

16 May 2013

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

**UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE**  
**THREE MONTHS ENDED 31 MARCH 2013**

***MIRLAND CONTINUES GOOD PROGRESS UNDERPINNED BY STRONG SALES***

MirLand Development Corporation, one of the leading international residential and commercial property developers in Russia, announces its interim results for the three months ended 31 March 2013.

**Financial Highlights:**

- Total assets up 7.6% to US\$800.4 million (31 December 2012: US\$743.7 million), of which 94% are property and land assets;
- Total equity up 7.4% to US\$340.7 million (31 December 2012: US\$317.3 million), equating to 43% of total assets;
- Total revenues up 19.2% to US\$11.8 million (three months ended 31 March 2012: US\$9.9 million) due to high occupancy in the investment portfolio (approximately 99%) and positive impact of rental indexation;
- Net operating income (NOI) from investment properties up 17% to US\$7.0 million (three months ended 31 March 2012: US\$6.0 million);
- EBITDA increased 73% to US\$3.8 million (three months ended 31 March 2012: US\$2.2 million);
- Net profit of US\$0.5 million (three months ended 31 March 2012: loss of US\$19.8 million) due to increased operational profitability and fair value adjustments of investment properties following appreciation of the US Dollar against the Rouble of approximately 2.3% which resulted in nominal appreciation of commercial assets at the same rate;
- Net leverage reduced to 39.6% of total assets (31 December 2012: 40.9%).

**Operational Highlights**

- **Triumph Park in St. Petersburg:** ongoing high rate of sales at the Company’s flagship project
  - Phase I: 497 out of 510 apartments pre-sold by the end March 2013 (484 at 31 December 2012), representing a projected income of approximately US\$66 million to be recognized during 2013 in accordance with IFRS standards;
  - Phase II: Launched in Q3 2012, 353 out of 630 units pre-sold, being approximately 56% of the apartments available, representing a projected income of approximately US\$50 million to be recognized in Q4 2014 in accordance with IFRS standards;
  - Phase III: Planning ongoing with sales campaign of approximately 1,350 units on track to launch in Q4 2013.

**Nigel Wright, Chairman, commented:**

“We have started the year strongly, with good levels of revenue growth from our income producing portfolio and better than anticipated sales of residential units. The economy continues to show signs of improvement and stabilization, and demand for residential property from owner occupiers, underpinned by stable mortgage rates, continues. MirLand benefited from this, as reflected by strong sales at Triumph Park, our flagship residential project in St. Petersburg. We remain optimistic about prospects for the next phase of the project.

“Given the improving conditions and the success we have achieved in our developments, as evidenced by their near 100% occupancy rate, we continue to seek new opportunities to enhance shareholder value by bringing forward our pipeline projects and assessing new acquisition opportunities with the aim of delivering long term shareholder value.”

**-ENDS-**

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We are pleased to report MirLand's financial results for the three months ended 31 March 2013. During the period the Russian economy continued to perform well and the Board of MirLand made further good, 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 subject to both cost and availability of funding and market demand.

In addition, due to improved market conditions and the growing availability of financing sources, MirLand continues to identify opportunities for new investments which we believe will enhance shareholder value, as we believe that there may be a number of attractive deals available in the market.

## FINANCING

During the period, net leverage decreased to 39.6% of total assets (31 December 2012: 40.9%). Total net borrowings amounted to US\$316.8 million (31 December 2012: US\$304.2 million).

As part of our ongoing strategy to diversify our funding sources, in March, 2013 the Company obtained a short-term credit line of up to New Israeli Shekel ('NIS') 37 million (approximately US\$10.3 million) from Investment house which is a non-related party bearing Israeli inter-bank lending interest rate plus 2% margin (5.75% as of March 31, 2013). At 31 March 2013, the Company had withdrawn approximately NIS 32 million (US\$ 8.9 million). The proceeds will be applied for general working capital purposes.

