13 March 2013

MirLand Development Corporation Plc.
(“MirLand” / “Company”)

FULL YEAR RESULTS FOR THE 12 MONTHS TO 31 DECEMBER 2012

MIRLAND DELIVERS STRONG REVENUE GROWTH AND OPERATIONAL PROGRESS ACROSS THE PORTFOLIO

95% of Phase I apartments sold at Triumph Park residential development in St. Petersburg and 50% pre-sales achieved on Phase II

MirLand Development Corporation Plc, one of the leading international residential and commercial property developers in Russia, announces results for the 12 months ended 31 December 2012.

Financial Highlights:

- Total revenues up 24% to US$59.0 million (31 December 2011: US$47.5 million) due to improved occupancy rates in yielding properties, the receipt of proceeds from a compromise agreement with Raiffeisen Bank, and income from house sales at the Western Residence project in Perkhushkovo;
- Net operating income (“NOI”) from investment properties up 44% to US$32.6 million (31 December 2011: US$22.7 million), following improved occupancy across the portfolio (95% by the year end), increased income from rent indexation and reduced operating expenses;
- EBITDA up 33% to US$10.6 million (31 December 2011: US$8.0 million);
- General and administrative expenses reduced by 10% to US$14.9 million (31 December 2011: US$16.6 million);
- Positive cash flow from operating activities of US$15.6 million (31 December 2011: negative cash flow of US$16.1 million), supported by receipts from strong pre-sales of units at Triumph Park development;
- Full year loss of US$42.3 million (31 December 2011: net income of US$28.5 million) mainly due to onetime write-off of the Skyscraper project and currency fluctuations; appreciation of the Rouble against the US Dollar of approximately 6% resulted in nominal depreciation of commercial assets at the same rate. The nominal depreciation was compensated for by an increase in foreign currency translation reserve;
- Total assets up 5% to US$773.2 million at 31 December 2012 (31 December 2011: US$739.6 million);
- Shareholders’ equity US$317.3 million at 31 December 2012, equating to 41% of total assets (31 December 2011: US$347.1 million);
- Net leverage decreased to 41.8% of total assets (31 December 2011: 43.9%). In January 2012, the Company repaid the remaining balance of Shareholders’ loans amounting to approximately US$6.4 million (including accumulated interest). Total net financial liabilities repayments amounted to approximately US$12 million during the period.
- Adjusted NAV: US$544.8 million (31 December 2011: US$536.8 million) and NAV per share of US$5.3 (31 December 2011: US$5.2). The growth in NAV (based on Cushman & Wakefield valuation) is attributable mainly to fair value increase of the St. Petersburg project of approximately US$35.1 million due to the significant progress achieved during the year in terms of sales, financing and construction, and to a net increase in the fair value of its commercial properties of approximately US$3.7 million, due to improved occupancy, rent rates and market conditions. These increases were partially offset by the write-off of the Skyscraper project and growth in net liabilities;

- Real Estate assets of US$716.4 million (31 December 2010: US$671.1 million) representing 93% of total assets (31 December 2011: 91%), following further progress in the construction and delivery of Triumph Park;
- Further diversification of funding sources: two loan facilities of approximately US$50 million refinanced with SberBank of Russia Bank ("SberBank"); US$47.5 million construction credit line obtained for Phase II Triumph Park
- In September 2012, the Company entered into a new non-revolving US$50 million refinancing loan agreement with SberBank for two of its Moscow office investment assets, Hydro and MAG, comprising part of the Mirland Business Centre

Operational Highlights:

- Triumph Park in St. Petersburg: further excellent progress at the Company's flagship project, supported by on-going high demand
  - Phase I: 490 out of 510 apartments (launched in November 2011) were pre-sold by the end of 2012, representing a projected income of approximately US$67 million to be recognized in H1 2013 in accordance with IFRS standards;
  - Phase II: Launched in Q3 2012, 310 out of 630 units pre-sold, representing approximately 50% of the apartments available
  - Phase III: Currently in planning with sales campaign expected to launch in the last quarter of the year
  - Credit line agreement signed with SberBank to provide Ruble equivalent of US$47.5 million of credit to cover the finance required for the construction of Phase II
  - Triumph Park is the first green residential project in Russia, certified by BREEAM, the world's foremost environmental assessment method and rating system for buildings
- MirLand Business Center in Moscow:
  - 98% average occupancy achieved across Hydro, MAG, Century Bld and Tamiz office buildings
  - Renovation of the fire-damaged MAG building #26 completed and the asset now fully let to a single tenant, increasing the leasable space across the portfolio by 7,300 sqm and generating more than US$3 million of annual income
  - 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%;
- 100% occupancy preserved at Company's shopping centres with both Triumph Mall in Saratov and Vernissage Mall in Yaroslavl continuing to enjoy high footfall;
- Construction of Phase II of Vernissage Mall in Yaroslavl in planning with MirLand currently in negotiations with an anchor tenant.

Nigel Wright, Chairman, commented:

"2012 saw considerable progress across a number of our projects, most notably at Triumph Park, our flagship St. Petersburg residential development, where 95% of Phase I is now sold and we have made a strong start to the sales process of Phase II, with 50% already pre-sold. This, combined with asset management activity successfully growing income across the investment portfolio, resulted in strong revenue growth for the business of 24% year-on-year, in spite of the on-going challenges of the economic environment. Our profitability was affected by the write-down of the value of our Skyscraper development project in Moscow, following notification that the Department of Land Resources intends to terminate the lease agreement for the site. We have filed an objection to the termination and legal proceedings are currently being considered, but this full write-down is a prudent response while the case is being decided.

"The strong financial and operational progress during 2012 supports our confidence in our strategy, and we will continue to focus on progressing existing developments and achieving pre-sales of schemes, while actively asset managing our investment portfolio. The Russian real estate market has seen good levels of growth in recent years to become one of the leading markets in Europe, and we are confident that our strategy will continue to deliver value for shareholders as sentiment and activity levels improve."

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Chairman's Statement

MirLand has continued to deliver solid progress during the 2012 financial year with further operational and financial milestones achieved across the business, in accordance with our strategy

- To maximize returns from our existing assets;
- Successfully complete projects currently under construction; and
- Activate pipeline projects and selectively seek new projects subject to availability of appropriate funding and market demand.

The Russian economy continued to perform well during 2012 and this positively affected the Company's real estate portfolio through further sales and income secured through lettings. In September, the Company secured construction finance for Phase II of its flagship residential project, Triumph Park, in St. Petersburg and commenced its sales campaign. As with Phase I, the initial response from the market has been highly encouraging with approximately 50% of the 630 apartments in this second phase already sold or reserved, in addition to the 95% of the 510 apartments from the first phase.

As the liquidity in the lending market in Russia improved, MirLand was also able to secure new bank financing and refinancing for existing assets. What is clear, however, is that the measures the Company took during the financial crisis in 2008 and 2009, and the support received at that time from our principal shareholder, the Fishman Group, have left us well positioned to capitalise on opportunities to take advantage of growth and improving sentiment in the Russian macro economy and real estate arena.

2012 Operational Highlights

MirLand's clear strategy and high quality portfolio has ensured the Company is well positioned to grow in this improving environment and this has been reflected in its performance for 2012.

- The Company has a diversified portfolio of assets comprising both residential and commercial projects in different stages of development and the Company's existing land bank provides it with a platform for growth, subject to market conditions.
- The sales campaign launched in November 2011 for Phase I of the Triumph Park residential project in St. Petersburg, has exceeded management's expectations with over 95% of total sold to date (490 at the year end). The sales and construction of Phase II, comprising 630 apartments, launched in Q3 2012, has also proved very successful, with approximately 50% of the apartments pre-sold to date.
- Our investment portfolio now comprises six high quality, completed, income-producing investment properties: the Hydromashservice, MAG, Century and Tamiz office properties in Moscow and, in the retail sector, Vernissage Mall in Yaroslavl and the Triumph Mall in Saratov. Over 90% by value of the leasing agreements for the yielding assets are for long tenures (over three years) and denominated in US dollars. Occupancy rates improved across all of our income- producing investment properties and we reached full occupancy at both of the Company's retail properties and an overall average occupancy rate of approximately 98% for all yielding properties as of today.
- Phase I of the Western Residence project in Perkhushkovo was completed in October 2011 and the delivery of the houses to their new owners is under way. 25 out of a total of 77 houses have now been sold.
- The Company continues to maintain modest net leverage at just 41.8% of its total assets at the year end.

Financing
The past 12 months have seen an improvement in the domestic bank finance market in Russia and we have also witnessed some improvement in the public debt markets in the last few months.

During the period, Mirland signed two loan agreements:

1. In September 2012 the Company entered into a new non-revolving US$50 million refinancing loan agreement with SberBank for two of its Moscow office investment assets. Open Joint Stock Company “Machine-Building & Hydraulics” and Limited Liability Company “Hydromashservice”, both wholly owned subsidiaries of the Company, ("the subsidiaries") have entered into the US$50 million loan agreement for a seven year term, at fixed interest of 9.5%, payable quarterly. The loan refinanced the subsidiaries’ debt of US$24 million and additional funds will be used for the group's working capital. The loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 50% at the end of the term.
2. In November 2012, the Company entered into a new loan agreement with SberBank, which will provide a line of credit of Ruble equivalent of $47.5 million to finance the construction of 630 apartments, being Phase II of MirLand’s “Triumph Park” mixed use residential development in St. Petersburg. The Loan will provide approximately 70% of the construction cost of Phase II of the project and fulfils the outstanding funding requirement for the project. the loan is provided in 24 monthly instalments, matures in three years, and is in addition to the facility that was previously granted by SberBank to construct Phase I of the project. Further detail is provided in Note 10a(2) to the financial statements.

The Company decreased its leverage to 41.8% of total assets (31 December 2011: 43.9%). Total net borrowings amounted to US$323.1 million (31 December 2011: US$324.7 million). During the period approximately US$12 million of net financial liabilities were repaid to the banks and bond holders.

In January 2012, the Company repaid the remaining balance of Shareholders’ loans amounting to US$6.4 million (including accumulated interest). The Company intends to continue to diversify its funding sources whilst obtaining bank financing in order to fund its planned development activities, as well as ensuring it is appropriately capitalized to enable it to make new acquisitions, where it sees opportunities to deliver value to shareholders.

MirLand is managing its development pipeline according to market conditions and the availability of cash resources. We have re-phased our residential projects in Moscow and St. Petersburg to increase our flexibility and to match it to the adjusted market demand. This will enable us to fund construction through a mix of pre-sales, advance payments and internally generated cash. Where we have on-going commercial projects under construction, the Company’s strategy is to enter into pre-lease agreements with high quality tenants to ensure cash flow upon completion, as demonstrated by the Triumph Mall Project in Saratov, which was successfully delivered under difficult market conditions.

Results
Total assets as at 31 December 2012 increased by 4.5% to US$773.2 million as compared to US$739.6 million as of 31 December 2011. Equity as of 31 December 2012 was US$317.3 million compared to US$347.1 million the preceding year. The main reason for the decrease was the loss recorded for the year, principally caused by the onetime write-off of the Skyscraper project, which was partially offset by an increase in the foreign currency translation reserve due to weakening of the US Dollar against the Rouble.

The loss for the year was US$42.3 million (31 December 2011: profit of US$28.5 million), following the write-off of the Skyscraper project. Increased financing costs due to a lower capitalized interest, compensated for by an increase in the value of its yielding office and retail investment properties, as a result of improved market conditions and improved operational results was also a factor. The loss was partially offset by improvement in the Company's operational results and net foreign exchange differences gain, following the weakening of the US Dollar against the Rouble.

Over the period, net operating income ("NOI") from investment properties recorded an increase of 44% to US$32.6 million (31 December 2011: US$22.7 million) due to improved occupancy, reduced operating expenses and increased income from rent indexation.

MirLand's assets are externally valued semi-annually on 30 June and 31 December. The valuation is conducted by Cushman & Wakefield. As a result of market improvement, improved operational results and further investment by the Company during this period, the value of MirLand's portfolio (Company's share) increased by approximately 2% to US$868.0 million at 31 December 2012 (31 December 2011: US $853.6 million). Adjusted NAV, based on Cushman & Wakefield's valuation, was US$544.8 million (31 December 2011: US$536.8 million), an increase of 2%. The growth can be largely attributed to an increase in the valuation of the St. Petersburg's project due to the significant progress made during the year in terms of sales, construction and financing, as well as a net increase in the value of the Company's commercial portfolio helped by improved market conditions. The increase in value was offset by the write-off of our Skyscraper project.

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.

Portfolio Development

In an improving business environment, MirLand's focus for 2012 was on delivery of projects already under construction, careful management of its income-producing investment properties in order to increase the occupancy rates, and the development of quality pipeline projects with strong demand, in the shortest time to market.

Residential

MirLand has continued to make significant progress at its flagship residential led development, Triumph Park in St. Petersburg. In September of 2012, MirLand launched its sales campaign for Phase II of the scheme and has already pre-sold 310 out of 630 units, representing approximately 50% of the phase; the total net sellable area of Phase II of the project is approximately 32,600 sqm and there will be 1,500 sqm of retail space and two levels of underground parking providing 106 spaces. Completion of Phase II is planned for Q4 2014. Following the launch of the sales campaign, the Company entered into a new loan agreement with SberBank, which will provide a line of credit of approximately $47.5 million to finance the construction of Phase II.

In addition, Phase I has continued to receive strong interest with 490 apartments sold out of 510 by the end of the year, representing a projected income of approximately US$67.4 million to be recognized in H1 2013, in accordance with IFRS standards.

The project offers high quality and competitively priced housing in St. Petersburg's strengthening residential market. Situated on a well located 40 hectare site, the project represents one of the few large scale developments in the city in close proximity to major transport links. Furthermore, the development is the first eco-residential complex certified by BREEAM, the world's leading assessment organization of green and sustainable construction, in St. Petersburg. It will provide attractive features including ecologically friendly construction materials, energy efficient design, reduced CO2 emissions, water purification filters and high speed eco lifts certified according to ISO 14001. The flexibility of the apartment mix both as to range of sizes and fit-out options is designed to appeal to a wide range of purchasers.

