

15 August 2012

MIRLAND DEVELOPMENT CORPORATION PLC
(“MirLand” / “Company”)

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE
SIX MONTHS ENDED 30 JUNE 2012

STRONG START TO THE YEAR WITH GOOD INCOME AND EARNINGS GROWTH

MirLand, one of the leading international residential and commercial property developers in Russia, today announces its interim results for the six months ended 30 June 2012.

Financial Highlights:

- Total assets of US\$740.8 million (31 Dec 2011: US\$739.6 million), of which 94% are property and land assets;
- Net profit of US\$19.1 million in the second quarter of 2012 (Q2 2011: US\$ 7.5 million);
- Total revenues up 32% to US\$30.7 million (H1 2011: US\$23.2 million) due to improved occupancy rates at yielding properties, receipt of proceeds from compromise agreement with Reifeissen bank, and income from house sales at the Western Residence project in Perkhushkovo;
- Net operating income from investment properties up 65% to US\$17.7 million (H1 2011: US\$10.7 million), due to improved occupancy rates, the opening and letting of the Tamiz building and increased income from rent indexation;
- EBITDA increased to US\$5.6 million (H1 2011: US\$1.1 million);
- Positive cash flow from operating activities of US\$5.2 million (H1 2011: negative cash flow of US\$13.9 million), supported by receipts from strong pre-sales of units at Triumph Park development;
- Termination of capitalization of interest expenses caused an increase in financing costs that led to a loss of US\$0.7 million (H1 2011: Net income of US\$4.0 million mainly due to an exceptional one-off tax benefit recorded), ;
- Net leverage reduced marginally to 43% of total assets (31 Dec 2011: 44%). In January 2012, the Company repaid the remaining balance of Shareholders' loans amounting to approximately US\$6.4 million (including accumulated interest);
- Shareholders' equity of US\$337.9 million remained strong at 30 June 2012, equating to 46% of total assets (31 Dec 2011: US\$347.1 million);
- Portfolio value* increased by 1.2% to US\$863.8 million (Company's share calculated as CW valuation of assets of US\$815.8 million plus US\$48 million of proceeds from sales in Triumph park project not yet recognized in profit and loss statement) (31 Dec 2011: US\$853.6 million).

*Valuation undertaken by Cushman & Wakefield as at 30 June 2012. The valuation report is available on the Company's website at www.mirland-development.com

Operational Highlights

- Continued progress at the Company's flagship project, Triumph Park in St. Petersburg:
 - Ongoing strong sales of Phase One with an additional 108 apartments sold, taking total sales to 383 units, subject to contract, and a further 37 reserved, representing a projected income of approximately US\$60 million to be recognized in H1 2013 according to IFRS standards;
 - Since sales launch in November 2011, 84% of apartments sold by total saleable area;
 - Phase Two sales launch, comprising 630 apartments, planned for Q3 2012.
- In April of 2012, a jointly controlled entity ("Avtoprioritet") reached a final judicially approved settlement with regards to its lease dispute with Reiffeisen Bank and collected outstanding rent of US\$6.4 million and also received a final compensation of US\$8.6 million for the remaining term of the lease (excluding VAT);
- Acquisition of an additional 10% of MirLand's jointly controlled entity Inomotor LLC, which owns an office building with a leasable area of approximately 11,000 sqm in the Century Project, for a total consideration of US\$1.5 million in cash, taking the Company's interest to 61%;
- Renovation of the MAG fire-damaged building near completion and negotiations to re-let the space now at an advanced stage, which will increase the lettable space by 7,200 sqm.

Nigel Wright, Chairman, commented:

"I am pleased to report another period of solid performance by MirLand.

"We continue to fine tune our investment portfolio and improvements to Net Operating Income and Operating Cash Flow are encouraging, demonstrating the momentum being achieved. Sales from our flagship residential project in St. Petersburg have outperformed our expectations with 383 sales contracted at the period end and a significant number of further reservations. Accordingly we plan to launch Phase II of the project shortly to capitalise on the ongoing demand for this high quality residential scheme."

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We are pleased to report good progress for the Company for the half year ended 30 June 2012, demonstrating further momentum despite the ongoing uncertainty in the world economy.

During the period, MirLand continued to implement measures to ensure the deliverability of the Company's business plan and strategy, which include the following key elements:

- to maximize returns from our existing diversified portfolio of assets;
- to successfully complete those projects currently under construction; and
- to resume our pipeline projects in light of both cost and availability of funding and market demand.

By adjusting our operations in line with the above principles, the Company has successfully navigated through the financial crisis and is now well positioned to consider new investment deals which will enable it to capitalise on the attractive opportunities which have started to become available in the Russian market.

