14 November 2012

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

MIRLAND CONTINUES GOOD PROGRESS WITH EARNINGS GROWTH AND STRONG SALES

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

Financial Highlights:

- Total revenues up 30% to US$43.7 million (nine months ended 30 September 2011: US$33.6 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 69% to US$25.3 million (nine months ended 30 September 2011: US$15.0 million), due to improved occupancy, reduced operating expenses and increased income from rent indexation;
- EBITDA up 41% to US$7.9 million (nine months ended 30 September 2011: US$5.6 million);
- General and administrative expenses reduced by 12% to US$10.3 million (nine months ended 30 September 2011: US$11.7 million);
- Positive cash flow from operating activities of US$9.7 million (nine months ended 30 September 2011: negative cash flow of US$9.8 million), supported by receipts from strong pre-sales of units at Triumph Park development;
- Loss of US$7.3 million (nine months ended 30 September 2011: net income of US$28.3 million) due to currency movements; 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 5.1% to US$777.3 million during the year to date (31 December 2011: US$739.6 million), of which 93% are property and land assets;
- Shareholders’ equity US$345.3 million at 30 September 2012, equating to 44% of total assets (31 December 2011: US$347.1 million);
- Net leverage decreased to 41.3% 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).

Operational Highlights

- Continued progress at the Company’s flagship project, Triumph Park in St. Petersburg:
  - Launch of sales campaign for Phase Two of Triumph Park and pre-sale of 203 out of the 630 units, representing over 30% of the phase;
  - New loan agreement signed with SberBank of Russia Bank (“SberBank” or the "Bank") to provide a line of credit of approximately $47.5 million (the "Loan") to finance the construction of Phase Two; ongoing strong sales of Phase One with an additional 72 apartments sold, taking total sales to 480 units out of 510, subject to contract, representing a

projected income of approximately US$63 million to be recognized in H1 2013 according to IFRS standards;

- 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. The US$50 million loan is for a seven year term, at fixed interest of 9.5%, payable quarterly.
- Acquisition of an additional 10% of MirLand's jointly controlled entity Inomotor LLC, which owns an office building with a leasable area of approximately 11,000 sqm in the Century Project, for a total consideration of US$1.5 million in cash, taking the Company's interest to 61%;
- Renovation of the MAG fire-damaged building has been completed and negotiations to re-let the space are now at an advanced stage, which will increase the lettable space by 7,200 sqm.

Nigel Wright, Chairman, commented:

"The third quarter has seen continuing solid progress for the Company, in particular at our principal residential project, Triumph Park, St. Petersburg. We have achieved higher than forecast sales of apartments in the first phase, and have already launched phase two, where we are experiencing similarly strong sales. We have also secured additional bank financing for Triumph Park despite continuing poor liquidity in the credit markets and this affirms the market view of both the scheme and Mirland's management.

"The success of this development, combined with the very high occupancy rates within our income producing office and retail investment portfolio is encouraging. Meanwhile we continue our work in actively progressing our development pipeline and identifying new opportunities. I remain confident that, given continuing stable market conditions, the quality of our existing and pipeline projects will enable us to generate long term value on behalf of our shareholders."

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We are pleased to report MirLand's financial results for the nine months ended 30 September 2012. During the period the Russian economy continued to perform well and the Board of MirLand made further positive progress in implementing measures to successfully deliver on the Company's business plan and strategy, which include the following key goals:

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

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

FINANCING

During the period, Mirland signed two loan agreements as described below:

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 approximately $47.5 million to finance the construction of 630 apartments, being Phase Two of MirLand's "Triumph Park" mixed use residential development in St. Petersburg. The Loan will provide approximately 70% of the construction cost of the second phase of the project and fulfils the outstanding funding requirement for the project. It will be provided in instalments over the next 24 months, matures in three years, and is in addition to the facility that was previously granted by SberBank to construct Phase One of the project. Further detail is provided in note six to the financial statements.

The Company decreased its leverage to 41.3% of total assets (31 December 2011: 43.9%). Total net borrowings amounted to US$320.7 million (31 December 2011: US$324.7 million).