In Q4 2011 the construction of Phase I of the Western Residence project in Perkhushkovo (77 houses out of 163) was completed and the houses are now being handed over to the buyers. To date, a total of 25 houses have been sold.

Retail

The Company owns two retail projects located in large regional cities, which continue to prosper. Both are fully occupied and enjoy high footfall throughout the year.

As we aim to grow the retail segment of the portfolio, we are planning the construction of Phase II of the Vernissage Mall in Yaroslavl, and are currently in negotiations with an anchor tenant for the development. Separately, Triumph House, a retail project in Kazan, is in advanced negotiations with a single tenant for a tailor-made theme store development which will be let on a long term lease agreement.

Offices

The office segment of the portfolio comprises four high quality, completed, income-producing investment properties - Hydromashservice, MAG, Century Bld and Tamiz - all located at the MirLand Business Center, providing quality office space in Moscow. Most of the leasing agreements in the yielding assets are for long tenures and denominated in US Dollars and have annual indexation. During the year, occupancy rates increased in all of our income producing investment properties and we achieved an overall average occupancy rate of approximately 98% for our office properties.

As described in Note 22i of the Company’s Financial Statements for the year ended 31 December 2012, in October 2008, Avtoprioritet, Mirland’s jointly controlled entity, entered into a lease agreement with Raiffeisen Bank ("the Lessee") according to which the Lessee undertook to lease approximately 5,600 sqm for a period of 10 years. In December 2008, the Lessee announced that it had no intention of fulfilling the lease agreement. Following a sequence of legal claims filed by both parties in connection with the validity of the lease agreement, the Russian Supreme Court made a final ruling that the lease agreement is binding on both parties and the leased space was indeed transferred to the Lessee in accordance with the agreement. Following the Court ruling, Avtoprioritet has filed a number of monetary claims for different periods of the lease agreement and collected a total amount of US$7.6 million to date. In April 2012, Avtoprioritet reached a final judicially approved settlement with the Lessee under which it collected an outstanding rent debt of US$6.4 million and received a final compensation of US$8.6 million for the remaining term of the lease (all amounts are excluding VAT). Currently, all the vacant space in this high quality office property has been leased to several tenants with long term agreements.

We have completed renovation works of the fire-damaged MAG building #26, and the renovated space has been leased to a single tenant under a long term agreement.

On 24 January 2013, Real Service LLC, which owns the Skyscraper development in Moscow, received a letter from the Department of Land Resources of the Moscow government notifying it of the termination of its lease agreement in connection with an area of 0.9 ha designated for the Skyscraper project, which will take effect within one month from the date of the letter. The Company fulfilled its right to file an objection to the lease termination. Cancellation of the lease will be subject to a hearing and the final verdict of such legal proceedings, which are currently being considered. Although the Company intends to take the necessary steps, as far as practicable, to defend its position with the authorities and, if relevant, recover compensation, the Board has determined it is appropriate to write off the full amount of the book value.

Dividend Policy

MirLand has adopted a dividend policy that is intended to reflect long term earnings and cash flow potential while, at the same time, maintaining both prudent dividend cover and adequate capital resources within the business.

Despite the improvements in the Russian economy, and the Company's results, the Board believes that it is appropriate to retain maximum flexibility to invest in the opportunities available to it and therefore the Board has determined that it is inappropriate to declare a dividend for the financial year ended 31 December 2012.

Our People

The Board of Directors and Senior Management team consist of dedicated individuals whose expertise has proved invaluable throughout this year. They have recommended and implemented positive and necessary changes to the business plan in light of rapidly changing economic circumstances and been involved in key decisions throughout.

During the year we were pleased that Yevgeny Steklov joined the Board as Chief Financial Officer, following five years with the Company. Saydam Salaheddin also joined the Board as a non-executive director with a long and prominent career in international investment banking. He most recently worked for Renaissance Capital as a Managing Director and Global Head of Real Estate based in Moscow.

As Chairman, I place considerable emphasis on rigorous Board management and, in addition to formal meetings, I meet and communicate with my colleagues on a regular basis.

Once again I would like to pay tribute to both my executive and non-executive Board colleagues and all our operating staff. Together they form the backbone of our business and I thank them for their continuing dedication, energy and achievement. Their efforts have ensured that the Company is well positioned to face the challenges of the future.

The Board of Directors and the management are fully committed to sound corporate governance. As in previous years, detailed information regarding our approach to governance issues, our internal controls and key team members will be provided in our Annual Report & Accounts.

Outlook

"2012 saw considerable progress across a number of our projects, most notably at Triumph Park, our flagship St. Petersburg residential development, where over 95% of Phase I is now pre-sold and we have made a strong start to the sales process of Phase II, with approximately 50% already pre-sold. This, combined with asset management activity successfully growing income across the investment portfolio, resulted in strong revenue growth for the business of 24% year-on-year, in spite of the ongoing challenges of the economic environment. Our profitability was affected by the write-down of the value of our Skyscraper development project in Moscow, following notification that the Department of Land Resources intends to terminate the lease agreement for the site. We have filed an objection to the termination and legal proceedings are currently being considered, but this full write-down is a prudent response while the case is being decided.

"The strong financial and operational progress during 2012 supports our confidence in our strategy, and we will continue to focus on progressing existing developments and achieving pre-sales of schemes, while actively asset managing our investment portfolio. The Russian real estate market has seen good levels of growth in recent years to become one of the leading markets in Europe, and we are confident that our strategy will continue to deliver value for shareholders as sentiment and activity levels improve."

Nigel Wright
Chairman
11 March 2013

CHIEF EXECUTIVE'S STATEMENT

MirLand was established in 2004 as part of the Fishman Group to focus on value-enhancing acquisitions, construction, lease and sale of residential and commercial real estate in Russia. In December 2006 the Company executed an IPO on the AIM market of the London Stock Exchange. The Company's projects vary in their locations (major and regional cities), sectors (residential, office, retail and logistics), and status of development (from income producing investment properties to land bank for future development). For most of MirLand's projects, a local management team is engaged and is responsible for the development and/or the ongoing management of the asset.

Russian Business Environment

Key economic indicators	2010	2011	2012
Population (millions)	142.9	142.9	143.0
GDP per capita (PPP, $)	15,657	16,735	17,697
GDP growth rate (%)	4.0	4.2	3.5
Inflation (%)	8.8	6.1	6.5
Unemployment rate	7.6	6.1	5.9
RUR/USD exchange rate	30.5	32.2	30.4
Sovereign Credit rating	BBB	BBB	BBB

The Russian economy performed well in the first half of 2012 growing by 4.5%, despite the political disturbances of the presidential elections and weaker macroeconomic turbulence in the Euro zone. All macroeconomic indicators were positive, with some achieving pre-crisis peak levels, although this growth was mainly attributed to high oil prices, which reached US$114 per barrel. In the second half of the year, the Russian economy slowed slightly, mainly due to rising inflation and weakening domestic and external demand affected by Eurozone recession. On an annual perspective, the Russian economy showed moderate growth of 3.5%, inflation reached 6.5% compared to 6.1% in the previous year and the industrial output totalled 3.6% compared to 4.7% in 2011. Unemployment reached a historical 20 year low of 5.9% at the year end, while real disposal income increased by 3% and retail turnover grew by 6.1% in year-on-year terms. Another positive indicator for the Russian economy was the significant decrease of the capital outflow from more than $80 billion in 2011 to approx. $57 billion in 2012.

In August 2012 Russia joined the WTO, completing a long accession process that started in 1993, and made a number of commitments, such as gradually lowering some of the import duties on agriculture and manufacturing and relaxing restrictions on foreign entities in the services sector. Russia will benefit from entering new markets and the liberalization of international business by increasing foreign direct investment inflows.

As a part of its growing global co-operation, in May 2012 Russia became a member of the Nuclear Energy Agency of the OECD (Organization for Economic Co-operation and Development), and is in the process of becoming a full member of the organization.

Russian Real Estate Market

The Russian Real Estate market has demonstrated gradual growth, despite the uncertainty related to Russian political risks at the beginning of the year and anticipation of a second wave of crisis in Europe. Total investment volumes in 2012 accounted for US$7.4 billion, (2011:US$7.6 billion) with $2.9 billion and US$2.6 billion invested in the office and retail sector respectively. The Russian investment market in 2012 was dominated by domestic investors; however, the market share of foreign investors increased by 14% compared to the previous year to reach 32%.

Moscow retained its third position ranking among the top European investment markets with 82% (US$6.1 billion) of the total investment volume in 2012, of which US$2.8 billion was invested in the office sector, US$1.4 billion in the retail sector and the remainder in the hospitality and industrial sectors. 16% of the total investment volume was invested in St. Petersburg and another 2% in the regions. The capitalization rates in Moscow are stable at 8.75% for offices, 9.5% for retail and hospitality and 11.5% for industrial sectors.

The Central Bank of Russia increased the refinancing rate by 25 bps. Debt financing remained dominated by the local banks, with a modest contribution from foreign banks.

The Office Sector

In 2012, Moscow's office market showed some stability. By the end of the year, quality office stock totalled at 13.1 million sqm, and the construction level was moderate with the delivery of 33 new office buildings with a total rentable area of circa 550,000 sqm delivered to the market. At the end of 2012, new construction volumes reached 3.4 million sqm, increasing by 0.6 million sqm during the year. Despite the number of pipeline projects, the level of new delivered areas to the market is expected to remain approximately 500,000 sqm in the next two to three years.

Although high tenant activity was seen with take up level of above 2 million sqm, the absorption level was in line with the new construction volume, comprising approximately 20% of the take up and stabilizing the market. Therefore, rental and occupancy rates remained stable, and have slightly improved for Class A offices year-on-year. The annual average rental rates for Class A offices increased by approximately 6.8%, totalling at US$790 per sqm, while the occupancy rate decreased slightly by 1.2% compared to the end of the previous year.

The Retail Sector

By the end of 2012 the retail market comprised more than 500 quality retail properties with a total GLA (gross leasable area) of 14.4 million sqm. The Moscow retail market share accounted for 24% (3.6 million sqm), St. Petersburg's share was 14%, followed by Krasnodar and Ekaterinburg with approximately 4% each. New retail supply in 2012 totalled approximately 1.9 million sqm, comprising 58 shopping centres, out of which seven were located in Moscow. During the year, developers announced 50 new quality retail projects with total GLA of 2.2 million sqm, 10 of which will be developed in Moscow providing 1.2 million sqm GLA. Moscow is leading the market with the highest share of new retail formats and highest number of international retailers looking to enter the market. However, of all the new completions more than 50% was delivered to regional cities. This shift to regional cities was one of the main trends witnessed in the Russian retail market over the past year.

Shopping centres are the most popular format of quality retail in Russia with 88% market share, followed by mixed-use complexes with 12% and outlet centres with less than 1%.

Moscow prime asking rental rates in 2012 increased from US$2,700 to US$3,800 per sqm per annum. In other Russian cities the rental rates are usually 30-60% below Moscow levels. The vacancy rate for quality shopping centres in Moscow remains less than 1% and the footfall has remained stable for the last two years.

The Residential Sector

The residential sector in Russia presents one of the best opportunities for growth, due to low living space per capita and slowly developing mortgage market. The average area per capita totals at circa 23 sqm and the mortgage market amounts to only 3% of GDP, significantly lower than Western countries.

The residential sector in Moscow in 2012 benefited from the increased wealth of the population, resulting from an increase in wages and employment levels and leading to growing market demand. High demand led to price increases in Moscow and its outskirts and in St. Petersburg. The average sale prices in Moscow and its outskirts increased by 6% and 10% respectively. In St. Petersburg, sale prices in the mass market segment increased by approximately 11% in the business segment by approximately 15.5%.

The Logistics Sector

In 2012 Moscow region industrial market achieved its strongest results for the last five years in terms of new construction, volumes and take up.

The volume of new construction doubled the prior year's figures, reaching almost 720,000 sqm. The number of projects under development increased, as developers announced 1.2 million sqm to be completed in 2013. Taking into account that one of the distinctive features of the logistic sector is that construction is started after the preliminary lease or a forward sale has been achieved, most of the announced developments will be delivered to the market.

Demand in the sector increased by 50% and totalled 1.2 million sqm, while rental and vacancy rates remained stable. Retailers and logistics companies remained the main tenants for quality warehouse space with 40% and 22% of the market share respectively.

The volume of new construction completed in the regions was higher than in the previous year, totalling 320,000 sqm. More than a third of this was built in the industrial market of St Petersburg and the surrounding region, where a shortage in supply led to a 15-20% increase in rental rates.

Unlike in Moscow, tenant activity in the Russian regional industrial market was 35% lower than in the previous year accounting for only 25,000 sqm, of which 40% of the transactions were conducted in St. Petersburg. The most active players in the market were manufacturing and distribution companies, with 32% market share each. Rental rates in the Russian regional industrial market increased significantly by 12% on average, while vacancy rates declined.

Strategy

MirLand's principal activities are focused on the acquisition, development, construction, reconstruction, lease and sale of residential and commercial real estate in Russia. Its particular geographic focus is Moscow, St. Petersburg and major regional cities with a population of over 500,000 people. MirLand invests primarily in projects where it identifies potential for a high return on equity and the generation of strong yields and income, stemming from demand for good quality commercial and residential real estate assets.

The key elements of MirLand's strategy are as follows:

- Focus on the completion of existing projects: The Company aims for the timely delivery of projects while ensuring they are completed to a high standard. Marketing of all of the Company's commercial projects is commenced during their development phase.

- Portfolio Diversification: To mitigate risk, the Company's portfolio is balanced between various sectors, locations and development stages.
  - Geographic location: investments are spread across Moscow, St. Petersburg, and other major regional cities. Investment decisions are made following a detailed feasibility study and the close examination of local and national economic and demographic data, as well as the balance between supply and anticipated demand for international standard properties.

- Sector: the Company invests in a balanced mix of residential, retail, office and logistics, as well as mixed-use projects.
- The Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. The Company owns both yielding and development properties in order to obtain a relatively balanced spread in the use of working capital and demand for management's attention, that can, at the same time, generate an income flow from sales and yielding properties.

- Realisation of assets: The Company will continuously assess whether to retain yielding properties or realise their market value through disposal, depending on the opportunity and on prevailing market conditions. The Company uses revenues from yielding assets to diversify its income sources.

