is a graduate of Moscow State University.

TZVIA LEVIEV-ELIAZAROV *Deputy CEO Asset Management, Marketing and Business Development, OOO AFI RUS*

Mrs Leviev-Eliazarov's core experience is concentrated in management of large shopping centres. Before relocating to Moscow she was managing shopping centres for Africa-Israel Investments Ltd. in Israel and had established long-term business relationships with a variety of international retail chains. Mrs Tzvia Leviev-Eliazarov is currently responsible for managing AFIMALL City.

KEMAL SAYRAK *Deputy CEO Construction and Development, OOO AFI RUS*

Mr Sayrak joined AFI Development in April 2012. Prior to joining AFI Development Mr Sayrak was Managing Director of a major developer Capital Partners, where he led its landmark projects, such as Metropolis mixed-use development, Ritz Carlton Moscow Hotel, Pushkino Logistics Park. Mr Sayrak also held a position of Managing Director of Cushman & Wakefield Property Management and had various roles with ENKA, one of Moscow's largest development and construction companies (for over 15 years). Mr Sayrak is a graduate of Istanbul Technical University.

EVGENY POTASHNIKOV *Technical Director, OOO AFI RUS*

Mr Potashnikov has been with AFI Development since 2005. Prior to joining the Company he was Deputy Chief Engineer in the Mayor's office of Arava Ba Negev, Israel. Mr Potashnikov and his team are responsible for the Company relationships with Russian local authorities and pre-development approval processes.

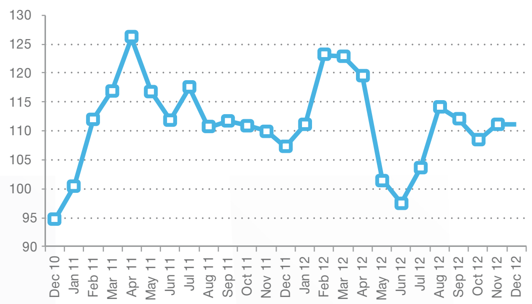
OPERATIONAL REVIEW

Market Overview – General Moscow Real Estate

MACROECONOMIC ENVIRONMENT

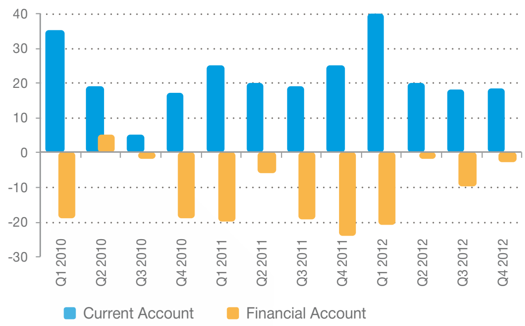
According to the Ministry of Economic Development, Russia enjoyed a real GDP growth rate of 3.4%[1] in 2012, driven by strong domestic demand supported by revenues from oil exports. This compares favourably to the average Eurozone GDP growth where continued economic uncertainties continued to dampen growth. In 2013 the MED expects GDP growth of 3.6%. Growth is expected to be below 3% in the first two quarters, picking up in the second half of the year[2]. The IMF is moderately more optimistic, forecasting Russian GDP growth of around 3.7%[3] for 2013.

Monthly average price, Brent, US$ per barrel



Source: IndexMundi

Balance of Payments, US$ billion



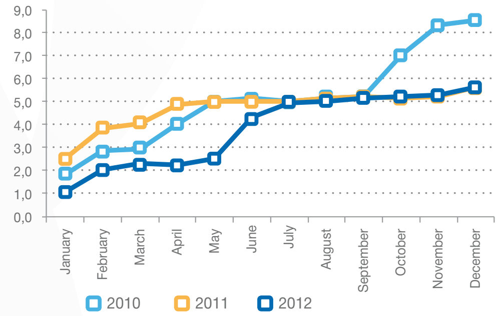
Source: Bank of Russia

With average price of US$ 111[4] per barrel of Urals in 2012, the strong oil price contributed positively to the stability of the Russian economy. At the year end, the country's negative balance on its financial account was 10 times lower than at the same time in 2011, at US$ 3 billion[5]. At the same time, the ruble appreciated by 2.4% on average versus the US dollar[6].

RUB/US$, end of period

Source: Bank of Russia

Inflation (CPI), %



Source: Bank of Russia

[1] www.gks.ru
[2] http://www.economy.gov.ru
[3] http://www.imf.org/external/country/RUS/index.htm
[4] IndexMundi.com
[5,6] Bank of Russia

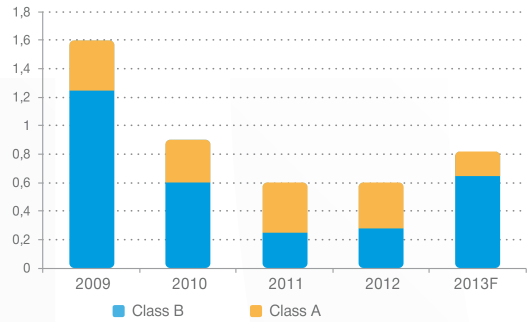
The consumer sector, which has traditionally been a key driver of Russian economic development, continued to drive growth in retail sales, which increased by 6%[7] year-on-year, outstripping GDP growth. The faster growth in retail turnover has been supported by a 4.2%[8] increase in real disposable income. By December 2012, inflation reached 6.7%[9], driven by rising food prices and higher utility tariffs.

MOSCOW OFFICE MARKET

The key indicators of the Moscow office market for 2012 have shown little change in comparison to 2011: the volume of new office construction dropped by just 8%, the volume of office space taken up totalled about 1 million sq. m. (down 14% compared to 2011), and rents remained unchanged[10].

The total office stock in Moscow reached 13.2 million sq. m., of which Class A premises accounted for 19.5% and Class B premises accounted for 80.5%. Due to the delivery of a number of properties being delayed until 2013, the volume of newly built office space was 47,000 sq. m. lower than in 2011[11].

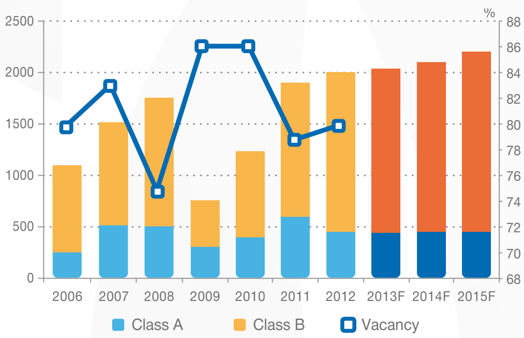
New Supply by Class, million sq. m.



Source: CBRE

With newly delivered office space of approximately 556,000 sq. m. (Class A and B combined), 2012 was characterised by record low new completions of office buildings in recent years. Limited supply, caused by the 2011[12] construction restrictions and an increase in duration of development cycle, led to a continued decline in vacancy rates to 12.4% across Moscow (12% for Moscow's Central Business District for class A and 7% for class B[13].

Take-Up and Vacancy by class



Source: Cushman & Wakefield

According to Cushman&Wakefield, in 2012 the Moscow office market reached historic high levels in the volume of office transactions (2012 take-up was 2.1 million sq. m.). At the same time, Net Absorption in 2012 was lower than

[7,8,9] www.gks.ru
[10, 11, 12,] CBRE Russia Macroeconomic Trends
[13] Cushman&Wakefield Report

in previous years and was about 20.8%[14] of take-up. Robust demand for high quality space coupled with limited supply supported stable rental rates for prime space at US$ 1,000 – US$ 1,200 per sq. m., ranking Moscow as the second most expensive office market in Europe. Depending on property class, sales prices for gross building area (excluding VAT) reached up to US$ 12,000 per sq. m. for prime assets[15].

In line with these trends, prime capitalisation rates for Moscow-based office buildings remained unchanged at 8.75%[16].

MOSCOW RETAIL MARKET

In 2012 the Moscow retail market saw the opening of seven new shopping centres of various formats and size with combined GLA of about 160,000 sq. m. After several quiet years the Moscow retail market expanded with a number of new large-scale project announcements: more than 10 new retail schemes with a total GLA of 1.2 million sq. m. were announced. These include Columbus (GLA 141,000 sq. m.), Slavyanka (GLA 65,000 sq. m.), Gorodskaya Derevnya (GLA 300,000 sq. m.) and Lotos City (GLA 65,000 sq. m.). In addition, the construction of Vegas City (GLA 111,400 sq m.), Vegas III Kuntsevo (GLA 113,400 sq. m.), Aviapark (GLA 240,000 sq. m.) began. The Moscow Metro and Russian Railroads Company also announced their plans to develop landplots around metro and railway stations in Moscow. These new medium-term projects are unlikely to impact near term supply of retail space in Moscow: the newly delivered quality retail space (GLA) in 2013 is expected to reach about 200,000 sq. m. This is expected to continue to supress the availability of quality retail space in the city in the near term[17].

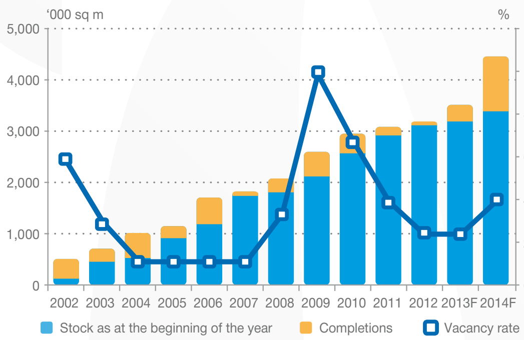
According to Rosstat, the real income of Russian consumers grew by 4.2% in 2012 compared with 2011 with average monthly salary growth of 13.3%, reaching 26,690 rubles. Retail sales growth was 6% year-on-year in 2012[18].

Demand from international brands, looking to extend their presence in Moscow, remained healthy, boosted by continued volatility in the Eurozone.

As a result, by the end of 2012 average vacancy rates declined to just 2.5%, one of the lowest amongst European cities (vacancy is less than 1% and zero in successful schemes)[19]. The vacancy rate for quality shopping centres in Moscow has remained below 1% since late 2010.

At the same time, average rental rates in shopping centres remained stable throughout the year at a level of US$ 2,500 – US$ 3,800 per sq. m. per year (for smaller galleria areas)[20].

Quality Retail Construction, 000' sq. m. (total stock) and Vacancy, Moscow



Source: Jones Lang LaSalle

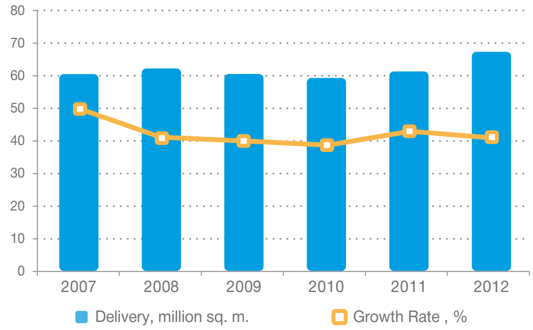
Capitalisation rates for the Moscow prime retail sector also remained unchanged year-on-year at 9.5%[21].

[14, 15, 16, 17, 20, 21] Cushman&Wakefield Report
[18] www.gks.ru
[19] Moscow Retail Overview – Q4 2012, Jones Lang LaSalle

MOSCOW AND MOSCOW REGION RESIDENTIAL MARKET

According to Rosstat, approximately 67 million sq. m. of residential space was delivered in Russia in 2012[22]. This was an increase of 5% over 2011. The Moscow Region, which is the administrative unit surrounding Moscow (excluding Moscow itself), remained the leading area for delivery volumes in the first 11 months of 2012 with 4.7 million sq. m. delivered, while Moscow (including the New Moscow area) accounted for 2.4 million sq. m. of newly delivered residential buildings during this period.

Dynamics of Residential Development in Russia, million sq. m.



Source: Rosstat

The supply of primary market business class housing doubled in 2012 to 335,000 sq. m. compared to 2011, while demand increased by 12% compared to 2011, reaching 148 primary deals per month[23].

In 2012, the area weighted average price for primary business-class residential real estate reached US$ 7,400 per sq.m, with prices in the Central Administrative district of Moscow up by almost 30% to US$ 8,770 per sq. m[24].

In 2012, there was a trend of growth in mortgage rates. While at the end of 2011 the mortgage weighted average rate in Moscow was 11.7%, by the end of October 2012 it reached 12.1%[25].

[22, 25] Blackwood, Residential real estate market overview 2012
[23, 24] Cushman&Wakefield Report

Project-specific activities and review

The Company announced the following updates to its portfolio during 2012:

YIELDING ASSETS

AFIMALL CITY

AFIMALL City is a retail and entertainment development, located in the high-rise business district of Moscow, "Moscow-City". With a total GBA of nearly 304,205 sq. m. (including parking), and GLA of nearly 107,000 sq. m., the project has a shopping gallery of nearly 400 shops and an 11-screen movie theatre with a number of additional outstanding leisure facilities. AFIMALL City is one of Europe's largest and most ambitious retail developments in recent years. The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience unmatched in any other retail development in Moscow.

During 2012, AFIMALL City reported a strong increase in footfall with average daily footfall for December 2012 reaching approximately 40,000 visitors, compared to 28,000 in December 2011, a significant 36% increase year-on-year. This success was driven by our substantial marketing campaign, the launch of our integrated parking lot and increasing awareness of the Mall amongst our target customers.

During 2012, the Company made special efforts to increase weekend footfall to the Mall, by focusing on advertising and organising special weekend events. As a result, the monthly average daily week-end footfall in December 2012 reached approximately 36,000, compared to approximately 23,000 in December 2011, a 57% increase year-on-year.

In June 2012, AFIMALL City loans were refinanced by a bank of the VTB Group. The total credit line of RUR21 billion (around US$ 666 million), reduced the average interest rate from 9.62% to around 8.22% and extended the maturity of the facility to April 2018.

In November 2012, Bellgate Construction Limited ("Bellgate"), the Company subsidiary owning and operating AFIMALL City, disposed of approximately 643 parking lots to JSC VTB Bank, which will use this parking space for its office headquarters located next to AFIMALL City. The transaction is structured in two stages. The first stage entailed a sale-purchase transaction between Bellgate and VTB Bank on 21,354 sq. m. of parking space. During the second stage 9,247 sq. m. owned (at completion) by VTB Bank will be exchanged for 7,847 sq. m. owned by Bellgate. This two-tier transaction structure stemmed from the fact that part of the parking space that VTB Bank is purchasing is located on a land plot to which Bellgate has not yet registered leasehold rights. The resulting estimated total net cash flow for AFI Development is US$ 54.5 million and net profit is circa US$ 20 million. As of 31 December 2012, the Company had received 90% of the total consideration amounting to US$ 51.4 million (net of VAT), while the remaining 10% is expected to be received at completion, when Bellgate registers the title to the parking to VTB Bank.

During 2012, Bellgate finalised the construction and put into operation all three phases of the integrated underground parking of the shopping centre, acquired in November 2011. All parking lots are now fully constructed and operational. The amount of parking (more than 2,000 lots) is sufficient for smooth and convenient operations of the centre.

During 2012, the City of Moscow progressed with the construction of the new metro station "Delovoi Centre" on the "Kalininsko-Sontsevskaya" line, which will be connected to the existing "Vystavochnaya" station. The new station will have direct access to AFIMALL City. The "Kalininsko-Solntsevskaya" line (which is currently only partially operational) is planned to connect the eastern and south-western areas of Moscow and, according to officially published information of the Moscow Metro, the new station is planned to become operational by the end of 2013. The new station will further improve the accessibility of AFIMALL City by the most popular method of public transportation in Moscow and will increase the catchment area of the Mall.

The general construction of high-rise towers of Moscow-City has also seen progress. By the end of 2012, almost 500,000 sq. m. of office space was completed. According to a report prepared by Jones Lang LaSalle, the following buildings are expected to be completed by the end of 2013 (308,000 sq. m. of office leasable area in total): CityPoint, Mercury City Tower, Federation Tower (Vostok) and Eurasia Tower. Employees of office tenants within Moscow City represent a significant percentage of the Mall's footfall and these further completions and let office space in Moscow City is expected to further enhance footfall at AFIMALL City.

Based on the independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2012, the fair value of AFIMALL City was US$ 1,160 million.

FOUR WINDS

The Four Winds project is a completed development in central Moscow consisting of a residential building, fully let class A office centre and fully let retail and fitness zones. Four Winds is a modern class A office centre with lettable area of 21,495 sq. m. leased to well-known international tenants, such as Barclays Capital, Morgan Stanley and Total SA. The project was co-developed by AFI Development (50%) and Snegiri Development (50%).

In December 2012, the Company disposed of its 50% of stake in Westec Four Winds Limited (along with its partner, Snegiri Development), which had developed and operated Four Winds. The deal was completed in January 2013 with total consideration received by the Company of circa US$ 103.4 million. The transaction also resulted in a reduction of the overall debt of AFI Development following the removal of the project loan by Nordea Bank from its consolidated balance sheet.

Based on the disposal transaction, the fair value of the Company share in Four Winds (including the office building, retail/fitness zone and remaining unsold apartments and parking lots) as of 31 December 2012 was US$ 178.3 million.

OZERKOVSKAYA III

Ozerkovskaya (Aquamarine) III is an office complex forming part of the "Aquamarine" mixed-use development, located on the Ozerkovskaya embankment in the very heart of the historical Zamoskvorechie district of Moscow. The project consists of four Class A buildings of 55,422 sq. m. of combined lettable space and common underground parking for 557 cars. The project creates very attractive working conditions through state-of-the-art architecture, innovative design and efficient use of space. Due to these characteristics "Aquamarine III" sets new standards for quality and an aspirational environment among Moscow's commercial developments. The project was designated as "Highly Commended Office Development Russia" by International Property Awards in 2012.

In January 2013, the Company agreed to purchase the remaining 50% interest and to settle all outstanding liabilities from its joint venture partner, Super Passion Limited, for a total cash consideration of US$ 227.5 million (the transaction was completed in February 2013). As a result of the acquisition, the Company became the sole owner of the project.

AFI Development is negotiating with potential buyers and tenants on selling/leasing the project either in full or in parts.

Based on the independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2012, the fair value of Ozerkovskaya III was US$ 389 million (for the 100% share).

PLAZA SPA HOTEL ZHELEZNOVODSK (FORMER KALININA HOTEL)

The project involves the renovation of an existing building to a modern hotel with sanatorium facilities on a site of approximately 0.1 hectares with 134 guest rooms, of which 14% are suites. A spa area occupies approximately 1,100 sq. m., which includes 45 treatment rooms, saunas, jacuzzi, an indoor swimming pool and extensive medical and diagnostic facilities.

During Q2 2012, the development of the Plaza Spa Hotel Zheleznovodsk was successfully completed and the hotel was put into operation in June 2012. During the first months of operation, the hotel experienced significant demand from customers and has already obtained positive feedback from its guests. Plaza Spa Hotel Zheleznovodsk is on track to establish itself as one of the leading hotels in its region.

The project's value on the Company balance sheet was US$ 24.3 million as of 31 December 2012.

DEVELOPMENT PROJECTS

TVERSKAYA PROJECTS

Following the non-binding agreement between AFI Development and the City of Moscow, the City is progressing with renewing and re-approving the Company's development rights and leasehold interests in land plots at the Plaza Ic (part of Plaza I), Plaza IIa and Plaza IV projects. In Q2 2012, the Company reclassified Tverskaya Plaza Ib and Tverskaya Plaza II from "investment properties under development" to "investment properties". This was also reflected in a change of valuation approach, implemented by the independent appraiser (Jones Lang LaSalle) by valuing the assets as yielding properties, rather than as development projects.

PLAZA IC

The project is a class A office complex with a Gross Building Area of 51,200 sq. m. (including underground parking of approximately 519 parking spaces) located at 50/2, 2nd Brestskaya street. The estimated gross lettable area is expected to amount to 32,454 sq. m. One key attraction of this project is the excellent access both by public and private transport, and its location in a well-developed and established business district.

The Company is progressing with planning works and approval of the project with City authorities. The registration of the 10 year land lease for construction in November 2012 represents a significant milestone in the development process.

Plaza Ic is the most advanced among the three Tverskaya Zastava projects, which were part of the non-binding agreement with the Moscow authorities in November 2012.

Based on the independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2012, the fair value of Plaza Ic was US$ 106.6 million.

PLAZA IIA

The project is class A office complex with a Gross Building Area of 10,500 sq.m (including underground parking), located at 1, Butyrsky Val. The estimated gross lettable area is 7,600 sq. m. The project is located on the land plot facing the Belorussky railway station on the opposite side of the Tverskaya Zastava Square.

Following the review of general transportation scheme of the Tverskaya Zastava Square, the exact borders of the land plot of Tverskaya IIa have to be aligned with the new transportation scheme, which is currently being developed by the Moscow authorities.

Based on the independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2012, the fair value of Plaza IIa was US$ 32 million.

PLAZA IV

The project is a class A office complex with supporting ground level retail zones, having a Gross Building Area of 108,000 sq. m. (including underground parking), located at 11, Gruzinsky Val. The estimated gross lettable area is 61,350 sq. m. Plaza IV is the largest of the three Tverskaya Zastava projects.

According to the non-binding agreement with the Moscow authorities of November 2011, in order to receive the land plot master plan ("GPZU") for Plaza IV, the Company has to waive its ownership to seven land plots with a total area of 2,145 sq. m. The Company is in discussions with the city regarding the technicalities of waiving its rights to the land plots while trying to secure its development rights in line with the agreement.