H1 OPERATIONAL UPDATE

Triumph Park, St. Petersburg: Sales of Sub Phase One of Triumph Park Project in St. Petersburg, comprising 510 apartments, continued at a higher rate than projected, contracts for the sale of 383 apartments have now been executed and a further 37 apartments have been reserved. Construction of this first phase is on track and due for completion in Q2 2013 and the Company is now making preparations for the development and sale of the second phase, comprising 630 apartments, which are planned for launch during Q3 2012.

- **Triumph Mall, Saratov:** the MirLand developed shopping centre, which opened in December 2010, is fully occupied and enjoyed high average footfall of more than 485,000 visitors per month during Q2 2012, an increase of approximately 10% compared to Q2 2011. **Vernissage Mall, Yaroslavl:** the occupancy rate in the shopping centre has been maintained at 100%. The shopping centre has also enjoyed high footfall of more than 300,000 visitors per month on average during Q2 2012, a slight increase compared to the 290,000 average visits during Q2 2011.
- **Western Residence project in Perkhushkovo:** to date, 23 houses have been sold, of which, four sales were completed in the last three months. The Company continues to make efforts to increase the sales pace despite the challenging conditions in this particular market segment of low rise, business class residential property in the Moscow region, which has shown slower recovery from the crisis compared to other parts of the residential market. The Company believes that, despite this, the medium term outlook for this segment is positive.
- **Hydro and MAG office buildings:** the average occupancy rate increased to approximately 99% of the available lettable area. The Company is in negotiations with potential tenants to let out approximately 7,200 sqm renovated after the fire that occurred in March 2010.

- **Century office buildings:** 2,500 sqm of the 6,000 sqm premises vacated by Reiffeissen bank have already been re-let. The Company is in advanced negotiations on the remaining space.
- **Tamiz office building:** The building is 92% occupied and started to produce stable income from the start of the financial year. The Company is making ongoing progress in letting-up the remaining space.

FINANCIAL REVIEW

Financial Results

Total assets as at 30 June 2012 increased to US\$740.8 million (31 December 2011: US\$739.6 million). Shareholders' equity accounted for US\$337.9 million as at 30 June 2012 (31 December 2011: US\$347.1 million).

MirLand's assets are externally valued semi-annually on 30 June and 31 December by Cushman & Wakefield. Based on the June 2012 valuation, investment properties and investment properties under construction increased in value to US\$447.7 million as at 30 June 2012 (31 December 2011: US\$446.3), with further investment by the Company and improvement in the operational performance of the portfolio's commercial assets, off-setting some outward yield movement, mainly in Company's office projects, due to the ongoing uncertainty in world economy and real estate markets.

Inventories of buildings for sale increased from US\$224.8 million as at 31 December 2011 to US\$239.0 million (30 June 2012) due to further investments during the period being compensated for by the appreciation of the US\$ against the Rouble.

We strongly believe in the quality of the assets in which the Company has invested and that this portfolio will deliver an attractive yield to our investors over the long term as the market continues to recover.

Income Statement

Over the period, rental income, income from the sale of inventories and revenues from management fees amounted to US\$30.7 million, up from US\$23.2 million in H1 2011, an increase of 32%. This increase is largely attributable to the improvement in occupancy rates and further rent indexation at MirLand's yielding assets and to the signing of a compromise agreement with Reiffeissen bank in April.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 30 June 2012 and has recognized the resulting movement in valuation through its income statement as fair value adjustments. The fair value adjustment during the period amounted to US\$2.3 million (H1 2011: negative fair value adjustment of US\$12.2 million).

The cost of maintenance and management of the Company decreased from US\$10.4 million in H1 2011 to US\$9.3 million in H1 2012 due to further efficiency measures previously implemented by the Company, and despite additional income producing space coming under the Company's management through the successful letting of the Tamiz project.

The Company's general and administrative expenses for the period decreased to US\$7.1 million in comparison to US\$8.6 million in the same period in 2011, again due to increasing efficiencies surrounding those activities performed by the management.

Net financing costs for the period amounted to US\$12.9 million in comparison to US\$7.8 million in the same period of 2011 due to termination of capitalization of interest expenses and the issuance of debentures. Foreign exchange differences resulted in income of US\$1.9 million due to the appreciation of the US\$ against the Israeli shekel, offset by the Rouble's devaluation against the US\$, compared to US\$15.5 million in H1 2011.

Despite the significant improvement in total revenues and NOI, the Company recorded a loss of US\$0.7 million compared to net income of US\$4.0 million in H1 2011. The loss is largely attributed to the increase in financing cost. Furthermore, in H1 2011 there was a one off tax benefit of US\$8.6 million.