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.

OPERATIONAL UPDATE

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 Two of the scheme and has already pre-sold 203 out of the 630 units, representing over 30% of the phase; the total net sellable area of Phase Two of the project is approximately 32,600 square metres and there will be 1,500 square metres of retail space and two levels of underground parking providing 106 spaces. Physical completion of Phase Two 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 the Phase Two.

In addition, Phase One has continued to receive strong interest with an additional 72 apartments sold during the period, taking total sales to 480 units out of 510, subject to contract, representing a projected income of approximately US$63 million to be recognized in H1 2013 according to IFRS standards.

The project offers high quality, competitively priced housing in St. Petersburg's strengthening residential market. Situated on a well located, 40 hectare site, the scheme represents one of the few large scale developments in the city in close proximity to major transport links. Furthermore the development will be 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.

As described in Note 28 of the Company's Financial Statements for the year ended 31 December 2011, 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). MirLand is now undertaking a marketing campaign to let up the vacant space in this high quality office property located in Moscow.

We have completed renovation works of the MAG fire-damaged building and negotiations to let the renovated space are at an advanced stage.

The fully occupied Vernissage Mall in Yaroslavl and the Triumph Mall in Saratov continued to enjoy high footfall. Occupancy rates in Hydro, MAG and the Century office buildings are at 95% (of available lettable space).

MARKET UPDATE

Overall, the Russian macro-economy continued to perform well in Q3 2012, driven by moderate inflation, continued high consumer spending, increased consumer lending and favourable global commodity demand. The rate of inflation reached 5.2% in Q3 2012 and is expected to reach 7% by the year end, compared to 6.1% in 2011. Real disposable income growth increased by 3.6% since the beginning of 2012, compared to the negative 0.2% recorded in in the first nine months of 2011, and is expected to reach 5% for 2012 as a whole, compared to 0.8% in 2011. Unemployment remained at the historically low level of 5.4% through the second and third quarters of 2012 in comparison to the circa 6% level seen at the beginning of the year and during 2011.

However, there are some signs of a possible slowdown in the economy. GDP growth slowed from 4.5% in the first half of the year to 2.8% year on year in the third quarter, due to a greater level of caution among local manufacturers affecting investment volumes. The Ministry of Economic Development's forecast for GDP in 2012 is 3.4%. Industrial production growth decelerated to 3.1% year-on-year in the third quarter in comparison to 5.2% year-on-year in Q3 2011, and is not expected to grow before the year end (compared to 5.4% for the full year in 2011). Retail trade growth also decelerated from 7.2% in Q2 2012 to 6.6% in Q3 2012, and is expected to reach 6.3% for the full year, compared to 7% in 2011.The Rouble exchange rate is expected to weaken to 33 RUB/US$ by the end of 2012, and 34.5 RUB/US$ at the end of 2013, both based on expected pricing of oil at $110/bbl.

According to the Central Bank of Russia ("CBR"), 9M 2012 capital outflow amounted to US$58 billion vs US$46 billion in 2011, and the full year is likely to reach US$70 billion. Expected capital outflow for 2013 will remain around US$50 billion. The CBR raised the refinancing rate to 8.25% in September. Investment volumes in Q3 2012 amounted to US$1.22 billion, 33% less than Q3 2011 and 5% less than Q2 2012. The total volume of investments in the first nine months of 2012 accounted for US$5.52 billion, and this is expected to reach a total of $7.2 billion by the year end, almost as much as in 2011.Foreign investment during Q3 2012 reached 39%, declining from 50% in H1 2012. It is expected to decrease further by the year end to 35%, which is still higher than the 2011 figures of 28%. Regional investment volumes are decreasing. Prime yields in Moscow are: 8.5% for offices, 9.3% for retail and 11% for industrial properties.