- Use of diverse financing sources to accelerate business activity and growth: Equity, shareholders' loans, corporate loans (some of which have been guaranteed by our main shareholders), project financing and bond issuances are used to finance the Company's activities and projects.

- Enhancing business cooperation with local partners, especially in the regions: Having a local partner provides daily monitoring of the projects and thus a greater level of control over quality, costs and delivery for the Company. In addition, these relationships are expected to lead to future investment opportunities.

The global financial turmoil, which had a significant impact on the Russian real estate market, has led the Company to adjust its operational focus to be more directed on managing its core activities and available financial resources.

This has been achieved through:

- focus on the progression of the development projects which have the greatest potential to deliver the best returns despite changing market conditions;
- further phasing of larger projects;
- development of the remaining projects according to changes in the market demand and to the availability of financial sources;
- strong emphasis on keeping high occupancy rates in yielding commercial projects;
- high prioritization of financing.

This strategy supports the Company's position as one of the leading international real estate companies in Russia. The backing of the Company's main shareholders, together with the diversification of financial sources, enables MirLand to continue to develop and maintain its portfolio and help support it in its mission of creating value for its shareholders.

In addition, provided favourable market conditions and an increase in availability of financing sources in Russia, when good opportunities arise the Company might consider increasing its portfolio through acquisitions of new real estate assets - either yielding or development projects that can be delivered in a short time to the market.

Portfolio

MirLand currently has 15 projects, six of which are yielding assets (offices in Moscow and regional retail), one project is under construction (Phase I and Phase II of the Triumph Park project in St. Petersburg), one is a completed residential project (Phase I in Western Residence in Perkhushkovo) and six projects are at various stages of planning and in the process of obtaining permits (in addition to the Phase II of the Western Residence project in Perkhushkovo and phases III-VI of the Triumph Park project in St. Petersburg).

The Company's portfolio has been valued by Cushman & Wakefield at US$868.0 million (MirLand's share) as of 31 December 2012, based on the Company’s freehold/leasehold rights. This value represents an increase of approximately 6% since 31 December 2011 and is mainly attributed to significant progress in the St. Petersburg project in terms of sales, construction and financing, completion of projects and improvement in operational results of yielding properties. This increase was achieved despite the write-off of the Skyscraper project

Yielding Projects:

Mirland Business Center comprises Class B+ office buildings of Hydro, MAG, Century Buildings and Tamiz projects. The complex is located in the northern part of Moscow's Novoslobodsky business district. The site enjoys good transport links and excellent access.

Hydromashservice (Hydro), Moscow – offices

Class B+ office complex. Part of the MirLand Business Center

- Land area: 1.2 ha
- Leasable area: 16,700 sqm
- Completed: Q4 2008
- Leasehold rights of land: 100%
- Occupancy rate: 98%
- Financing: US$20 million financed by Sberbank in September 2012 (principal balance as of 31 December 2012: US$20 million)

MAG, Moscow – offices

Class B+ office complex. Part of the MirLand Business Center.

- Land area: 2.3 ha
- Leasable area: 18,500 sqm
- Completed: Q4 2007
- Leasehold rights of land: 100%
- Occupancy rate: 98%
- Financing: US$30 million financed by Sberbank in September 2012 (principal balance as of 31 December 2012: US$30 million)

Century Buildings, Moscow – offices

Two Class B+ office buildings Part of the MirLand Business Center.

- Leasable area: 20,900 sqm
- Completed: Q1 2009
- Leasehold rights of land: 61%/51%
- Occupancy rate: 99%
- Financing: US$14 million financed by Sberbank in February 2011 (principal balance as of 31 December 2012: US$12.2 million)

Tamiz, Moscow – offices

New class B+ office building Part of the MirLand Business Center.

- Leasable area: 11,700 sqm
- Completed: Q3, 2011

- Leasehold rights of land: 100%
- Occupancy rate: 92%

Vernissage Mall, Yaroslavl – retail

A Western standard single floor shopping centre in Yaroslavl, located at the entrance road to Yaroslavl from Moscow.

- Land area: 12 ha
- Leasable area: 34,100 sqm
- Completed: Q2 2007
- Freehold rights: 50.5%
- Occupancy rate: 100%
- Financing: US$27 million financed by Gazprom Bank in February 2011 (principal balance as of 31 December 2012: US$23.9 million).

Triumph Mall, Saratov – retail

The first multi-storey retail and entertainment centre in Saratov. The complex is strategically located near the historical city centre on an important retail avenue in the city.

- Land area: 2.2 ha
- Leasable area: 27,300 sqm
- Completed: Q4 2010
- Freehold rights: 100%
- Occupancy rate: 100%
- Financing: US$48.5 million financed by the European Bank for Reconstruction and Development (EBRD) (principal balance as of 31 December 2012: US$37.3 million)

Completed Residential Projects:

Western Residence - Phase I, Perkhushkovo, Moscow region – residential complex

Development of 77 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow, targeting the middle class segment

- Land area (Phase I): 11 ha
- Saleable area (Phase I): 20,400 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 25 houses have been sold
- Completion: Phase I (77 townhouses and cottages) was completed in Q4, 2011.
- Financing: US$25 million was financed by Sberbank in December 2011 (principal balance as of 31 December, 2012: US$22 million).

Project under construction:

Triumph Park, St. Petersburg – residential complex

Flagship phased development of a residential neighbourhood which, upon completion, will comprise approximately 9,000 apartments, commercial and public areas with good accessibility to the city and its airport. The commercial areas will include offices and a commercial centre with underground parking. The public facilities will include kindergartens, a school and parks.

- Land area: 41 ha
- Saleable area: 630, 900 sqm

- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2019
- Freehold rights: 100%
- Marketing:
  - sales campaign for the Phase I, which consists of approximately 26,300 sqm sellable space (510 apartments), was launched in November 2011.
  - Sales and construction of Phase II, which consists of approximately 33,000 sqm sellable space (630 apartments), was launched in September 2012.
  - Launch of sales and construction of Phase III, which will consist approximately 65,000 sqm (1,350 apartments), is planned for Q4 2013
- Sales:
  - Phase I: to date, 490 sale contracts were executed in addition to three reservations;
  - Phase II: to date, 280 sale contracts were executed in addition to 27 reservations;

- Financing:
  - credit line of US$41 million for Phase I construction was obtained from Sberbank in November 2011 (principal balance as of 31 December 2012: US$4.7 million);
  - credit line of US$47.5 million for Phase II construction was obtained from Sberbank in September 2012 (principal balance as of 31 December 2012: US$3.0 million)

Projects in Planning:

Skyscraper, Moscow – offices and retail (*)

A 47-storey Class A office and retail building with underground parking will be constructed on Dmitrovskoye Shosse, adjacent to Moscow's third ring. This prime location offers excellent accessibility.

- Land area: 0.9 ha
- Leasable area: 92,000 sqm
- Planned construction commencement: NA
- Planned completion: NA

  (*) Regarding the cancellation of leasehold rights by Moscow municipality, see p.8 – Portfolio Development/Offices.

Big Box Complex, Yaroslavl – retail

Development of a retail complex adjacent to the Vernissage mall in Yaroslavl.

- Land area: 18 ha
- Leasable area: 55,250 sqm
- Planned construction commencement: Q2 2013 (Phase I)/ Q3 2014 (Phase II)
- Planned completion: Q1 2015 (Phase I)/ Q2 2016 (Phase II)
- Freehold rights: 50.5%

Triumph House, Kazan - retail

Development of home design and improvement centre at favourable location in the city centre

- Land area: 2.2 ha
- Leasable area: 26,300 sqm
- Sellable area: 5,200 sqm
- Planned construction commencement: Q1 2014
- Planned completion: Q1 2016
- Freehold rights: 100%

Shopping centre, Penza – retail
Development of a two-storey shopping centre in Penza in close proximity to a growing residential district.

- Land area: 5.3 ha
- Leasable area: 18,000 sqm
- Planned construction commencement: Q1 2015
- Planned completion: Q4 2016
- Freehold rights: 100%

Saratov – logistics
Phased development of a logistics centre in Saratov, located close to the federal highways and adjacent to the city ring road.

- Land area: 26 ha
- Leasable area: 104,000 sqm
- Planned construction commencement: Q2 2014
- Planned completion: Q4 2016
- Freehold rights: 100%

Novosibirsk – logistics
Phased development of a logistics centre in Novosibirsk, closely located to the federal highways and railways.

- Land area: 40.6 ha
- Leasable area: 180,000 sqm
- Leasehold rights: 100%
- Planned construction commencement: Q4 2014
- Planned completion: Q3 2017

Western Residence – Phase II, Perkhushkovo, Moscow region – residential
Development of 86 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow.

- Land area: 11.5 ha (Phase II)
- Saleable area: 36,477 sqm
- Freehold rights: 100%
- Planned construction commencement: Q1 2014
- Planned completion: Q3 2015

Outlook
We strongly believe in the quality of our portfolio projects and that our prudent and selective approach to their management and development will lead to an increase in long term value for our shareholders.

I would like to thank our shareholders for their on-going support of the Company, MirLand’s management team for its dedication, and the Company's employees, who are responsible for the day-to-day activities. I am confident that this strong team will continue working through the challenging, fast-paced market to realize MirLand's long term vision.

Roman Rozental
Chief Executive Officer
11 March 2013

FINANCIAL REVIEW

Revenues for 2012 were US$59.0 million and the loss was US$42.3 million. Total Assets at 31 December 2012 amounted to US$773.2 million and Equity amounted to US$317.3 million. The Company's adjusted net asset value was US$544.8 million. The Company's real estate assets were valued on 31 December 2012 at US$962.6 million (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US$868.0 million.

Accounting Policy

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap 113.

Income Statement

The Company's revenues consist of rental income from investment properties, income from sales of houses and fees from managing investment properties. Rental income and fees from investment properties increased to US$50.9 million from US$43.6 million, which is a 17% increase. This increase is attributed to increased occupancy in all yielding assets that reached an average figure of approximately 98%, helped by the improved market conditions that influenced the real estate sector in Russia. The Company recognised income of US$8.1 million from sale of inventory due to the handover of houses in the Western Residence project in Perkhushkovo, to buyers.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2012 and has recognized the resulting movement in valuation through its income statement as fair value adjustments of investment properties and investment properties under construction. The loss of US$37.3 million was based on net effect of the valuations of the Company's investment properties and investment properties under constructions prepared by an independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards and was mainly driven by impairment of Skyscraper project and devaluation of the US Dollar against the Russian Ruble, that were compensated by increase in other yielding assets.

The cost of maintenance and management of the Company decreased from US$20.9 million in 2011 to US$18.4 million in 2011, which was largely attributed to the efficiency measures performed by the management and this is despite an increase in the rented out areas.

The Company's general administrative expenses for the period were US$14.9 million in comparison to US$16.6 million in 2011. The decrease is mainly attributed to cut of professional and other services purchased by the Company.

Marketing expenses for the period were US$2.3 million in comparison to $US2.6 million in 2011.

Net financing costs for the period amounted to US$4.1 million compared to US$22.2 million in 2011. The decrease is explained by weakening of the US Dollar versus the Rouble, resulted in the net foreign exchanges differences gain of US$21.7 million, compensated by significantly lower capitalization of interest due to progress in the Company's residential projects due to the construction progress of Phase I in St. Petersburg and completion of Phase I of the Western Residence project.

Tax expense in 2012 amounted to US$1.9 million compared to a tax benefit of US$12.3 million in 2011. The tax income recorded in 2011 was mainly attributed to the creation of a deferred tax asset in the Company's balance sheet, due to increased feasibility of future profits attributed mainly to the Triumph park project in St. Petersburg.

MirLand is a resident of Cyprus for tax purposes and is subject to a 10% tax rate. MirLand's subsidiaries in Russia are subject to a 20% tax rate. Additional details are covered in note 19 to the financial statements.

The loss for 2012 amounted to US$42.3 million in comparison to net income of US$28.5 million in 2011. The loss is mainly attributed to impairment of Skyscraper project in amount of US dollar 36 million and the Western Residence project in the amount of US$8 million due to the lower than expected sales pace. This influence was partially compensated by increased occupancy rates and rent prices in commercial projects of the Company and the impact of net foreign exchange differences, due to the devaluation of the Rouble versus the US Dollar during the year

Balance Sheet
Total assets as at 31 December 2012 amounted to US$773.2 million in comparison to US$739.6 million in 2011, an increase of 5%. The main reasons for the overall increase were the increase in a fair value of investment properties, and continuing development of the Company's residential projects which were financed through bank financing on the project level and apartment sales.

The Company's real estate portfolio amounted to US$716.4 million at the year end, and comprised 93% of the total assets, in comparison to US$671.1 million as at 31 December 2011 which comprised 91% of the total balance sheet, the increase of 7% coming mainly from increase of fair value of investment properties and investments made during the year.

Equity and Liabilities
Equity as at 31 December 2012 decreased to US$317.4 million from US$347.1 million as at 31 December 2011. The decrease in equity from 2011 ascribed mainly to the loss which was offset partially by the devaluation of the US Dollar versus the Rouble which led to increased foreign currency translation reserve. MirLand's equity comprises 41% of its total assets.

Net financial liabilities as at 31 December 2012 amounted to approximately 323.1 million compared to US$324.7 million as at 31 December 2011.

In addition, short term loans in the amount of approximately US$70 million from banks are guaranteed by the Company's main shareholders; therefore, the Company assumes that these loans will revolve if necessary. For further details regarding loans from banks and shareholders please review notes 12, 13 15 and 16 of the financial statements.

The Company's series A to D bonds are rated ilBBB/+ by Ma'alot Standard & Poor's. The Company's series A, B and D bonds are rated ilBaa1/ stable by Midrug (Moody's Israel affiliate rating agency), following a credit rating upgrade in February 2013.

During 2012, further emphasis was made on diversifying the company's funding sources by obtaining bank financing on the project level. In 2012, the following new bank loans were obtained:

Project	Bank	Loan type	Original amount (US$m)	Balance as of 31.12.12 (US$m)

Hydromashservice*	Sberbank	Refinance	20.0	20.1
MAG*	SberBank	Refinance	30.0	30.1
Triumph Park, phase 2	SberBank	Construction	**47.5	3.0
			97.5	53.2

*Refinance of remaining balance of existing loan with lower interest and debt service.
** Maximal availability.