Balance Sheet

Total assets as at 30 June 2012 amounted to US\$740.9 million, a slight increase in comparison to US\$739.6 million in 31 December 2011. Property and land comprise 94% of the total assets of the Company (US\$695.0 million) and cash amounted to US\$25.4 million.

Equity and Liabilities

Shareholders' equity as at 30 June 2012 was US\$337.9 million in comparison to US\$347.1 million at 31 December 2011. Shareholders' equity comprises 46% of total assets.

Financial liabilities as at 30 June 2012 were US\$347.4 million in comparison to US\$357.0 million at 31 December 2011. Short term credit from banks amounting to US\$68.7 million is guaranteed by the Company's main shareholder, the Fishman Group, which the Company assumes will revolve if necessary. As at 30 June 2012, net financial liabilities comprise 43% of MirLand's total assets.

Net Asset Value

The Company's adjusted net asset value as at 30 June 2012 amounted to US\$523.2 million in comparison to US\$536.8 million as at December 2011, a decrease of 2.5%. As of 30 June 2012, the portfolio was valued at US\$905.1 million of which MirLand's share is US\$815.8 million, a 4.8% decrease due to the sale of 339 units in the St. Petersburg residential project (December 2011: US\$856.9 million). The value of the sold units is not included in the current valuation, resulting in the decrease year-on-year. Adding future proceeds from the sold units as yet unrecognized in the profit and loss statement would bring the portfolio value to US\$863.8 million, a 1% increase. This resulted from a combination of improved operating income from investment properties being largely offset by a modest reduction in valuation, caused by marginally higher capitalisation rates applied by our external valuers due to the continuing macro-economic uncertainty in the financial markets.

The valuation of each asset in MirLand's real estate portfolio at 30 June 2012 is set out in the following table:

Ref.	City	Property Name and Address	Portfolio Market Value as of 30th of June 2011 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as of 30th of June 2011 (Rounded)	Total sqm of Land	Projected Net Leasable / Saleable Area in sqm upon Completion (excl. Parking)
001	Moscow	Hydromashservice	\$68,400,000	100%	\$68,400,000	12,237	16,696
002	Moscow	MAG	\$67,500,000	100%	\$67,500,000	21,940	18,929
003	Moscow Region	Western Residence, Perkhushkovo	\$73,400,000	100%	\$73,400,000	225,300	65,629
004	Saratov	Triumph Mall	\$112,100,000	100%	\$112,100,000	22,000	27,305
005	Moscow	Skyscraper	\$41,900,000	100%	\$41,900,000	9,079	92,000
006	Saint Petersburg	Triumph Park, Residential	\$261,000,000	100%	\$261,000,000	326,651	612,946
007	Saint Petersburg	Triumph Park, Trade Center	\$21,000,000	100%	\$21,000,000	81,663	117,775
008	Yaroslavl	Vernissage Mall	\$95,200,000	50.5%	\$48,100,000	120,000	34,091
009	Yaroslavl	Phase II	\$8,600,000	50.5%	\$4,300,000	180,000	55,245
010	Moscow	Tamiz Building	\$42,100,000	100%	\$42,100,000	4,500	12,971
011	Moscow	Century Buildings	\$86,200,000	51%/61%	\$48,100,000	5,800	20,903
012	Kazan	Triumph House	\$8,800,000	100%	\$8,800,000	22,000	31,480
013	Penza	Retail Center	\$3,000,000	100%	\$3,000,000	52,790	18,024
014	Saratov	Logistics Complex	\$7,400,000	100%	\$7,400,000	260,000	104,000
015	Novosibirsk	Logistics Complex	\$8,650,000	100%	\$8,650,000	406,752	180,000
Total			\$905,250,000		\$815,800,000		

The full valuation report is published on the Company's website (www.mirland-development.com).

Cashflow

During H1 2012, the Company invested US\$21.1 million in real estate properties in comparison with US\$18.0 million in H1 2011. Cashflow provided by operating activities amounted to US\$5.2 million, after taking into account strong cash receipts from the sale of Triumph Park units and US\$11.7 million used for the payment of interest and taxes. Cash flow used in financing activities during the period amounted to US\$9.7 million including repayment of US\$5.6 million of shareholders' loans.

Financing

The Company's policy is to limit its leverage to 66% of the gross value of its assets, including all development, trading and investment properties and, as at 30 June 2012, its financial liabilities equated to 43% of its total assets. However, despite recent small improvements in the economic environment, financing markets remain difficult and the Company is continuing to take active measures aimed at diversifying its funding sources further, including building stronger relationships with Russian domestic and international banks.