In May 2013, the Company received commitments from two institutional investors to subscribe privately for new D Series bonds (the "**Bonds**") to be issued by the Company. If issued, the Bonds will raise additional debt of NIS 62 million (approximately US\$17.2 million, before expenses). The Bonds will be issued on identical terms to the existing D Series bonds and will be rated as "ilBaa1/Stable" on a local Israeli scale by Midroog, a subsidiary of Moody's Investor Services. The net proceeds of the issue of the Bonds will be applied for general working capital purposes.

## OPERATIONAL UPDATE

The Company's progress in the pre-sale and delivery of its BREEAM certified Green residential project, Triumph Park in St. Petersburg, continues. A further 15 apartments have been sold from the first phase taking it very close to fully sold and sales on Phase II are progressing very well. The Company is now finalising detailed design with regard to Phase III, and is firmly on track to launch this to the market in Q4 2013.

On 4 January, the Company agreed with its partners in Inomotor LLC and Avtoprioriet LLC ("The Century Companies") that they would waive their pre-existing option to acquire 1% of the Century Companies. In consideration of this waiver, the Company has agreed to pay its partners US\$600,000, such sum to be offset against a loan presently outstanding to one of the partners from the Company. In addition, the repayment date of the loan was extended in a six month. The purpose of these amended agreements is to ensure that the Company secures overall control of the Century Companies. The parties have also agreed to amend the existing Management Agreement to give the Company overall control of the project.

The fully occupied Vernissage Mall in Yaroslavl and the Triumph Mall in Saratov continued to enjoy high footfall. Occupancy rates in the MirLand Business Center office buildings are at 98%.

### **MARKET UPDATE**

After a strong performance in 2012, with 3.4% annual growth, Russia's GDP grew by 1.1 % year-on-year in the same period of 2013, mainly due to the modest investment growth of 0.1% and weak external demand.

Inflation started rising again after reaching a record historical low rate of 3.6% in early 2012, and it had picked up to 6.6% by the year end. In Q1 2013, the consumer prices index increased by 1.9%, and resulted in marginal growth in consumption, which was supported by a 5.4% increase in real disposable income compared to Q1 2012. Retail turnover growth achieved the relatively high figure of 3.9% growth versus Q1 2012. However, this represents just half of the year-on-year increase seen in Q1 2012 (up 7.9% on the level of Q1 2011).

The US Dollar strengthened against the Rouble by 2.3% during Q1. One of the main concerns for the Russian macro economy remains the continued trend of capital outflow, which amounted to US\$25 billion in Q1 2013.

The overall macroeconomic stability in Russia had a positive influence on the real estate sector. The total volume of investments in real estate in Q1 2013 accounted for US\$3.4 billion, reaching a historical record high, and representing nearly half of the US\$8 billion forecast for investments for the whole of 2013. The office and retail sectors received similar levels of investment in Q1 2013, at US\$1.6 billion and US\$1.2 billion, respectively. Capitalization rates in Q1 2013 remained at the Q4 2012 level, at 8.5% for Class A offices and 9.5% for retail.

Overall, the office segment in Moscow remains stable. In Q1 2013 it experienced strong demand and a high level of take up for quality office space compared to the previous quarter, with 450,833 sqm of offices either leased or sold, compared to 2 million sqm in the entire 2012 year. Based on Cushman & Wakefield's projections, the new construction forecast for 2013 increased to 700,000 sqm (200,000 sqm more than the

previous forecast). Rental rates are expected to remain stable, as the leasing environment continues to be favorable for high quality, well located office accommodation.

In the retail sector, consumer spending remained high, driven by an increase in real wages and the growing prominence of Russia's middle class. Retail sales revenues grew by 3.9% year-on-year in real terms. Demand for good quality space is steady, and the vacancy rate in Moscow remains low at 1.2%. The increase in vacancy rate (from 0.4% in Q4 2012) is the result of typical tenant rotation in the beginning of the year.

Demand for residential real estate remains strong and has been supported by growing mortgage affordability. New mortgages extended in Russia since the beginning of 2013 (January and February) showed good growth and totaled over Rouble 133 billion (Rouble 14.9 billion in St. Petersburg). The growth has been barely affected by the slight increase of the mortgage interest rates. In 2013 approximately 3 million sqm of residential space is planned to be delivered in St. Petersburg, similar to the previous two years, when approximately 2.7 million sqm was delivered.