Retail investments set a record with US$2.2 billion of investment transactions in the year to date. Moscow has maintained its third ranking position in the top 20 European investment cities (after London and Paris), while St. Petersburg is in 12th place. Demand for quality retail space is steady, and the vacancy rate in Moscow remains less than 1% (0.4%), as it has been since late 2010. Rental rates for retail space in Moscow (US$500-4000/sqm per year) and the regions remain stable (rental values at 30-60% below Moscow levels). Total prime retail space stock stood at 3.52 million sqm in Moscow and 10.16 million sqm across Russia. New supply of retail space in Q1-Q3 totalled approximately 114,000 sqm in Moscow and 866,000 sqm in Russia as a whole, representing 30 new shopping centres.

US$1.67 billion was invested in the office sector in Q3 2012. The average vacancy rate is stable at 11.3% (Class A and B). Demand is fair and is concentrated on completed office stock that is ready for tenants to move in to. Rental rates are stable and the trend is expected to continue for 2012 – 2013. Q3 2012 take-up in Moscow reached 450,000 sqm of quality space (1.5mn to date), net absorption is about 31.1% of take-up, the trend is expected to continue in the next few years. New construction in Moscow accounted for 1,765,000 sqm. The absorption is in line with the volume of new construction, stabilizing the market.

The residential sector witnessed a continued trend of sales price increases in the Moscow and St. Petersburg markets during the period. Demand for residential real estate remains strong and has been supported by mortgage affordability, despite a 0.6% increase in the interest rate since the beginning of the year, currently amounting to 12.3%.

New mortgages extended in the year to August 2012 were over Rouble 627.9 billion, which is 30% higher than the same period in 2011. According to the European Mortgage Federation, Russia has one of the lowest levels of living space per capita compared to other European countries 23 sqm per capita. This is expected to grow to 31 sqm per capita by 2020.

MANAGEMENT

As announced on September 13, 2012 the Company appointed Saydam Salaheddin to the Board as a non-executive director, with immediate effect. Saydam brings with him a strong track record of capital markets experience within the real estate arena and a thorough understanding of our business.

OUTLOOK

"The third quarter has seen continuing solid progress for the Company, in particular at our principal residential project, Triumph Park, St. Petersburg. We have achieved higher than forecast sales of apartments in the first phase, and have already launched phase two, where we are experiencing similarly strong sales. We have also secured additional bank financing for Triumph Park despite continuing poor liquidity in the credit markets and this affirms the market view of both the scheme and Mirland's management.

"The success of this development, combined with the very high occupancy rates within our income producing office and retail investment portfolio is encouraging. Meanwhile we continue our work in actively progressing our development pipeline and identifying new opportunities. I remain confident that, given continuing stable market conditions, the quality of our existing and pipeline projects will enable us to generate long term value on behalf of our shareholders."

Nigel Wright	**Roman Rozental**
Chairman	**Chief Executive**
14 November 2012	**14 November 2012**

MIRLAND DEVELOPMENT CORPORATION PLC

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 SEPTEMBER 2012

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 September 2012	30 September 2011	31 December 2011
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	34,944	11,929	32,333
Short-term loans	-	845	-
Restricted bank deposits	1,100	-	1,739
Trade receivables	1,513	3,479	4,568
Other receivables	2,952	1,617	2,780
VAT receivable	5,785	14,853	7,393
Inventories of buildings for sale	183,294	190,644	157,772
	229,588	223,367	206,585
NON-CURRENT ASSETS:			
Investment properties	374,698	312,961	363,569
Investment properties under construction	80,205	132,299	82,703
Inventories of buildings for sale	76,941	27,924	67,062
Long-term loans	4,004	12,162	10,611
VAT receivable	229	338	317
Other long-term receivables	4,012	2,913	2,851
Deferred expenses	4,000	1,215	1,802
Fixed assets, net	1,292	1,198	1,190
Deferred taxes	2,299	2,314	2,915
	547,680	493,324	533,020
TOTAL ASSETS	777,268	716,691	739,605