To date, MirLand's activities have been financed through a combination of equity capital, proceeds of corporate bond issues, project financing for the Vernissage and Triumph malls, financing for MAG, Hydro, Century and Western Residence properties, shareholders' loans and guarantees and general corporate loans. During 2011, the Company was able to further diversify its funding sources, obtaining four refinancing loans from three of Russia's leading banks at the project level totalling approximately US\$60.1 million as well as a construction credit line for the first phase of the Triumph Park Project in St. Petersburg of approximately US\$41 million. In addition, during 2011 the Company successfully raised circa US\$54 million through extensions of Series C bonds, conversion of previously issued warrants (Series 2 and Series 3) to bonds Series C and D and the sale to third parties of bond Series D by the Company's wholly owned subsidiary, which are traded on the Tel Aviv Stock Exchange. During the year, the Company also repaid US\$36.8 million of Shareholders' loans (US\$40.6 million including interest), US\$10.8 million of bonds and US\$5.4 million of bank loans.

Moreover, MirLand is currently in negotiations with leading banks for the refinancing of its equity investments at the Triumph Park project in St. Petersburg, which will cover the remaining costs of the second sub-phase of the project, the construction of which is expected to start in September this year.

Bonds series A to D of the Company are rated iBBB positive by Ma'alot Standard & Poors (recently upgraded from neutral in July 2012) and Bonds series A to B of the Company are rated iBaa2 stable by Midrug, the Israeli affiliate of Moody's (last reviewed in February 2012).

In January 2012 the Company repaid remaining loans from its shareholders of approximately US\$6.4 million, including accrued interest.

Wherever possible, MirLand seeks to acquire finance on a non-recourse basis to minimise risk. The Company is currently negotiating with several banks for financing its portfolio of projects and assets.

MARKET UPDATE

Russian Business Environment

Despite global instability, Russian growth dynamics look positive. GDP growth in H1 2012 of 4.5% YoY, exceeded the prior period (3.7% YoY in H1 2011). The Russian State Statistics Service estimates annual growth of 4.9%. Most of the macroeconomic indicators have demonstrated positive trends: industrial production and retail turnover increased by 3.1% (YoY), while unemployment decreased to 5.4%. Compared to the first quarter, the Industrial Optimism Index grew by 2% and fixed capital investments continued to grow. In June, CPI increased to 0.9% month on month and resulted in an acceleration of the annual rate of inflation from 3.6% YoY in May to 4.3% YoY as of June, which is still historically very low.

In the second quarter of 2012, the Rouble/USD average exchange rate was at the 32-33 level, and was expected to remain stable, although this is dependent on the oil price volatility.

In its June rates decision, the Central Bank of Russia ('CBR') maintained all policy rates – refinancing, and deposit – at 8.00% and 5.25%, respectively. This was widely expected by the market. The CBR also cut the FX swap rate to 6.5%, from 8.0%, which should help to alleviate concerns related to somewhat tighter interbank liquidity.

Capital outflow decelerated from US\$34 billion in the first quarter 2012 to US\$9.5 billion in the second quarter of 2012, the full year's outflow is expected to reach US\$70 billion.

The total volume of investments in the second quarter amounted to US\$2.8 billion, 15% higher than in Q2 2011. H1 2012 total investment was US\$4.18 billion (compared to US\$4.5 billion in 2011).

However, as the performance of the Russian economy relies heavily on oil prices, which are characterised by high volatility, and whilst the full outcome of recent events in the USA and Eurozone are still unclear, it should be expected that the recovery will continue to be gradual.

The Office Sector

Total investment volume into the office sector accounted for 26% of total real estate investments, or US\$1.09 billion in H12012.

Office take-up in Q2 2012 reached 628,000 sqm of high quality space. Net absorption is relatively low and reflects about 18.6% of the take-up.

New office construction in Moscow has slowed. It is estimated that 526,000 sqm will be built in 2012. Absorption is expected to stabilize at 500,000-600,000 sqm per year. Thus it will take time for vacancy to decrease significantly and there to be any impact on rental levels. Rental rates are remaining stable and this trend is expected to continue in H2 2012.

Furthermore, Russia still suffers from some of the lowest office space per 1,000 inhabitants across Europe, illustrating the market's potential as the Country's economy continues to recover.

The Retail Sector

The positive fundamentals in the Russian economy stimulated an improvement in the retail sector during the first six months of the year. The retail segment was the leader in the investment market in 2012 with US\$2.05 billion of deals reflecting 50% of the total investment volume, due to stable rental levels, low vacancy and strong consumer spending.

Several new international brands entered the market in recent months and retailers are also looking to expand into the regions. There is an increase of mixed-use retail complexes entering the market with an entertainment offer supporting the retail segment.