Based on the independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2012, the fair value of Plaza IV was US$ 168 million

KOSSINSKAYA

Kossinskaya project is planned as a mixed-use complex with a unique concept for accommodation of small DIY shops and offices (architecture and engineering bureaus etc.). The immediate proximity to a dense residential area and convenient access to the main motorways and metro station make this project attractive to retailers and convenient for office employees. Active construction of residential properties in the South-East region of Moscow region creates significant regional demand for quality construction services and products.

Following the decision of the Russian Parliament to extend the borders of Moscow to the South-West in June 2012 and the gradual move of development interest to the Western parts of Moscow, the Company had to re-visit the development concept of the project to sustain its competitiveness and to build a property of higher quality. As a result, the fair value of the project was reduced from US$ 146.1 million in December 2011 to US$ 102.7 million in December 2012.

The Company is now performing capital repair works on the property. The works entail the installation of additional lifts, escalators, construction of additional ventilation shafts and an increase in common space, making the property more attractive for customers. However, it results in a reduction of the gross leasable area and higher projected costs.

Based on the independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2012, the fair value of Kossinskaya was US$ 102.7 million.

OTRADNOE (ODINTSOVO)

The Otradnoe residential district is located in the town of Odintsovo, a modern area considered to be one of the best and most environmentally clean towns in the Moscow region. The entire residential district takes up an area of 33.14 hectares, which will host eight 8-to-25 story buildings. The residential element will offer almost 9,000 Economy-Plus class apartments and a total sellable area of 450,208 sq. m. (Company share). The development of the residential district will include multi-functional infrastructure comprising of 2 schools, 2 kindergartens, a medical centre, a library equipped with a computer lab, sport centres, a beauty salon, a club for teenagers, and a children's sport school amongst other facilities.

According to the development strategy, the project involves a construction of a multi-storey residential micro district consisting of two phases:

- Phase I – construction of a 22-section residential building, named Korona (Crown), construction of infrastructure (Kindergarten, School) with total sellable area of 149,432 sq. m. (2,620 apartments);
- Phase II – construction of 8 residential buildings, construction of infrastructure (Kindergarten, school, outdoor multi-level parking) with total sellable area of 319,775 sq. m. (6,247 apartments):

Each phase includes commercial premises on the ground floor that are planned to be disposed to end users.

The design of the "Otradnoe" micro district has been approved by the government of the Moscow region. During 2012, the Company received approval for the design documentation and the construction permit for phase I which is valid until May 30 2017.

Since the project involves significant amounts of space to be offered to the market, the construction of Phase I is planned to be carried out in four stages. The Company is planning to start the construction of the first stage of Phase I in Q2 2013.

The Company is planning to finance the construction partially through a bank loan and negotiations with potential financing banks are in progress.

The balance sheet value of the project as of 31 December 2012 amounted to US$ 112 million.

BOLSHAYA POCHTOVAYA

Bolshaya Pochtovaya is a mixed-use project with dominant residential use and a total gross building space of 170,350 sq. m. on a land area of 5.65 hectares. The future development is located in the Central Administrative district of Moscow. The land plot borders a river which will significantly enhance the views from the project. The project is located in an attractive neighbourhood, which benefits from developed social infrastructure: transport, shops and cultural/leisure amenities.

During the second quarter of 2012, the Moscow architectural authorities had a series of internal discussions relating to the new master-planning policy in the area of Bolshaya Pochtovaya. The Company initiated discussions with the authorities to influence the decision relating to the planned construction density for the project, however, the city indicated that the construction density of the project should be reduced. The development permitting documentation, obtained by the Company as a result of the policy change (the decision of the town-planning land committee “GZK” and the land plot master-plan “GPZU”) in respect to the property, anticipates the development of a total gross building area of 170,350 sq. m., including 67,800 sq.m of residential area, 39,150 sq.m of commercial area and 62,200 sq. m. of underground area.

The Company is currently working on the design and planning of the project as well as on securing the land lease for construction in accordance with the new permitting documentation.

Based on the independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2012, the fair value of Bolshaya Pochtovaya was US$ 141.3 million.

PAVELETSKAYA PHASE II

Paveletskaya Phase II is planned as an ultramodern residential complex in proximity to the Moscow city centre on Paveletskaya Embankment, with a total gross building area of 151,373 sq. m. The project is located in the Danilovsky subdistrict (the South Administrative district of Moscow), between the Garden ring and the Third Transportation Ring and can be easily accessed by private or public transport.

During the second half of 2012, the Company obtained permitting documentation for the project, namely the decision of the town-planning land committee (“GZK”) and the land plot master-plan (“GPZU”) with new parameters for future development. The gross building area of the project is 151,373 sq.m, including 61,401 sq.m of residential area, circa 15,000 sq. m. of commercial area and 57,310 sq. m. of underground space.

During the course of 2012, the Company made significant progress in further securing the development rights for this project and is currently working on obtaining a land lease agreement for construction in accordance with the development plan.

The balance sheet value of the project as of 31 December 2012 amounts to US$ 11.6 million, which is based on the project’s cadastral value and it is now classified as “Investment Property under Development”.

LAND BANK

In addition to yielding assets and projects under development, AFI Development has an extensive land bank, or projects that the Company is currently not developing.

Whilst retaining full flexibility regarding future development of these projects, the Company remains well placed to benefit from further recovery in the regional real estate markets. Given its strong track record in bringing projects to completion, this represents a significant competitive advantage for AFI Development.

The Company's strategy with respect to its land bank is to activate projects upon securing necessary financing and gaining full confidence in the levels of demand from prospective tenants or buyers.

PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES

Principal business risks and uncertainties affecting the Company

This section presents information about the Company's exposure to each of the risks listed below, and the Company's objectives, policies and processes for measuring and managing risks.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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 oversees how management monitors compliance with the Company'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 and the whole Board of Directors. The Board of Directors requests the management to take corrective actions as necessary and submit follow up reports to the Audit Committee and to the Board on addressing any deficiencies found.

CREDIT RISK

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

Trade and other receivables

Financial assets, which are potentially subject to credit risk, consist principally of trade and other receivables as well as credit exposure with respect to rental customers and buyers of residential properties including outstanding receivables. The carrying amount of trade and other receivables represents the maximum amount exposed to credit risk. Approximately 10 percent of the Group's rental revenue is attributable to revenue from a single customer. 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.

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

Cash and cash equivalents

Credit risk arises from cash and cash equivalents. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

Investments

The Company 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 investments in securities with high credit ratings, management does not expect any existing counterparty to fail to meet its obligations.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks, the Company aims to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2012, there were three outstanding guarantees: one of AFI Development Plc for the amount of US$ 1 million in favour of a bank of the VTB Group under a loan facility agreement of Bellgate Construction Limited and two solidary guarantees by Stroyinkom-K LLC and AFI RUS LLC. for the amount of RUR606.77 million (circa US$ 19.98 million) under a loan facility agreement of Eitan-K LLC. As at 31 December 2011, there was one guarantee outstanding under two separate non-revolving credit lines from JSC VTB Bank for a total value of RUR 13.448 billion.

LIQUIDITY RISK

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

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

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the available returns for shareholders. We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options and forward rate agreements, to manage these market risks. To date, we have not utilised any derivative or other financial instruments for trading purposes.

Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2012, 44% of our financial liabilities were fixed rate. For more detail, please see note 34 to our consolidated financial statements.

Currency risk

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

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 Company's objective is to manage operational risk so as to balance the need to avoid financial losses and damage to the Group's reputation with overall cost effectiveness.

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 Company standards for the management of operational risk. Compliance with Company standards is supported by a programme of periodic reviews undertaken by way of internal audits. The results of the 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 Company.

CRITICAL ACCOUNTING POLICIES

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

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

ESTIMATES REGARDING FAIR VALUE

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

Estimating the discounted present value of the estimated future cash flows of a financial asset is inherently uncertain and requires us to both make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognising or avoiding impairment charges

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

DEFERRED INCOME TAXES

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

Significant management judgment is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our consolidated financial statements, the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period over which the deferred tax assets and liabilities will be recoverable.

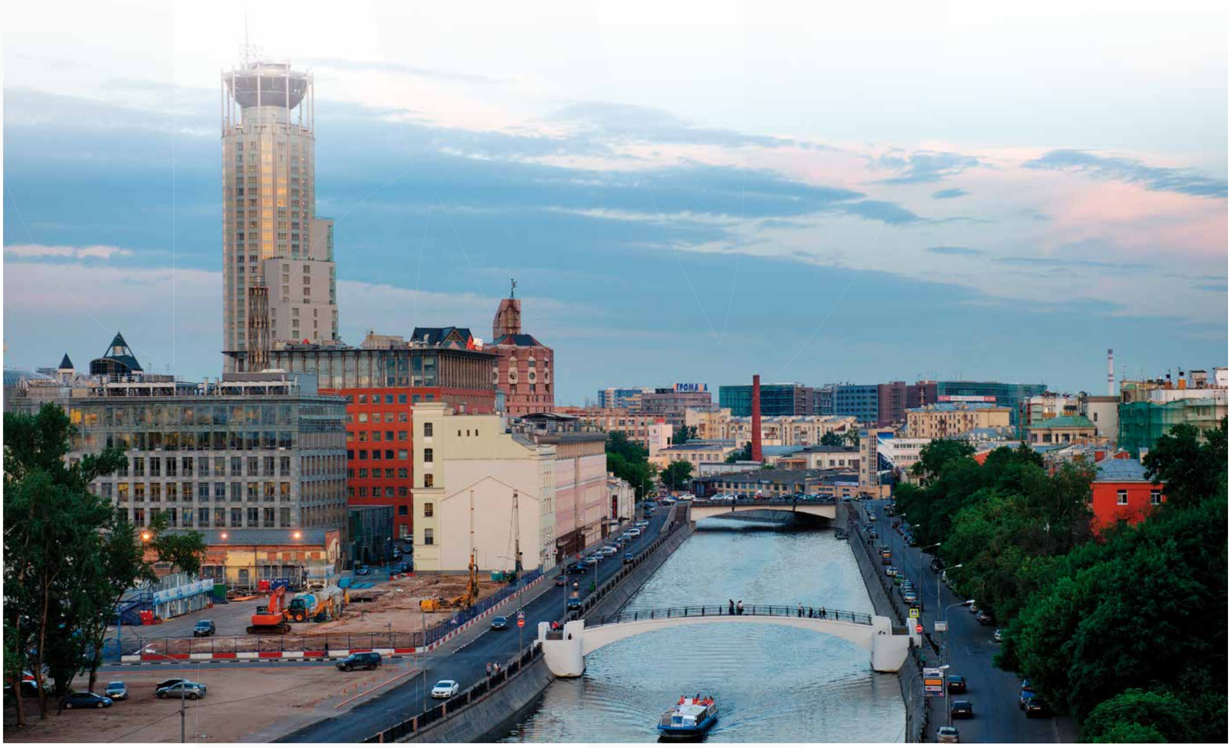
If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

SHARE-BASED PAYMENT TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

There were no related party transactions in the financial year ended 31 December 2012 or in the period since 31 December 2012.



CORPORATE GOVERNANCE

Compliance with the UK Corporate Governance Code

Although the Company is incorporated in Cyprus, its shares are not listed on the Cyprus Stock Exchange, and therefore it is not required to comply with the corporate governance regime of Cyprus. Pursuant to the Listing Rules however, the Company is required to comply with the 2010 UK Corporate Governance Code[1] (the "Code") or to explain its reasons for non-compliance. The Company's policy is to achieve best practice in its standards of business integrity in relation to all activities. This includes a commitment to follow the highest standards of corporate governance throughout the AFI Development group.

The directors are pleased to confirm that the Company has complied with the provisions of the Code for the period under review, with the exception that the Chairman of the Board, Mr Leviev, is not independent (as required by section A.3.1 of the Code) by virtue of the fact that he is, indirectly, a major shareholder of the Company. Mr. Leviev holds a controlling stake in Africa Israel Investments Ltd., the major shareholder of the Company. The directors consider Mr. Leviev to be a key member of the Company's leadership and are of the opinion that his oversight, management role and business reputation are important to the Company's success. The directors are therefore of the view that Mr. Leviev should continue as Chairman as it would be beneficial for the Company. It should also be noted that during 2012 Mr Leviev was appointed as Executive Chairman of the Company.

Working processes at the Board of Directors

BALANCE OF DIRECTORS

Throughout 2012, the Company had a strong non-executive representation on the Board. Of the seven directors currently on the Board, there are five non-executive directors, four of whom are independent[2]. Christakis Klerides continued to serve as Senior Independent Director, a position he was appointed to in 2010. The Board is satisfied that no one individual or group of directors has unfettered powers of discretion, that an appropriate balance exists between the executive and non-executive members of the Board and that between them, the directors bring the range of skills, knowledge and expertise necessary to lead the Company.

The roles of the Chairman and Executive Director are split and clearly defined. The Chairman (from 22 November 2012, the Executive Chairman) provides strategic leadership and leads key negotiations with the Moscow Authorities, other government authorities in regions of AFI Development operations and with its counterparties in transactions of strategic importance. Additionally, the Chairman is generally responsible for the governance of the Board, for facilitating the effective contribution of all directors and for ensuring that Board members are aware of the views of major shareholders. The Executive Director is responsible for all aspects of the operation and management of the Company and its business. His role includes developing an

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[1] The Code as updated in June 2010 applies to accounting periods beginning on or after 29 June 2010, whereas the newer Code as updated on September 2012 applies to accounting periods beginning on or after 1 October 2012. Since the Company is reporting on an accounting period beginning before 1 October 2012, the 2010 Code continues to apply. Copies of both versions of the Code can be downloaded free of charge from the Financial Reporting Council website at http: / / www.frc.org.uk / Our-Work / Codes-Standards / Corporate-governance / UK-Corporate-Governance-Code.aspx

[2] This is the composition of the board as of the date of publication of this Report, following the resignation of Mr Michalis Sarris, independent non-executive director, from the Company Board on 1 March 2013.

appropriate business strategy, for Board approval, and ensuring that the agreed strategy is implemented in a timely and effective manner.

When appointing new directors to the Board, objective criteria are applied. Appointments are made on merit with due regard to the benefit of diversity on the Board, both in terms of a broad range of skills, expertise and experience, and with respect to gender. The Company is committed to the principle of diversity and equal opportunities. As of 31 December 2012, female representation across the workforce of AFI Development was approximately 61%, while at the middle management level the figure was approximately 64%. In addition, 25% of the senior management team of OOO AFI RUS, the Company's main operating subsidiary, is female.

BOARD PRACTICES

The Board of Directors normally meets at least five times a year to review trading performance, budgets and funding; to set and monitor strategy; to examine acquisition opportunities; and to report to shareholders. There is a formal schedule of matters specifically reserved to the Board for decisions[3].

To enable the Board to perform its duties, each director has full access to all relevant information. It is the Chairman's responsibility to ensure that the Board is provided with accurate, timely and clear information in relation to the Company and its business.

Attendance at Board Meetings in 2012 was as follows:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lev Leviev	7**	-	-	-
Mark Groysman	13**	-	-	-
Izzy Cohen	5	-	-	-
Avraham Novogrocki	5	-	-	
Christakis Klerides	8	5	4	3
Moshe Amit	9	5	4	3
John Porter	9	5	3	2
Michalis Sarris	11	5	-	-
Panayiotis Demetriou	12	-	4	-
Dates held	08.02.2012			
	13.02.2012			
	01.03.2012			
	18.03.2012	18.03.2012	18.03.2012	
	21.05.2012	21.05.2012	21.05.2012	
	01.06.2012			
	22.06.2012			
	21.08.2012	21.08.2012	21.08.2012	21.08.2012
	13.11.2012			
	22.11.2012	22.11.2012	22.11.2012	22.11.2012
	11.12.2012			
	17.12.2012	17.12.2012		17.12.2012
	19.12.2012			
No. of meetings held during 2012	13	5	4	3

* Where '-' is shown, the director listed is not a member of the committee.
** At the board meeting of 1 June 2012 Mr Leviev and Mr Cohen declared their interest and could not participate in the meeting.

[3] A copy of the schedule can be found on the Company website: www.afi-development.ru.

The matters discussed at the board meetings included:

- the approval of financial statements;
- the approval of the annual budget;
- the approval of various transactions (including the disposal of Westec Four Winds Ltd and the acquisition of a 50% stake in Ozerkovskaya III project);
- the approval of company policies;
- a review of committee recommendations;
- the appointment of directors and officers; and
- the approval of internal audit reports
- the approval of remuneration of Company officers (including participation in share options plan, annual bonuses etc.)

All directors, the Board and each of the Board Committees are authorised to obtain independent legal or other professional advice as necessary, to secure the attendance of external advisers at their meetings and to seek information from any employees of the Company in order to perform their duties.

During the Board Meeting on 17 December 2012 the Chairman held a meeting with the non-executive directors, without the executive directors being present. At the same date the non-executive directors met without the Chairman present to appraise the Chairman's performance in 2012.

TERMS OF APPOINTMENT

Non-executive directors are invited to join the Board for a three-year period, subject to re-election by shareholders as provided for in the Company's articles of association.

The Board has adopted a policy and procedures for managing and, where appropriate, approving conflicts or potential conflicts of interest.

Insurance cover is in place to protect board members and officers against liability arising from legal action taken against them in the course of their duties.

The appointment and removal of the Company Secretary is a matter for the Board. All directors have access to the advice and services of the Company Secretary.

BOARD AND CHAIRMAN APPRAISALS

In 2012 AFI Development conducted performance evaluations for the Board and its committees in-house using the "Board Governance Analysis" service package of the UK Institute of Directors.

The appraisal of Chairman's performance was conducted in December 2012, under the leadership of Mr Christakis Klerides, the Senior Independent Director.

RESIGNATIONS FROM THE BOARD

Mr Izzy Cohen notified the Board of his decision to step down as a director with effect from 22 July 2012.

Mr Michalis Sarris notified the Board of his decision to step down as a director with effect from 1 March 2013.

COMMITTEES

In accordance with the Code, the Company has established an Audit Committee, a Nomination Committee and a Remuneration Committee, each of which has defined terms of reference which are summarised below and available on the Company's website: www.afi-development.com. Members of these committees are appointed principally from among the independent directors. Each committee and each director has the authority to seek independent professional advice where necessary and to discharge their respective duties at the Company's expense.

Nomination Committee

The Nomination Committee is comprised of four directors: Moshe Amit (Chairman), Christakis Klerides, John Porter and Avraham Novogrocki (appointed on 17 December 2012). All members of the Committee, except Mr Novogrocki, are independent non-executive directors. The Nomination Committee meets at least once a year and more frequently if required. It is responsible for preparing selection criteria and appointment procedures for members of the Board and reviewing on a regular basis the structure, size and composition of the Board. In undertaking this role, the Committee refers to the balance of skills, knowledge, independence and experience required on the Board based on the Company's stage of development and in light of such considerations, makes its appointment recommendations to the Board. When assessing candidates, the Nomination Committee uses objective criteria; all appointments are based on merit. The Nomination Committee also considers future appointments and makes recommendations regarding the composition of the Audit and Remuneration Committees.

During 2012 the Nomination Committee met on three occasions. The Committee made recommendations to the Board regarding the appointment of Mr Avraham Novogrocki to the Board and to the Nomination Committee, the appointment of Mr Leviev as Executive Chairman, among other matters. All recommendations made by the Nomination Committee were adopted by the Board. Recommendations for particular appointments were made after considering the challenges and opportunities facing the Company, the balance of skills, knowledge and experience required for the positions, and the candidates' backgrounds, experience and capabilities.

Remuneration Committee

The Remuneration Committee consists of four directors: Moshe Amit (Chairman), Christakis Klerides, John Porter and Panayiotis Demetriou. All committee members are independent non-executive directors. The Remuneration Committee is responsible for:

- making recommendations on the Company's remuneration policies and reviewing and determining the remuneration of executive directors; and
- reviewing the scale and structure of the remuneration packages of the Executive Directors and the terms of their service or employment contracts, including participation in the Company's share options plan, other employee incentive schemes adopted by the Company from time to time and pension contributions.

The remuneration of non-executive directors is determined by the Chairman and the other executive directors outside the framework of the Remuneration Committee, although this can be reviewed by the Remuneration Committee. No director or manager may be involved in any discussions or decisions relating to his or her own remuneration.

The Remuneration Committee discussed the existing executive remuneration practices in place and came to the opinion that the remuneration package of executive directors should be determined on an individual basis, in the context of both the market in which the Company operates and good corporate governance practice. In determining executive directors' individual remuneration packages, the Remuneration Committee applies the provisions of Schedule A to the Code. The Company currently has two executive directors. The Board appointed Mr Leviev as Executive Chairman (effective from 22 November 2012) and his remuneration package was designed by the Remuneration Committee.

The Remuneration Committee met on four occasions in 2012. It discussed and made recommendations to the Board on the grant of share options to executive directors and senior managers; discussed technical issues on the accounting treatment of outstanding share options and the cancellation of options to a resigning employee; discussed and made recommendation on the executive remuneration package of Mr Leviev and his participation in the Company share options plan.

The Remuneration Committee did not appoint any external consultants during 2012.

Audit Committee

The Audit Committee comprises four independent directors and meets at least five times each year at appropriate times in the reporting and audit cycle of the Company and more frequently if required. The members of the Audit Committee are: Christakis Klerides (Chairman), Moshe Amit, John Porter and Michalis Sarris. All members of the Committee are independent non-executive directors.