Net Asset Value ("NAV")

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2012 at US$962.6 million (for 100% rights from freehold/leasehold), of which MirLand's share is US$868.0 million. The increase in value mainly attributed to the improvement in operational results of MirLand's yielding assets, significant progress made in sales, construction and financing of the Triumph Park residential project in St. Petersburg and investments made during 2012 and happens despite the impairment of approximately US$36 million of the Skyscraper project.

Overview of Portfolio Market Values as at 31 December 2012

City	Property Name and Address	Portfolio Market Value as at 31st of December 2012 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as at 31st of December 2012 (Rounded)
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	$71,300,000	100%	$71,300,000
Moscow	MAG, 2-Khutorskaya str., 38A	$81,800,000	100%	$81,800,000
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	$63,200,000	100%	$63,200,000
Saratov	Triumph Mall, 167 Zarubina street	$121,400,000	100%	$121,400,000
Moscow	Skyscraper, Dmitrovskoe schosse, 1	$0	100%	$0
St. Petersburg	Triumph Park, Residential	$320,300,000	100%	$320,300,000
St. Petersburg	Triumph Park, Trade Centre	$29,900,000	100%	$29,900,000
Yaroslavl	Vernissage Mall, Kalinina str.	$97,200,000	50.5%	$49,100,000
Yaroslavl	Phase II	$8,800,000	50.5%	4,500,000
Moscow	Tamiz Building	$45,700,000	100%	$45,700,000
Moscow	Century Buildings	$95,000,000	51%/61%	$52,850,000
Kazan	Triumph House	$8,900,000	100%	$8,800,000
Penza	Retail Centre	$3,200,000	100%	$3,200,000
Saratov	Logistics Complex	$7,200,000	100%	$7,200,000
Novosibirsk	Logistics Complex	$8,700,000	100%	$8,700,000
Total		**$962,600,000**		**$867,980,000**

The full Cushman & Wakefield valuation is available on the Company's website, www.mirland-development.com.

Based on the Cushman & Wakefield valuation as at December 2012, the Company's Adjusted NAV increased to US$544.8 million (31 December 2011: US$536.8 million), an increase of 8.8%. As a result, the NAV per share as at 31 December 2012 was US$5.3 in comparison to US$5.2 as at 31 December 2011.

Cash Flow

During 2012, the Company used US$41.2 million for investment in real estate properties (including change in buildings for sale) in comparison to US$39 million in 2011. Cash flow provided by operating activities was positive for the first time and amounted to US$15.6 million. Cash flow used in financing activities amounted to US$12.5 million.

Financial Strategy

In 2012, MirLand's activities were primarily financed by project bank loans and by revenues from yielding and residential projects. 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. The Company continues to have modest net leverage at 41.8% of its assets.

Typically, residential projects are constructed in phases, allowing the use of capital from pre-sales to finance on-going development phases. However, during 2011 and 2012, the Company obtained construction loan facilities from Sberbank for the first and second phases of its flagship project, the Triumph Park in St. Petersburg, respectively

Wherever possible, the Company seeks to acquire finance on a non-recourse basis to minimise risk. The Company is negotiating with several banks for financing some of its other pipeline projects.

Market Risks

MirLand is exposed to market risks from changes in both foreign currency exchange rates and interest rates.

Foreign Currency Risks: The Company's functional currency across its operating subsidiaries is the Rouble, whereas the Company's reporting currency is the US Dollar. The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or measured in US Dollar. Although most transactions are settled in Roubles, the price for real estate property is tightly linked to the US Dollar. However, the current trend in Russia is to move toward Rouble linked transactions and therefore, the Company will consider in the future hedging its transactions for currency risks.

Interest Rate Risks: whilst the Company does not currently have any significant interest bearing assets, changes in interest rates could affect the cost of current and future financing.

Credit Risks: The Company performs ongoing credit evaluations of its tenants, purchasers and contractors and its financial statements include specific allowances for doubtful accounts. The Company also seeks to mitigate the risk of non-payment in structuring its contractual arrangements with such parties.

Yevgeny Steklov
Chief Financial Officer
11 March 2013

Certain information contained in this Announcement constitutes "**forward-looking statements**" which can be identified by the use of forward-looking terminology such as "**may**", "**will**", "**should**", "**expect**", "**anticipate**", "**target**", "**project**", "**estimate**", "**intend**", "**continue**" or "**believe**", or the negatives therefore or other variations thereof or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Company may differ materially from those reflected or contemplated in such forward-looking statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2012	31 December 2011
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		26,685	32,333
Restricted bank deposits		1,119	1,739
Trade receivables		2,713	4,568
Other receivables	4	3,509	2,780
VAT receivable	2i	5,111	7,393
Loans to related parties	8	3,665	-
Inventories of buildings for sale	5	190,821	157,772
		233,623	206,585
NON-CURRENT ASSETS:			
Investment properties	6	396,865	363,569
Investment properties under construction	7	51,552	82,703
Inventories of buildings for sale	5	79,100	67,062
Loans to related parties	8	-	10,611
VAT receivable	2i	226	317
Fixed assets, net		1,015	1,190
Other long term receivables	22a,b	3,038	2,851
Prepaid expenses		5,362	1,802
Deferred taxes	15	2,437	2,915
		539,595	533,020
TOTAL ASSETS		773,218	739,605

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2012	31 December 2011
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks	9	68,523	66,992
Current maturities of long-term loans from banks and debentures	10, 12	53,792	40,962
Credit from banks for financing of inventory of buildings for sale	10	15,655	24,218
Loans from shareholders	11	-	6,402
Government authorities		3,677	3,981
Trade payables		7,463	9,135
Deposits from tenants	13	3,636	3,831
Advances from buyers	5c,d	77,321	7,099
Other accounts payable		2,346	1,871
		232,413	164,491
NON-CURRENT LIABILITIES:			
Loans from banks and others	10	98,751	79,960
Debentures	12	114,169	138,488
Other non-current liabilities	13	10,538	9,528
		223,458	227,976
TOTAL LIABILITIES		455,871	392,467
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:			
Issued capital	16	1,036	1,036
Share premium		359,803	359,803
Capital reserve for share-based payment transactions	18	12,186	11,341
Capital reserve for transactions with controlling shareholders	11	8,391	6,565
Foreign currency translation reserve		(42,286)	(52,126)
Retained earnings (accumulated deficit)		(21,783)	20,519
TOTAL EQUITY		317,347	347,138
TOTAL EQUITY AND LIABILITIES		773,218	739,605

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

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2012	2011	2010
		U.S. dollars in thousands (except per share data)		
Rental income from investment properties		47,267	39,679	17,239
Income from sale of inventories		8,079	3,932	1,078
Revenues from managing fees		3,689	3,922	3,267
Total revenues		59,035	47,533	21,584
Cost of sales of inventories		(12,833)	(6,279)	(1,370)
Cost of maintenance and management	19a	(18,396)	(20,915)	(10,356)
Gross profit before deduction		27,806	20,339	9,858
Impairment of inventory of buildings for sale	5	(8,041)	-	-
Gross profit		19,765	20,339	9,858
General and administrative expenses	19b	(14,898)	(16,583)	(14,944)
Marketing expenses		(2,291)	(2,593)	(1,231)
Fair value adjustments of investment properties and investment properties under construction	6,7	(37,258)	33,485	29,822
Other expense, net	19d	(1,664)	3,849	2,973
Operating income (loss)		(36,346)	38,497	26,478
Finance income	19c	1,007	2,141	5,234
Finance costs	19c	(26,760)	(18,031)	(5,047)
Net foreign exchange differences		21,675	(6,349)	(1,025)
Profit (loss) before taxes on income		(40,424)	16,258	25,640
Taxes on income (tax benefit)	15	1,878	(12,267)	2,485
Net income (loss)		(42,302)	28,525	23,155
Basic and diluted net earnings (loss) per share (US Dollars)	17	(0.41)	0.28	0.22

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Net income (loss)	(42,302)	28,525	23,155
Other comprehensive income (loss) (net of tax effect)			
Transfer of translation reserve to income statement as a result of sale of jointly controlled entity	-	-	815
Exchange differences on translation of foreign operations	9,840	(26,530)	(3,258)
Total other comprehensive income (loss)	9,840	(26,530)	(2,443)
Total comprehensive income (loss)	(32,462)	1,995	20,712

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

CONSOLIDATED STATEMENT 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						
At 1 January 2012	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138
Net loss for the year	-	-	-	-	-	(42,302)	(42,302)
Other comprehensive income	-	-	-	-	9,840	-	9,840
Total comprehensive income (loss), net					9,840	(42,302)	(32,462)
Equity component of transaction with controlling shareholders (1)	-	-	-	1,826	-	-	1,826
Share-based payment transactions	-	-	845	-	-	-	845
At 31 December 2012	1,036	359,803	12,186	8,391	(42,286)	(21,783)	317,347

(1) See also Note 11.

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

CONSOLIDATED STATEMENT 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						
At 1 January 2011	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
Equity component of transaction with controlling shareholders	-	-	-	3,358	-	-	3,358
Share-based payment transactions	-	-	762	-	-	-	762
At 31 December 2011	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Parent								
	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	Non-controlling interests	Total equity
	U.S. dollars in thousands								
At 1 January 2010	1,036	359,803	9,974	2,702	(23,153)	(31,186)	319,176	25	319,201
Net income (loss) for the year	-	-	-	-	-	23,180	23,180	(25)	23,155
Other comprehensive loss	-	-	-	-	(2,443)	-	(2,443)	-	(2,443)
Total comprehensive income (loss), net	-	-	-	-	(2,443)	23,180	20,737	(25)	20,712
Equity component of transaction with controlling shareholders	-	-	-	505	-	-	505	-	505
Share-based payment transactions	-	-	605	-	-	-	605	-	605
At 31 December 2010	1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023	-	341,023

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	(42,302)	28,525	23,155
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	536	(13,482)	1,610
Depreciation and amortization	497	467	610
Finance costs (income), net	4,078	22,239	606
Share-based payment	845	762	605
Fair value adjustment of investment properties and investment properties under construction	37,258	(33,485)	(29,822)
Fair value adjustment and loss from sale of financial derivative	-	-	232
Gain from sale of jointly controlled entity	-	-	(3,159)
	43,214	(23,499)	(29,318)
Working Capital adjustments:			
Increase in trade receivables	(1,556)	(5,547)	(256)
Decrease in VAT receivable and others	3,029	23,708	(2,729)
Increase in inventories of buildings for sale	(32,544)	(21,759)	(25,990)
Increase (decrease) in trade payables	(134)	165	-
Increase (decrease) in other accounts payable	70,057	6,612	6,726
	38,852	3,179	(22,249)
Interest paid	(25,724)	(23,370)	(11,647)
Interest received	2,102	20	86
Taxes paid	(629)	(948)	(218)
Taxes received	-	22	-
	(24,251)	(24,276)	(11,779)
Net cash flows generated from (used in) operating activities	15,213	(16,071)	(40,191)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Cash flows from investing activities:			
Acquisition of additional interest in jointly controlled entity	(1,500)	-	-
Additions to investment properties	(8,818)	(6,365)	(15,281)
Additions to investment properties under construction	(2,277)	(8,742)	(24,196)
Purchase of fixed assets	(279)	(349)	(872)
Proceeds from the sale of fixed assets	-	-	33
Proceeds from sale of jointly controlled entity (1)	-	-	18,069
Investment in restricted deposit	620	(1,739)	-
Proceeds from repayment of loans granted	5,590	9,408	3,398
Loans granted to related party	(2,007)	(980)	-
Net cash flows used in investing activities	(8,671)	(8,767)	(18,849)
Cash flows from financing activities:			
Receipt of loans from banks	91,118	47,696	2,868
Issuance of debentures, net	-	54,104	70,024
Repayment of debentures	(26,456)	(10,768)	(10,823)
Receipt of loans from shareholders	12,422	-	5,000
Repayment of loans from shareholders	(18,306)	(36,843)	(10,000)
Repayment of other loans	-	-	(1,837)
Repayment of loans from banks	(71,266)	(6,206)	(5,900)
Proceeds from sale of financial derivative	-	-	1,443
Net cash flows generated from (used in) financing activities	(12,488)	47,983	50,775
Exchange differences on balances of cash and cash equivalents	298	(1,786)	(1,732)
Increase (decrease) in cash and cash equivalents	(5,648)	21,359	(9,997)
Cash and cash equivalents at the beginning of the year	32,333	10,974	20,971
Cash and cash equivalents at the end of the year	26,685	32,333	10,974

(1) Proceeds from sale of jointly controlled entity:

Investment property under construction	-	-	15,545
Trade and other receivables	-	-	180
Foreign currency translation reserve	-	-	(815)
Gain from sale of jointly controlled entity, net	-	-	3,159
	-	-	18,069

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

NOTE 1:- GENERAL

a. Mirland Development Corporation Plc ("the Company") was incorporated in Cyprus on 10 November 2004 under the Cyprus Companies Law, Cap. 113 as a private company limited by shares. Its registered office is located at Thessalonikis Street, Nicolaou Pentadromos Centre, 6th floor, Limassol 3025, Cyprus.

The Company's shares are traded on AIM and its bonds are traded on Tel-Aviv Stock Exchange.

The principal activities of the Company and its subsidiaries ("The Group"), which did not change from last year, are investment and development of residential and commercial real estate assets in Russia.

b. During 2012, the Company recorded a loss from fair value adjustment in the Skyscraper project which is presented in the financial statements as part of investment properties under construction in the amount of approximately $ 40.3 million. For further details, see also Note 7d.

c. Based on management plans and as reflected in the Group's forecasted cash flows, the Group expects to finance its activities in 2013 among others by obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 31 December 2012 amounting to approximately $ 50 million, and by generating revenues from sales of building projects that are expected to be completed during 2013.

In addition, the Group's short-term loans from banks amounting to approximately $ 70 million are secured by non-cancellable guarantees of the controlling shareholders until the full repayment of the loans.