During Q2, the retail market grew turnover by 7.2%, and growth forecasts are positive for the remainder of the year. The Moscow shopping centre GLA per 1,000 inhabitants is still low compared to large European cities and therefore we expect significant further capacity within the sector.

The Residential Sector

During H1 2012, the Russian residential real estate market continued to display strong momentum.

Demand for residential real estate generally remains good and has been supported by mortgage affordability. Although mortgage interest rates rose in H1 2012, from 11.8% in January to 12.2% in June, they remain lower than H1 2011, when they averaged 12.5%. In terms of new mortgages, volumes increased over 70% in value terms, with in excess of Rouble 347.5 billion of new housing loans extended, 1.6% higher than during H1 2011

The reduction in new supply and continued high demand have pushed house prices up by 8% in Moscow and 4% in St. Petersburg. In H1 2012, the volume of residential sales rose 5% YoY in Moscow and 33% in St Petersburg. Barring any major macroeconomic disruptions, solid sales are expected through the remainder of the second half of the year.

According to the European Mortgage Federation, Russia has one of the lowest levels of living space per capita - circa 23 sqm, compared to other European countries average of 38 sqm per capita-with the existing stock predominately being of poor quality. These strong fundamentals underline the significant structural potential of this market.

The Logistics Sector

In H1 2012 the warehouse market experienced high levels of construction activity. In the Moscow region, over 360,000 sqm of quality space was leased, sold or contracted for development. The vacancy rate reduced to circa 1% in Moscow. Rental rates remained stable at the level of US\$135/sqm per annum. The short term forecast for the market is stable in terms of vacancy and rental and sale prices. Pre-lease and build to suit contracts will remain common and will contribute to the market stability.

The demand for warehouse space in the regions will be stable. Larger numbers of retailers are expected to expand their presence in the regions. The growth of rental rates is expected to attract developers to the regions.

OUTLOOK

Our policy of progressing our existing key projects continues whilst we prudently seek new opportunities for expansion. We are pleased with our success in both preserving and increasing the strong revenue stream from our investment portfolio as this provides a sound foundation for future growth. Conditions in the Russian real estate market have slightly improved although we continue to see some sector and regional variations.

Key economic indicators also give cause for modest encouragement, as do the early signs of improvement in the availability of domestic bank finance. However, volatile oil prices and macro-economic events in the USA and Eurozone continue to give pause for thought. Accordingly we expect that continuing recovery will be gradual.

To supplement our existing pipeline, we are actively seeking and reviewing new development and investment opportunities. However, we will only invest where we are confident that acquisitions will readily attract the requisite funding and add value to our high quality portfolio.

Nigel Wright
Chairman

Roman Rozental
Chief Executive Officer

15 August 2012

15 August 2012

(INTERIM) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	25,388	9,681	32,333
Short-term loans	-	830	-
Restricted bank deposits	1,706	-	1,739
Trade receivables	1,492	3,530	4,568
Other receivables	1,987	2,652	2,780
VAT receivable	6,654	26,640	7,393
Inventories of buildings for sale	171,594	202,094	157,772
	208,821	245,427	206,585
NON-CURRENT ASSETS:			
Investment properties	367,507	318,711	363,569
Investment properties under construction	80,222	140,424	82,703
Inventories of buildings for sale	67,368	32,885	67,062
Long-term loans	4,413	11,965	10,611
VAT receivable	212	422	317
Other long-term receivables	3,866	3,152	2,851
Deferred expenses	3,762	1,373	1,802
Fixed assets, net	1,058	1,460	1,190
Deferred taxes	3,618	288	2,915
	532,026	510,680	533,020
TOTAL ASSETS	740,847	756,107	739,605

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks	68,671	70,151	66,992
Current maturities of long-term loans from banks and debentures and other short-term loans	44,608	20,565	40,962
Credit from banks for financing of inventory of buildings for sale	21,183	-	24,218
Loans from shareholders	-	5,981	6,402
Government authorities	2,829	3,256	3,981
Trade payables	9,020	10,629	9,135
Deposits from tenants	2,637	4,808	3,831
Advances from buyers	30,423	6,695	7,099
Other accounts payable	988	1,968	1,871
	<u>180,359</u>	<u>124,053</u>	<u>164,491</u>
NON-CURRENT LIABILITIES:			
Loans from banks	77,083	69,856	79,960
Debentures	135,809	178,090	138,488
Other non-current liabilities	9,682	6,035	9,528
Deferred taxes	-	2,169	-
	<u>222,574</u>	<u>256,150</u>	<u>227,976</u>
TOTAL LIABILITIES	<u>402,933</u>	<u>380,203</u>	<u>392,467</u>
Equity attributable to equity holders of the Parent:			
Issued capital	1,036	1,036	1,036
Share premium	359,803	359,803	359,803
Capital reserve for share-based payment transactions	11,969	10,983	11,341
Capital reserve for transactions with controlling shareholders	6,565	3,207	6,565
Foreign currency translation reserve	(61,282)	4,896	(52,126)
Retained earnings (accumulated deficit)	19,823	(4,021)	20,519
TOTAL EQUITY	<u>337,914</u>	<u>375,904</u>	<u>347,138</u>
TOTAL EQUITY AND LIABILITIES	<u><u>740,847</u></u>	<u><u>756,107</u></u>	<u><u>739,605</u></u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF INCOME