The purpose of the Audit Committee is to assist the Board in fulfilling its responsibilities of oversight and supervision of, among other things:

- the integrity of the Company's financial statements, including its annual and interim accounts;
- the adequacy and effectiveness of the Company's internal controls, accountancy standards and risk management systems, assessing consistency and clarity of disclosure as well as the operating and financial review and corporate governance statement; and
- the terms of appointment and remuneration of the Company's external auditor, assessing independence and objectivity and ultimately reviewing the findings and assessing the standard and effectiveness of the external audit.

The Audit Committee supervises and monitors, and advises the Board on risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and a number of other audit related issues and also makes recommendations to the Board accordingly.

The Audit Committee held five meetings during 2012. The Board is satisfied that at all stages during 2012 at least two members of the Audit Committee had recent and relevant financial experience.

The matters reviewed and considered by the Audit Committee in 2012 included:

- The Internal Audit Report on AFIMALL City;
- The Internal Audit Report on the Ozerkovskaya III project;
- The Internal Audit Report on the Plaza Spa Kislovodsk project;
- The Internal Audit Report on Aquamarine Hotel;
- The Internal Audit Plan for the year of 2013; and
- Periodic financial reports of the Company.

DIVIDENDS

During 2012, the Company did not pay any dividends. In the future, the Company may consider making dividend payments on its ordinary shares, when and if commercially prudent, after taking into account profits, cash flow and capital investment requirements. No dividends will be paid otherwise than out of profits.

SAFETY

The Company takes its commitment to health and safety very seriously. It reviews its policies, procedures and standards on a regular basis to ensure that its properties and developments offer a safe environment for its employees, customers and suppliers, as well as for other visitors.

The Company works with its suppliers and contractors to ensure that they meet the Company's high health and safety standards.

COMMUNICATION WITH SHAREHOLDERS

The directors place considerable importance on maintaining open and clear communication with the Company's investors. The Company's investor relations department is dedicated to facilitating communication with shareholders.

The Company maintains an ongoing dialogue with its shareholders, discussing a wide range of relevant issues including strategy, performance, the market, management and governance within the constraints of the information already known to the market. The principal methods of communication with shareholders are the Company's news announcements, the interim report, the annual review and financial statements, the annual general meeting and via the corporate website. In addition, the Company undertakes regular meetings with investors and participates in sector conferences. Upon request, individual meetings with existing or potential investors can be arranged via the Investor Relations department of the Company.

During the course of a year, shareholders are kept informed of the progress of the Company through results statements and other announcements that are released through the Regulated Information Service of the London Stock Exchange and other news services. Company announcements are made available simultaneously on the Company's website, affording all shareholders full access to material information. Shareholders can also raise questions directly with the Company at any time through a facility on the Company's website.

Following publication of quarterly results the Company organises conference calls, during which interested investors, analysts, business journalists and the general audience can converse with senior representatives of the Company. The times and contact numbers of these conference calls are announced in advance via the Regulated Information Service of the London Stock Exchange and published on the Company website.

The Company's annual general meeting allows individual shareholders the opportunity to question the Chairman and members of the Board. Notice of the annual general meeting is sent to shareholders at least 21 days before the meeting. At the meeting, after each resolution has been passed, details are given of the number of proxies lodged together with details of the number of votes cast for and against each resolution.

Risk Management Processes and internal control

INTERNAL AUDITOR

On 20 December 2010 Mr Shaul Dabby was appointed by the Board of Directors as the internal auditor of the Company. The internal auditor is responsible for the recommendation of an annual auditing plan to the Audit Committee. Subsequently, the internal auditor carries out auditing assignments in accordance with this plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor is available for any meetings of the Audit Committee and / or of the Board of Directors.

PRINCIPAL ASPECTS OF THE COMPANY'S INTERNAL CONTROL

The Board has overall responsibility for maintaining the Company's system of internal control to safeguard shareholders' investments and the Company's assets, as well as for monitoring the effectiveness of this system. The Audit Committee supervises, monitors and advises the Board of Directors on risk management and control systems together with the implementation of codes of conduct and the auditing plan recommended by the internal auditor.

The Company implements its procedures according to the best practice on internal control provided in the Turnbull Guidance "Internal Control: Revised Guidance for Directors on the Combined Code" ("the Turnbull Guidance"). The Company's system of internal control supports identification, evaluation and managing the risks affecting the Company and the business environment in which it operates.

Additionally, as part of the Africa-Israel Investments Group, AFI Development has to comply with the requirements of the Israel Securities Authority's regulations and guidelines for the execution of an effective evaluation of internal control over financial reporting and disclosure by the Board and management.

These regulations were introduced to improve the quality and accuracy of financial reporting and disclosure for "reporting companies" in Israel, within the meaning thereof in the Securities Law 1968 (hereinafter – "the Israeli Securities Law"), by improving the internal control infrastructure over the financial reporting and disclosure processes in companies and by strengthening management commitment to ensuring their quality and accuracy. For this purpose, the regulations include an obligation on the part of "reporting companies" in Israel to attach to their financial statements a management declaration regarding the accuracy of the financial information included therein. The regulations also introduce a reporting obligation to prepare a separate report of the Board and management regarding the effectiveness of the internal control over financial reporting and disclosure. Additionally, "reporting companies" have an obligation to provide an opinion report of an external auditor regarding the effectiveness of the internal control.

As a practical result, management of a "reporting company" is required to establish a system of internal control over the financial reporting and the disclosure processes, which is intended to provide a reasonable level of confidence regarding the accuracy and reliability of financial reports and disclosures.

The management of the "reporting company" is required to monitor the company's system of internal control on an ongoing basis in order to ensure that the effectiveness of the internal control is constantly adapted to changes in the company and its activities.

INTERNAL CONTROL FRAMEWORK

The Company's systems of risk management and internal control are designed, inter alia, to provide a reasonable amount of confidence as to the reliability of the Company's financial reporting, to ensure that the financial reports are prepared in accordance with the requirements of the law and to ensure that the information that the Company is required to disclose in its reports and announcements is gathered, processed, summarised and reported on time and in the format set forth in the Disclosure and Transparency Rules and the Listing Rules of the UK Listing Authority.

The system of internal control at AFI Development is structured along four main groups of controls:

1. **Entity Level Controls** - these are controls that may have an overall impact on the organisation. These organisation level controls constitute the infrastructure for the course and nature of the activities executed by the Company. These controls are embedded into the organisational structure of the Company. Controls at the Entity Level include, among others: Decision making process in the Company; Procedures regarding identifying, approving and reporting of transactions with related parties and people of interest; Procedures regarding identifying and approving transactions that are in conflict of interest; The appropriateness of the function of the Board and it's Committees; Efficiency of the function of the Audit Committee; Segregation of duties between the management and the Board; Risk identification and risk management; Assessment and control over the corporate results; Active supervision of the Board over Company Management.
2. **Process of Preparing and Closing Out the Financial Statements** - this process relates to examination of the last segment of the financial reporting and disclosure process which includes, among other things, the following activities: Gathering of the data to the trial balances and performance of substantive examinations of the appropriateness of the data received; Determination and implementation of the accounting policies by the company; Recording of necessary adjustments for purposes of preparation of the annual and quarterly financial statements, including adjustments for purposes of consolidation of the financial statements; Compilation and preparation of the statements including the relevant disclosures; Discussion and approval of the financial statements by the relevant corporate organs.
3. **General Controls over the Information Systems (ITGC)** - control procedures relating mainly to: Procedures regarding system access right controls; Procedures regarding performing changes to the system; Backup and restoration procedures; Appropriate separation of the "production" environment and the "testing" environment; Information security procedures.
4. **Processes that are "Very Significant to the Financial Reporting and the Disclosure"** - these are processes that might have a material impact on the company's financial reports and the disclosure (hereinafter also – "Very Significant Processes"). A process for this purpose is a series of activities executed by parties in the company or the information systems thereof from the moment of initiation of the transaction (or event) and up to reflecting and / or disclosing it in the company's financial reports.

In order to comply with the provisions of the Turnbull Guidance, the Company included in its system of internal control specific controls over business operations and risk management, which are monitored together with the controls over financial reporting and disclosure, as required by the Israeli Securities Law.

The AFI Development Group employs a full time dedicated internal controller, who is responsible for day-to-day management of the internal control system, preparation and maintenance of necessary documentation, liaising with internal auditors and for internal control reporting to senior management.

Authority is delegated from the Board through the senior management to the operating divisions and clear reporting lines and assigned responsibilities exist amongst different management levels within each division. Segregation of duties is applied throughout the Company.

The Company has a clearly set out organisational structure with well-defined reporting lines between the Board and the heads of each operating division.

The Board of Directors has ultimate decision-making power over significant matters relating to the financial management of the Company such as material changes in banking arrangements (including a change of bankers facilities and signatory category limits), approval of project budgets and the Annual Working Programme, changes to the Company's capital structure, and acquisitions and disposals of subsidiaries or projects.

BUDGETING AND REPORTING

The Company has comprehensive project-based budgeting and reporting processes as well as a finance reporting process, and produces monthly operational results and forecasts.

Detailed annual budgets for the coming year are presented to the Board in December.

FINANCIAL CONTROL PROCEDURES

Senior management of the Company has implemented the appropriate controls for the Company's financial reporting processes.

INVESTMENT APPRAISAL PROCESS

In the course of the investment appraisal process the following guidelines are followed by the Company's management:

1. When valuing the current portfolio of assets an independent appraiser is used on semi-annual basis to confirm the improvement or impairment in market value of each of the Company's properties. The calculations are then examined by the management team.
2. When making decisions on re-activating the development of pipeline or land bank projects, internal investment models are prepared to evaluate economic effectiveness and reasonableness of potential investments. An investment model template approved by the Company's financial department is used to evaluate the economics of future development.
3. Before disposals of material projects a calculation of market value is performed by an independent appraiser to justify the reasonableness of the contracted price or to analyse any discrepancies revealed.
4. When approving any significant change in the development budget of any of the Company's existing projects, internal investment modeling is performed to test the potential influence on the projects' returns.

OPERATION POLICIES AND PROCEDURES

The Company has a well-defined strategy, which is determined by the senior management and approved by the Board.

The policies and procedures relating to the core business processes are formally documented and communicated to the relevant employees.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company retains legal counsel in all relevant jurisdictions in order to ensure on-going compliance with all applicable laws and regulations.

MONITORING AND REVIEW OF ACTIVITIES

Assurances on compliance with the internal control systems are obtained through a number of monitoring processes, including a formal annual confirmation of compliance provided by Mr Groysman, the Executive Director.

REVIEW OF EFFECTIVENESS

Based on results of a test of the effectiveness of the Company's risk management and internal control systems, he Board concluded that for the period ending on 31 December 2012 the risk management and internal control systems were effective. The Board continues to monitor the effectiveness of these systems on an ongoing basis as follows:

1. OOO AFI RUS management provides the Board with a quarterly declaration regarding the effectiveness of the financial, operational and compliance internal controls and discloses any information that has been detected during the period.
2. Half year evaluation – OOO AFI RUS management presents an extensive Board presentation regarding the results of the testing of the effectiveness of selected financial, operational and compliance internal controls.
3. Year-end evaluation- OOO AFI RUS management presents an extensive Board presentation regarding the results of testing of the effectiveness of the risk management, financial, operational and compliance internal controls.

FINANCIAL REPORTING AND THE 'GOING CONCERN' BASIS FOR ACCOUNTING

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects, and details are given in the Directors' Report.

The directors are responsible for the preparation of the Annual Report and financial statements of the Company.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

DIRECTORS' REMUNERATION REPORT

Directors' remuneration report

THE PRINCIPLES OF DIRECTORS' REMUNERATION

AFI Development became a premium listed company on the London Stock Exchange in 2010 and during 2011 the Remuneration Committee and the Board of Directors revised the principles for executive and non-executive directors' remuneration to meet the requirements of the Code. The same principles were applied during 2012.

The Company believes that its remuneration policies should be effective in attracting, retaining and motivating directors to produce superior results for the Company and in continuously creating sustainable value for its shareholders. The Company makes a clear distinction between the remuneration structure for executive and non-executive directors.

Non-executive directors have a non-performance-related remuneration structure, reflecting the time commitment and responsibilities of their role. Non-executive directors are encouraged to participate in Board meetings in person (the attendance fee for "teleconference participation" in Board meetings is 50% of the attendance fee for "in person participation"). In addition, the base fee of the Senior Independent Director is higher than that of the other non-executive directors to reflect the additional duties and responsibilities conferred to such a director under the Code.

Executive directors' remuneration, on the other hand, is performance related and includes bonuses and a long term incentive component (usually participation in the Company's share option plan). The Remuneration Committee designs remuneration packages for executive directors on an individual basis, taking into account the provisions of Schedule A of the Code.

During 2012, the Company appointed its Non-Executive Chairman, Mr Leviev, to the position of Executive Chairman (effective from 22 November 2012). His subsequent remuneration package was designed by the Remuneration Committee and approved by the Board (prior to his appointment Mr Leviev did not receive any remuneration from the Company). It consists of a base salary and participation in the Company's share option plan. On 22 November 2012, the Company granted Mr Leviev an option to subscribe for 31,430,822 B ordinary shares, with the first portion vesting on the second anniversary of the grant.

EMPLOYEE SHARE OPTION PLAN

The AFI Development Share Option Plan (the "Share Option Plan") was adopted by the Board on 12 April 2007. The Remuneration Committee has responsibility for granting options, supervising and administering the Share Option Plan. The Plan is discretionary and options will only be granted when the Remuneration Committee so determines. All employees and directors (except independent directors) of the Company, and those of the Company's holding company or any of its subsidiaries, are eligible to participate in the Share Option Plan at the discretion of the Remuneration Committee. Options are currently intended to be granted to senior managers, directors (except non-executive directors) and key personnel of the Company or any of its subsidiaries only.

The price payable on the exercise of an option for each A Ordinary share, B Ordinary Share or Global Depository Receipt, is determined by the Remuneration Committee and should not exceed the closing market price on the day preceding the day of grant, unless the Remuneration Committee determines at its discretion that a lower price is required, for example, in order to facilitate the recruitment or retention of a key executive. In any 10 year period, not more than 10% of the Company's issued ordinary share capital may be issued or be issuable under the Share Option Plan and any other employee share plan that the Company operates. Options that have been released or lapsed without being exercised are ignored for the purposes of this maximum limit.

Subject to the participant discharging any relevant tax liability, options will normally be exercisable at the following times: (a) as to one-third of the A Ordinary Shares, B Ordinary Shares or GDRs in respect of which it was granted from the second anniversary of the grant, (b) as to a further one-third of the A Ordinary Shares, B Ordinary Shares or GDRs from the third anniversary of grant, and (c) as to the remainder of the A Ordinary Shares, B Ordinary Shares or GDRs from the fourth anniversary of grant. A different vesting schedule may be determined by the Remuneration Committee at grant. The vesting of options already granted is not subject to any performance conditions. The Remuneration Committee may, however, determine that options granted in the future should be subject to performance conditions.

If a participant dies, his options will be exercisable within a period of 12 months following his death. If a participant ceases to be an employee or director by reason of injury, disability, redundancy, the sale of the business for which he works to a third party, or retirement, his options may generally be exercised within 6 months of cessation. If a participant ceases to be an employee or director for any other reason, his options will normally lapse unless and to the extent the Remuneration committee decides otherwise.

The Remuneration Committee may satisfy (generally with the consent of the participant) an option on exercise by paying to the participant in cash or other assets the gain (i.e. the difference between the market value of the relevant A Ordinary shares or GDRs on the date of exercise and the exercise price), as an alternative to issuing or transferring A Ordinary Shares or transferring or procuring the transfer of GDRs to the participant.

The Remuneration Committee may amend the rules of the Share Option Plan at any time. The Share Option Plan will terminate upon the tenth anniversary of approval, if not terminated earlier by the Remuneration Committee. Termination of the Share Option Plan will not affect the subsisting rights of the participants.

The exercise price of options to GDRs granted in 2007 is US$ 14.00 (which corresponds to US$ 7.00 after the issue of B Ordinary Shares by the Company in 2010).

During 2012, the Company granted share options to a number of senior managers and executive directors under the Share Options Plan.

DIRECTORS' EMOLUMENTS

The aggregate emoluments of each of the directors (including benefits in kind) for the financial accounting period ending 31 December 2012 were as follows:

Name	Salary / Fee	Benefits in kind	Annual bonuses	Pension	Total
Lev Leviev	US$ 130,000	US$ 0	US$ 0	US$ 0	US$ 130,000
Mark Groysman	US$ 483,778	US$ 0	US$ 180,418	US$ 0	US$ 664,196
Izzy Cohen*	US$ 0	US$ 0	US$ 0	US$ 0	US$ 0
Avraham Novogrocki**	US$ 0	US$ 0	US$ 0	US$ 0	US$ 0
Christakis Klerides	US$ 78,750	US$ 0	US$ 0	US$ 0	US$ 78,750
Moshe Amit	US$ 72,500	US$ 0	US$ 0	US$ 0	US$ 72,500
John Porter	US$ 68,000	US$ 0	US$ 0	US$ 0	US$ 68,000
Michalis Sarris	US$ 74,500	US$ 0	US$ 0	US$ 0	US$ 74,500
Panayiotis Demetriou	US$ 74,500	US$ 0	US$ 0	US$ 0	US$ 74,500

* Mr Izzy Cohen resigned from the Board of Directors on 22 July 2012.
** Mr Avraham Novogrocki was appointed to the Board of Directors on 21 August 2012.

Long term incentive plan

As of 31 December 2012, there was no long term incentive plan available for the directors.

Options held by directors and senior managers

GDRs:

As of 31 December 2012, there were valid options over 1,593,676 GDRs granted with an exercise price of US$ 7 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 the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. The options for all 1,593,676 GDRs vested and their contractual life is 10 years from the date of the grant.

B Ordinary Shares:

As of 31 December 2012, there were valid options over 47,146,232 B Ordinary shares. Options for 16,763,104 B Ordinary shares were granted on 21 May 2012 with an exercise price of US$ 0.7208 (15,715,410 of those remained valid as of 31 December 2012) and an option for 31,430,822 B Ordinary shares was granted on 22 November 2012 with an exercise price of US$ 0.5667. All options are 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. As of 31 December 2012, none of the options to B Ordinary shares have vested. If an Optionholder ceases to hold any office in, or be employed by, any Member of the AFI Development Group by reason of dismissal by the Optionholder's employer (except as a result of the Optionholder having been guilty of gross breach of duty or other serious breach of their employment contract, and as determined by the Remuneration Committee in its absolute discretion), the Optionholder shall remain entitled to exercise the option (to the extent already exercisable as at the date of termination) within the period of 90 calendar days following the date of termination. If and to the extent that the Option has not been exercised nor otherwise lapsed in accordance with the Rules of the Share Option Plan, it shall lapse on the fifth anniversary of the date of the grant.

As of 31 December 2012, Company directors held the following share options:

Name of director	Title	Amount of shares and type	Date granted	Exercise price	Perfor-mance conditions	Vesting dates and amount of shares vesting
Lev Leviev	Executive Chairman	31,430,822 B Ordinary shares	22.11.2012	US$ 0.5667	None	22 Nov 2014: 10,476,941 shares 22 Nov 2015: 10,476,941 shares 22 Nov 2016: 10,476,940 shares
Mark Groysman	Executive Director	5,238,470 B Ordinary shares	21.05.2012	US$ 0.7208	None	21 May 2014: 1,746,157 shares 21 May 2015: 1,746,157 shares 21 May 2016: 1,746,156 shares

Pensions and benefits in kind

No pensions and contributions are currently payable to the directors by the Company.

FINANCIAL STATEMENTS

Management discussion and analysis of financial condition and results of operations

OVERVIEW

As at 31 December 2012, the Company's portfolio consisted of 7 investment properties, 8 investment properties under development, 2 trading properties, 5 hotel projects, 2 trading properties under development / non-current inventory and 2 assets for sale at various stages of development. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2012, was US$ 2.5 billion[1]. About 60% of the assets book value is attributed to yielding properties.

Revenues for 2012 increased by 21% year-on-year to US$ 163 million driven predominantly by strong rental income. Successful sales of properties, including the disposal of the 50% holding in the Four Winds project, also contributed to the positive revenue trend. Consequently, AFI Development recorded a significant, 203% year-on-year increase in gross profit to US$ 59 million. At the same time, cash and cash equivalents increased by 109% to US$ 178 million as at 31 December 2012.

However, primarily as a result of a revaluation loss of US$ 246.1 million on our investment portfolio, the Company recognized a net loss of US$ 275.5 million in 2012, compared to a profit of US$ 171.5 million in 2011. The decrease in the value of AFI Development's assets is mainly attributable to a reduction in value of the Company's Bolshaya Pochtovaya, Kossinskaya, Tverskaya Plaza Ib and Tverskaya Plaza II projects as a result of changes in master planning and development policies of the Moscow government. As a result of these changes, a reduction in the value of the Company's assets of US$ 173.5 million was recognised in Q2 2012. The Company also recognised an impairment loss on real estate inventory of US$ 65 million as a result of its decision to write off the Botanic Garden project.

KEY FACTORS AFFECTING OUR FINANCIAL RESULTS

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

MACROECONOMIC FACTORS

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

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

	Year ended 31 December 2012	Year ended 31 December 2011
Real Gross Domestic Product growth	3.4%	4.3%
Consumer prices	6.6%	6.1%

Source: European Intelligence Unit, State Statistics Agency of the Russian Federation

[1] According to the IFRS rules, Investment property and Investment property under development are presented on a fair value basis, Trading property and Property, plant and equipment are presented on a lower of cost or net realisable value basis.