Based on the above, management believes the Group will be able to meet all of its financial obligations.

d. Definitions:

In these financial statements:

The Company	-	Mirland Development Corporation Plc.
The Group	-	Mirland Development Corporation Plc and its investees as listed below.
Subsidiaries	-	Companies over which the company exercises control (as defined in IAS 27R) and whose financial statements are consolidated with those of the company.
Jointly controlled entities	-	Companies held by a number of entities, among which contractual agreement exists for joint control and whose financial statements are consolidated with the financial statements of the company according to the proportionate consolidation method.

NOTE 1:- GENERAL (Cont.)

Investees	-	Subsidiaries and jointly controlled entities.

Parent	-	JEC
Ultimate controlling shareholder	-	Fishman family (Fishman Group).
Related parties	-	As defined in IAS 24 (revised)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

The accounting policies adopted are consistent with those of the previous financial years, except as described below:

1. Measurement basis:

The Group's financial statements have been prepared on a cost basis, except for the following that have been measured at fair value:

Investment property;
Investment property under construction;
Shareholders guarantees

The Group has elected to present the statement of income using the function of expense method.

2. Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

Furthermore, the consolidated financial statements are prepared in accordance with the requirements of the Cyprus Companies Law Cap.113.

b. The operating cycle:

The Group's normal operating cycle exceeds one year and may generally last four years. Accordingly, the current assets include items that are held and are expected to be realized by the end of the Group's normal operating cycle.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests of subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

d. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the date of acquisition with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the date of acquisition or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the income statement as incurred.

Upon the acquisition of a business, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date, including separation of embedded derivatives from the host contract of the acquiree.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

e. Investments in jointly controlled entity:

The consolidated financial statements comprise the financial statements of a jointly controlled entity where the shareholders have a contractual arrangement that establishes joint control and which is consolidated in the Group's accounts using the proportionate consolidation method. The Company combines in its consolidated financial statements its share of the assets, liabilities, income and expenses of the jointly controlled entity with similar items in its financial statements. Significant intragroup balances and transactions and gains or losses resulting from transactions between the Group and the jointly controlled entity are eliminated to the extent of the interest in the jointly controlled entity.

Upon loss of joint control by the Group, any retained investment is recognized and measured at fair value. The difference between the carrying amount of the former company under joint control as of the date on which joint control ceases and the aggregate fair value of any remaining investment and the consideration from disposal is recognized in profit or loss. If the Group has significant influence over the remaining investment, it is as accounted for as an investment in an associate.

f. Functional and foreign currencies:

1. Functional currency and presentation currency:

The financial statements are presented in thousands of U.S. dollars.

The Group determines the functional currency of each Group entity, and this currency is used to separately measure each Group entity's financial position and operating results.

When an investee's functional currency differs from the Company's functional currency, that investee represents a foreign operation whose financial statements are translated into the Company's functional currency so that they can be included in the consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Assets and liabilities are translated at the closing rate at the end of each reporting period. Goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the date of acquisition of the foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the end of each reporting period. Profit and loss items are translated at average exchange rates for all the relevant periods. All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity under "adjustments arising from translating financial statements".

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and are accounted for as part of the investment and accordingly, the exchange rate differences from these loans and the exchange rate differences from a foreign currency financial instrument that represents a hedge of net investment in foreign operation are recognized (net of their tax effect) as other comprehensive income (loss) under "adjustments arising from translating financial statements" and "reserve for hedges", respectively.

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the cumulative amount recognized in other comprehensive income is reattributed to non-controlling interests.

2. Foreign currency transactions, assets and liabilities:

Transactions in foreign currencies are initially recorded at the exchange rate on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the operation at the exchange rates prevailing at the reporting date. Exchange rate differences are carried to the income statement. Non-monetary assets and liabilities are translated into the functional currency of the operation at the exchange rates prevailing on the date of the transaction (or date of later revaluation). Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the date of the initial transaction.

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalized to qualifying assets, are recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Cash and cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

h. Short-term deposits:

Short-term deposits from banks with original maturity terms exceed three months from the day of the investment.

i. Long-term VAT receivable:

Long-term VAT receivable represents VAT which was paid upon the purchase of land and during the construction of the projects and is stated at its estimated present value using a discount rate of 8%.

j. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Group's management, is doubtful.

k. Inventories of buildings for sale:

Cost of inventories of buildings and apartments for sale comprises identifiable direct costs of land such as taxes, fees and duties and construction costs. The Company also capitalizes borrowing costs as part of the cost of inventories of buildings and apartments for sale from the period in which the Company commenced development of the land. The capitalized costs are expensed along with the other costs of the project when revenues are recognized.

Inventories of buildings and apartments for sale are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling costs.

l. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group, the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be reliably measured. In cases where the Group acts as agent or broker without bearing any of the risks and rewards derived from the transaction, revenue is presented on a net basis. In contrast, if the Group acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis. The revenue is measured at fair value of the amount of the transaction, net of discount. The following specific recognition criteria must also be met before revenue is recognized:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Rental income from operating lease:

Rental income is recognized on a straight-line basis over the lease term. Fixed increases in rent over the term of the contract are recognized as income on a straight-line basis over the lease period. The aggregate cost of lease incentives granted is recognized as a reduction of rental income on a straight-line basis over the lease term.

Rendering of services, including management fees:

Revenue from the rendering of services is recognized by reference to the stage of completion as of the reporting date. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Interest income:

Interest income is recognized on a cumulative basis using the effective interest rate method.

Revenues from sale of residential apartments:

Revenues from the sale of residential apartments are recognized when the principal risks and rewards of ownership have passed to the buyer. These criteria are usually met when construction has effectively been completed, the residential apartment has been delivered to the buyer and the buyer has paid the entire consideration for the apartment.

m. Financial instruments:

1. *Financial assets:*

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

Loans and receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term borrowings are measured based on their terms, normally at face value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. *Financial liabilities:*

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit or loss, loans at amortized cost or derivatives designated as effective hedging instruments. The Group determines the classification of the liability on the date of initial recognition. All liabilities are initially recognized at fair value. Loans are presented net of directly attributable transaction costs.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

Financial liabilities measured at amortized cost:

After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs.

3. *Offsetting financial instruments:*

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amount and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. *Derecognition of financial instruments:*

a) *Financial assets:*

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the Group transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Group's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Group takes into account both quantitative and qualitative considerations.

5. Impairment of financial assets:

The Group assesses at each reporting date whether a financial asset or Group of financial assets is impaired.

Financial assets carried at amortized cost:

There is objective evidence of impairment of debt instruments, loans and receivables and held-to-maturity investments carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Leases:

The tests for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the principles below as set out in IAS 17.

The Group as lessee:

Operating leases:

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as lessor:

Operating leases:

Lease agreements where the Group does not actually transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases. Initial direct costs incurred in respect of the lease agreement, except those relating to investment property which are carried to the Income Statement, are added to the carrying amount of the leased asset and recognized as an expense in parallel with the lease income. Lease income is recognized as revenue in the Income Statement on a straight-line basis over the lease term.

o. Fixed assets:

Office furniture and equipment are stated at cost, including direct acquisition costs, less accumulated depreciation and accumulated impairment losses, and excluding day-to-day servicing expenses.

Depreciation is calculated on a straight-line basis over the useful life of the asset at annual rates of 10%-20%.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

p. Borrowing costs in respect of qualifying assets:

The Group capitalizes borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and the activities to prepare the asset are in progress and ceases when substantially all the activities to prepare the qualifying asset for its intended use or sale are complete.

The amount of borrowing costs capitalized in the reported period includes specific borrowing costs and general borrowing costs based on a weighted capitalization rate.

q. Investment property and investment properties under construction:

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment property are included in profit or loss when they arise.

The fair value model is also applied to property under construction for future use as investment property when fair value can be reliably measured. However, when the fair value of the investment property is not reliably determinable due to the nature and scope of the project risks, the property is measured at cost less, if appropriate, any impairment losses, until the earlier of the date when fair value becomes reliably determinable or construction is completed.

Investment property is derecognized on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of the disposal.

The Group determines the fair value of investment property on the basis of valuations by independent valuers who hold recognized and relevant professional qualifications and have the necessary knowledge and experience.

r. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Taxes on income:

Taxes on income in the Income Statement include current and deferred taxes. The tax charges/credit in respect of current or deferred taxes are carried to the Income Statement other than if they relate to items that are directly carried to equity or to other comprehensive income.

1. Current income taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred income taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively.

Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group did not record deferred taxes in respect of temporary differences arising from changes in the fair value of investment properties in view of management's intention to sell the companies holding these assets rather than the assets themselves (see also Note 15).

t. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

u. Share-based payment transactions:

The company's employees are entitled to receive remuneration in the form of equity-settled, share-based payment transactions.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period").

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

v. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

1. Judgments:

Classification of leases:

In order to determine whether to classify a lease as a finance lease or an operating lease, the Group evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, the Group evaluates such criteria as the existence of a "bargain" purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

Share-based payment transactions:

Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

2. Estimates and assumptions:

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Investment property and investment property under development:

Investment property and investment property under development that can be reliably measured are presented at fair value at the end of the reporting period. Changes in their fair value are recognized in profit or loss. Fair value is determined generally by independent valuation experts using economic valuations that involve valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimate of the suitable discount rate for these cash flows. Investment property under development also requires an estimate of construction costs. If applicable, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value measurement of investment property requires valuation experts and the Company's management to use certain assumptions regarding rates of return on the Group's assets, future rent, occupancy rates, contract renewal terms, the probability of leasing vacant areas, asset operating expenses, the tenants' financial stability and the implications of any investments made for future development purposes in order to assess the future expected cash flows from the assets.

Inventories of building for sale:

The net realizable value is assessed based on management's evaluation including forecasts and estimates as to the amounts expected to be realized from the sale of the project inventory and the construction costs necessary to bring the inventory to a saleable condition.

Deferred tax assets:

Deferred tax assets are recognized for carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be recognized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred taxes in respect of asset entities:

In cases where the Group holds single asset entities and the Group's intention is to realize the shares of single asset entities and not the asset itself, the Group does not record deferred taxes in respect of the temporary differences relating to the asset. Nonetheless, the Group measures the fair value of the single asset entities' shares taking into account said tax implications. As to the change in the Cyprus-Russia tax treaty, see Note 15b.

Transactions with controlling shareholder:

The Company received a long-term loan with non-market conditions from a controlling shareholder and a guarantee on a bank loan without charging a fee from a controlling shareholder. The Company accounts for these transactions as contribution from shareholders and recognizes them immediately pursuant to IAS 39 and, accordingly, the amount of contribution that is carried to equity reflects the difference between the fair value of the liability and the consideration received. In determining the compensation, the Company is required to evaluate the market conditions that existed when the transaction was made, including the market terms of a similar guarantee had it been given by an unrelated third party. Further details are given in Note 11.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Disclosure of new IFRSs in the period prior to their adoption:

IAS 1 - Presentation of Financial Statements:

In June 2011, the IASB issued an amendment to IAS 1 ("the Amendment") which provides guidance for the presentation of other comprehensive income. According to the Amendment, items which may be reclassified to profit or loss in a future period (such as upon derecognition or recovery) should be presented separately from items that will never be reclassified to profit or loss.

The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2013, or thereafter. The Group will adopt the Amendment in its financial statements starting from the Amendment's effective date in 2013.

IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosure:

The IASB issued certain amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off").

The IASB also issued amendments to IFRS 7 ("the amendments to IFRS 7") regarding the offsetting of financial assets and liabilities.

The amendments to IAS 32 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2014, or thereafter. The amendments to IFRS 7 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2013, or thereafter.

The Group estimates that the amendments to IAS 32 are not expected to have a material impact on its financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the Group's financial statements.

IFRS 9 - Financial Instruments:

1. The IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("the Standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

   According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Group on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

The Standard is effective commencing from January 1, 2015. Earlier application is permitted.

2. The IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

The amendments are effective commencing from January 1, 2015. Earlier application is permitted provided that the Group also adopts the provisions of the Standard regarding the classification and measurement of financial assets.

The Group believes that the Standard is not expected to have a material effect on the financial statements.

IFRS 10, IFRS 11, IFRS 12, IFRS 13 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Fair Value Measurement:

The IASB issued four new Standards: IFRS 10, "*Consolidated Financial Statements*", IFRS 11, "*Joint Arrangements*", IFRS 12, "*Disclosure of Interests in Other Entities*" ("the new Standards") and IFRS 13, "*Fair Value Measurement*", and amended two existing Standards, IAS 27R (Revised 2011), "*Separate Financial Statements*", and IAS 28R (Revised 2011), "*Investments in Associates and Joint Ventures*".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter.

The main provisions of the Standards and their expected effects on the Group are as follows:

IFRS 10 - Consolidated Financial Statements:

IFRS 10 supersedes IAS 27 regarding the accounting treatment in respect of consolidated financial statements.

According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return. According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive.

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models - the de facto control model and the legal control model.

The Group believes that the adoption of IFRS 10 is not expected to have a material effect on the financial statements.

IFRS 11 - Joint Arrangements:

IFRS 11 supersedes IAS 31 regarding the accounting treatment of interests in joint ventures and SIC 13 regarding the interpretation of the accounting treatment of non-monetary contributions by venturers. IFRS 11 distinguishes between two types of joint arrangements:

Joint ventures, in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are only accounted for under the equity method, and joint operations, in which the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement and are therefore accounted for in proportion to their relative share of the joint operation as determined in the joint arrangement, similar to the current accounting treatment for proportionate consolidation.

IFRS 11 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group believes that the adoption of IFRS 11 is not expected to have a material effect on the net profit of the Group for the years ended December 31, 2012, 2011 and 2010. The Group estimates that the effect of IFRS 11 is expected to be a decrease in rental income in the amount of approximately US dollars 13,395 thousand, US dollars 14,379 thousand and US dollars 9,357 thousand as of December 31, 2012, December 31, 2011 and January 1, 2010, respectively.

IFRS 12 - Disclosure of Interests in Other Entities:

IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Group's financial statements upon initial adoption of IFRS 12.

IFRS 13 - Fair Value Measurement:

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. The new disclosures are to be applied prospectively and they do not apply to comparative figures.