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

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 September		31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks	69,511	70,290	66,992
Current maturities of long-term loans from banks and debentures and other short-term loans	45,970	38,442	40,962
Credit from banks for financing of inventory of buildings for sale	16,765	-	24,218
Loans from shareholders	-	6,191	6,402
Government authorities	3,291	3,373	3,981
Trade payables	7,297	8,980	9,135
Deposits from tenants	2,673	4,612	3,831
Advances from buyers	51,505	7,708	7,099
Other accounts payable	1,436	1,745	1,871
	198,448	141,341	164,491
NON-CURRENT LIABILITIES:			
Loans from banks	102,240	68,046	79,960
Debentures	121,230	149,912	138,488
Other non-current liabilities	10,006	6,835	9,528
	233,476	224,793	227,976
TOTAL LIABILITIES	431,924	366,134	392,467
Equity attributable to equity holders of the Parent:			
Issued capital	1,036	1,036	1,036
Share premium	359,803	359,803	359,803
Capital reserve for share-based payment transactions	12,036	11,184	11,341
Capital reserve for transactions with controlling shareholders	6,565	3,207	6,565
Foreign currency translation reserve	(47,337)	(44,927)	(52,126)
Retained earnings	13,241	20,254	20,519
TOTAL EQUITY	345,344	350,557	347,138
TOTAL EQUITY AND LIABILITIES	777,268	716,691	739,605

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

INTERIM CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended 30 September		Year ended 31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Revenues:			
Rental income from investment properties	35,950	27,796	39,679
Income from sale of inventories	5,126	2,828	3,932
Revenues from management fees	2,631	2,936	3,922
Total revenues	43,707	33,560	47,533
Cost of sales	(8,437)	(4,144)	(6,279)
Cost of maintenance and management	(13,242)	(15,718)	(20,915)
Gross profit	22,028	13,698	20,339
General and administrative expenses	(10,306)	(11,996)	(16,583)
Marketing expenses	(1,500)	(1,578)	(2,593)
Fair value adjustments of investment properties and investment properties under construction	(17,408)	30,700	33,485
Other income (expenses), net	(321)	4,699	3,849
Operating income	(7,507)	35,523	38,497
Finance income	595	2,368	2,141
Finance costs	(20,933)	(11,805)	(18,031)
Net foreign exchange differences	21,737	(9,528)	(6,349)
Income before taxes on income	(6,108)	16,558	16,258
Taxes on income (tax benefit)	1,170	(11,702)	(12,267)
Net income (loss)	(7,278)	28,260	28,525
Net earnings per share (in U.S. dollars per share):			
Basic and diluted net earnings (loss):	(0.07)	0.273	0.28

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended 30 September		Year ended 31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
Net income (loss)	(7,278)	28,260	28,525
Other comprehensive income (loss):			
Exchange differences on translation of foreign operations	4,789	(19,331)	(26,530)
Total other comprehensive gain (loss)	4,789	(19,331)	(26,530)
Total comprehensive income	(2,489)	8,929	1,995

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Currency translation reserve	Retained earnings (accumulated deficit)	Total
	U.S. dollars in thousands						
At 1 January 2012 (audited)	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138
Net loss for the year	-	-	-	-	-	(7,278)	(7,278)
Other comprehensive income	-	-	-	-	4,789	-	4,789
Total comprehensive income (loss), net	-	-	-	-	4,789	(7,278)	(2,489)
Share-based payment transactions	-	-	695	-	-	-	695
At 30 September 2012 (unaudited)	1,036	359,803	12,036	6,565	(47,337)	13,241	345,344

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Retained earnings (Accumulated Deficit)	Total equity
	U.S. dollars in thousands						
At 1 January 2011 (audited)	1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023
Net income (loss) for the period	-	-	-	-	-	28,260	28,260
Other comprehensive income	-	-	-	-	(19,331)	-	(19,331)
Total comprehensive income, net	-	-	-	-	(19,331)	28,260	8,929
Share-based payment transactions	-	-	605	-	-	-	605
At 30 September 2011 (unaudited)	1,036	359,803	11,184	3,207	(44,927)	20,254	350,557