COMPANY SPECIFIC FACTORS

The following factors affected our performance in 2012:

- In 2012, AFIMALL City completed its first full year of operations. As the main yielding asset of AFI Development, the mall was the largest contributor to operating revenue and cash flow from operations for the Company.
- During the year, construction work to finalise the underground parking space at AFIMALL City resulted in additional incurred capital expenditures.
- In Q2 2012, the Company recognised a valuation loss on investment properties under development in the amount of US$ 173.5 million, mainly due to a decrease in the value of the Company's four projects: Bolshaya Pochtovaya, Kossinskaya, Tverskaya Plaza Ib and Tverskaya Plaza II. The decrease in value resulted from changes in the master planning and development policies of the Moscow government.
- In Q2 2012, AFI Development recorded an impairment loss on inventory of real estate amounting to US$ 65 million due to its decision to write-off the Botanic Garden project.
- During Q4 2012, the Company disposed of part of the parking space in the AFIMALL City to JSC VTB Bank, receiving consideration of US$ 57.1 million. The consideration was partially used to finance the construction of the parking.
- The disposal of 50% stake in Westec Four Winds Limited in Q4 2012 contributed US$ 100 million to the cash balance as at 31 December 2012.
- Plaza Spa Hotel Zheleznovodsk (former Kalinina Hotel) began operations in Q2 2012.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), which were in effect at the time of preparing our consolidated financial statements, and the requirements of the Companies Law of Cyprus, Cap. 113. IFRS differs in various material respects from US GAAP and UK GAAP.

FINANCIAL POLICIES AND PRACTICES

Revenue Recognition

The key elements of our revenue recognition policies are as follows:

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

Operating expenses

Operating expenses consist mainly of employee wages, social benefits and property operating expenses, including property tax, which are directly attributable to revenues. We recognise as expenses in our statement of comprehensive income the costs of those employees who have provided construction consulting and construction management services with respect to our investment and trading property. We also recognise property operating costs (including outsourced building maintenance), utilities, security and other tenant services related to our properties that generate rental income, as expenses on our statement of comprehensive income.

Administrative expenses

Our administrative expenses comprise primarily general and administrative expenses such as audit and consulting, marketing costs, charity, travelling and entertainment, office equipment as well as depreciation expenses related to our office use motor vehicles, bad debt provisions and other provisions.

Profit on disposal of investment in subsidiaries

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

Revaluation of investment property

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

Operating profit before net finance costs

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

Finance income

Our finance income comprises net foreign exchange gain, if any, and interest income. We recognise foreign exchange gains and losses, principally in connection with US Dollar or other foreign currency denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Rouble. Our interest income is derived primarily from interest on our bank deposits and interest on loans to our joint ventures.

Finance expenses

Our finance expense comprises net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalised. We recognise foreign exchange gains and losses principally in connection with US dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the rouble. We capitalise our interest expense with respect to our development projects that are under construction, for which amounts are not reflected as expenses in our statement of comprehensive income. When funds are borrowed specifically for a particular project, we capitalise all actual borrowing costs related to the project less income earned on the temporary investment of such borrowings and when funding for a project is obtained from our general funds, we capitalise only funding costs related to the particular project based on the weighted average of the borrowing costs applicable to our general funds.

Income tax expense

Income taxes are calculated based on tax legislation applicable to the country of residence of each of our subsidiaries and, as a company based and organised in Cyprus, we are subject to income tax in Cyprus. We and our Cypriot subsidiaries are currently subject to a statutory corporate income tax rate of 10% in Cyprus. Our Russian subsidiaries were subject to corporate income tax at a rate of 20%. Profits on revaluation gains of investment property in companies based in Russia, from which we have derived the vast majority of our profits to date, are subject to deferred income tax at a rate of 20%.

Capitalisation of Costs for Properties under Development

We capitalise all costs directly related to the purchase and construction of properties being developed as both investment properties and trading properties, including costs to acquire land rights and premises, design costs, permit costs, costs of general contractors, costs relating to the lease of the underlying land and the majority of our employee costs related to such projects.

In addition, we capitalise financing costs related to development projects only during the period of construction of the projects. We do not, however, commence the capitalising of financing costs related to expenditures on a project until construction on each project begins. Since the Company's adoption of revised IAS 40 from 1 January 2009, upon completion of construction works, property classified as investment property under development (which are those properties that are being constructed or developed for future use to earn rental income or for capital appreciation) is appraised to market value and reclassified as an investment property and any gain or loss on appraisal is recognised in our statement of comprehensive income. Trading properties, which include those projects where we intend to sell the entire project as a whole or in part (this principally includes our residential development projects), are represented on our balance sheet at the lower of cost and net realisable value, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale.

Exchange Rates

Our consolidated financial statements are presented in US dollars, which is our functional currency. The functional currency of our Russian subsidiaries and joint ventures and one Cyprus company is the rouble. The balance sheets of our Russian subsidiaries are translated into US dollars in accordance with IAS 21, whereby assets and liabilities are translated into US dollars at the rate of exchange prevailing at the balance sheet date and income and expense items are translated into US dollars at the average exchange rate for the period. All resulting foreign currency exchange rate differences are recognised directly in our shareholders' equity under the line item "translation reserve." When a foreign operation is sold, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in our statement of comprehensive income when the gain or loss on disposal of the foreign operation is recognised. The monetary assets and liabilities of our Russian subsidiaries that are denominated in currencies other than roubles are initially recorded by our subsidiaries at the exchange rate between the rouble and such foreign currency prevailing at such date. Such monetary assets and liabilities are then retranslated into roubles at the exchange rate prevailing at each subsequent balance sheet date. We recognise the resulting exchange rate differences between the dates at which such assets or liabilities were originally recorded and at subsequent balance sheet dates as foreign exchange losses and gains in our statement of comprehensive income. In particular, during the period under review, we have recognised foreign exchange rate gains and losses in connection with US denominated payables and receivables of our Russian subsidiaries.

Recovery of VAT

We pay VAT to the Russian authorities with respect to construction costs and expenses incurred in connection with our projects, which, according to Russian tax law, can be recovered upon completion of construction. 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. We have accordingly included recoverable VAT as an asset on our balance sheet, the size of which we expect will slightly decrease as the development of our projects advances and necessary documents will be obtained.

Deferred Taxation

As we continue to advance the development of our projects, we also expect to record higher deferred tax liabilities and assets. Under Russian tax law, we are not allowed to capitalise certain of the costs in relation to the design, construction and financing of projects that we capitalise for the purposes of our consolidated financial statements under IFRS. As a result, our tax bases in the related assets may be lower than our accounting bases for IFRS purposes, which would result in deferred tax liabilities. However, the recognition of such costs as expenses may result in accumulated tax losses for Russian tax purposes that we may be able to carry forward against estimated future profits, resulting in deferred tax assets. We expect these deferred tax liabilities and assets to grow as our major projects reach more advanced stages. However, such tax losses may only be carried forward to offset gains for a ten-year period under Russian tax law and they may only be utilised in the Russian subsidiary / branch in which such tax losses were generated.

Fair Value Calculation

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

Any change in fair value of the investment property under development is thereafter recognised as a gain or loss in the statement of comprehensive income. Accordingly, fair value measurements of investment properties under development may significantly affect results of operations even if the Company does not dispose of such assets.

RESULTS OF OPERATIONS

Description of Statement of comprehensive income Line Items

Summary of statement of comprehensive income for 2012 and 2011

US$ million	2012	2011	Change 2012 / 2011	
Revenue				
Construction consulting / management services	2.5	1.0	1.5	151.2%
Rental income	146.0	117.0	29.0	24.8%
Sale of residential	14.1	15.9	(1.8)	(11.4)%
	162.6	133.9	28.7	21.4%
Expenses				
Other income	3.3	0.7	2.6	359.3%
Operating expenses	(74.4)	(72.1)	(2.3)	(3.2)%
Administrative expenses	(19.8)	(30.3)	10.5	34.7%
including Bad debt provisions and write-offs	(3.6)	(13.3)	9.7	72.9%
Cost of sales of residential	(9.2)	(10.4)	1.2	11.3%
Other expenses	(3.3)	(2.3)	(1.0)	(39.8)%
	(103.4)	(114.4)	11.0	9.6%
Gross profit	59.2	19.5	39.7	203.4%
Impairment of prepayment for investments	-	(1.2)	1.2	100%
Valuation gains on investment property	(246.1)	268.0	(514.1)	(191.8)%
Negative goodwill	-	-	-	
Impairment loss for trading property and hotels	(65.4)	1.0	(66.4)	(6640)%
Results from operating activities	(252.2)	287.3	(539.6)	(187.8)%
Profit on sale / disposal of investment	2.7		2.7	100%
Finance income	11.6	8.2	3.4	40.6%
Finance expense	(61.4)	(43.3)	(18.1)	(42.0)%
FX Gain / (Loss)	15.9	(5.6)	21.5	383.3%
Impairment of financial asset	-	-	-	
Net finance income / (costs)	(33.9)	(40.7)	6.8	16.5%
Profit before income tax	(283.5)	246.6	(530.1)	(215)%
Income tax expense	8.0	(75.1)	83.1	110.7%
Profit from continuing operations	(275.5)	171.5	(447.0)	(260.6)%

Revenue – General Overview

To date, we have derived revenues from three sources: rental income, sale of investment property, sale of residential properties and construction consulting and construction management fees.

RENTAL INCOME

We derive rental income from our investment properties and hotels that we acquired or developed in the past.

US$ million	For the year ended 31 December 2012	For the year ended 31 December 2011	Change 2012/2011	
			US$ million	%%
Investment property				
AFIMALL City	81.4	65.1	16.3	25.1%
4 Winds office building	16.2	17.2	(1.0)	(5.8)%
4 Winds street retail	1.6	1.6	0.0	0%
H2O office building	3.1	2.8	0.3	11.2%
Berezhkovskya office building	5.0	4.9	0.1	2%
Paveletskaya I	4.7	2.9	1.8	59.3%
Ozerkovskaya IV	0.0	0.0	(0.0)	0%
Premises at Bolshaya Pochtovaya	5.6	5.4	0.2	4.4%
Premises at Plaza IV (Gruzinsky Val)	0.2	0.2	(0.0)	(2.8)%
Premises at Tverskaya Zastava Square	3.5	2.8	0.7	26.2%
Other land bank assets	0.1	0.7	(0.6)	(85.7)%
Hotels				
Aquamarine hotel	10.0	9.3	0.7	7.8%
Plaza Spa Hotel (Zheleznovodsk)	3.5	0.0	3.5	100%
Sanatoriy Plaza (Kislovodsk)	11.1	4.1	7.0	172.9%
Total	146.0	117.0	29.0	24.8%

SALE OF RESIDENTIAL PROPERTIES

US$ million	For the year ended 31 December 2012	For the year ended 31 December 2011	Change 2012/2011	
			US$, thousands	%%
Revenue				
Ozerkovskaya II	12.1	13.2	(1,1)	(8.5)%
4 Winds residential	2.0	2.7	(0.7)	(25.6)%
Total	14.1	15.9	(1.8)	(11.5)%

Operating expenses. Our operating expenses increased with a net change of US$ 2.3 million from US$ 72.1 million in 2011 to US$ 74.4 million in 2012. The increase of 3.2% year-on-year is attributable to overall market inflation of expenses.

Administrative expenses. Our administrative expenses decreased by US$ 9.9 million, 34.7% year-on-year, from US$ 32.7% million in 2011 to US$ 20.4 million in 2012. The decrease was achieved by significant improvement in rent collections at AFIMALL City and other yielding assets, which resulted in decreased bad debt provision. The bad debt provision for 2012 was US$ 4.2 million compared to US$ 13.3 million in 2011.

Other expenses. Other expenses increased by US$ 1.0 million, or 39.8% year-on-year, from US$ 2.3 million in 2011 to US$ 3.3 million in 2012 mainly due to write-off of overdue non-recoverable VAT and accounts receivable, which were not accounted for in previous periods and loss on disposal of PPE.

Net valuation gain/(losses) on investment property. Net result of investment property valuation decreased from a gain of US$ 268.0 million in 2011 to a loss of US$ 246.1 million in 2012. For additional information, please refer to "Portfolio Valuation".

Net finance costs. Net finance costs are finance income less finance expense. Our net finance costs decreased by US$ 6.8 million, or 16.5% year-on-year, from US$ 40.7 million in 2011 to US$ 34.0 million in 2012. On one hand, our finance expenses increased in respect of interests accrued on outstanding loans (new loan facility drawn down by Bellgate Constructions Limited), however on the other hand this loan gave us a foreign exchange gain for 2012 due to rouble appreciation in Q2 2012.

Income tax expense. Our current tax expense decreased to US$ 5.3 million compared to US$ 13.6 million in 2011. The main driver for decreased current tax expenses was the group's financing restructuring which was completed in 2012.

Profit/Loss for the year. Due to the factors described above we recorded a US$ 275.5 million net loss for 2012 compared to net profit of US$ 171.5 million for 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

Summary of cash flows for 2012 and 2011

US$ 'thousand	For the year ended 31 December 2012	For the year ended 31 December 2011
Net cash from operating activities	57,956	27,821
Net cash from investing activities	78,354	(179,555)
Net cash used in financing activities	(36,693)	118,246
Effect of exchange rate fluctuations	(1,551)	(11,531)
Net increase in cash and cash equivalents	98,066	(45,019)
Reclassification to assets held for sale	(4,691)	-
Cash and cash equivalents at 1 January	84,820	129,839
Cash and cash equivalents at 31 December	178,195	84,820

Net cash from operating activities

Net cash from operating activities increased to US$ 58 million in 2012 from US$ 27.8 million in 2011. This increase was primarily attributable to the increase of gross profit to US$ 59.2 for 2012 from US$ 19.6 million for 2011 and the receipt of advance payment of approximately $50 million for the sale of parking space at AFIMALL City to VTB..

Net cash from investing activities

Net cash from investing activities amounted to US$ 78.4 million reflecting the receipt of advance payment US$ 100.0 million for disposal of our share in Westec Four Winds Limited. Additionally, a part of the investment activities cash outflows were ongoing investments into Ozerkovskaya III and construction of parking at AFIMALL City.

Net cash used in financing activities

Net cash sourced from financing activities decreased to negative US$ 36.7 million in 2012 from positive US$ 118.2 million in 2011. The Company decreased its net borrowings to US$ 22.1 million in 2012 compared to US$ 179.0 million in 2011. The prevailing part of debt decrease relates to the repayment of loan from JSC VTB Bank for 25% city share acquisition at AFIMALL City project RUR1,333 million principal plus RUR 7.9 million interest. All necessary funds for the AFIMALL Parking acquisition and construction works financing have been provided for in the new loan facility provided by the VTB Group. The remainder relates to repayment in full of loans taken from Sberbank to finance construction of Ozerkovskaya III and Tverskaya Zastava Shopping Centre project.

CAPITAL RESOURCES

Capital Requirements

We require capital to finance capital expenditures, consisting of cash outlays for capital investments in active real estate development projects; repayment of debt; changes in working capital; and general corporate activities.

Real estate development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our active development projects.

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

We completed 2012 with a strong liquidity position comprising US$ 178.2 million cash and cash equivalents on our balance sheet as at 31 December 2012.

Our financing strategy is to balance the amount of debt financing for projects under construction while maintaining healthy loan-to-value levels. After delivery and commissioning, we refinance the properties at more favourable terms including longer amortisation periods and lower interest rates.

Generally, the collateral for this project level debt are property title and shares of property holding companies.

As of December 31, 2012 our debt portfolio was as follows:

<table>
<tr><th>Project</th><th>Lending bank</th><th>Max debt limit (US$ mn)</th><th>Principal balance as of Dec-31, 2012 (US$ mn)</th><th>Available (US$ mn)</th><th>Nominal Interest rate</th><th>Currency</th><th>Maturity (dd.mm.yy)</th></tr>
<tr><td rowspan="2">AFIMALL</td><td rowspan="2">VTB Group Bank</td><td rowspan="2">666.3</td><td>226.4</td><td rowspan="2">130.6</td><td>9.5%</td><td>RUB</td><td rowspan="2">01.04.2018</td></tr>
<tr><td>309.4</td><td>3-month LIBOR + 6.7%</td><td>US$</td></tr>
<tr><td>Plaza Spa Hotel Zheleznovodsk (Kalinina Hotel)</td><td>Sberbank</td><td>20</td><td>19.9</td><td>0</td><td>(13.5% under Credit facility minus 6.75% subsidy)</td><td>RUB</td><td>20.12.2014</td></tr>
</table>

The total balance of debt financing reached US$ 555.9 million as at 31 of December 2012, including US$ 555.7 million for the principal debt and US$ 0.2 million for accrued interest with average interest rate of 8.07% per annum as at 31 December 2012 (compared to 10.67% as at 31 December 2011) (for more details see notes 28 to our consolidated financial statements).

As at 31 December 2012, our loans and borrowings were payable as follows:

US$ 'million	As at 31 December 2012	As at 31 December 2011
Less than one year	17,345	98,973
Between one and five years	96,620	469,254
More than five years	457.931	58,862
Total	571,896	627,089

PORTFOLIO VALUATION

As at 31 December 2012, based on Cushman & Wakefield LLC ("C&W") independent appraisers' report, the value of portfolio of investment property stood at US$ 1.5 billion and our portfolio of investment property under development at US$ 0.6 billion. Additionally, C&W estimated the value of the Four Winds office and retail projects as US$ 176.5 million (50% AFI Development share).

Consequently, the total value of Company assets, based mostly on independent valuation, as of 31 December 2012, was US$ 2.5 billion. This figure represents an 8% decrease in the value of portfolio compared to the balance value for 31 December 2011.

Major drivers of the portfolio revaluation were the following:

1. Significant decrease in value:

   Tverskaya Plazas

   In Q2 2012, the Company reclassified Tverskaya Plaza Ib and Tverskaya Plaza II from "investment properties under development" to "investment properties". This was also reflected in the change of valuation approach, implemented by the independent appraiser (Jones Lang LaSalle) by valuing the assets as yielding properties, rather than as development projects. As a result, the value of these two projects decreased by US$ 59 million during Q2 2012. Based on valuation as of 31 December 2012, the fair value of Tverskaya Plaza Ib was US$ 10.0 million and the fair value of Tverskaya Plaza II was US$ 30.6

   Kossinskaya

   Following the decision of the Russian Parliament to extend the borders of Moscow to the South-West and the gradual move of development interest to the Western parts of Moscow, the Company had to re-visit development concept of the project to sustain its competitiveness and to build a property of higher quality.

   The capital repairs concept envisages installation of additional lifts, construction of additional ventilation shafts and an increase in communal space, resulting in a reduction of the gross leasable area and higher projected costs. While the independent appraiser, Jones Lang LaSalle, assumed the same level in rental income as in previous valuations, the value of Kossinskaya decreased from US$ 152.6 million as at 31 March 2012 to US$ 102.3 million as at 30 June 2012. Based on valuation as of 31 December 2012, the fair value of Kossinskaya was US$ 102.7 million.

   Bolshaya Pochtovaya

   During the second quarter of 2012, the Moscow architectural authorities had a series of internal discussions relating to the new master-planning policy in the area of Bolshaya Pochtovaya. AFI Development initiated discussions with the authorities to influence the decision relating to the planned construction density for the project, while the city indicated that the construction density of the project would be reduced.

   Based on the new projected gross buildable area of the project, the independent appraiser, Jones Lang LaSalle, decreased the project value from US$ 213.6 million as at 31 March 2012 to US$ 140.5 million as at 30 June 2012. Based on valuation as of 31 December 2012, the fair value of Bolshaya Pochtovaya was US$ 141.3 million.