The appropriate disclosures will be included in the Group's financial statements upon initial adoption of IFRS 13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INTEREST IN JOINTLY CONTROLLED ENTITIES

a. The following is a list of the fully consolidated subsidiaries:

Name of company	Country of incorporation	Activity	% of holding
HYDROMASHSERVICE LLC ("HYDRO")	Russia	Lease of buildings	100
MASHINOSTROENIE & HYDRAVLIKA OJSC ("MAG")	Russia	Lease of buildings	100
CREATIVECOM LLC ("CREATIVE")	Russia	Constructing residential projects	100
PETRA 8 LLC ("PETRA")	Russia	Constructing residential projects	100
REALSERVICE LLC ("REALSERVICE")	Russia	Constructing commercial projects	100
INVESTISIONNO IPOTECHNAYA KOMPANIA LTD.)"IIK")	Russia	Constructing commercial projects	100
MALL PROJECT CO. LTD. ("MALL PROJECT")	Cyprus	Holding company	100
GASCONADE HOLDING LTD	Cyprus	Holding company	100
LAYKAPARK TRADING LTD	Cyprus	Holding company	100
DUNCHOILLE HOLDINGS LTD	Cyprus	Holding and financing company	100
MIRLAND MANAGEMENT LIMITED	Cyprus	Consulting	100
MIRLAND MANAGEMENT RUS LLC	Russia	Consulting	100
HECKBERT 22 GROUP FINANCING LIMITED KFT	Hungary	Financing company	100
ISRARUSSIA SERVICES LTD. ("IRS")	Israel	Consulting	100
TAMIZ LLC	Russia	Constructing commercial projects	100
DESIGN PROJECT LLC	Russia	Constructing commercial projects	100
TTM LLC	Russia	Constructing commercial projects	100
LIGA 45 LLC	Russia	Constructing commercial projects	100
WINDEATTS LIMITED	Cyprus	Consulting	100
POLUS INVEST LLC	Russia	Constructing commercial projects	100
MIRLAND NOVOSIBIRSK LLC	Russia	Lease of buildings	100

List of jointly controlled entities:

Name of company	Country of incorporation	Activity	% of holding
INVERTON ENTERPRISES LLC	Cyprus	Holding company	50.5
ASTRAESTATE & CO. LIMITED PARTNERSHIP ("ASTRA")	Cyprus	Partnership for holding a company, erecting commercial projects and lease of buildings	50
WINTA HOLDINGS LTD	Cyprus	Limited partner in partnership for holding a company, erecting commercial projects and lease of buildings	50
GLOBAL 1 LLC)"GLOBAL")	Russia	Lease of commercial property	50.5
INOMOTOR LLC	Russia	Lease of buildings	61 (1)
AVTOPRIORITET LLC	Russia	Lease of buildings	51
MALL MORTGAGE LTD	Cyprus	Financing company	50.5

(1) On March 30, 2012 the Company acquired from its partner a 10% additional interest in shares of jointly controlled entity ("Inomotor") for a total consideration of $ 1.5 million in addition to a $ 1 million loan bearing an annual 10% interest extended to the said partner. As a result, the Company holds 61% of the interest in Inomotor as of the reporting date, subject to the 1% option granted to the partner notice of its exercise has been served but not consummated. As of the reporting date, the joint venture agreement between the parties was not amended, as a result of this acquisition, thus the Group accounts for the investment in Inomotor using the proportionate consolidation method. On January 4, 2013, the Company signed an amendment to the joint venture agreement, see also Note 24.

NOTE 3:- INTEREST IN JOINTLY CONTROLLED ENTITIES (Cont.)

b. The Group's share of the assets and liabilities as of 31 December 2012 and 2011 and income and expenses of the jointly controlled entities for the years ended 31 December 2012, 2011 and 2010, which are proportionally consolidated in the consolidated financial statements, are as follows:

	31 December	
	2012	**2011**
	U.S. dollars in thousands	
Share of the joint ventures' statement of financial position:		
Current assets	2,632	8,002
Non-current assets	95,178	91,498
Current liabilities	(4,455)	(6,061)
Non-current liabilities	(25,522)	(36,823)
Net assets	67,833	56,616

	Year ended 31 December		
	2012	**2011**	**2010**
	U.S. dollars in thousands		
Share of the joint ventures' revenue, expanses and profit:			
Revenue (1)	17,083	14,379	9,357
Cost of maintenance and management	(3,520)	(3,817)	(2,886)
Administrative expenses	(479)	(186)	(486)
Fair value adjustments of investment properties and investment properties under construction	(5,704)	11,221	10,542
Finance costs	(417)	(5,494)	(4,437)
Other income	-	-	2,796
Income before taxes on income	6,963	16,103	14,886
Taxes on income	(795)	-	-
Net income	6,168	16,103	14,886

(1) Including income from lease agreement termination in the amount of $ 3,688 thousand.
See also note 22(i).

NOTE 4:- OTHER RECEIVABLES

	31 December	
	2012	2011
	U.S. dollars in thousands	
Prepayments to suppliers	2,410	1,500
Government authorities	521	473
Other receivables	578	807
	3,509	2,780

NOTE 5:- INVENTORIES OF BUILDINGS FOR SALE

a. Composition:

Current assets:

	31 December	
	2012	2011
	U.S. dollars in thousands	
Land	29,035	38,428
Construction costs	169,827	119,344
Impairment of inventory	(8,041)	-
	190,821	157,772

Non-current assets:

	31 December	
	2012	2011
	U.S. dollars in thousands	
Land	24,138	18,005
Construction costs	54,962	49,057
	79,100	67,062

b. This includes capitalized borrowing costs of approximately $ 2,929 thousand for the year ended 31 December, 2012 and approximately $9,990 thousand for the year ended 31 December, 2011.

c. During the period, a Company's subsidiary entered into agreements regarding the sale of 3 units of town houses and 3 cottages in a residential project located near Moscow for the total consideration of $ 3.8 million.

NOTE 5:- INVENTORIES OF BUILDINGS FOR SALE (Cont.)

The total number of town houses and cottages sold since the beginning of the marketing is 11 and 14 units, respectively and the total consideration received for town houses and cottages sold amounted to $ 16.3 million. As of the reporting date the advances received from buyer's amount to $1.9 million. During 2012, 12 units were transferred to the buyers. As a result, revenues in the total amount of $ 8 million recorded in the income statements.
During the period, based on an external valuation, the Company recorded an impairment of the project in the total amount of $ 8 million.

d. During the period, a Company's subsidiary entered into agreements regarding the sale of 614 residential units, in a project located in St. Petersburg. The Group received advances from buyers from these sales in a total amount of $ 75.4 million. These residential units have not been transferred to the buyers yet.

NOTE 6:- INVESTMENT PROPERTIES

a. Composition:

	31 December	
	2012	2011
	U.S. dollars in thousands	
Balance at 1 January	363,569	306,257
Purchases during the year (1)	3,410	-
Additions for the year	8,329	3,181
Transfer from investment properties under construction	-	42,982
Fair value adjustments	168	30,409
Exchange rate differences	21,389	(19,260)
Balance at 31 December	396,865	363,569

(1) See also note 3a(1).

b. In assessing cash flows, their inherent risk is taken into account. In computing the fair value, the valuators used a discount rate of 12.5%.

c. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes have not been recorded, but were taken into consideration while determining the fair value of the investment property. The management is of the opinion that the actual amount of the reduction may be significantly lower due to the economic benefits to which the buyer is entitled upon the sale of shares. See also Note 15b.

NOTE 7:- INVESTMENT PROPERTIES UNDER CONSTRUCTION

a. Composition:

	2012	2011
	U.S. dollars in thousands	
At 1 January	82,703	121,364
Additions for the year	2,277	8,487
Transfer to investment properties	-	(42,982)
Fair value adjustments	(37,426)	3,076
Exchange rate differences	3,998	(7,242)
At 31 December	51,552	82,703

b. In computing the fair value, the valuators used a discount rate of 21%- 25%.

c. Regarding the management's intention to sell the investment property in a "share realization deal" refer to Note 6c.
On 12 December 2011 the Federal Law No. 427-FZ was signed, amending the Federal Law "On the Enactment of the Russian Federation Land Code" and certain other legislative acts (the "New Law"). The New Law became effective on 1 April, 2012.

The amendments stipulate that local authorities located in Moscow or St. Petersburg may unilaterally terminate lease contracts entered into prior to January 1st 2011, for the purpose of construction of an immovable property, if the contractual obligations on construction of a property have not been duly performed according to the term of the lease.

On January 24th 2013, an indirect subsidiary of the Company - Real Service LLC, which holds the leasehold rights to a project known as the "Skyscraper" in Moscow, received a letter, from the Department of Land Resources of the Moscow government, notifying it of the termination of its lease agreement in connection with an area of 0.9 Ha leased to Real Service (the "Lease Agreement").
The letter stipulates that termination of the Lease Agreement will take effect following the expiration of a period of one month from the date of the letter. The letter further states that the subsidiary has the right to file an objection to the lease termination within a period of one month from the date of the letter. Cancellation of the lease will be subject to a hearing and the final verdict of such legal proceedings.
During February 2013 Real Service filed an objection to the letter, claiming that the lease agreement has been terminated unlawfully by the Moscow government since any alleged breach of its terms has been due to the actions and omissions on part of the Moscow government itself denying Real Service a construction Permit. Real Service is determined to take these actions that it deems fit to defend its position, including any such legal actions and claims for compensation that may be available to it. As of the date of this report, Real Service has not received any reply to the objection filed by it. At this stage, the Company is unable to determine the likelihood of its success in those actions.
As a result, the Group recorded a loss from fair value adjustments in the amount of approximately $ 40.3 million, which reflects full impairment of the project's value as of the beginning of 2012.

NOTE 8:- LOANS TO RELATED PARTIES

The Group granted during 2007, 2008 and 2009, loans of approximately $ 55 million to Century Companies for the purpose of investing in the project buildings and the repayment of former debts to third parties. The loans bear 11% annual interest rate and are expected to be repaid from the subsidiaries' future profits. During 2012, the Century companies repaid the total amount of approximately $ 7 million (including interest accrued).
The outstanding amount will be repaid during next 12 months.

NOTE 9:- CREDIT FROM BANKS

The bank loans bear annual interest rates of LIBOR plus 2% to 4.15%. During September 2008, the Company's main shareholders (companies that are part of the Fishman Group) reinstated guarantees in favor of certain bank institutions that granted the Group lines of credit. See also Note 11.

These loans were classified as short-term loans due to the fact that, according to the loan agreements, the bank may demand repayment of the loans at any time.

NOTE 10:- LOANS FROM BANKS AND OTHERS

a. Composition:

	Interest rate	December 31	
	%	2012	2011
		In thousand US dollars	
Loans from banks with fixed interest rate	9.25%-12.3%	70,282	41,266
Loans from banks with variable interest rate	Libor + 3.5% - 7.7%	66,790	73,606
Loans from others		997	915
		138,069	115,787
Deduction of current maturities		23,663	11,609
Deduction of credit from banks for financing inventory of buildings		15,655	24,218
		98,751	79,960

(1) During September, 2012 the wholly owned subsidiaries of the Company "Machine-Building & Hydraulics" ("MAG") and "Hydromashservice" ("Hydro") ("the Subsidiaries") have entered into loan agreement with SberBank of Russia (the "Bank") for the provision of a line of credit of $ 50 million as follows: MAG- $ 30 million; Hydro- $ 20 million (the "Loan").

NOTE 10:- LOANS FROM BANKS AND OTHERS (Cont.)

The Loan will bear a fixed interest rate of 9.5% payable quarterly. The Loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 50% at the end of the term, in 2019.

For information regarding financial covenants, see clause b.

(2) In November 2012, a wholly owned subsidiary, Petra 8 LLC (the "Subsidiary") entered into a loan agreement with the "Bank". According to the loan agreement, the Bank will provide the Subsidiary with a line of credit in Russian rubles equivalent to $ 47.5 million (the "Ruble Loan") to finance construction of the second phase of the Subsidiary's residential project in St. Petersburg ("The Project").

The Ruble Loan bears an interest rate of 12.3% and will mature in three years. Starting October 2014 (inclusive) it will be repaid in monthly installments in accordance with the terms of the Loan, and through to the end of the three year term.
The loan will be partly repaid from the Subsidiary's sale of residential units, commercial space, and parking spaces.

To secure the Ruble Loan, the Company and the Subsidiary have pledged the following securities to the Bank: the Company's full interest in the Subsidiary, the Subsidiary's rights in 260 dunams, out of 400 dunams, of the Project's land plots, a future pledge on the Project's completed apartments, a future pledge on the receivables from the sale of the Project, and a guarantee from the Company for repayment of any outstanding debt owed by the Subsidiary.

b. Financial covenants:

According to the agreements for the credit lines from banks in Russia, the Company's subsidiaries were required to meet several financial covenants, including a Loan to Value Ratio (LTV) of 70% and a Debt Service Coverage Ratio (DSCR) that varies from between 120% and 130%.

As of December 31, 2012, the Group's subsidiaries complied with all of the financial covenants that were determined.

c. Pledges and securities:

The Company's subsidiaries pledged their rights in the projects and the income stemming from the aforesaid financed projects. Furthermore, in some cases the Group pledged its shares in the subsidiaries which own the projects in favor of the banks, , as aforesaid.

NOTE 10:- LOANS FROM BANKS (Cont.)

d. The maturity dates of long-term loans:

	31 December	
	2012	2011
	U.S. dollars in thousands	
First year - current liabilities	23,663	11,608
Second year	24,266	16,085
Third year	9,399	23,578
Fourth year and after	80,741	64,517
	138,069	115,788

NOTE 11:- LOANS AND GUARANTEES FROM SHAREHOLDERS

a. During September 2008, the main shareholders of the Company (companies that are part of Fishman Group) granted guarantees in favor of certain banks that secured lines of credit to the Company in the aggregate amount of approximately \$ 70 million that were granted to the Company from banks. The aforementioned guarantees are renewed annually.