	Six months ended		Year ended
	30 June		31 December
	2012	2011	2011
	Unaudited		Audited
U.S. dollars in thousands (except per share data)			
Revenues:			
Rental income from investment properties	25,168	19,061	39,679
Income from sale of inventories	3,711	2,125	3,932
Revenues from management fees	1,825	2,005	3,922
Total revenues	30,704	23,191	47,533
Cost of sales	(5,487)	(3,335)	(6,279)
Cost of maintenance and management	(9,256)	(10,390)	(20,915)
Gross profit	15,961	9,466	20,339
General, administrative and marketing expenses	(7,103)	(8,627)	(16,583)
Marketing expenses	(775)	(1,040)	(2,593)
Fair value adjustments of investment properties and investment properties under construction	2,263	(12,184)	33,485
Other income (expenses), net	(722)	100	3,849
Operating income (loss)	9,624	(12,285)	38,497
Finance income	708	938	2,141
Finance costs	(13,645)	(8,737)	(18,031)
Net foreign exchange differences	1,924	15,465	(6,349)
Income (loss) before taxes on income	(1,389)	(4,619)	16,258
Tax benefit	(693)	(8,604)	(12,267)
Net income (loss)	(696)	3,985	28,525
Net earnings per share (in U.S. dollars per share):			
Basic and diluted net earnings	(0.01)	0.04	0.28

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended		Year ended
	30 June		31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
Net income (loss)	<u>(696)</u>	<u>3,985</u>	<u>28,525</u>
Other comprehensive income (loss):			
Exchange differences on translation of foreign operations	<u>(9,156)</u>	<u>30,492</u>	<u>(26,530)</u>
Total other comprehensive income (loss)	<u>(9,156)</u>	<u>30,492</u>	<u>(26,530)</u>
Total comprehensive income (loss)	<u><u>(9,852)</u></u>	<u><u>34,477</u></u>	<u><u>1,995</u></u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Currency translation reserve	Retained earnings	Total
	U.S. dollars in thousands						
<u>At 1 January 2012</u>	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138
Net income for the year	-	-	-	-	-	(696)	(696)
Other comprehensive loss	-	-	-	-	(9,156)	-	(9,132)
Total comprehensive loss, net	-	-	-	-	(9,156)	(696)	(9,852)
Share-based payment transactions	-	-	628	-	-	-	628
<u>At 30 June 2012 (unaudited)</u>	<u>1,036</u>	<u>359,803</u>	<u>11,969</u>	<u>6,565</u>	<u>(61,282)</u>	<u>19,823</u>	<u>337,914</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Parent						Total equity
	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Accumulated deficit	
	U.S. dollars in thousands						
<u>At 1 January 2011 (audited)</u>	1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023
Net income for the period	-	-	-	-	-	3,985	3,985
Other comprehensive income	-	-	-	-	30,492	-	30,492
Total comprehensive income, net	-	-	-	-	30,492	3,985	34,477
Share-based payment transactions	-	-	404	-	-	-	404
<u>At 30 June 2011 (unaudited)</u>	<u>1,036</u>	<u>359,803</u>	<u>10,983</u>	<u>3,207</u>	<u>4,896</u>	<u>(4,021)</u>	<u>375,904</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Currency translation reserve	Retained earnings (accumulated deficit)	Total
	U.S. dollars in thousands						
<u>At 1 January 2011</u>	1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023
Net income for the year	-	-	-	-	-	28,525	28,525
Other comprehensive loss	-	-	-	-	(26,530)	-	(26,530)
Total comprehensive income (loss), net	-	-	-	-	(26,530)	28,525	1,995
Share-based payment transactions	-	-	762	-	-	-	762
Equity component of transaction with controlling shareholders	-	-	-	3,358	-	-	3,358
<u>At 31 December 2011</u>	<u>1,036</u>	<u>359,803</u>	<u>11,341</u>	<u>6,565</u>	<u>(52,126)</u>	<u>20,519</u>	<u>347,138</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	30 June		31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	(696)	3,985	28,525
Adjustments to reconcile net income to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	(996)	(8,942)	(13,482)
Depreciation and amortization	211	260	467
Finance costs (income), net	11,013	(7,666)	22,239
Share-based payment	628	404	762
Fair value adjustment of investment properties and investment properties under construction	(2,263)	12,184	(33,485)
	<u>8,593</u>	<u>(3,760)</u>	<u>(23,499)</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables and others	1,920	(3,108)	(5,547)
Decrease in VAT receivable	1,016	6,429	23,708
Increase in inventories of buildings for sale	(15,830)	(5,749)	(21,759)
Increase (decrease) in trade payables	(14)	218	165
Increase in other accounts payable	21,917	464	6,612
	<u>9,009</u>	<u>(1,746)</u>	<u>3,179</u>
Cash paid and received during the period for:			
Interest paid	(12,815)	(12,384)	(23,370)
Interest received	1,328	20	20
Taxes paid	(220)	(61)	(948)
Taxes received	-	-	22
	<u>(11,707)</u>	<u>(12,425)</u>	<u>(24,276)</u>
Net cash flows provided by (used in) operating activities	<u>5,199</u>	<u>(13,946)</u>	<u>(16,071)</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