2. Significant write-off:

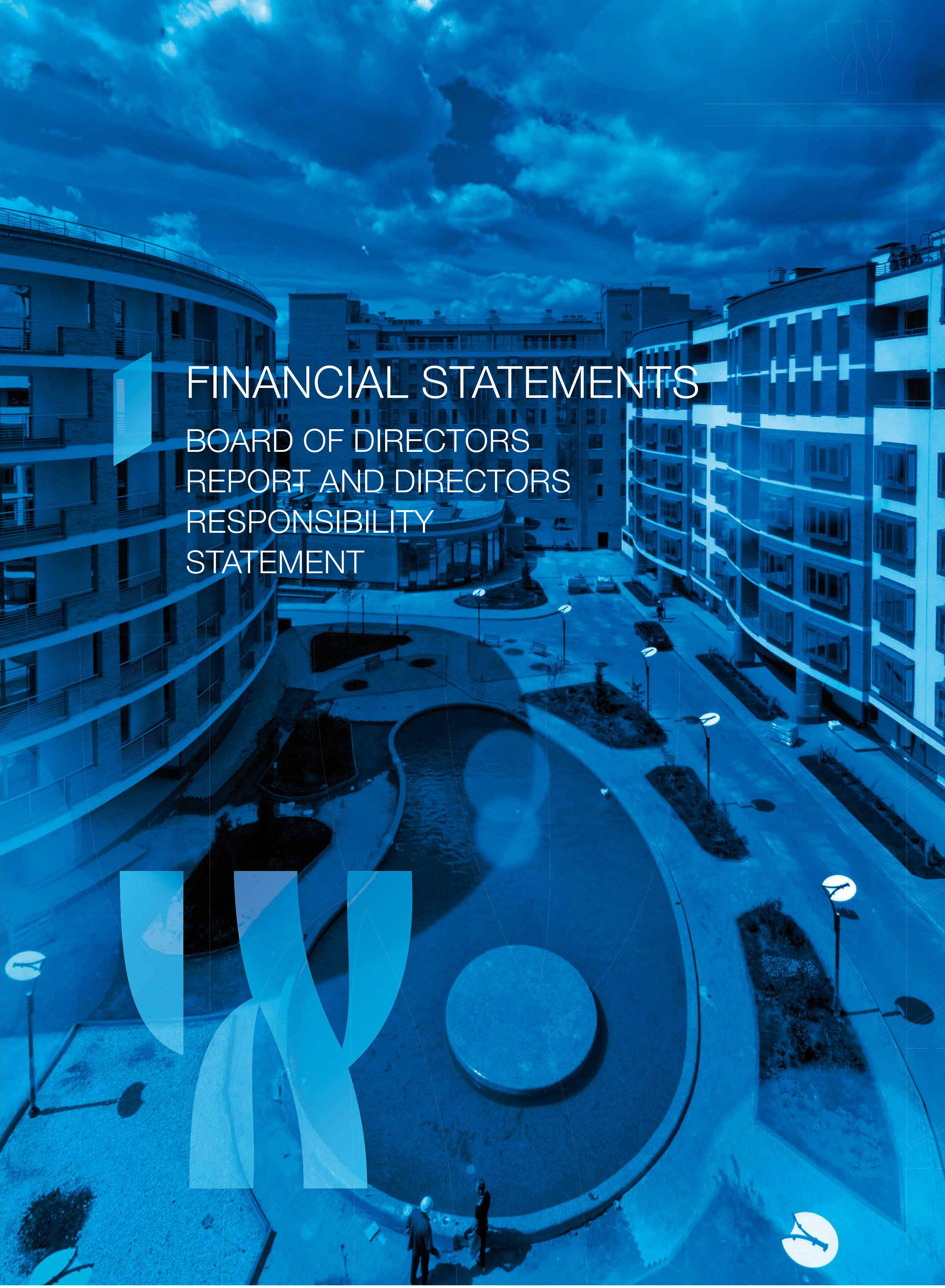
   Botanic Garden

   Having consulted its legal advisers, AFI Development took the decision to write-off its Botanic Garden project in Q2 2012, which resulted in the impairment loss on inventory of real estate. A subsidiary of the Company, Nordservice LLC, is a "co-investor" in the project together with a company fully owned by the City of Moscow (Novoe Koltso Moskvy OJSC), which is the main investor and beneficiary of land lease rights for the Botanic Garden project. A claim filed with a

Moscow court on 2 August 2012 by a third party creditor is seeking to declare the main investor bankrupt, while its assets were arrested for the benefit of the same creditor. AFI Development has concluded, based on the opinion of its legal advisers, that the recovery of the Company's costs relating to its investments in the project is unlikely. Given the current circumstances, the Company has decided to write-off its rights in the project. Notwithstanding this, AFI Development continues its efforts to recover its costs and/or receive the development rights to the project.

	Property	Valuation 31.12.2012, US dollars	Valuation 31.12.2011, US dollars	Change in valuation, %	Balance sheet value 31.12.2012, US dollars	Balance sheet value 31.12.2011, US dollars
Investment property						
1	H2O	18,800,000	18,550,000	1%	18,800,000	18,550,000
2	Ozerkovskaya Phase III	194,127,221	177,600,000	9%	194,127,221	177,600,000
3	Ozerkovskaya IV	n/a	2,850,000	-	-	2,850,000
4	Berezhkovskaya[2]	31,524,000	28,000,000	13%	42,600,000	37,837,838
5	AFIMALL City	1,160,000,000	1,160,000,000	0%	1,160,000,000	1,160,000,000
6	Paveletskaya I	30,300,000	27,750,000	9%	30,300,000	27,750,000
7	Plaza II	30,600,000	76,900,000	-60%	30,600,000	76,900,000
8	Plaza Ib	10,000,000	23,800,000	-58%	10,000,000	23,800,000
	Total	1,475,351,221	1,515,450,000	-3%	1,486,427,221	1,525,287,838
Investment property under development						
9	Plaza Ic	106,600,000	115,900,000	-8%	106,600,000	115,900,000
10	Plaza IIa	32,000,000	34,700,000	-8%	32,000,000	34,700,000
11	Plaza IV[3]	159,600,000	156,400,000	2%	168,000,000	164,631,579
12	Paveletskaya Phase II[4]	116,425,580	47,800,000	146%	11,593,379	11,475,117
13	Kosinskaya	102,700,000	146,120,000	-30%	102,700,000	146,120,000
14	Bolshaya Pochtovaya	141,300,000	213,200,000	-34%	141,300,000	213,200,000
15	Ozerkovskaya IV	422,779	n/a		422,779	n/a
	Total	660,022,779	714.120.000	-14%	562.616.158	686.026.696
Trading property						
16	Otradnoye	n/a	105,300,000	-	112,014,885	106,424,570
17	Botanic Garden	n/a	68,300,000	-	-	66,220,728
18	Four Winds Residential	n/a	n/a	-	1,127,016	2,592,988
19	Ozerkovskaya II	n/a	30,000,000	-	985,257	8,145,002
20	AFIMALL parking for sale (665 lots)	n/a	50,100,000	-	29,771,814	23,173,759
	Total	-	253.700.000	-100%	143.898.972	206.557.047
Land Bank Properties						
21	Ruza	n/a	63,700,000	-	3,665,000	3,921,763
22	St. Petersburg	1,830,000	1,850,000	-1%	1,830,000	1,850,000
23	Boryspol (Ukraine)	n/a	13,500,000	-	-	13,500,000
	Total	1,830,000	79,050,000	-98%	5,495,000	19,271,763
Hotels						
24	Aquamarine Hotel	n/a	45,000,000	-	34,333,252	33,168,320
25	Plaza Spa Hotel in Kislovodsk	n/a	29,550,000	-	26,352,350	25,253,993
26	Kalinina Hotel in Zheleznovodsk	n/a	13,500,000	-	24,261,386	13,800,000
27	Park Plaza hotel developments in Kislovodsk*	n/a	10,000,000	-	7,737,544	8,979,629
28	Versailles project in Kislovodsk*	9,200,000	6,900,000	33%	8,789,447	8,800,000
	Total	9,200,000	104,950,000	-91%	101,473,979	90,001,942
Held for sale						
29	Four Winds Office	153,400,000	137,500,000	12%	160,495,899	137,500,000
30	Four Winds Residential (incl. fitness & retail)	23,050,000	22,000,000	5%	17,821,997	19,407,012
	Total	176,450,000	159,500,000	11%	178,317,896	156,907,012
	Grand Total	2,322,854,000	2,826,770,000	-18%	2,478,229,226	2,686,960,253

[2] Valuation figures represent Company's share (74%).
[3] Valuation figures represent Company's share (95%).
[4] Valuation figures represent Company's share (99%).



FINANCIAL STATEMENTS

BOARD OF DIRECTORS REPORT AND DIRECTORS RESPONSIBILITY STATEMENT

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Lev Leviev - Chairman
	Mark Groysman
	Moshe Amit
	Avraham Noach Novogrocki (appointed on 21 August 2012)
	Izzy Cohen (resigned on 22 July 2012)
	Christakis Klerides
	John Robert Camber Porter
	Panayiotis Demetriou
	Michalakis Sarris (resigned on 1 March 2013)
Secretary	Fuamari Secretarial Limited (appointed on 5 September 2012)
	Emerald Secretarial Limited (resigned on 5 September 2012)
Independent Auditors	KPMG Limited
Bankers	Joint Stock Company VTB Bank
	Joint Stock Commercial Savings Bank of the Russian Federation
	Bank Leumi (UK) plc
	Citibank N.A.
Registered Office	Spyrou Araouzou 165,
	Lordos Waterfront Building,
	3035 Limassol,
	Cyprus

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 2012.

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. Established in 2001, AFI Development is a publicly traded subsidiary of Africa Israel Investments Ltd.

AFI Development is listed on the Main Market of the London Stock Exchange and aims to deliver shareholder value through a commitment to innovation and continuous project development, coupled with the highest standards of design, construction, and quality and customer service.

AFI Development focuses on developing and redeveloping high quality commercial and residential real estate assets across Russia, with Moscow being its main market. The Company's existing portfolio comprises commercial projects focused on offices, shopping centres, hotels and mixed-use properties, and residential projects. AFI Development's strategy is to sell the residential properties it develops and to either lease the commercial properties or sell them for a favourable return.

As at 31 December 2012, the Company's portfolio consisted of 7 investment properties, 8 investment properties under development, 2 trading properties, 5 hotel projects, 2 trading properties under development/ non-current inventory and 2 assets for sale at various stages of development. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow.

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 8. The loss of the Group for the year before taxation amounted to US$ 283,537 thousand (2011: profit US$ 246,641 thousand). The loss after taxation attributable to the Group's shareholders amounted to US$ 269,098 thousand (2011: profit US$ 170,870 thousand).

BOARD OF DIRECTORS' REPORT

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend and the loss for the year is transferred to retained earnings.

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 to the share capital of the Company during the year. As at the year end the share capital of the company comprised:

- 523,847,027 "A" shares of US$ 0.001 and,
- 523,847,027 "B" shares of US$ 0.001

All "A" shares are on deposit with BNY (Nominees) Limited and each "A" share is represented by one GDR listed on the London Stock Exchange ("LSE").

All "B" shares were admitted to a premium listing of the Official list of the UK Listing Authority and to trading on the main market of LSE.

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 AFIMALL City project. The Dulverton Ltd branch and the Westec Four Winds Ltd branch, which operate Four Winds I and II projects respectively. Amerone Ltd branch and Bugis Finance branch operating investment properties and Bastet Estates Ltd branch and Falgaro Investments Ltd branch acting as sale agents for residential properties.

BOARD OF DIRECTORS' REPORT

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2012 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 during the year.

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 40 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

Fuamari Secretarial Limited

Secretary

Nicosia, 18 March 2012

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the directors, whose names are listed below confirm that, to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the Board of Directors' reports include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of the Company as at the date of this announcement are as set out below:

The Board of Directors

Executive directors	Lev Leviev – Chairman
	Mark Groysman
Non-executive director	Avraham Noach Novogrocki
Non-executive independent directors	Moshe Amit
	Christakis Klerides
	John Robert Camber Porter
	Panayiotis Demetriou

FINANCIAL STATEMENTS

AUDITORS REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Members of AFI Development Plc

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements and the parent company separate financial statements of AFI Development Plc ("the Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position and the parent company separate statement of financial position as at 31 December 2012, and the consolidated statements of income statement, comprehensive income and changes in equity and cash flows and the parent company separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the consolidated and parent company Financial Statements

The Board of Directors is responsible for the preparation of consolidated and parent company 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, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and parent company separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and parent company separate 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 consolidated and parent company separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and parent company separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and parent company separate 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 and parent company separate 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 and parent company separate financial statements.

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

Opinion

In our opinion, the consolidated and parent company separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 consolidated and parent company separate 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 and parent company separate financial statements give the information required by the Cyprus 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 and parent company separate financial statements.

We have nothing to report in respect of the Listing Rules, where we are required to review the part of Corporate Governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combine Code specified for our review.

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 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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.

Marios G. Gregoriades CPA

Certified Public Accountant and Registered Auditor

For and on behalf of

KPMG Limited

Certified Public Accountants and Registered Auditors

14 Esperidon Street

1087 Nicosia, Cyprus

18 March 2013

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 US$ '000	2011 US$ '000
Revenue	8	162,639	133,924
Other income	9	3,281	754
Operating expenses	11	(74,443)	(72,102)
Carrying value of trading properties sold	22	(9,218)	(10,345)
Administrative expenses	10	(20,410)	(30,315)
Other expenses	12	(2,622)	(2,343)
Total expenses		(106,693)	(115,105)
Gross Profit		59,227	19,573
Profit on disposal of investments in subsidiaries	7	2,729	-
Impairment of prepayment for investments		-	(1,178)
Valuation (loss)/gain on investment property	16,17	(246,096)	267,978
Impairment loss on inventory of real estate	20	(65,445)	-
Impairment loss on trading properties	22	-	(414)
Impairment loss reversal on property, plant and equipment	18	-	1,320
Net valuation (loss)/gain on properties		(311,541)	268,884
Results from operating activities		(249,585)	287,279
Finance income		26,590	8,234
Finance costs		(60,542)	(48,872)
Net finance costs	13	(33,952)	(40,638)
(Loss)/profit before tax		(283,537)	246,641
Tax benefit/(expense)	14	8,010	(75,098)
(Loss)/profit for the year		(275,527)	171,543
Profit attributable to:			
Owners of the Company		(269,098)	170,870
Non-controlling interests		(6,429)	673
Profit for the year		(275,527)	171,543
Earnings per share			
Basic and diluted earnings per share (cent)	15	(25.68)	16.31

The notes on pages 86 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 US$ '000	2011 US$ '000
(Loss)/profit for the year	(275,527)	171,543
Other comprehensive income:		
Realised translation difference on disposal of subsidiaries transferred to income statement	(161)	-
Foreign currency translation differences for foreign operations	33,608	(35,870)
Total comprehensive income for the year	(242,080)	135,673
Total comprehensive income attributable to:		
Owners of the parent	(235,217)	135,011
Non-controlling interests	(6,863)	662
	(242,080)	135,673

The notes on pages 86 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to the owners of the Company					Non-controlling interests	Total
	Share Capital US$ '000	Share Premium US$ '000	Translation Reserve US$ '000	Retained Earnings US$ '000	Total US$ '000	US$ '000	US$ '000
Balance at 1 January 2011	1,048	1,763,409	(142,632)	106,571	1,728,396	3,225	1,731,621
Total comprehensive income for the year							
Profit	-	-	-	170,870	170,870	673	171,543
Other comprehensive income							
Foreign currency translation differences	-	-	(35,859)	-	(35,859)	(11)	(35,870)
Total comprehensive income for the year	-	-	(35,859)	170,870	135,011	662	135,673
Transactions with owners of the Company, recognised directly in equity							
Share option expense	-	-	-	62	62	-	62
Balance at 31 December 2011	1,048	1,763,409	(178,491)	277,503	1,863,469	3,887	1,867,356
Balance at 1 January 2012	1,048	1,763,409	(178,491)	277,503	1,863,469	3,887	1,867,356
Total comprehensive income for the year							
Loss	-	-	-	(269,098)	(269,098)	(6,429)	(275,527)
Other comprehensive income							
Foreign currency translation differences	-	-	33,881	-	33,881	(434)	33,447
Total comprehensive income for the year	-	-	33,881	(269,098)	(235,217)	(6,863)	(242,080)
Transactions with owners of the Company, recognised directly in equity							
Share option expense	-	-	-	1,256	1,256	-	1,256
Balance at 31 December 2012	1,048	1,763,409	(144,610)	9,661	1,629,508	(2,976)	1,626,532

The notes on pages 86 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 US$ '000	2011 US$ '000
Assets			
Investment property	16	1,486,427	1,403,580
Investment property under development	17	568,160	983,598
Property, plant and equipment	18	102,910	92,034
Long-term loans receivable	19	759	739
Inventory of real estate	20	-	66,221
VAT recoverable	21	574	5,370
Goodwill		153	153
Non-current assets		2,158,983	2,551,695
Trading properties	22	2,112	11,053
Trading properties under construction	23	141,787	129,598
Inventories		1,139	665
Short-term loans receivable	19	92	81
Trade and other receivables	24	78,548	107,170
Current tax assets	14	2,877	-
Cash and cash equivalents	25	178,195	84,820
Assets held for sale	26	185,888	-
Current assets		590,638	333,387
Total assets		2,749,621	2,885,082
Equity			
Share capital	27	1,048	1,048
Share premium	27	1,763,409	1,763,409
Translation reserve	27	(144,610)	(178,491)
Retained earnings	27	9,661	277,503
Equity attributable to owners of the Company		1,629,508	1,863,469
Non-controlling interests		(2,976)	3,887
Total equity		1,626,532	1,867,356
Liabilities			
Long-term loans and borrowings	28	554,551	528,116
Long-term amounts payable	29	38,324	71,627
Deferred tax liabilities	30	104,593	142,093
Deferred income	32	20,163	22,622
Non-current liabilities		717,631	764,458
Short-term loans and borrowings	28	17,345	98,973
Trade and other payables	31	273,516	154,092
Current tax liabilities	14	-	203
Liabilities held for sale	26	114,597	-
Current liabilities		405,458	253,268
Total liabilities		1,123,089	1,017,726
Total equity and liabilities		2,749,621	2,885,082

The consolidated financial statements were approved by the Board of Directors on 18 March 2013.

Lev Leviev	Mark Groysman
Chairman	Director

The notes on pages 86 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 US$ '000	2011 US$ '000
Cash flows from operating activities			
(Loss)/Profit for the year		(275,527)	171,543
Adjustments for:			
Depreciation	18	2,316	1,829
Interest income	13	(9,310)	(8,234)
Interest expense	13	54,825	40,126
Share option expense		1,256	62
Net valuation loss/gain on properties		311,541	(268,884)
Impairment of prepayments for investments		-	1,178
Loss on sale of property, plant and equipment		846	56
Negative goodwill on acquisition of joint venture		(1,929)	-
Profit on disposal of investment in subsidiaries	7	(2,729)	-
Unrealised (profit)/loss on foreign exchange	13	(17,280)	6,154
Tax (benefit)/expense	14	(8,010)	75,098
		55,999	18,928
Change in trade and other receivables		(1,870)	4,596
Change in amounts receivable from related companies	24	(218)	6,432
Change in inventories		(142)	(89)
Change in trading properties and tr. properties under construction		(1,142)	9,507
Change in trade and other payables	31	12,862	1,649
Change in amounts payable to related companies	31	(487)	5,142
Change in deferred income	32	646	(5,617)
Cash generated from operating activities		65,648	40,548
Taxes paid		(7,692)	(12,727)
Net cash from operating activities		57,956	27,821
Cash flows from investing activities			
Receipts in advance for the sale of an investment	31	100,000	-
Net cash inflow from the disposal of subsidiaries	7	5,789	-
Net cash inflow from the acquisition of joint venture		4,035	-
Proceeds from sale of property, plant and equipment		59	39
Interest received		2,395	677
Change in advances to builders		(1,543)	5,219
Payments for construction of investment property under development	16,17	(27,455)	(66,463)
Payments for the acquisition of investment property	16	(43,967)	(113,922)
Change in VAT recoverable	21	46,508	4,541
Acquisition of property, plant and equipment	18	(7,467)	(9,646)
Net cash from/(used in) investing activities		78,354	(179,555)
Cash flows from financing activities			
Payments for loan receivable		(102)	(740)
Proceeds from repayment of loans receivable		102	43
Proceeds from loans and borrowings		577,507	268,251
Repayment of loans and borrowings		(555,440)	(89,220)
Interest paid		(58,760)	(60,088)
Net cash (used in)/from financing activities		(36,693)	118,246
Effect of exchange rate fluctuations		(1,551)	(11,531)
Net decrease in cash and cash equivalents		98,066	(45,019)
Reclassification to assets held for sale		(4,691)	-
Cash and cash equivalents at 1 January		84,820	129,839
Cash and cash equivalents at 31 December	25	178,195	84,820
Cash and cash equivalents at 1 January		129,839	210,830
Cash and cash equivalents at 31 December	21	84,820	129,839

The notes on pages 86 to 136 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the “Company”) was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company’s registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. The Company is a 64.88% (31/12/2011: 63.7%) subsidiary of Africa Israel Investments Ltd (“Africa-Israel”), which is listed in the Tel Aviv Stock Exchange (“TASE”). The remaining shareholding of “A” shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange (“LSE”). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 “B” shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as “A” shares.

The consolidated financial statements of the Company as at and for the year ended 31 December 2012 comprise of the Company and its subsidiaries (together referred to as the “Group” and individually as ‘Group entities’) 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 39 “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 for issue by the Board of Directors on 18 March 2013.

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 property and investment property under development which are presented at fair value.

2. BASIS OF PREPARATION (CONTINUED)

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.

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 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 14 – provision for tax liabilities
- Note 16 – valuation of investment property
- Note 17 – valuation of investment property under development
- Note 18 – valuation of land and buildings and buildings under construction
- Note 22 – valuation of trading properties
- Note 23 – valuation of trading properties under construction
- Note 24 – recoverability of receivables
- Note 30 – utilisation of tax losses
- Note 37 – contingencies

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

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

Basis of consolidation

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result and no gain or loss is recognised in profit or loss. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Subsidiaries

Subsidiaries are entities controlled by the Group. 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. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Acquisitions from entities under common control

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

Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at 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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using its functional currency. Where the functional currency of an entity of the Group is other than US Dollars, which is the presentation currency of the Group, then the financial statements of 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. The income and expenses are translated to US Dollars at the exchange rate at the reporting date or average rate for the year for practical reasons.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of (in part or in full) the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

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 currency gains and losses arising from such item are considered to form part of the net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency (continued)

Foreign operations (continued)

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 2012	30.3727	(5.7)
31 December 2011	32.1961	5.6
Average rate during:		
Year ended 31 December 2012	31.0930	5.8
Year ended 31 December 2011	29.3760	(3.3)

Financial Instruments

Non derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realised the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans receivable, trade and other receivables and cash and cash equivalents.