As of December 31, 2012, the Group measures the fair value of those benefits received from shareholders and recorded as capital reserve and expense in the total amount of \$ 3,358 thousand for the year ended 31 December, 2012 (2011 - \$ 505 thousand). On December 31, 2012 the Group measured the guarantees value based on the yield of the Group's bonds with the required amendments. As a result, the Group recorded an additional capital reserve in a total amount of \$ 1,826 thousand.

b. During 2010, the Company signed a loan framework agreement for the total amount of \$ 5 million, with its major shareholders. Those loans matured on 14 April 2012, and bore interest rate of 15% per annum. During 2012, the Company repaid shareholder's loans in a total amount of approximately \$ 6.4 million (including accumulated interest).

NOTE 12:- DEBENTURES

a.Composition

Series	Date of issuance	Nominal interest	Maturity date	Nominal value on date of issuance	Linkage terms (principal and interest)	Effective annual interest rate	December 31, 2012 Amount of debentures	December 31, 2012 Balance	December 31, 2011 Amount of debentures	December 31, 2011 Balance
				U.S. dollars in thousands			In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
A	December 07	6.5%	6 equal semiannual payments beginning December 31,2010	10,085	Israel CPI	6.19%	19,630	6,152	26,173	7,897
B	December 07	LIBOR +2.75 %	6 equal semiannual payments beginning December 31,2010	52,626	U.S. dollar exchange rate	5.15%	102,437	26,449	136,583	35,308
C	August 10 February 11	8.5%	5 equal semiannual payments beginning August 31,2012	79,099	Israel CPI	4.85%-8.88%	238,447	70,512	298,059	85,098
D	August 10 February 11	6%	4 equal semiannual payments beginning November 30, 2014	59,096	Israel CPI	5.86%-6.27%	147,051	41,185	146,701	39,538

NOTE 12:- DEBENTURES (Cont.)

b. The expected maturities after the reporting date for the year ended December 31, 2012:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	U.S. dollars in thousands						
Series A *)	2,035	2,035	2,035	-	-	-	6,105
Series B *)	8,771	8,771	8,771	-	-	-	26,313
Series C *)	16,792	16,792	16,792	16,792	-	-	67,168
Series D *)	-	10,309	10,309	10,309	10,309	-	41,236
	27,598	37,907	37,907	27,101	10,309	-	140,822
Premium							1,367
Total							142,189

*) Not including interest accrued, in the amount of $ 2,109 as of 31 December 2012 which is part of current maturities of long-term loans from banks and debentures.

c. Debentures held by related parties are disclosed in Note 20b.

NOTE 13:- OTHER NON-CURRENT LIABILITIES

	31 December 2012	31 December 2011
	U.S. dollars in thousands	
Deposits from tenants (1)	8,013	7,011
Less short-term deposits from tenants	(3,636)	(3,831)
Provision regarding an agreement with government authorities (see Note 22h)	5,211	5,379
Other (2)	950	969
	10,538	9,528

(1) The deposits do not bear interest and usually represent up to three months of rent to be repaid at the end of the rent period.

(2) On 31 December, 2007, the Company signed a memorandum of understanding with two private companies ("the Sellers") to purchase 51% of the shares held by the Sellers in the companies Inomotor LLC and Avtoprioritet ("the Century Companies"), both incorporated under Russian law.
The Company granted the Sellers the right to purchase 1% of the share capital of Century Companies, in return for a nominal amount.
During December 2011, the Sellers notified the Company of the exercise of the option. Up until the balance sheet date the option exercise has not been consummated.
The Company recorded in its financial statements provisions in the amount of $ 950 thousand and $ 969 thousand as of 31 December 2012 and 2011, respectively, which reflect the option values as at those dates.
With the respect to agreements signed with the seller after the balance sheet date, see note 24.

NOTE 14:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

The Group's activities in the Russian market expose it to various financial risks such as market risk (foreign currency risk, interest rate risk and CPI risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

The Group performed sensitivity tests for principal market risk factors which can affect the results of operations or the reported financial position. Both risk factors and financial assets and liabilities were examined based on the materiality of each risk's exposure versus the functional currency and under the assumption that all of the other variables are fixed.

The parameters that the Group used in performing the sensitivity tests are:
Ruble\US dollars exchange rate, NIS\US dollar exchange rates changes in interest rates and CPI changes.
The changes that were examined in the relevant risk variables were chosen by management assessment regarding possible changes in those risk variables.

For long-term loans which bear variable interest rate, the sensitivity examination was performed only for the variable interest component. The sensitivity of the debentures to interest rates was calculated based on the maturity dated of the debentures. The Group does not have exposure to long-term loans at fixed interest.

1. Exchange rate risk:

The Group has financial instruments held in Ruble, New Israeli Shekels ("NIS") and Hungarian Forint ("HUF") and main revenues in Ruble. The Group is exposed to changes in the value of those financial instruments due to changes in foreign currencies exchange rates. The Group's policy is not to enter into any exchange rate hedging transactions.

The following table represents the sensitivity to a reasonably possible change in the U.S. dollar/Ruble exchange rates in the year 2012:

	2012	**2011**
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase of 5% in U.S. dollar/Ruble	(5,419)	(4,681)
Decrease of 5% in U.S. dollar/Ruble	5,419	4,681

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

The following table represents the sensitivity to a reasonable possible change in U.S. dollars/NIS exchange rates in the year 2012:

	2012	2011
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase 5% in U.S. dollar/NIS	(5,892)	(6,630)
Decrease 5% in U.S. dollar/NIS	5,892	6,630

2. Credit risk:

The Group performs ongoing evaluations of the prospects of collecting debts of customers and buyers and, if necessary, it records a provision in the books reflecting the losses anticipated by management. The Group is also exposed to credit risk in respect of receivables, cash equivalents, deposits and other financial assets (including loans provided).

3. Interest rate risk:

In December 2007 and in August and November 2010, the Group issued debentures (see Note 12). These balances bear variable interest and therefore expose the Group to cash flow risk in respect of increase in interest rates.

65% of the Company's loans bear floating interest rates.

The following table represents the sensitivity to a reasonable possible change in interest:

	2012	2011
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase 1% in interest	(1,629)	(1,752)
Decrease 1% in interest	1,629	1,752

4. Liquidity risk exposure:

The main liquidity risk of the Group arises from the issue of debentures. See also Note 12.

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	31 December 2012					
	Less than one year	1 to 2 Years	2 to 3 Years	3 to 4 years	> 5 years	Total
	U.S. dollars in thousands					
Loans from banks and others	33,613	32,427	15,956	22,846	75,366	180,208
Debentures	37,036	45,500	43,036	29,765	10,928	166,265
Credits from banks	73,041	-	-	-	-	73,041
Accounts payable	15,960	-	-	-	-	15,960
	159,650	77,927	58,992	52,611	86,294	435,474

	31 December 2011					
	Less than one year	1 to 2 Years	2 to 3 Years	3 to 4 years	> 5 years	Total
	U.S. dollars in thousands					
Loans from banks and others	18,608	22,777	29,128	11,805	32,416	114,734
Loans from shareholders	6,402	-	-	-	-	6,402
Debentures	40,868	38,768	47,225	44,491	40,654	212,006
Credits from banks	71,486	-	-	-	-	71,486
Accounts payable	14,988	-	-	-	-	14,988
	152,352	61,545	76,353	56,296	73,070	419,616

5. Israeli Consumer Price Index risk:

a) The Series A, C and D Bonds issued by the Company are linked to the Israeli Consumer Price Index ("CPI"). The total amount of financial instruments which are linked to CPI is $ 117,849 thousand and $ 132,533 thousand as of 31 December 2012 and 31 December 2011, respectively.

b) The table below represents sensitivity to a reasonable possible change in CPI in the year 2012:

	2012	2011
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase 0.2% in CPI	(1,178)	(1,336)
Decrease 0. 2% in CPI	1,178	1,366

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

b. Fair value of financial instruments:

Set out below is a comparison by category of carrying amounts and fair values of all the financial instruments of the Group as of 31 December, 2012 and 31 December, 2011:

	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	U.S. dollars in thousands			
Financial liabilities				
Long and short-term loans	70,282	69,899	45,093	43,824
Debentures (series A)	6,152	6,070	7,897	7,396
Debentures (series B)	26,449	25,795	35,308	30,441
Debentures (series C)	70,512	70,065	85,098	79,768
Debentures (series D	41,185	38,612	39,538	33,394

c. Linkage terms of financial instruments:

Linkage terms of financial assets:

December 31, 2012:

	U.S. dollar	RUB	Other linkage basis	Total
	U.S. dollars in thousands			
Cash and cash equivalents	1,972	24,713	-	26,685
Restricted deposits	1,119	-	-	1,119
Loans and receivables	8,832	1,162	-	9,994
	11,923	25,875	-	37,798

December 31, 2011:

	U.S. dollar	RUB	Other linkage basis	Total
	U.S. dollars in thousands			
Cash and cash equivalents	22,098	10,164	71	32,333
Restricted deposits	1,739	-	-	1,739
Loans and receivables	17,988	460	-	18, 448
	41,825	10,624	71	52,520

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

Linkage terms of financial liabilities:

December 31, 2012:

	U.S. dollar	RUB	Other linkage basis	Total
	U.S. dollars in thousands			
Trade and other payables	7,463	5,211	-	12,674
Loans from banks and related parties and debentures	225,099	7,942	117,849	350,890
	232,562	13,153	117,849	363,564

December 31, 2011:

	U.S. dollar	RUB	Other linkage basis	Total
	U.S. dollars in thousands			
Trade and other payables	9,135	5,379	-	14,514
Loans from banks and related parties and debentures	222,319	2,171	132,533	357,023
	231,454	7,550	132,533	371,537

d. Group's capital management:

The Group's capital management objectives are:

(1) To maintain healthy capital ratios in order to support its business activity and maximize shareholder's value.

(2) To achieve return on capital to shareholders by pricing correctly rents level and sale prices according to the business risk levels .

(3) To monitor loans and capital levels to support the business activity and to produce , maximum value to its shareholders.

The Group acts to achieve a return on capital at a level that is customary in the industry and markets in which the Group operates. This return is subject to changes depending on market conditions in the Group's industry and business environment.

The Group monitors its capital level using the ratio of net debt to adjusted capital. Net debt is calculated as the total debt less cash and cash equivalents. Adjusted capital includes the equity components: share capital, share premium, retained earnings, capital reserves and shareholders' loans and excludes currency translation adjustment reserves.

NOTE 15:- INCOME TAX

a. Tax rates applicable to the Company and its investees:

Cyprus - corporate tax rate - 10%.
Russia - corporate tax rate - 20%.
Israel - corporate tax rate - 25%.
Hungary - corporate tax rate - 19% .

b. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December		31 December		
	2012	2011	2012	2011	2010
	U.S. dollars in thousands				
Deferred tax liabilities:					
Inventory of buildings	(16,918)	(15,755)	399	(4,265)	(3,778)
Deferred tax assets:					
Carry forward tax losses	19,355	18,670	(935)	17,747	2,168
Deferred tax (expenses) income			(536)	13,482	(1,610)
Deferred tax, net	2,437	2,915			

The deferred taxes are presented in the statement of financial position as follows:

	December 31,	
	2012	2011
	U.S. dollars in thousands	
Non-current assets	2,437	2,915

1. The deferred taxes are calculated at the average tax rate of 20% (2011 - 20%) based on the tax rates that are expected to apply at the time they are realized.

2. The adjustments of the value of the assets to their fair value result in a temporary difference between the carrying value of the asset in the financial statements and its tax basis. Since management intends to realize assets by share transaction, and not via the sale of the base assets, deferred taxes were not recognized in respect to the above and additional differences related to the assets, but were taken into account in the calculation of the fair value of the assets.

NOTE 15:- INCOME TAX (Cont.)

3. The Cyprus-Russian tax treaty was amended in 2012. Following this amendment a Cypriot holding company which will record a capital gain on the sale of a Russian real estate company will be subject to a 20% tax rate in Russia as of January 1, 2017 (such sale is not subject to tax up to December 31, 2016).

The Group is evaluating the possible impact of the change, but is presently unable to assess the effects, if any, on its financial statements since until the order will come into force other laws and protocol can be changed as well. The Group's management believes that the change will not have any material effect on the Company's results of operations, because the Group has accounted for a tax provision which was deducted from the fair value of the properties.

c. Tax expense (Tax benefit):

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Current income tax	1,342	1,215	875
Deferred taxes	536	(13,482)	1,610
Tax expense (tax benefit) in income statement	1,878	(12,267)	2,485

NOTE 15:- INCOME TAX (Cont.)

d. A reconciliation between the tax expense in the Income Statement and the product of profit (loss) before tax multiplied by the current tax rate can be explained as follows:

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Income (loss) before tax expense	(40,424)	16,258	25,640
Tax at the statutory tax rate in Russia (20%)	(8,085)	3,252	5,128
Increase (decrease) in respect of:			
Effect of different tax rate in Cyprus (10%) and Hungary (16%)	2,924	(1,448)	(528)
Losses for which deferred tax assets were not recorded	5,319	2,804	782
Previous years losses for which deferred tax assets were recorded during the year	-	(9,623)	-
Inter-company expenses for which deferred tax liabilities were recorded	531	3,312	3,473
Non- deductible expenses(exempt income)	1,325	(10,517)	(5,855)
Others	(136)	(47)	(515)
Income tax expense (tax benefit)	1,878	(12,267)	2,485

e. The tax losses carried forward by the Group companies' amount to approximately $ 128.6 million. Deferred tax assets amounting to $ 19.3 million have been recognized. Deferred tax assets in the total amount of $ 3 million, on tax losses carried forward in the amount approximately $ 22.1 million, were not recorded.

NOTE 16:- EQUITY

a. Composition of issued capital:

	31 December	
	2012	2011
	U.S. dollars	
Authorized shares of $ 0.01 par value each	1,200,000	1,200,000
Issued and fully paid shares of $ 0.01 par value each	1,035,580	1,035,580

NOTE 16:- EQUITY (Cont.)

b. Dividend distribution policy:

Since its establishment, the Company has not distributed a dividend to its shareholders. The distribution of dividends by the Company is dependent on the financial performance and position of the Company, its equity and its working capital requirements. On November 27, 2006, the Company's board of directors adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

c. Other reserves

Exchange rate differences originating from monetary items ceasing to be part of net investments in foreign operation:

In light of the progress made in the sale of residential units of St. Petersburg project (Petra 8) and the rental income stabilization in Saratov project (IIK), the Company concluded that it would be able to demand repayment of loans previously granted to the project. As such, the Company has ceased to account for such Loans as part of net investment in foreign operation. As a result, during the six month period ending on December 31, 2012, the Company recorded gain from exchange rate differences, in the amount of $ 14,717 thousand, instead of recording the amounts to the Company's equity.