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Currency translation reserve	Retained earnings (accumulated deficit)	Total
	U.S. dollars in thousands						
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
Share-based payment transactions	-	-	762	-	-	-	762
Equity component of transaction with controlling shareholders	-	-	-	3,358	-	-	3,358
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 interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended 30 September		Year ended 31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	(7,278)	28,260	28,525
Adjustments to reconcile net income to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	734	(14,008)	(13,482)
Depreciation and amortization	254	369	467
Finance costs (income), net	(1,399)	18,965	22,239
Share-based payment	695	605	762
Fair value adjustment of investment properties and investment properties under construction	17,408	(30,700)	(33,485)
	17,692	(24,769)	(23,499)
Changes in asset and liability items:			
Increase in trade receivables and others	250	(3,070)	(5,547)
Decrease in VAT receivable	1,837	16,035	23,708
Increase in inventories of buildings for sale	(26,530)	(13,778)	(21,759)
Increase in trade payables	(33)	169	165
Increase in other accounts payable (including government authority, deposits from tenants, advances from buyers and other long term payable)	41,946	4,601	6,612
	17,470	3,957	3,179
Cash paid and received during the period for:			
Interest paid	(19,554)	(17,127)	(23,370)
Interest received	1,750	20	20
Taxes paid	(396)	(114)	(948)
Taxes received	-	-	22
	(18,200)	(17,221)	(24,276)
Net cash flows provided by (used in) operating activities	9,684	(9,773)	(16,071)

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

(INTERIM) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended 30 September		Year ended 31 December
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Acquisition of additional interest in jointly controlled entity	(1,500)	-	-
Additions to investment properties	(6,302)	(5,317)	(6,365)
Additions to investment properties under construction	(117)	(8,687)	(8,742)
Purchase of fixed assets	(279)	(299)	(349)
Proceeds from repayment of loans granted	5,590	6,860	9,408
Loans granted to related parties	(1,843)	(980)	(980)
Investment in restricted deposit, net	639	-	(1,739)
Net cash flows used in investing activities	(3,812)	(8,423)	(8,767)
Cash flows from financing activities:			
Issuance of debentures	-	54,104	54,104
Receipt of loans from banks	81,892	7,142	47,696
Repayment of debentures	(15,584)	-	(10,768)
Repayment of loans from shareholders	(18,306)	(36,843)	(36,843)
Loans received from shareholders	12,422	-	-
Repayment of loans from banks	(64,135)	(4,513)	(6,206)
Net cash flows provided by (used in) financing activities	(3,711)	19,890	47,983
Exchange differences on balances of cash and cash equivalents	450	(739)	(1,786)
Increase in cash and cash equivalents	2,611	955	21,359
Cash and cash equivalents at the beginning of the period	32,333	10,974	10,974
Cash and cash equivalents at the end of the period	34,944	11,929	32,333

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

NOTE 1:- GENERAL

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

b. Based on management plans and as reflected in the Company's forecasted cash flows, the Company expects to finance its activities, inter alia, by obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 30 September 2012 amounting to approximately $ 84 million, and revenues from sales of residential projects of the Company.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim financial statements:

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

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

IAS 12 - Income Taxes:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Standards issued but not yet effective:

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

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

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

The Company estimates that the Standards are expected to have a material impact on the presentation of Company's assets and revenues. The Company is evaluating the impact of the adoption of the Standards.

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

In the reported period, significant changes occurred in the exchange rates of foreign currency to which the Company is exposed following the devaluation of the US dollar, which is the Company's functional currency, in relation to Russian ruble. The exchange rate as of September 30, 2012 is 30.92 Russian rubles (as of December 31, 2011 – 32.19 Russian rubles) per 1 US dollar. The main exposure arises from foreign operations whose functional currency is the Russian Ruble and in respect of which other comprehensive gain of approximately $ 4,789 thousand was recorded in the nine months ended September 30, 2012.