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. 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, which takes into account any dividend income are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Non derivative financial assets (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 with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Non derivative financial liabilities

The Group initially recognises debt securities and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognises initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

Share capital
Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares 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 property is 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. Any gain or loss arising from a change in fair value is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Property (continued)

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its 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 property 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.

Certain development assets within the Group's portfolio that are in very early stages of 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 gain or loss to be recognised in profit or loss. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalise borrowing costs. Purchased software that is integral to the functionality of the related 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.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are available for use, or in respect of self-constructed assets, from the date that the asset is completed and ready for use.

The annual depreciation rates for the current and comparative years are as follows:

Buildings	1-2%
Office equipment	10-$33^1/_3$%
Motor vehicles	$33^1/_3$%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

Goodwill

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Goodwill (continued)
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 any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

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 under construction 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.

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.

Inventory of real estate

Land for future development of trading properties is classified as "Inventory of real estate" as non-current asset when it is not expected to develop and sell the properties within the Group's normal operating cycle. It is presented at the lower of cost or net realisable value.

Deferred income

Income received in advance is classified under non-current and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact 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 assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risks 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, inventories 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. Goodwill and intangible assets are tested annually for impairment. 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.

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 in respect of goodwill is not reversed. For other assets, 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 has been recognised.

Assets held for sale or held for distribution

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for sale or held-for-distribution if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held for sale or held-for-distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's other 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets held for sale or held for distribution (continued)

Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale or held for distribution, intangible assets, and property, plant and equipment are no longer amortised or depreciated.

Employee benefits

Short-term employee 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 grant-date fair value of share-based payment options granted to employees 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.

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 become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the liability are recognised as personnel expenses 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. The unwinding of the discount is recognised as finance cost.

Revenue

Sale of trading properties

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

Construction Management fee

Revenue from construction management is recognised in 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (continued)

Rental income

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Hotel operation income

Income from Hotel operations comprises of accommodation, treatments and other services offered at the hotels operated by the group and sales of food and beverages and are recognised upon offering of the service and the acceptance by the client.

Gross Profit

Gross Profit is the result of the Group's operations and comprises revenue and other revenue net of all cost for trading properties sold and operating, administrative and other expenses, recognised in the income statement during the year.

Finance income and finance costs

Finance income comprises interest income on funds invested and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, fair value losses on financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Borrowing costs are recognised in profit or loss using the effective interest method, net of interest capitalised.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is 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. Current tax payable also includes any tax liability arising from the declarations of dividends.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax (continued)

Deferred tax is not recognised for temporary differences 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, using tax rates enacted or substantively 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 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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which 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 on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

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 the owners of Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the owners 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 segments 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

As from 1 January 2012, the Company adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2012. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU

- IFRS 7 (Amendments) ''Financial Instruments: Disclosures" - ''Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 10 ''Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 ''Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 ''Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 ''Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 (Amendments) ''Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 (Amendments) ''Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (Revised) ''Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 (Revised) ''Investments in Associates and Joint ventures" (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 (Amendments) ''Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).

Standards and Interpretations not adopted by the EU

- Improvements to IFRSs 2009-2011 (effective for annual periods beginning on or after 1 January 2013).
- IFRS 1 (Amendments): ''Government Loans" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 7 (Amendments) ''Financial Instruments: Disclosures" – ''Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 ''Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective for annual periods beginning on or after 1 January 2013).
- Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective for annual periods beginning on or after 1 January 2014).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of the Company except of:

- The adoption of IFRS 11 that would change the accounting and presentation of Joint ventures in the consolidated financial statements.
- The adoption of IFRS 10 could affect the consolidated financial statements.

The extent of the impact has not been determined.

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 the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of land and buildings 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, the Group is performing a revaluation of the Investments property portfolio twice a year.

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.

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.

4. DETERMINATION OF FAIR VALUES (CONTINUED)

Investment property (continued)

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 the 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 the share price on measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term 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
- operational 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.

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.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management framework (continued)

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 cash deposited with banks.

Trade and other receivables

Financial assets which are potentially subject to credit risk consist principally of trade and other receivables as well as credit exposures with respect to rental customers and buyers of residential properties including outstanding receivables. The carrying amount of trade and other receivable represents the maximum amount exposed to credit risk. Approximately 10 percent of the Group's rental revenue is attributable to revenue from a single customer. 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 and cash equivalents

Credit risk arises from cash and cash equivalents. 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.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2012, there were three outstanding guarantees: one of AFI Development Plc for the amount of US$ 1 million in favour of a bank of the VTB Group under a loan facility agreement of Bellgate Construction Limited and two solitary guarantees by Stroyinkom-K LLC and AFI RUS LLC for the amount of RUR606.77 million (circa US$ 19.98 million) under a loan facility agreement of Eitan-K LLC. As at 31 December 2011 there was one guarantee outstanding under two separate non-revolving credit lines from JSC VTB Bank for total value of RUR 13.448 billion.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting 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 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 2012:

- A secure bank loan facility from VTB Group Bank for RUR 21billion, with the majority of the funds designated for refinancing existing loans and the rest for the financing of the acquisition and construction AFIMALL City parking
- A four year US$ 20 million loan from Sberbank. The loan is denominated in Russian Rouble and is being used for the reconstruction of Kalinina project.

Market risk

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

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 currencies in which these transactions primarily are denominated are 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.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

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

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 5 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 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.
- Hotel Operation: Includes the operation of Hotels
- 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.

6. OPERATING SEGMENTS (CONTINUED)

	Development projects				Asset management		Hotel Operation		Other - land bank		Total	
	Commercial projects		Residential projects									
	2012 US$ ' 000	2011 US$ ' 000	2012 US$ ' 000	2011 US$ ' 000	2012 US$ ' 000	2011 US$ ' 000	2012 US$ ' 000	2011 US$ ' 000	2012 US$ ' 000	2011 US$ ' 000	2012 US$ ' 000	2011 US$ ' 000
External revenues	25	-	14,105	15,929	107,277	91,532	24,610	13,337	16,622	13,126	162,639	133,924
Inter-segment revenue	-	2	3	3	-	6	38	51	539	760	580	822
Interest revenue	7,812	7,313	11	46	1,470	322	426	14	1,855	539	11,574	8,234
Interest expense	(47)	(32)	(641)	(679)	(58,120)	(41,120)	(2,337)	(170)	(271)	(1,262)	(61,416)	(43,263)
Depreciation	-	(466)	-	-	(537)	(97)	(1,431)	(1,020)	(206)	(287)	(2,174)	(1,870)
Reportable segment profit before tax	12,412	(3,309)	769	9,080	35,366	(4,001)	1,165	1,657	(23,188)	(22,854)	26,524	(19,427)
Other material non-cash items:												
Net valuation gains/(losses) on properties	(203,920)	(52,062)	(62,722)	18,042	(33,632)	241,340	-	1,436	(11,267)	60,233	(311,541)	268,989
Reportable segment assets	461,856	563,820	141,501	202,049	1,263,641	1,440,922	61,996	64,510	434,607	470,078	2,363,601	2,741,379
Reportable segment liabilities	217,960	690,876	11,151	12,280	724,353	249,997	23,469	13,583	5,657	33,642	982,590	1,000,378

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

6. OPERATING SEGMENT (CONTINUED)

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

	2012 US$ ' 000	2011 US$ ' 000
Revenues		
Total revenue for reportable segments	163,219	134,746
Elimination of inter-segment revenue	(580)	(822)
Consolidated revenue	162,639	133,924
Profit or loss		
Total profit or loss for reportable segments	26,524	(19,427)
Other profit or loss	1,480	(1,638)
Valuation (loss)/gain on investment property	(246,096)	267,978
Impairment loss on inventory of real estate	(65,445)	-
Impairment loss reversal on property, plant and equipment	-	1,320
Impairment of prepayment for investments	-	(1,178)
Impairment loss on trading properties	-	(414)
Consolidated (loss)/profit before tax	(283,537)	246,641
Assets		
Total assets for reportable segments	2,363,601	2,741,379
Other unallocated amounts	386,020	143,703
Consolidated total assets	2,749,621	2,885,082
Liabilities		
Total liabilities for reportable segments	982,590	1,000,378
Other unallocated amounts	140,499	17,348
Consolidated total liabilities	1,123,089	1,017,726

	Reportable segment totals	Adjustments	Consolidated totals
Other material items 2012			
Interest revenue	11,574	(2,264)	9,310
Interest expense	(61,416)	5,129	(56,287)
Net valuation (loss)/gain on properties	(311,541)	-	(311,541)

6. OPERATING SEGMENT (CONTINUED)

	Reportable segment totals	Adjustments	Consolidated totals
Other material items 2011			
Interest revenue	8,234	-	8,234
Interest expense	43,263	(3,137)	40,126
Net valuation gain on properties	268,989	-	268,989

Geographical segments

Geographically the Group operates only in Russia and has no significant revenue or assets abroad. Therefore no geographical segment reporting is presented.

Major customer

Revenues from one customer of the asset management segment, represents approximately 10% (2011: 12%) of the Group's total rental revenue.

7. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES

The profit on disposal of subsidiaries consists of:	2012 US$ ' 000	2011 US$ ' 000
Profit on disposal of OOO Ozerkovka	2,637	-
Loss on disposal of Roppler Engineering Limited and	(275)	-
its subsidiary OOO CDM	367	-
Translation gain recognised on disposal of OOO Kama Gate	2,729	-
	2,729	-

The selling price of the disposal of OOO Ozerkovka was US$ 6 million. The resulting profit on sale amounting to US$ 2,843 thousand and the realised exchange loss amounting to $206 thousand were recognised in the income statement at an amount of US$ 2,637 thousand profit.

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7. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

	2012 US$ ' 000	2011 US$ ' 000
	OOO Ozerkovka	**Roppler Ltd & OOO CDM**
Investment property	(3,160)	-
Trade and other receivables	(26)	(540)
Cash and cash equivalents	(98)	(115)
Short term loans and borrowings	-	359
Deferred income	84	-
Trade and other payables	22	19
Current tax liabilities	21	-
Net identifiable assets	(3,157)	(277)
Consideration received in cash	6,000	2
Cash disposed of	(98)	(115)
Net cash inflow from the disposal of each subsidiary	5,902	(113)
Net cash inflow from disposal of subsidiaries	5,789	

8. REVENUE

	2012 US$ ' 000	2011 US$ ' 000
Rental income	121,396	103,612
Proceeds from sale of trading properties	14,105	15,929
Hotel operation income	24,610	13,377
Construction consulting/management fees	2,528	1,006
	162,639	133,924

9. OTHER INCOME

Other income consist of:	2012 US$ ' 000	2011 US$ ' 000
Negative Goodwill written off	1,929	-
Profit on sale of property, plant and equipment	48	14
Sundries	1,304	740
	3,281	754

10. ADMINISTRATIVE EXPENSES

	2012 US$ ' 000	2011 US$ ' 000
Consultancy fees	4,671	1,693
Legal fees	1,447	1,876
Auditors' remuneration	900	1,156
Valuation expenses	397	607
Directors' remuneration	510	437
Salaries and wages	141	574
Depreciation	163	1,870
Insurance	456	334
Provision for Doubtful Debts	4,227	13,279
Share option expense	1,256	62
Donations	4,212	4,213
Other administrative expense	2,030	4,214
	20,410	30,315

11. OPERATING EXPENSES

	2012 US$ ' 000	2011 US$ ' 000
Maintenance, utility and security expenses	28,536	32,580
Agency and brokerage fees	1,214	1,115
Advertising expenses	4,743	5,644
Salaries and wages	19,626	12,104
Consultancy fees	827	3,596
Depreciation	2,011	-
Insurance	1,091	545
Rent	1,444	3,434
Property and other taxes	14,862	13,070
Other	89	14
	74,443	72,102

12. OTHER EXPENSES

	2012 US$ ' 000	2011 US$ ' 000
Prior years' VAT non recoverable (note 21)	1,854	2,335
Loss on sale of property, plant and equipment	474	-
Sundries	294	8

13. FINANCE INCOME AND FINANCE COSTS

	2012 US$ ' 000	2011 US$ ' 000
Interest income on loans receivable	6,917	7,557
Interest/investment income on bank deposits and cash equivalents	2,393	677
Net foreign exchange gain	17,280	-
Finance income	26,590	8,234
Interest expense on loans and borrowings	(646)	(691)
Interest expense on bank loans	(56,846)	(57,604)
Interest capitalised	8,005	18,169
Net change in fair value of financial assets	(124)	(327)
Other finance costs	(10,931)	(2,265)
Net foreign exchange loss	-	(6,154)
Finance costs	(60,542)	(48,872)
Net finance costs	(33,952)	(40,638)

Subject to the provisions of IAS23 "Borrowing costs" the Group capitalised US$ 8,005 thousand (2011: US$ 18,169 thousand) financing costs to the projects that are in construction phase. These were added to the cost of the Investment property under development, Buildings under construction and to the cost of Trading properties under construction.

14. TAX EXPENSE

	2012 US$ ' 000	2011 US$ ' 000
Current tax expense		
Current year	4,705	12,737
Adjustment for prior years	595	882
	5,300	13,619
Deferred tax expense		
Origination and reversal of temporary differences	(13,310)	61,479
Total tax (benefit)/expense	(8,010)	75,098

14. 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 are subject to 20% corporate rate.

	%	2012 US$ ' 000	%	2011 US$ ' 000
(Loss)/profit for the year after tax		(275,527)		171,543
Total tax (benefit)/expense		(8,010)		75,098
(Loss)/profit before tax		(283,537)		246,641
Tax using the Company's domestic tax rate	(10.00)	(28,358)	10.00	24,664
Effect of tax rates in foreign jurisdictions	0.15	414	(6.52)	(16,075)
Tax exempt income	(1.20)	(3,396)	(0.26)	(631)
Non deductible expenses	9.45	26,795	23.70	58,461
Change in estimates related to prior years	(1.69)	(4,784)	0.36	882
Current year losses for which no deferred tax asset recognised	0.46	1,319	3.16	7,797
	(2.83)	(8,010)	30.45	75,098

The current tax assets of US$ 2,877 thousand as at 31 December 2012, represents the net amount of income tax overpayment in respect of current and prior periods. The current tax liability of US$ 203 thousand for the year ended 31 December 2011, represents the net amount of income tax payable in respect of year ended 31 December 2011 and prior periods net of payments made up to the year end.

15. EARNINGS PER SHARE

	2012 US$ ' 000	2011 US$ ' 000
Basic earnings per share		
(Loss)/Profit attributable to ordinary shareholders	(269,098)	170,870
Weighted average number of ordinary shares	Shares in thousands	Shares in thousands
Weighted average number of shares	1,047,694	1,047,694
Earnings per share (cent)	(25.68)	16.31

Diluted earnings per share are not presented as the assumed conversion of the employee share options outstanding would have an anti-dilutive effect i.e. increase in earnings per share.

16. INVESTMENT PROPERTY

	2012 US$ ' 000	2011 US$ ' 000
Balance 1 January	1,403,580	192,973
Transfer from investment property under development	234,727	822,376
Transfer to assets held for sale	(177,996)	-
(Disposals)/acquisitions	(3,160)	203,849
Renovations/additional cost	16,557	5,736
Fair value adjustment	(33,632)	247,663
Effect of movement in foreign exchange rates	46,351	(69,017)
Balance 31 December	1,486,427	1,403,580
Earnings per share (cent)	(25.68)	16.31

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 17 below. During the year two valuations took place one on the 30 June 2012 and the last valuation took place on 31 December 2012. The cumulative adjustments for all projects, for both valuation dates are shown in line "Fair value adjustment" in the table above.

The transfer from investments property under development represents projects Tverskaya Plaza Ib and II for the amount of $40,600 thousand, see note 17 for more information on these two projects. In addition the transfer from investments property under development in 2012 represents project Ozerkovskaya phase III of fair value US$ 194,127 thousand which was completed in the 4th quarter of 2012 and reclassified on 31 December 2012. On that date prior to reclassification the property was revalued and the resulting fair value adjustment was recorded in the Investment property under development note 17 below.

The transfer to the assets held for sale represents Four Winds Plaza which was disposed after the year end to a third party (see more details in note 26).

The disposal of US$ 3,160 represents project Ozerkovskaya phase IV which was disposed for the amount of US$ 6,000 thousand and the resulting gain of US$ 2,635 thousand was recognised in the income statement.

The increase due to the effect of the foreign exchange rates is a result of the strengthening of the rouble compared to the US Dollar by 5.7% during 2012. The fair value adjustment loss in investments property is mostly related to the rouble appreciation.

In brief the major events that took place during the year ended 31 December 2011 were:

On 10 March 2011, AFIMALL City opened to the public, and it was transferred to investment property. 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 including VAT. On 16 December 2011 the Company acquired the parking area under the AFIMALL City for a consideration of RUR4 billion including VAT.

17. INVESTMENT PROPERTY UNDER DEVELOPMENT

	2012 US$ ' 000	2011 US$ ' 000
Balance 1 January	983,598	1,674,585
Construction costs	10,898	58,860
Capitalised interest	7,623	18,156
Transfer to investment property	(234,727)	(822,376)
Transfer from/(to) VAT recoverable	-	8,256
Fair value adjustment	(212,464)	20,315
Effect of movements in foreign exchange rates	13,232	25,802
Balance 31 December	568,160	983,598

As noted in note 16 above the transfers to investment property comprise of three properties. Tverskaya plaza Ib and II and Ozerkovskaya phase III.

Ozerkovskaya phase III, of fair value US$ 194,127 thousand (50%) which was completed in the 4th quarter of 2012 and reclassified on 31 December 2012. On that date prior to its reclassification the property was revalued on the work by external independent appraisers and the resulting revaluation adjustment of US$ 1,155 thousand loss which was transferred to the income statement. With this loss the net fair value gain of the year of Ozarkovskaya phase III, was US$ 2,723 thousand.

On 30 June 2012, further to their revaluation, see paragraph below, projects Tverskaya Plaza Ib and II, were transferred to Investment Property based on the fact that the Company was notified by Moscow City authorities that any development of these two plazas cannot exceed the parameters of the existing buildings. As a result the company has cancelled its plans of redevelopment of the two plazas but will retain and manage the current buildings at their existing condition.

The valuation loss on investment properties under development reflects a decrease in the value of the Company's four projects, which are classified as investment property under development - Pochtovaya, Kossinskaya, Tverskaya Plaza Ib and Tverskaya Plaza II. The projects were valued by the independent appraiser on 30 June 2012 and 31 December 2012. The valuation loss resulted from changes in master planning and development policies of the Moscow government. The Company received information/confirmation of these changes and made revisions in its relevant projects during the period June - August 2012. All other projects were not affected from these changes and therefore no valuation loss was recognised.

The increase due to the effect of the foreign exchange rates is a result of the Rouble strengthening compared to the US Dollar by 5.7% during 2012. A part of fair value adjustment loss in 2012 is a result of this rouble appreciation.

In brief the major events that took place during the year ended 31 December 2011 were:

The transfer to investment property of projects AFIMALL City and Paveletskaya phase I, upon completion. The Company reached a non-binding agreement with the City of Moscow for the re-approval and renewal of the Company's development rights and leasehold interests in land plots at Plaza Ic (part of Plaza I), Plaza IIa and Plaza IV projects. Restablished Paveletskaya Phase II project, at the amount of US$ 13,137 thousand which was fully written off in previous years.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings under construction US$ '000	Land & Buildings US$ '000	Office Equipment US$ '000	Motor Vehicles US$ '000	Total US$ '000
Cost					
Balance at 1 January 2012	31,571	59,727	3,998	2,037	97,333
Additions	6,088	805	308	266	7,467
Additions due to acquisition of subsidiaries	-	315	-	-	315
Transfer of completed building	(23,532)	23,532	-	-	-
Reclassify to assets held for sale	-	-	(191)	-	(191)
Interest capitalised	368	-	-	-	368
Disposals	-	(1,196)	(33)	(346)	(1,575)
Effect of movement in foreign exchange rates	2,789	3,602	190	96	6,677
Balance at 31 December 2012	17,284	86,785	4,272	2,053	110,394
Accumulated depreciation					
Balance at 1 January 2012	-	1,466	2,254	1,579	5,299
Charge for the year	-	1,423	647	246	2,316
Additions due to acquisition of subsidiaries	-	266	-	-	266
Reclassify to assets held for sale	-	-	(82)	-	(82)
Disposals	-	(397)	(20)	(253)	(670)
Effect of movement in foreign exchange rates	-	120	140	95	355
Balance at 31 December 2012	-	2,878	2,939	1,667	7,484
Carrying amount					
At 31 December 2012	17,284	83,907	1,333	386	102,910
Cost					
Balance at 1 January 2011	24,494	62,736	3,044	2,152	92,426
Additions	7,935	298	1,253	160	9,646
Reversal of Impairment loss	1,320	-	-	-	1,320
Disposals	-	(38)	(133)	(80)	(251)
Effect of movement in foreign exchange rates	(2,178)	(3,269)	(166)	(195)	(5,808)
Balance at 31 December 2011	31,571	59,727	3,998	2,037	97,333
Accumulated depreciation					
Balance at 1 January 2011	-	693	1,889	1,442	4,024
Charge for the year	-	914	585	330	1,829
Disposals	-	(37)	(58)	(61)	(156)
Effect of movement in foreign exchange rates	-	(104)	(162)	(132)	(398)
Balance at 31 December 2011	-	1,466	2,254	1,579	5,299
Carrying amount					
At 31 December 2011	31,571	58,261	1,744	458	92,034

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year the Company completed the construction of a new Hotel in the Zheleznovodsk area called Sanatorium Plaza SPA, which was put into operation during the year. Upon completion it was reclassified to Land and Buildings and depreciated on a straight line method over 100 years.