NOTE 17:- EARNINGS (LOSS) PER SHARE

	Year ended 31 December		
	2012	**2011**	**2010**
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	103,558	103,558	103,558
Weighted average number of Ordinary shares used for computing diluted earnings per share (in thousands) (see Note 20)	106,684	105,953	105,523
Income (loss) used for computing basic and diluted earnings per share (in thousands of U.S. dollars)	(42,302)	28,525	23,155

NOTE 18:- SHARE-BASED PAYMENTS

a. The Company adopted a share option plan on 19 November 2006

The options can be exercised by way of a cashless exercise according to a mechanism determined by the Company's Board. The options were meant to be exercised within five years from the grant date, otherwise they expire. As to the extension of the exercise term, see sub sections d and e below.

b. On November 2009 the Company's board has approved the update of the exercise price of 1,946,524 Share Option granted to certain officers of the Company and its subsidiary pursuant to an ESOP adopted by the Board on November 2006. The update of the exercise price, included inter alia the update of the Share Options granted to the Company's CEO and CFO, as follows:

1. 1,122,995 Share Options have been reissued to Mr. Morag, at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. As to the extension of the Option exercise period see section (e) below.. According to the binomial model, the value of the share options is 948,722GBP.

2. 449,198 Share Options have been reissued to Mr. Rozental, the Company's CEO (and at that time the Company's CFO) at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. As to the extension of the Option exercise period see section (e)_below. According to the binomial model, the value of the share options is 379,489GBP.

3. 374,331 Share Options have been reissued to an officer of the Company's subsidiary at an exercise price of 2.5 GBP per share and exercisable until 19 December, 2012. As to the extension of the Option exercise period see section (e) below. According to the binomial model, the value of the share options is 316,240GBP,

c. On 2 December 2010, the Company granted Mr. Rozental, who was appointed, at that time, as the Company's CEO, additional Share Options for 673,797 Ordinary shares of the Company. The exercise price is 2.30 GBP per share and the options are exercisable until 1 December 2015, and vest in three equal annual installments, such that the first installment vested at the grant date and second and third installments will be vested on the second and third anniversary starting the date of grant, respectively. The fair value of granted options is $ 1,615 thousands.

d. On March 12, 2012, the Company's RemCo approved the extension of the exercise period of 1,122,995 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 $ 494 thousand. The Company recognized this amount as expenses in the income statement. As of the reporting date, the options are fully vested.

e. On November 12, 2012, the Company's RemCo approved the extensions of the exercise period of 823,530 Share Options, previously granted by the Company described in Sub Section b (2) and (3) above, to December 19 2014 and the extensions of the exercise period of 1,122,995 Share Options, previously granted by the Company described in Sub Section b (1) above, to December 19 2014. According to IFRS 2, the additional value of those options was measured by independent appraiser and amounted to $ 105 thousand. The Company recognized this amount as expenses in the income statement. As of the reporting date, the options are fully vested.

NOTE 18:- SHARE-BASED PAYMENTS (Cont.)

e. The total expense that was recognized in the income statements for the share based payment is presented in the following table:

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
	845	762	605

NOTE 19:- ADDITIONAL DETAILS REGARDING PROFIT AND LOSS

a. Cost of maintenance and management:

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Maintenance of property	11,940	14,524	7,253
Land lease payments	775	304	341
Fee to management company	1,196	1,276	328
Property tax on investment property	4,485	4,811	2,434
	18,396	20,915	10,356

b. General and administrative expenses:

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Salaries (1)	7,376	7,737	6,847
Office maintenance	1,677	1,190	1,263
Professional fees	3,413	4,380	3,891
Traveling expenses	589	767	553
Depreciation	497	467	610
Other costs	1,346	2,042	1,780
	14,898	16,583	14,944
(1) Includes cost of share-based payment (see Note 18)	845	762	605

NOTE 19:- ADDITIONAL DETAILS REGARDING PROFIT AND LOSS (Cont.)

c. Finance costs and income:

Finance income:

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Interest income from cash and cash equivalents and restricted deposits	9	22	86
Interest income from loans provided	740	1,445	1,940
Effect of discounting of long-term receivables	258	674	3,208
	1,007	2,141	5,234

Finance costs:

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Interest costs - loans from banks	(15,720)	(8,999)	(9,168)
Interest costs - loans from shareholders	(117)	(2,108)	(6,466)
Interest costs - debentures	(11,876)	(15,998)	(5,703)
Net capitalized interest costs	2,929	9,990	16,989
Bank charges and others	(1,976)	(916)	-
Others	-	-	(699)
	(26,760)	(18,031)	(5,047)

d. Other income (expenses):

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Change in provision regarding an agreement with government authorities and service providers (see Note 22h)	(1,714)	(2,397)	(186)
Compensation from insurance company in respect of fire damage	-	6,246	-
Gain from sale of jointly controlled entity	-	-	3,159
Other	50	-	-
	(1,664)	3,849	2,973

NOTE 20:- RELATED PARTIES

a. Transactions with related parties:

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Interest income from related parties	740	1,445	1,940
Interest paid to shareholders (1) (2)	2,714	5,785	6,466
Private jet expenses	17	249	117

(1) Regarding loans from shareholders, see Note 11.
(2) Includes interest expenses of debenture which are held by the shareholders of the Company.

b. Balances with related parties:

	31 December	
	2012	2011
	U.S. dollars in thousands	
Debentures held by shareholders	30,259	40,824
Guarantees provided and benefits received regarding loans from majority shareholders	1,826	3,358
Loans from majority shareholders	-	6,402

c. For more details regarding agreements with related parties, see also Note 21.

d. Compensation of key management personnel of the Group and employees of the Company:

	Year ended 31 December		
	2012	2011	2010
	U.S. dollars in thousands		
Salaries	904	1,104	1,399
Share-based payments	290	762	605
	1,194	1,866	2,004

NOTE 21:- AGREEMENTS WITH RELATED PARTIES

a. Global, which owns a commercial centre in Yaroslavl, has entered into a lease agreement with Home Centres LLC ("Home Center"), a company controlled by the Fishman family, the controlling shareholders of the Company. The area leased to Home Center covers 6,712 sq.m. the minimal lease fees are $ 138 per sq.m. and the lease period, assuming the exercise of all of the option periods contained therein, is 25 years. The terms of the agreements are in accordance with market conditions.

b. Hydro leases offices to Home Centre with an overall area of approximately 652 sq.m. used for office purposes. The monthly lease fee is approximately $ 20 thousand. Moreover, Hydro bears the renovation expenses of the offices, in the amount of $ 186 thousand. The lease period terminated on November 30th 2013. The engagement is in accordance with market conditions.

NOTE 22:- COMMITMENTS AND CONTINGENCIES

a. On 1 July 2005, Hydro (subsidiaries of the Company) and FIN, entered into a management service agreement for an indefinite period. FIN is a Russian company whose controlling shareholder also serves as the CEO of Hydro.

   In return for the management services provided by FIN pursuant to the above agreement, FIN will be entitled to receive: a) 10% of the projects income net of any expenses including investments and financial expenses ("Projects Commission") as well as 10% of the net profits from sale of the project after completion; b) 2% of the lease fees actually received by Hydro from its tenants.

   On January 4th 2013 the Company entered into a new management service agreement with two Cypriot companies owned by the previous affiliates of FIN ("Service Providers") substituting the above mentioned management service agreement. The new management service agreement is entered into for a term of 2 years with an option to extend its term by additional one year term. Each of the parties has the right to terminate the agreement with one year advance termination notice without derogating from the Service Providers right to the Project Commission. According to the new management service agreement , the Company has the discretion to extend to any of the Service Providers companies, on account of the abovementioned consideration a monthly advance payment in the amount of $ 70 thousand with regard to both Hydro and MAG Projects. See also sub section b below. The advance amount will bear annual interest at the rate of 11%. It was further agreed that the direct expenses of hiring additional employees for providing the said management services will be paid by the Company.

b. In February 2006, MAG and FIN entered into a management service agreement. The terms of the agreement are identical to Hydro's engagement with FIN, see ‘a’ above. On January 2013 this management service agreement has been substituted with the management service agreement detailed in sub section a above.

NOTE 22:- COMMITMENTS AND CONTINGENCIES (Cont.)

d. A subsidiary of the Company, Petra 8 LLC ("Petra"), entered into an agreement with a third party, which is not related to the Company, pursuant to which it will provide various professional services to Petra in connection with the receipt of the approvals and permits that are required for the project. Pursuant to the provisions of the agreement, as revised from time-to-time in the supplementary agreements, in consideration of the aforesaid services, Petra 8 will pay an amount that is equal to 2.5% of Petra 8's profit (net) stemming from project's realization. The consideration will be paid on dates and at rates detailed in the agreement, pursuant to which advances were paid on account of the aforesaid consideration in the amount of approximately $ 4 million (according to a mechanism for the settling of accounts that was determined in the agreements), until the financial statements date.

In addition Petra entered into an agreement with another third party according to which such third party provides services which include preparation for tenders, assistance in projects planning, assistance in selection of providers, technical supervision, budget control etc.

As of the reporting date Petra pays such third party monthly management fees in an amount of approximately $ 110 thousand.

Petra has entered on September 2012 into an agreement with another management company for the purpose of developing the third phase of the Project for a monthly consideration of $ 65 thousands.

During July 2008 Petra has entered into a construction agreement for the construction of the first phase of the Project based on a Cost + 4.8% that will be paid to the Contractor based on the construction progress as stipulated in the agreement between the parties.

NOTE 22:- COMMITMENTS AND CONTINGENCIES (Cont.)

f. The Group entered into commercial lease agreements for certain land plots. These leases are irrevocable and have a term of 19-45 years with a renewal option.

Future minimum lease payments as of 31 December 2012 are as follows:

	U.S. dollars in thousands
First year	775
After one year but no more than five years	1,262
More than five years	7,237
Total	9,274

g. Expected rental income:

The lease agreements of the Company's investees are for periods of up to 10 years.

The minimum rental income is as follows:

	31 December 2012
	U.S. dollars in thousands
First year	42,742
Second year until five years	105,490
More than five years	41,525
	189,757

h. A subsidiary of the Company, which owns a plot of land in Yaroslavl, has entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the built area on said land. The Group has recorded a provision regarding this agreement. See also Note 13.

NOTE 22:- COMMITMENTS AND CONTINGENCIES (Cont.)

i. On April 24, 2012, Avtoprioritet (a subsidiary of the company) signed a compromise agreement with Reiffeisen Bank ("a lease in one of the company's assets") 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 $ 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 subsidiary 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 $ 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 $ 7.7 million will be paid in addition to the deposit in the amount of about $ 1.3 million that the lessee deposited with it and that was transferred to the subsidiary at the inception of the lease agreement. The compromise amounts were received by the Subsidiary in full.

NOTE 23:- SEGMENT INFORMATION

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM"). That information is used in order to assess performance and allocation of resources. For management purposes, the Group is organized according to operating segments based on products and services.

The commercial segment is involved in lease of real estate property for commercial purposes and the residential segment is involved in development of real estate property for sale for residential purposes.

The following tables present revenue and profit and certain assets and liability information regarding the Group's operating segments.

	Year ended 31 December 2012		
	Commercial	Residential	Total
	U.S. dollars in thousands		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segment revenues	50,956	8,079	59,035
Segment results	(9,245)	(15,338)	(24,583)
Unallocated expenses			(11,763)
Finance Income, net			(4,078)
Loss before taxes on income			(40,424)

NOTE 23:- SEGMENT INFORMATION (Cont.)

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

	Year ended 31 December 2010		
	Commercial	Residential	Total
	U.S. dollars in thousands		
Segment revenues	20,506	1,078	21,584
Segment results	37,018	(1,435)	35,583
Unallocated expenses			(9,105)
Finance cost, net			(838)
Profit before taxes on income			25,640

	Year ended 31 December 2012		
	Commercial	Residential	Total
	U.S. dollars in thousands		
Assets:			
Segments assets	464,507	297,642	762,149

Unallocated assets			11,069
Total assets			773,218
Liabilities:			
Segments liabilities	132,747	108,709	241,456
Unallocated liabilities			214,415
Total liabilities			455,871

NOTE 23:- SEGMENT INFORMATION (Cont.)

	Year ended 31 December 2011		
	Commercial	**Residential**	**Total**
	U.S. dollars in thousands		
Assets:			
Segments assets	479,316	232,058	711,374
Unallocated assets			28,231
Total assets			739,605
Liabilities:			
Segments liabilities	114,379	36,853	151,232
Unallocated liabilities			241,235
Total liabilities			392,467

NOTE 24:- SUBSEQUENT EVENTS

a. on February 25th 2013, Midroog, a subsidiary of Moody’s Investor Services, the credit rating agency, has updated the credit rating for the Company's Series A, B and D Bonds to “ilBaa1/Stable” from their prior ratings of “ilBaa2/+” on a local Israeli scale. The Series C Bonds are not rated by Midroog. In addition, Midroog has provided the same rating for any issue of a new or extension of an existing bond series of up to NIS 100 million (approximately USD 27 million).

b. On January 4th2013 the company entered into an amendment agreement with its partners in a joint controlled entity ("The Century Companies"). The amendment amended the previous shareholders agreement that was in place between the parties, so that a unanimous consent will not be required for transactions exceeding monetary value over $100 thousands thus adopting the agreement to the every day practice between them and limiting the veto rights of the partners in the Century Companies.

During January 2013, the Company has reached an understanding and an agreement in principle with its partner in the Century Companies according to which the partner will waive the Option previously granted to him for the acquisition of 1% of the Century Companies the exercise of which has not been consummated. As consideration for such waiver the partner will be entitled to an amount equal to 1% of the value attributed to the Century Companies valuation as of December 31st 2012. The parties agreed that such amount will be set off against the balance of the loan previously granted to the partner. See also Note 3 (a) (1).

NOTE 25:- DATE OF APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors approved these consolidated financial statements for issue on 11 March 2013.