(INTERIM) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	30 June		31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Additions to investment properties	(5,159)	(4,484)	(6,365)
Additions to investment properties under construction	(91)	(7,786)	(8,742)
Proceeds from the sale of fixed assets	(216)	(289)	(349)
Acquisition of additional interest in jointly controlled entity	(1,500)	-	-
Proceeds from repayment of loans granted	5,590	6,860	8,428
Loans granted to related parties	(1,446)	(980)	-
Investment in restricted deposit	-	-	(1,739)
Net cash flows used in investing activities	<u>(2,822)</u>	<u>(6,679)</u>	<u>(8,767)</u>
<u>Cash flows from financing activities:</u>			
Issuance of debentures	-	53,172	54,104
Receipt of loans from banks	19,361	7,142	47,696
Repayment of debentures	-	-	(10,768)
Repayment of loans from shareholders	(5,567)	(36,843)	(36,843)
Repayment of loans from banks	<u>(23,504)</u>	<u>(3,645)</u>	<u>(6,206)</u>
Net cash flows provided by (used in) financing activities	<u>(9,710)</u>	<u>19,826</u>	<u>47,983</u>
Exchange differences on balances of cash and cash equivalents	<u>388</u>	<u>(494)</u>	<u>(1,786)</u>
Increase decrease in cash and cash equivalents	(6,945)	(1,293)	21,359
Cash and cash equivalents at the beginning of the period	<u>32,333</u>	<u>10,974</u>	<u>10,974</u>
Cash and cash equivalents at the end of the period	<u><u>25,388</u></u>	<u><u>9,681</u></u>	<u><u>32,333</u></u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NOTE 1:- GENERAL

- a. These interim consolidated financial statements have been prepared in a condensed format as of 30 June 2012 and for the six and three-month periods then ended ("interim condensed consolidated financial statements"). These financial statements should be read in conjunction with the Company's shelf prospectus published 29 May, 2012.

- b. Based on management plans and as reflected in the Company's forecasted cash flows, the Company expects to finance its activities, inter alia, by obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 30 June 2012 amounting to approximately US\$ 94 million, and revenues from sales of building projects that are expected to be completed during 2012.

In addition, the short-term loans from banks amounting to approximately US\$ 68 million are secured by non-cancelable bank guarantees of the controlling shareholders until the full repayment of the loans.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim financial statements:

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with the International Financial Reporting Standard IAS 34 ("Interim Financial Reporting").

The significant accounting policies and methods of computation followed in the preparation of the interim condensed consolidated financial statements are identical to those followed in the preparation of the latest annual financial statements, except for the adoption of new Standards and Interpretations as noted below:

IAS 12 - Income Taxes:

The amendment to IAS 12 ("the Amendment") applies to investment property measured at fair value. According to the Amendment, the deferred tax asset/liability in respect of such property should be measured based on the presumption that the carrying amount of the property will be recovered in full through sale (and not through use). However, if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embedded in the investment property over time rather than through sale, the sale presumption is rebutted and the Group should apply the regular guidelines of IAS 12 (namely, deferred taxes are measured based on the expected recovery of the property as determined by management - through sale or use).

The Amendment supersedes the provisions of SIC 21 that require separation of the land component and the building component of investment property measured at fair value in order to calculate the deferred tax.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Amendment is applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2012. The Amendment has had no effect on the financial statements.

Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities:

Standards issued but not yet effective:

In June 2012, the IASB issued amendments to IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements" ("IFRS 11") and IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") (collectively, "the amendments"). The amendments include clarification of the transition guidance in IFRS 10.

The amendments provide relief in the application of the transition guidance in IFRS 10, IFRS 11 and IFRS 12 and permit adjustment of comparative data for only one year. The adjustment of comparative data for earlier periods is permitted but not required. The amendments also eliminate the requirement to disclose comparative data for previous periods in respect of unconsolidated structured entities.

The amendments become effective starting from the financial statements for annual periods beginning on January 1, 2013, which is the effective date of IFRS 10, IFRS 11 and IFRS 12.

NOTE 3:- THE EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES

In the reported period, significant changes occurred in the exchange rates of foreign currency to which the Company is exposed following the weakening of the Russian rouble, in relation to the US dollar, which is the Company's functional currency. The main exposure arises from foreign operations whose functional currency is the Russian Rouble and in respect of which other comprehensive loss of approximately US\$ 9,156 thousand was recorded in the six months ended June 30, 2012.

NOTE 4:- SEGMENTS

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
	<u>U.S. dollars in thousands</u>		
Six months ended 30 June 2012:			
Segment revenues	<u>26,993</u>	<u>3,711</u>	<u>30,704</u>
Segment results	<u>17,855</u>	<u>(2,667)</u>	15,188
Unallocated expenses			(5,564)
Finance expenses, net			<u>(11,013)</u>
Loss before taxes on income			<u>(1,389)</u>

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
	<u>U.S. dollars in thousands</u>		
Six months ended 30 June 2011:			
Segment revenues	<u>21,066</u>	<u>2,125</u>	<u>23,191</u>
Segment results	<u>(3,082)</u>	<u>(2,098)</u>	(5,180)
Unallocated expenses			(7,105)
Finance income, net			<u>7,666</u>
Loss before taxes on income			<u>(4,619)</u>

	<u>Year ended 31 December 2011</u>		
	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>U.S. dollars in thousands</u>		
Segment revenues	<u>43,601</u>	<u>3,932</u>	<u>47,533</u>
Segment results	<u>50,840</u>	<u>(4,661)</u>	46,179
Unallocated expenses			(7,682)
Finance expenses, net			<u>(22,239)</u>
Profit before taxes on income			<u>16,258</u>

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

- a. On March 12, 2012, the Company's board of directors approved by a way of reallocation the expiration date of 1,122,994 options, previously granted by the Company, to 19 March 2014, and updated the exercise price of those options from 4.8 GBP per share to exercise price of 3.5 GBP per share. According to IFRS 2, the additional value of those options was measured by independent appraiser and amounted to US\$494 thousand. The Company recognized this amount as expenses in the income statement. As of the balance sheet date, the options are fully vested.
- b. During the period, the Company repaid shareholder's loans in the total amount of approximately US\$ 6.4 million (including interest accrued).
- c. On March 30 2012 the Company acquired a 10% additional interest in shares of jointly controlled entity ("Inomotor") for a total consideration of US\$ 1.5 million. As a result, the Company holds a 61% in shares of Inomotor as of the balance sheet date. The joint venture agreement between the parties was not amended as a result of acquisition, therefore as of the balance sheet date the Company accounts investment in Inomotor using the proportionate consolidation method.
- d. Further to Note 28i to the Company's annual financial statements, on April 9, 2012, the Company signed a compromise agreement with Reiffeisen Bank ("the lessee") which was approved by ruling court agreement in Russia. According to the agreement, a debt balance, for which the lessee was liable in respect to 2011 in an amount aggregating to about US\$ 4.8 million (not including VAT), was paid. Further, on April 23, 2012 an additional compromise agreement and lease termination agreement were signed and were approved by court ruling. Pursuant to the compromise agreement, the Company collected the debt balance, for which the lessee was liable in respect to the period from January 1, 2012 until the date on which the compromise was signed, in the amount of about US\$ 1.5 million (not including VAT). Further, in accordance to the lease termination agreement between the parties it was agreed that in reference to the period up to the end of the original lease agreement, to which the lessee was liable, an amount aggregating to US\$ 7.7 million will be paid in addition to the deposit in the amount of about US\$ 1.3 million that the lessee deposited with it and that was transferred to the Company at the inception of the lease agreement. The compromise amounts were received by the Company in full.

NOTE 6: - SUBSEQUENT EVENTS

On July 22, 2012 Standard & Poor's Maalot ratified the credit rating of the Company (iBBB) and raised the Company's forecast credit rating from neutral to positive.