19. LOANS RECEIVABLE

	2012 US$ ' 000	2011 US$ ' 000
Long-term loans		
Loans to non-related companies	759	739
Short-term loans		
Loans to non-related companies	92	81

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2012 US$ ' 000	2011 US$ ' 000
Unsecured loans to non-related companies	RUR	CBRrate*1.1	2014	36	34
	US$	2.5%	2014	723	705
	RUR	11%	On demand	92	81
				851	820

20. INVENTORY OF REAL ESTATE

On 31 December 2011, the Company reclassified its project "Botanic Gardens" from current assets "Trading properties under construction" to non-current assets as "Inventory of real estate", because the project was held for future development of trading properties which are not expected to be constructed within the Company's 3-year operating cycle. During 2012 the company proceeded with the impairment of this project to zero. The impairment of the inventory of real estate reflects the Company's decision to write-off its Botanic Garden project. A subsidiary of the Company is a "co-investor" in the project together with a company fully owned by the City of Moscow, which is the main investor and beneficiary of land lease rights for Botanic Garden project. A claim filed with a Moscow court on 2 August 2012 by a third party creditor is seeking to declare the main investor bankrupt, while its assets were previously arrested for the benefit of the same creditor. The Company considers, based on the opinion of its legal advisers, that any recovery of the Company's costs relating to its investments in the project is unlikely. Given the current circumstances, the Company has decided to write-off its rights in the project from its books. Notwithstanding, the Company will continue its efforts to recover its costs and/or receive the development rights to the project. For more information see note 40 "Subsequent events".

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21. 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. Part of this 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 12). Under 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 VAT during the year, and it is estimated that part of the VAT recoverable as at the year-end will be recovered within the next 12 months, which is classified as trade and other receivables, note 24.

22. TRADING PROPERTIES

	2012 US$ ' 000	2011 US$ ' 000
Balance 1 January	11,053	21,386
Transfer to assets held for sale	(322)	-
Impairment loss	-	(414)
Disposals	(9,218)	(10,345)
Effect of movements in exchange rates	599	426
Balance 31 December	2,112	11,053

Trading properties comprise of the unsold apartments and parking spaces. During the year the Group has sold a number of the remaining apartments and parking places and their cost was transferred to income statement.

23. TRADING PROPERTIES UNDER CONSTRUCTION

	2012 US$ ' 000	2011 US$ ' 000
Balance 1 January after reclassification of comparative	129,598	105,962
Reclassification of comparative year	-	68,842
Balance 1 January as previously stated	129,598	174,804
Acquisitions	-	23,174
Construction costs	9,592	837
Transfer to VAT recoverable	-	(1,227)
Capitalised interest	-	13
Reclassified as Inventory of real estate (note 20)	-	(66,221)
Effect of movements in exchange rates	2,597	(1,782)
Balance 31 December	141,787	129,598

Trading properties under construction comprise of "Otradnoye" project which involves primarily the construction of residential properties and approximately 643 parking places underneath AFIMALL City which the company has the intention to sell. The comparative period includes also, "Botanic Gardens" which was reclassified on 31 December 2011, as a non-current asset in "Inventory of real estate", see note 20.

23. TRADING PROPERTIES UNDER CONSTRUCTION (CONTINUED)

In November 2012 Bellgate Construction Limited ("Bellgate"), the Company's subsidiary owning and operating AFIMALL City, entered into an agreement to dispose approximately 643 parking lots to VTB Bank. The transaction is structured in two stages. The first stage entailed a sale-purchase transaction between Bellgate and VTB Bank on 21,354 sq. m. of parking space. During the second stage 9,247 sq. m. owned (at completion) by VTB Bank will be exchanged for 7,847 sq. m. owned by Bellgate. This two-tier transaction structure stemmed from the fact that part of the parking space that VTB Bank is interested in purchasing is located on a land plot to which Bellgate has not yet registered leasehold rights. The resulting estimated total net cash flow for AFI Development is US$ 54.5 million and net profit is circa US$ 20 million. As of 31 December 2012 the Company received 90% of the total consideration in the amount of US$ 51.4 million (net of VAT), which are presented in current liabilities as advances for the sale of trading properties. The remaining 10% is expected to be received at completion, when Bellgate registers the title to the parking to VTB Bank.

24. TRADE AND OTHER RECEIVABLES

	2012 US$ ' 000	2011 US$ ' 000
Advances to builders	29,849	26,393
Amounts receivable from related companies (note 38)	2,793	2,575
Trade receivables net	16,041	13,290
Other receivables	12,069	15,523
VAT recoverable (note 21)	15,033	47,749
Tax receivables	2,763	1,640
	78,548	107,170

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US$ 13,736 thousand (2011: US$ 9,510).

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	2012 US$ ' 000	2011 US$ ' 000
Cash at banks	178,060	84,798
Cash in hand	135	22
	178,195	84,820

26. DISPOSAL GROUP HELD FOR SALE

In December 2012 the Company entered into an agreement to dispose of its 50% of stake in Westec Four Winds Limited (along with its partner, Snegiri Development), which had developed and operated Four Winds. The deal was completed in January 2013 with total consideration received by the Company of circa US$ 103.4 million. The transaction also resulted in reduction of overall debt of AFI Development following the removal of the project loan by Nordea Bank from its consolidated balance sheet. Project Westec Four Winds plaza together with all assets and liabilities of the 50% joint controlled entity Westec Four Wind Limited and its subsidiary Dulverton Limited with their Russian Branches are presented as a disposal group held for sale following the share purchase agreement which the Company entered into in December 2012.

The fair value of the Company's share in Four Winds (including the office building, retail/fitness zone and remaining unsold apartments and parking lots) is as shown in the below table. The total profit on disposal will be approximately US$ 50 million. In Q4 2012 the Company recognised a fair value gain of US$ 18 million net, out of the total profit.

At 31 December 2012, the disposal group comprised of the following assets and liabilities.

Assets of disposal group held for sale	2012 US$ '000
Investment property	177,996
Trading properties	322
Trade and other receivables	2,768
Cash and cash equivalents	4,691
Property, Plant and Equipment	109
VAT recoverable	2
	185,888
Liabilities of disposal group held for sale	
Long-term loans and borrowings	81,408
Deferred tax liabilities	26,615
Trade and other payables	6,056
Income tax payable	518
	114,597

27. SHARE CAPITAL AND RESERVES

	2012 US$ ' 000	2011 US$ ' 000
Share capital		
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

27. SHARE CAPITAL AND RESERVES (CONTINUED)

There were no changes to the authorised or the issued share capital of the Company during the year ended 31 December 2012.

Share premium

It represents the share premium on the issue of shares 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. On 5 July 2010 an amount of US$ 524 thousand was capitalised as a result of a bonus issue.

Employee Share option plan

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

As of 31 December 2012 the following options were granted.

- During 2007 and 2008 options over 1,593,676 GDRs, 0.15% of the issued share capital, with an exercise price of US$ 7 which have already vested, one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remained in employment until the vesting date. The vesting was not subject to any performance conditions. All 1,593,676 options granted have a contractual life of ten years from the date of grant.
- On 21 May 2012, the Board of Directors approved the grant of additional options to Company's employees. Options over 16,763,104 B shares, 1.6% of the issued share capital, were granted with an exercise price equal to US$ 0.7208, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant. Up to the year end 1.047.694 options were cancelled.
- On 22 November 2012, the Board of Directors approved the grant of additional options to the Company's executive chairman. Options over 31,430,822 B shares, 3% of the issued share capital, were granted with an exercise price equal to US$ 0.5667, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant.

27. SHARE CAPITAL AND RESERVES (CONTINUED)

Employee Share option plan (continued)

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

Translation reserve

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

Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the year ended 31 December 2012.

28. LOANS AND BORROWINGS

	2012 US$ ' 000	2011 US$ ' 000
Non-current liabilities		
Secured bank loans	554,551	528,111
Unsecured loan from non-related company	-	5
	554,551	528,116
Current liabilities		
Secured bank loans	1,357	84,436
Unsecured loans from other non-related companies	15,988	14,537
	17,345	98,973

The outstanding loans on 31 December 2012 comprise of the following:

(i) A secured loan from a bank of the VTB Group ("the Bank") signed on 22 June 2012 by its subsidiary Bellgate Construction Ltd ("Bellgate"). On 29 June 2012 a drawdown of the first tranche of a new loan facility agreement was effected. On 3 August 2012 a drawdown of the second tranche, of US$ 69,386 thousand (RUR 2,252 million). This new loan facility agreement offers a credit line totalling RUR 21 billion, which can be drawn down in 5 tranches, each with a designated purpose: the majority of the funds are designated to refinance existing loans previously issued by JSC VTB Bank. The remaining funds are designated for the refinancing of construction costs related to the AFIMALL City parking and for the financing of the outstanding payments constituting part of the consideration for the acquisition of the parking.

28. LOANS AND BORROWINGS (CONTINUED)

The Company has discretion over the currency of each tranche, which can be drawn down either in US dollars or in Russian roubles. The loan facility has differentiated interest rates which are currency dependent: 9.5% for loans drawn down in Russian roubles and 3 months LIBOR plus 6.7% for loans drawn down in US dollars. The interest on the loans is payable on a quarterly basis, throughout the term of the credit line. Bellgate has undertaken to make equal quarterly payments of US$ 6.5 million from 2014 to 2016, on account of the principal of the loans, while it has been agreed that the remainder of the loan will mature in April 2018. The terms of the loan facility agreement are substantially similar to those of the loan facility agreement entered into in February 2012 with JSC VTB Bank in relation to the financing of the acquisition of the AFIMALL City parking (for more information regarding the said loan facility, see below). However, certain conditions of the new loan facility will differ from the aforementioned loan, including the following:

a) The guarantee of AFI Development Plc over the obligations of Bellgate under the loan facility agreement will be in the amount of US$ 1 million, the nominal value of Bellgate's shares;

b) Additional mortgage over the premises of "Aquamarine" Hotel will be registered in favour of the Bank. This shall be removed in the case that Bellgate redeems US$ 20 million of principal;

c) Additional guarantee will be provided to the Bank by Semprex LLC, a Russian company which is an indirect subsidiary of AFI Development Plc, and owner of the "Aquamarine" Hotel. This shall be removed in the case that Bellgate redeems US$ 20 million of principal;

d) The turnover covenant has been changed from monthly bank accounts turnovers of not less than RUR 200 million to quarterly revenues (including VAT) exceeding agreed thresholds, determined as amounts gradually increasing from RUR 651 million for Q3 2012 to the amount of RUR1,139 million for Q1 2018. The penalty for not meeting the covenant is changed from 1% additional interest for the next month to 0.5% additional interest for the next quarter.

The loan facility agreement contains other generally acceptable terms, such as the borrower undertaking to maintain the aggregate value of the pledged assets, securing the loan facility, providing the lender with periodic reporting and similar common conditions.

(ii) Loan by JSC VTB Bank, dated 22 February 2012, for financing the acquisition of parking area under AFIMALL City, of US$ 45,777 thousand (RUR 1,333 million). On 3 July 2012, the Group repaid the amount of RUR 1,333 million principal plus RUR7.9 million interest. All necessary funds for the AFIMALL Parking acquisition and construction works financing have been provided for, in the new loan facility with a subsidiary of VTB Bank described in (i) above.

(iii) A four year US$ 20 million loan from Sberbank which was obtained during the year 2010 by the 100% owned subsidiary Eitan K LLC. The loan is denominated in Russian Roubles and was used for the reconstruction of Kalinina project. The loan carries an annual interest rate of 13.5% and due to subsidy of Ministry of Economic Development of the Stavropol Territory the rate is decrease to 6.75%. Up to 31 December 2012 the subsidiary withdrew RUR607 million (2011: RUR 377 million).

28. LOANS AND BORROWINGS (CONTINUED)

All other loans that were outstanding on 31 December 2011 were repaid in full during the year as shown in the table below.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2012 US$ ' 000	2011 US$ ' 000
Secured loan from VTB Group bank	RUR	9.5%	2018	226,545	-
Secured loan from VTB Group bank	US$	3m US$ LIBOR+6.7%	2018	309,386	-
Secured loan from VTB Bank	RUR	11.5%	2013	-	420,191
Secured loan from Sberbank	US$	6m US$ LIBOR + 9.5%	2012	-	73,400
	US$	11.75%	2015	-	23,279
	US$	6.75%	2014	19,977	11,740
Secured loan from Nordea Bank	US$	3m US$ LIBOR + 4.5%	2018	-	83,937
Unsecured loans from non-related companies	US$	12%	2013	1,041	1,027
	US$	0%	2013	454	454
	RUR	18.5%	2013	6,796	5,808
	RUR	0%	2013	6,876	6,486
	RUR	12%	2013	85	78
	RUR	0.1% - 5%	2013	736	689
				571,896	627,089

The loans and borrowings are payable as follows:	2012 US$ ' 000	2011 US$ ' 000
Less than one year	17,345	98,973
Between one and five years	96,620	469,254
More than five years	457,931	58,862
	571,896	627,089

29. LONG TERM AMOUNTS PAYBLE

Represents an amount payable to the City of Moscow, for the acquisition of the parking area under the AFIMALL City, see note 16 for more details. The amount is payable in three yearly installments starting from February 2012 and with the last falling due in February 2014. The amount payable within the next twelve months is presented as current liability in “Trade and other payables”, see note 31 below.

30. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:	2012 US$ ' 000	2011 US$ ' 000
Investment property	149,417	114,505
Investment property under development	7,075	62,131
Property, plant and equipment	(3,137)	(6,890)
Trading properties	61	(701)
Trading properties under construction	4,180	4,704
Trade and other receivables	(4,678)	(2,659)
Long term loans and borrowings	26	(1,330)
Short term loans and borrowing	(9)	902
Trade and other payables	538	3,061
Other items	60	(123)
Tax losses carried forward	(48,940)	(31,507)
Deferred tax liability	104,593	142,093

31. TRADE AND OTHER PAYABLES

	2012 US$ ' 000	2011 US$ ' 000
Trade payables	10,962	8,276
Payables to related parties	6,406	6,893
Amount payable to builders	7,969	6,056
VAT and other taxes payable	17,391	7,245
Receipts in advance from sale of investment	100,000	21,998
Receipts in advance for the sale of parking places	61,734	-
Amount payable for the acquisition of properties (note 28)	43,068	41,473
Amount payable to joint venture partners	21,479	48,869
Other payables	4,507	13,282
	273,516	154,092

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

Payables to related parties

Include an amount of US$ 5,120 thousand (31/12/11: US$ 5,066) payable to Danya Cebus Rus LLC, related party of the Group, for new contracts signed in relation to the completion of AFIMALL City.

Receipts in advance from sale of investment

The company received an advance payment for the disposal of the Westec Four Winds plaza which was classified as current liability until the completion of the transaction in January 2013.

For the year ended 31 December 2011 the balance of US$ 21,998 thousand represented an amount refundable to the buyer of Kosinskaya project in order to settle all mutual claims, as agreed in November 2011with Bedhunt Holdings Ltd, the buyer. This amount was fully settled in April 2012 and upon full settlement the Group received title of the shares of Rognestar Finance Limited.

32. DEFERRED INCOME

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

33. 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:

	Owner-ship	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
2012:								
Nouana Limited								
Craespon Management Ltd	50%	698	52	143	-	3,290	(784)	2,506
OOO Tirel	50%	1,682	14,980	2,255	11,210	4,923	(5,474)	(551)
OOO Krown Investments	50%	(1,144)	176,618	6,353	109,911	19,551	(15,617)	3,934
OOO Sanatoriy Plaza	50%	2,628	82	2,410	3	10,479	(12,203)	(1,724)
OOO NPC Plaza LLC	50%	7	-	-	-	-	(4)	(4)
		4,030	195,738	11,217	132,202	40,913	(36,544)	4,369
2011:								
Nouana Limited	50%	138	3,779	48	10,640	-	(1,401)	(1,401)
OOO Tirel	50%	1,965	12,291	954	9,767	4,169	(4,253)	(84)
OOO Krown Investments	50%	9,732	126,670	9,555	59,529	11,490	(9,248)	2,242
Westec Four Winds Limited	50%	22,372	139,584	25,998	58,823	43,711	(35,469)	8,242
Dulverton Limited	50%	9,353	251,091	21,252	104,947	114,578	(63,640)	50,938
		43,560	533,415	57,807	243,706	173,948	(114,011)	59,937

34. 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 2012 US$ ' 000	Carrying amount 2011 US$ ' 000
Long term loans receivable	19	759	34
Short term loans receivable	19	92	786
VAT recoverable	21	15,607	53,119
Cash and cash equivalents	25	178,195	84,798
Trade and other receivables	24	33,666	33,028
		228,319	171,765

34. 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:

31 December 2012	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	555,908	(778,765)	(23,791)	(24,893)	(90,984)	(171,519)	(467,578)
Unsecured loans	15,988	(17,404)	-	(17,404)	-	-	-
Long term payables	38,324	(41,473)	-	-	(41,473)	-	-
Trade and other payables	111,782	(111,782)	(117,782)	-	-	-	-

31 December 2011	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	612,547	(755,725)	(38,257)	(39,763)	(485,950)	(128,657)	(63,098)
Unsecured loans	14,542	(15,158)	(14,838)	(320)	-	-	-
Long term payables	71,627	(82,946)	-	-	(41,473)	(41,473)	-
Trade and other payables	154,092	(154,092)	(154,092)	-	-	-	-

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.

Sensitivity analysis (continued)

A 10% strengthening of the United States Dollar against the following currencies at 31 December 2012 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 2011.

	Equity US$ ' 000	Profit for the year US$ ' 000
31 December 2012		
Russian Roubles	18,802	1,305
Ukrainian Hryvnia	2,303	89
31 December 2011		
Russian Roubles	11,701	2,775
Ukrainian Hryvnia	2,077	227

A 10% weakening of the United States Dollar against the above currencies at 31 December 2012 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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

Interest rate risk

Profile

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

	Carrying amount	
	2012 US$ ' 000	2011 US$ ' 000
Fixed rate instruments		
Financial assets	179,010	85,584
Financial liabilities	(262,510)	(469,752)
	(83,500)	(384,168)
Variable rate instruments		
Financial assets	38	34
Financial liabilities	(309,386)	(157,337)
	(309,348)	(157,303)

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 2011.

	Equity US$ ' 000	Profit for the year US$ ' 000
31 December 2012		
Variable rate instruments	-	(3,093)
31 December 2011		
Variable rate instruments	-	(1,573)

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.

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.

35. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012 US$ ' 000	2011 US$ ' 000
Less than a year	5,512	3,313
Between one and five years	8,468	11,803
More than five years	24,258	24,273
	38,238	39,389
Amount recognised as an expense during the year	1,221	2,521

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.

35. OPERATING LEASES (CONTINUED)

Leases as lessor

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

	2012 US$ ' 000	2011 US$ ' 000
Less than a year	110,709	68,510
Between one and five years	273,720	1,148,735
More than five years	38,461	150,935
	422,890	1,368,180
Amount recognised as income during the year	121,396	103,612

36. CAPITAL COMMITMENTS

Up to 31 December 2012 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	Commitment 2012 US$ ' 000	2011 US$ ' 000
AFIMALL City	-	4,492
Ozerkovskaya Embankment - Phase II	-	15,119
	-	19,611

37. CONTINGENCIES

There weren't any contingent liabilities as at 31 December 2012 and 2011.

38. RELATED PARTIES

Outstanding balances with related parties	2012 US$ ' 000	2011 US$ ' 000
Assets		
Amounts receivable from joint ventures	2,491	2,546
Amounts receivable from other related companies	302	29
Liabilities		
Amounts payable to ultimate holding company	461	38
Amounts payable to other related companies	5,945	6,855

All outstanding balances with these parties are priced at an arm's length basis and are to be settled in cash. None of the balances is secured.

Transactions with the key management personnel	2012 US$ ' 000	2011 US$ ' 000
Key management personnel compensation comprised:		
Short-term employee benefits	2,175	2,450

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	2012 US$ ' 000	2011 US$ ' 000
Revenue		
Joint venture – consulting services	1,056	1,006
Joint venture – rental income	3,423	-
Joint venture – interest income	7,818	7,545
Expenses		
Ultimate holding company – administrative expenses	370	809
Joint venture – interest expense	1,036	-
Joint venture – operating expenses	137	-
Joint venture – administrative expenses	38	-

39. GROUP ENTITIES

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

	Significant Subsidiaries	Ownership interest 2012	Ownership interest 2011	Country of incorporation
1.	OOO AFI RUS	100	100	Russian Federation
2.	OOO Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
3.	OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK)	99.17	99.17	Russian Federation
4.	Bellgate Construction Limited	100	100	Cyprus
5.	OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
6.	OOO Aristeya	100	100	Russian Federation
7.	Scotson Limited	100	100	Cyprus
7.	ZAO Nedra Publishing	90.17	90.17	Russian Federation
8.	OOO Titon	100	100	Russian Federation
9.	ZAO MTOK	99.71	99.38	Russian Federation
10.	OOO Eitan K	100	100	Russian Federation
11.	OOO Semprex	100	100	Russian Federation
12.	OOO Zheldoruslugi	95	95	Russian Federation
13.	OOO Bizar	74	74	Russian Federation
13.	AFI D Finance SA	100	100	British Virgin Islands
Jointly controlled entities				
1.	OOO Krown Investments	50	50	Russian Federation
2.	OOO Tirel	50	50	Russian Federation

During the year ended 31 December 2012 the Group acquired 50% stake (joint venture) of Craespon Management Limited with its subsidiary OOO Sanatoriy Plaza.