NOTE 4:- SEGMENTS

	Commercial	Residential	Total
		Unaudited	
Nine months ended 30 September 2012:		U.S. dollars in thousands	
Segment revenues	38,581	5,126	43,707
Segment results	5,554	(5,124)	430
Unallocated expenses			(7,937)
Finance income, net			1,399
Loss before taxes on income			(6,108)

	Commercial	Residential	Total
		Unaudited	
		U.S. dollars in thousands	
Nine months ended 30 September 2011:			
Segment revenues	30,732	2,828	33,560
Segment results	41,938	(2,851)	39,087
Unallocated expenses			(3,564)
Finance costs, net			(18,965)
Loss before taxes on income			16,558

	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 expenses, net			(22,239)
Profit before taxes on income			16,258

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. On March 12, 2012, the Company's board of directors approved by a way of reallocation the prolongation of the expiration date of 1,122,994 options, previously granted by the Company, to 19 March 2014, and updated the exercise price of those options from 4.8 GBP per share to exercise price of 3.5 GBP per share. According to IFRS 2, the additional value of those options was measured by independent appraiser and amounted to $ 494 thousand. The Company recognized this amount as expenses in the income statement. As of the balance sheet date, the options are fully vested.

b. During the period, the Company repaid shareholder's loans in total amount of approximately $ 6.4 million (including interest accrued).

c. On March 30, 2012 the Company acquired 10% additional interest in shares of jointly controlled entity ("Inomotor") for total consideration of $ 1.5 million. As a result, the Company holds 61% in shares of Inomotor as of the balance sheet date. The joint venture agreement between the parties was not amended as a result of acquisition, therefore as of the balance sheet date the Company accounts investment in Inomotor using the proportionate consolidation method.

d. Further to Note 28i to the Company's annual financial statements, on April 9, 2012, the Company signed a compromise agreement with Reiffeisen Bank ("the lessee") which was approved by ruling court agreement in Russia. According to the agreement, a debt balance, for which the lessee was liable in respect to 2011 in an amount aggregating to about $ 4.8 million (not including VAT), was paid. Further, on April 23, 2012 an additional compromise agreement and lease termination agreement were signed and were approved by court ruling. Pursuant to the compromise agreement, the Company collected the debt balance, for which the lessee was liable in respect to the period from January 1, 2012 until the date on which the compromise was signed, in the amount of about $ 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 Company at the inception of the lease agreement. The compromise amounts were received by the Company in full.

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

f. During September, 2012 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").

The Loan will bear 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.

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

The amount of $26 million will refinance the subsidiaries' loan from Uniastram bank which bears annual interest rate of 9.8%.

During September, 2012 the Subsidiaries received the entire credit line at the amount of $50 million and repaid the above mentioned loan in the amount of $26 million to Uniastrum bank.

The Company secured the loan by various mortgages and pledges as follows: pledge of land plots and lease rights of the projects; pledge of Company's interest in subsidiaries; Company's guarantee for the credit; in addition, the Subsidiaries have to comply with a loan to value ratio (LTV) of not more than - 70% and meet debt coverage ratio (DSCR) of not less than-1.2.

As of September 30, 2012 the Subsidiaries were in compliance with all the aforementioned financial covenants.

g. In light of the progress made in the sale of residential units in the Subsidiary's residential project in St. Petersburg and the stabilization of the Project's rental income received by the Subsidiary from the project in Saratov, the Company decided that it would be able to demand repayment of loans which were granted to the abovementioned Subsidiaries. As such, the Company has ceased to account for such Loans as part of the Company's equity investment in its Subsidiaries. As a result, during the three month period ending on September 30, 2012, the Company recorded gain in income statement, in the amount of $ 9,768 thousand, as a result of differences in the exchange rate instead of directly recognizing such amount as Company's equity.

NOTE 6: - SUBSEQUENT EVENTS

In November 2012, a wholly owned subsidiary, Petra 8 LLC (the "Subsidiary") entered into a loan agreement with SberBank of Russia Bank (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 "Loan") to finance construction of the second phase of the Subsidiary's residential project in St. Petersburg ("The Project").

The Loan bears an interest rate of 12.3% and will mature in three years. The loan will be partly repaid from the Subsidiary's sale of residential units, commercial space, and parking spaces.

The outstanding loan as of October 2014 (inclusive) will be repaid in monthly installments in accordance with the terms of the Loan, and through to the end of the three year term.

To secure the Loan the Company and the Subsidiary have pledged, to the Bank, the following securities: 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.

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