40. SUBSEQUENT EVENTS

Subsequent to 31 December 2012 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- In January 2013 AFI Development entered into an agreement to purchase the remaining 50% interest and to settle all outstanding liabilities of AFI Development to its partner in Krown Investments LLC (the holding company with the rights to the Ozerkovskaya project) from its joint venture partner, Super Passion Limited, for a total cash consideration of US$ 230 million. The transaction was completed in February 2013, when AFI Development exercised its right under the agreement with Super Passion Limited to pay the consideration ahead of agreed schedule of payments applying a discount. Total consideration paid in this transaction was US$ 227.5 million. Following the transaction completion, Company became the sole owner of the Ozerkovskaya project.

40. SUBSEQUENT EVENTS (CONTINUED)

- On 28 January 2013 the Company's subsidiary Krown Investments Ltd signed a loan facility agreement with JSC VTB Bank to refinance its construction costs related to the development of Ozerkovskaya III, which were initially financed by intra-group loans provided by companies within the AFI Development group. The new loan facility offers a credit line totalling US$ 220 million and carries an annual interest rate of 3 months LIBOR + 5.7%. The credit line can be drawn down in US Dollars in two tranches: the first tranche of US$ 150 million can be drawn down within 14 days from execution of the loan facility agreement, while the second tranche of US$ 70 million can be drawn down between 1 March 2013 and 14 March 2013. The both tranches of the loan were drawn down in full in February and March 2013.
- As a result of negotiations with the Moscow city authorities, the Company's development rights to the project were recognised through an addendum to the investment contract for the Botanic Garden project dated 4 February 2013. According to this addendum, NKM shall not have any claims to the investments made by AFI Development in the Botanic Garden project and its subsidiary, OOO "Nordservice", became the only investor under the investment contract. After thorough assessment of risks to the Company's development rights in respect of the project, AFI Development agreed to make payments to the city of Moscow under the addendum to the investment contract in return for additional development rights. The total aggregate amount of the payments for additional development rights is approximately US$ 18.5 million, which will be paid in several instalments. It should be noted that the provision to write-off the Botanic Garden (made in August 2012) was not cancelled at this stage, due to remaining legal risks related to the on-going bankruptcy proceedings of NKM.

FINANCIAL STATEMENTS

PARENT COMPANY SEPARATE FINANCIAL STATEMENTS

CONTENTS

PARENT COMPANY SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 US$ ' 000	2011 US$ ' 000
Revenue	4	50,451	14,406
Other income		37	-
Impairment of prepayment for investments		-	(1,178)
Impairment of investments and loans to subsidiaries	8,10	(93,631)	(55,443)
Administrative expenses	5	(13,098)	(14,895)
Loss on disposal of investments in subsidiaries	8	(25,729)	-
		(132,458)	(71,516)
Operating loss		(81,970)	(57,110)
Finance income		13,376	27,467
Finance costs		(2,137)	(32,664)
Net finance income/(costs)	6	11,239	(5,197)
Loss before tax		(70,731)	(62,307)
Tax	7	(118)	(1,959)
Loss for the year		(70,849)	(64,266)
Other comprehensive income		-	-
Total comprehensive income for the year		(70,849)	(64,266)

The notes on pages 143 to 159 are an integral part of these parent company separate financial statements.

PARENT COMPANY SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share Capital US$ '000	Share Premium US$ '000	Retained Earnings US$ '000	Total US$ '000
Balance at 1 January 2011	1,048	1,763,409	133,126	1,897,583
Total comprehensive income for the year	-	-	(64,266)	(64,266)
Transactions with owners of the Company, recognised directly in equity				
Share option expense	-	-	62	62
Balance at 31 December 2011	1,048	1,763,409	68,922	1,833,379
Balance at 1 January 2012	1,048	1,763,409	68,922	1,833,379
Total comprehensive income for the year	-	-	(70,849)	(70,849)
Transactions with owners of the Company, recognised directly in equity				
Share option expense	-	-	1,256	1,256
Balance at 31 December 2012	1,048	1,763,409	(671)	1,763,786

The notes on pages 143 to 159 are an integral part of these parent company separate financial statements.

PARENT COMPANY SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 US$ '000	2011 US$ '000
Assets			
Investment in subsidiaries	8	1,506,537	837,032
Investment in jointly controlled entities	9	9,659	15,731
Loans receivable	10	300,071	531,029
Total non current assets		1,816,267	1,383,792
Trade and other receivables	11	10,613	564,099
Loans receivable	10	-	625
Refundable tax		2,215	2,215
Cash and cash equivalents		103,503	46,402
Assets held for sale	12	6,108	-
Total current assets		122,439	613,341
Total assets		1,938,706	1,997,133
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Retained earnings		(671)	68,922
Total equity	13	1,763,786	1,833,379
Liabilities			
Loans and borrowings	14	-	57,027
Total non current liabilities		-	57,027
Trade and other payables	15	174,920	106,727
Total current liabilities		174,920	106,727
Total liabilities		174,920	163,754
Total equity and liabilities		1,938,706	1,997,133

The financial statements were approved by the Board of Directors on 18 March 2013.

Lev Leviev	Mark Groysman
Chairman	Director

The notes on pages 143 to 159 are an integral part of these parent company separate financial statements.

PARENT COMPANY SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 US$ '000	2011 US$ '000
Cash flows from operating activities			
Loss for the year		(70,849)	(64,266)
Adjustments for:			
Unrealised exchange (gain)/loss	6	(3,861)	28,754
Impairment charge		93,631	61,308
Loss on disposal of investments in subsidiaries	8	25,729	-
Dividend income	4	(50,451)	(14,406)
Interest income	6	(9,473)	(27,467)
Interest expense	6	2,097	3,879
Share option expense		1,256	62
Income tax expense	7	118	1,959
		(11,803)	(10,177)
Change in trade and other receivables		(366)	46
Change in trade and other payables		(31,804)	(21,873)
Cash generated from operating activities		(43,973)	(32,004)
Tax paid		(118)	(1,959)
Net cash used in operating activities		(44,091)	(33,963)
Cash flows from investing activities			
Receipts in advance for the sale of an investment	15	100,000	-
Proceeds received from the sale of subsidiaries	8	6,011	-
Additional contribution of capital to existing subsidiaries and jointly controlled entities		(4,967)	(616)
Dividends received		64,051	1,407
Interest received	6	1,581	341
Net cash from/(used in) investing activities		166,676	1,132
Cash flows from financing activities			
Payments for loans receivable		(67,021)	(63,522)
Proceeds from repayment of loans receivable		63,471	33,226
Repayment of loans and borrowings		(47,945)	(10,000)
Proceeds from loans and borrowings		-	12,945
Interest paid		(11,154)	(114)
Net cash used in financing activities		(62,649)	(27,465)
Effect of exchange rate fluctuations on cash held		(2,835)	(39)
Net increase/(decrease) in cash and cash equivalents		57,101	(60,335)
Cash and cash equivalents at 1 January		46,402	106,737
Cash and cash equivalents at 31 December		103,503	46,402
The cash and cash equivalents consists of:			
Cash at banks		103,503	46,402

The notes on pages 143 to 159 are an integral part of these parent company separate financial statements.

NOTES TO THE PARENT COMPANY SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. The Company is a 64.88% (31.12.2011: 63.7%) subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE"). The remaining shareholding of "A" shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange ("LSE"). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 "B" shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as "A" shares.

The principal activity of the Company is the holding of investments in subsidiaries and jointly controlled entities.

2. BASIS OF PREPARATION

(a) Statement of compliance

The 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 Cyprus Companies Law, Cap.113.

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2012 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except in the case of investments, which are stated at cost less provision for impairment in value.

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

As from 1 January 2012, the Company adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2012. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU

- IFRS 7 (Amendments) ''Financial Instruments: Disclosures" - ''Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).

2. BASIS OF PREPARATION (CONTINUED)

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

Standards and Interpretations adopted by the EU (continued)

- IFRS 10 ''Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 ''Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 ''Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 ''Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 (Amendments) ''Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 (Amendments) ''Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (Revised) ''Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 (Revised) ''Investments in Associates and Joint ventures" (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 (Amendments) ''Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).

Standards and Interpretations not adopted by the EU

- Improvements to IFRSs 2009-2011 (effective for annual periods beginning on or after 1 January 2013).
- IFRS 1 (Amendments): ''Government Loans" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 7 (Amendments) ''Financial Instruments: Disclosures" – ''Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 ''Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective for annual periods beginning on or after 1 January 2013).
- Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective for annual periods beginning on or after 1 January 2014).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of the Company.

2. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements

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

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.

In particular, information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

- Income taxes

  Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made.

- Impairment of investments in subsidiaries/associates

  The Company periodically evaluates the recoverability of investments in subsidiaries/associates whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries/associates may be impaired, the estimated future undiscounted cash flows associated with these subsidiaries/associates would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

(e) Functional and presentation currency

These 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in stating the financial position of the Company.

Subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

Interests in jointly controlled entities

The Company's share in a jointly controlled entity is stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance income and finance costs

Finance income comprises interest income on funds invested, on loans offered to related parties and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets (other than trade receivables). Borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Foreign currency translation

(i) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars, rounded to the nearest thousand, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue

Dividend income

Dividend income is recognised in profit or loss when the right to receive payment is established i.e. dividends are declared and approved by the investee companies.

Tax

Tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date. Current tax includes any adjustments to tax payable in respect of previous periods.

Dividends

Dividend distribution to the Company's shareholders is recognised in the Company's financial statements in the year in which they are approved by the Company's shareholders.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(i) Loans granted

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

(ii) 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 loss or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

(iii) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and short term highly liquid investments with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short term commitments.

(iv) Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are presented separately in the statement of financial position and are to be measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non current liabilities

Non current liabilities represent amounts that are due more than twelve months from the reporting date.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. REVENUE

	2012 US$ ' 000	2011 US$ ' 000
Dividend income	50,451	14,406

During the year the Company received dividends from its subsidiaries and jointly controlled entities which were recognised as income upon declaration and approval.

5. ADMINISTRATIVE EXPENSES

	2012 US$ ' 000	2011 US$ ' 000
Consultancy fees	4,225	1,489
Donations	4,200	4,200
Legal fees	1,326	1,569
Share option expense	1,256	62
Directors' remuneration	510	437
Auditors' remuneration	469	1,056
Valuation expenses	388	609
Insurance	173	203
Impairment of receivables	17	4,695
Other administrative expense	534	575
	13,098	14,895

6. FINANCE INCOME AND COSTS

	2012 US$ ' 000	2011 US$ ' 000
Interest income on loans receivable	7,931	27,126
Interest/investment income on bank deposits and cash equivalents	1,542	341
Change in fair value of financial assets	42	-
Net foreign exchange gain	3,861	-
Finance income	13,376	27,467
Net foreign exchange loss	-	(28,754)
Interest expense on loans and borrowings	(2,097)	(3,879)
Other finance costs	(40)	(31)
Finance costs	(2,137)	(32,664)
Net finance income/(costs)	11,239	(5,197)

7. TAXATION

	2012 US$ ' 000	2011 US$ ' 000
Current tax expense		
Current year	-	1,860
Adjustment for prior years	118	99
Total tax expense	118	1,959

The corporation tax rate is 10%.

8. INVESTMENT IN SUBSIDIARIES

	2012 US$ ' 000	2011 US$ ' 000
Balance at 1 January	837,032	896,163
Additional capital contribution in existing subsidiaries/(Repayment of)	791,825	(3,688)
Disposal of investment in subsidiaries	(31,740)	-
Impairment	(90,580)	(55,443)
Balance at 31 December	1,506,537	837,032

According to an internal restructuring plan, the Company assigned its rights under the existing loan agreements with most of its Cypriot and Russian subsidiaries to AFI D Finance S.A. On 25 July 2012, as a consideration of this assignment, AFI D Finance S.A. has issued new 8,065,571 shares to the Company at nominal value of $100 each.

8. INVESTMENT IN SUBSIDIARIES (CONTINUED)

During 2012 the Company disposed off its investments in OOO Ozerkovka and Roppler Engineering Limited together with its subsidiary OOO CDM. The selling price of the disposal was US$ 6,011 thousand. The resulting loss on sale amounting to US$ 25,729 thousand was recognised in profit or loss.

During the year the Company has also decided to write off an amount of US$ 90,580 thousand from its investments in Talena Trading Ltd, Bioka Investments Ltd, Amerone Development Ltd, Rubiosa Management Ltd, Keyri Trading and Investments Ltd, AFI Ukraine Ltd and Corin Development LLC since there is no certainty whether and when the necessary permits for the development of their projects will be obtained. As a result the fair value of these investments was estimated to zero.

During 2011 the Company has written off a total amount of US$ 55 million from its investments in Cristall Development LLC, Maystroy LLC and Krusto Enterprises Limited.

The details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	2012 US$ ' 000	2011 US$ ' 000
Investment in Cypriot companies	Cyprus	Holding of investments/Financing	600,830	691,339
Investment in Russian companies	Russian Federation	Real estate	99,150	125,404
Investment in BVI companies	BVI	Holding of investments/Financing	806,557	20,289
			1,506,537	837,032

9. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	2012 US$ ' 000	2011 US$ ' 000
Balance at 1 January	15,731	15,529
Transfer to assets held for sale	(6,108)	-
Additional contribution of capital to existing jointly controlled entities	36	202
Balance at 31 December	9,659	15,731
Balance at 31 December	1,506,537	837,032

The transfer to the assets held for sale represents investment in Westec Four Winds Ltd, which was disposed after the year end to a third party (see more details in note 12).

9. INVESTMENT IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

The details of the jointly controlled entities are as follows:

Name	Country of incorporation	Principal activities	2012 US$ ' 000	2011 US$ ' 000
Investment in Cypriot companies	Cyprus	Real estate	-	6,108
Investment in Russian companies	Russian Federation	Real estate	9,659	9,623
			9,659	15,731

10. LOANS RECEIVABLE

	2012 US$ ' 000	2011 US$ ' 000
Loans to subsidiaries (Note 15)	300,071	531,029
Loans to jointly controlled entities (Note 15)	-	625
	300,071	531,654
Less current portion	-	(625)
Non current portion	300,071	531,029
The loans are repayable as follows:		
Within one year	-	625
Between one and five years	300,071	531,029
	300,071	531,654

During 2012 the Company, through an internal restructuring plan, assigned its rights under the existing loan agreements with a number of its Cypriot and Russian subsidiaries to AFI D Finance S.A, a BVI registered subsidiary with primary activity the financing of related entities, in exchange for new shares issued. On 25 July 2012 according to this plan a total amount of $242,016 thousand loans was assigned. For further details, refer to note 8 above.

Loan receivables from subsidiaries which were considered impaired were written off. An amount of $3,051 thousand was transferred to profit or loss.

The fair values of non current receivables approximate to their carrying amounts as presented above.

11. TRADE AND OTHER RECEIVABLES

	2012 US$ ' 000	2011 US$ ' 000
Receivables from related parties (Note 16)	10,136	563,921
Other receivables	477	178
	10,613	564,099

On 31 December 2011, receivables from related parties included an amount receivable from subsidiary AFI D Finance S.A. following the written resolution on 30 September 2011 that the Company assigned its loans receivable from Scotson Ltd to its subsidiary AFID Finance S.A. Total consideration of the assignment equalled the book value of the loans on the same date. On 25th of July 2012 AFI D Finance S.A. issued shares to the Company in exchange of this receivable balance of $544,707 thousand.

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 17 of the financial statements.

12. ASSETS HELD FOR SALE

In December 2012 the Company entered into an agreement to dispose of its 50% of stake in Westec Four Winds Limited (along with its partner, Snegiri Development), which had developed and operated Four Winds. The deal was completed in January 2013 with total consideration received by the Company of circa US$ 103.4 million.

13. SHARE CAPITAL AND RESERVES

Share capital	2012 US$ ' 000	2011 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

There were no changes to the authorised or the issued share capital of the Company during the year ended 31 December 2012.

13. SHARE CAPITAL AND RESERVES (CONTINUED)

Share premium

It represents the share premium on the issue of shares 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. On 5 July 2010 an amount of US$ 524 thousand was capitalised as a result of a bonus issue.

Employee Share option plan

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

No payment will be required for the grant of the options. In any 10 year period not more that 10 per cent of the issued ordinary share capital may be issued or be issuable under the employee share option plan.

As of 31 December 2012 the following options were granted.

- During 2007 and 2008 options over 1,593,676 GDRs, 0.15% of the issued share capital, with an exercise price of US$ 7 which have already vested, one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remained in employment until the vesting date. The vesting was not subject to any performance conditions. All 1,593,676 options granted have a contractual life of ten years from the date of grant.
- On 21 May 2012, the Board of Directors approved the grant of additional options to Company's employees. Options over 16,763,104 B shares, 1.6% of the issued share capital, were granted with an exercise price equal to US$ 0.7208, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is ten years from the date of grant. Up to the year end 1.047.694 options were cancelled.

13. SHARE CAPITAL AND RESERVES (CONTINUED)

Employee Share option plan (continued)

- On 22 November 2012, the Board of Directors approved the grant of additional options to the Company's executive chairman. Options over 31,430,822 B shares, 3% of the issued share capital, were granted with an exercise price equal to US$ 0.5667, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is ten years from the date of grant.

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.

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 2012.

14. LOANS AND BORROWINGS

	2012 US$ ' 000	2011 US$ ' 000
Long term liabilities		
Loans from related parties (Note 16)	-	57,027
Maturity of non current borrowings:		
Between one and five years	-	43,870
After five years	-	13,157
	-	57,027

During the year the loan from related party, Dulverton Ltd was paid in full as Dulverton Ltd is a subsidiary of Westec Four Winds Ltd which was disposed early 2013 (see note 12).

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 17 of the financial statements.

15. TRADE AND OTHER PAYABLES

	2012 US$ ' 000	2011 US$ ' 000
Receipts in advance from sale of investment	100,000	21,998
Amount payable to joint venture partners	72,134	82,170
Other payables	554	495
Payables to related parties (Note 16)	2,232	2,064
	174,920	106,727

Receipts in advance from sale of investment

The Company received an advance payment for the disposal of its 50% stake in Westec Four Winds Limited (see note 12) which was classified as current liability until the completion of the transaction in January 2013.

For the year ended 31 December 2011 the balance of US$ 21,998 thousand represented an amount refundable to the buyer of Kossinskaya project in order to settle all mutual claims, as agreed in November 2011 with Bedhunt Holdings Ltd, the buyer. This amount was fully settled in April 2012 and upon full settlement the Group received title of the shares of Rognestar Finance Limited.

16. RELATED PARTY TRANSACTIONS

The transactions with related parties are as follows:

	2012 US$ ' 000	2011 US$ ' 000
Interest income charged to subsidiaries	7,931	27,101
Interest income charged to jointly controlled entities	-	25
Interest expense charged from jointly controlled entities	2,097	3,905
Consulting fees charged from holding company	370	-
Management fees charged from subsidiaries	98	115

The balances with related parties are as follows:

(i) Receivables from related parties (Note 11)

	2012 US$ ' 000	2011 US$ ' 000
Receivables from subsidiaries	2,518	543,303
Receivables from jointly controlled entities	7,618	20,618
	10,136	563,921

16. RELATED PARTY TRANSACTIONS (CONTINUED)

(ii) Loans to related parties (Note 10)

	2012 US$ ' 000	2011 US$ ' 000
Loans to subsidiaries	300,071	531,029
Loans to jointly controlled entities	-	625
	300,071	531,654

The loans to related parties are provided on interest ranging from 2.5% to 6% p.a., and their repayment date is on 31 December 2014. All loans to group companies are unsecured.

(iii) Payables to related parties (Note 15)

	2012 US$ ' 000	2011 US$ ' 000
Payables to subsidiaries	1,771	1,732
Payables to holding company	461	332
	2,232	2,064

(iv) Loans from related parties (Note 14)

	2012 US$ ' 000	2011 US$ ' 000
Loans from jointly controlled entity	-	57,027

During 2012 the loans from jointly controlled entity, Dulverton Limited were repaid in full.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(i) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

Trade and other receivables

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Cash and cash equivalents

Credit risk arises from cash and cash equivalents. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

(ii) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

(iii)Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro and the Russian Rouble. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through the strive to improve the debt equity ratio. The Company's overall strategy remains unchanged from last year.

18. FAIR VALUES

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the reporting date.

19. CONTINGENT LIABILITIES

The Company had no contingent liabilities as at 31 December 2012.

20. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2012 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

a) In January 2013 AFI Development entered into an agreement to purchase the remaining 50% interest and to settle all outstanding liabilities of AFI Development to its partner in Krown Investments LLC (the holding company with the rights to the Ozerkovskaya project) from its joint venture partner, Super Passion Limited, for a total cash consideration of US$ 230 million. The transaction was completed in February 2013, when AFI Development exercised its right under the agreement with Super Passion Limited to pay the consideration ahead of agreed schedule of payments applying a discount. Total consideration paid in this transaction was US$ 227.5 million. Following the transaction completion, Company became the sole owner of the Ozerkovskaya project.

AFI Development PLC

Spyrou Araouzou 165, Lordos Waterfront Building
5th Floor, Flat/Office 505, 3035 Limassol, Cyprus
Tel. +357 25 310975