The Russian economy continues to perform well, but slowing economic growth in China, combined with ongoing uncertainty in the European economy along with the situation in Cyprus, may affect its future performance, and therefore we continue to monitor economic data very closely in undertaking our financial and operational decisions on behalf of MirLand.

## **OUTLOOK**

The Board remains focused on the delivery of the Company's business plan and, in light of ongoing stability in the Russian economy, will continue to focus its resources and activities on completing projects under construction and commencing those where funding is in place, building on its recent success. We anticipate bringing further new projects on stream into this improving environment as well as capitalising on the current market opportunities to identify new investments. The Board is willing to examine the merit of any such opportunities as and when they arise, given the availability of appropriate financial resources.

MirLand has a high quality portfolio of completed, income producing investment property. In addition, our development pipeline should provide both competitive advantage and significant future benefit to shareholders as conditions continue to improve

**Nigel Wright**

**Chairman**

**13 May 2013**

**Roman Rozental**

**Chief Executive**

**13 May 2013**

**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	31 March		31 December
	2013	2012 *)	2012 *)
	Unaudited	Audited	
	U.S. dollars in thousands		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	30,576	13,272	25,669
Restricted bank deposits	695	1,909	1,119
Trade receivables	969	1,289	2,476
Other receivables	7,666	2,711	7,627
VAT receivable	4,235	7,346	4,801
Loans granted to associates	3,140	-	9,070
Inventories of buildings for sale	201,144	172,492	190,821
	248,425	199,019	241,583
<b>NON-CURRENT ASSETS:</b>			
Investment properties	390,976	285,871	302,789
Investment properties under construction	52,268	83,346	51,552
Inventories of buildings for sale	75,064	71,952	79,100
VAT receivable	413	261	226
Fixed assets, net	978	1,071	825
Other long-term receivables	2,358	4,417	3,038
Prepaid expenses	543	541	541
Deferred taxes	2,881	2,447	2,350
Investments in associates	26,491	55,556	61,650
Loans granted to associates	-	25,340	-
	551,972	530,802	502,071
<b>TOTAL ASSETS</b>	<b>800,397</b>	<b>729,821</b>	<b>743,654</b>

\*) Reclassified, see Note 2b.

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

## INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March		31 December
	2013	2012 *)	2012 *)
	Unaudited		Audited
	U.S. dollars in thousands		
<b>EQUITY AND LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks	79,266	67,842	68,523
Current maturities of long-term loans from banks and debentures	47,048	40,690	50,360
Credit from banks for financing of inventory of buildings for sale	14,462	22,288	15,421
Government authorities	2,451	2,492	2,679
Trade payables	9,496	8,298	7,294
Deposits from tenants	2,983	1,928	2,663
Advances from buyers	91,281	13,817	77,321
Other accounts payable	1,269	1,390	2,211
	<u>248,256</u>	<u>158,745</u>	<u>226,472</u>
<b>NON-CURRENT LIABILITIES:</b>			
Loans from banks and others	90,161	59,218	81,385
Debentures	116,423	141,474	114,169
Other non-current liabilities	4,848	3,996	4,281
Deferred taxes	-	564	-
	<u>211,432</u>	<u>205,252</u>	<u>199,835</u>
<b>TOTAL LIABILITIES</b>	<u>459,688</u>	<u>363,997</u>	<u>426,307</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:</b>			
Issued capital	1,036	1,036	1,036
Share premium	359,803	359,803	359,803
Capital reserve for share-based payment transactions	12,186	11,902	12,186
Capital reserve for transactions with controlling shareholders	8,391	6,565	8,391
Foreign currency translation reserve	(48,111)	(14,161)	(42,286)
Accumulated deficit (retained earnings)	(22,105)	679	(21,783)
	<u>311,200</u>	<u>365,824</u>	<u>317,347</u>
Non controlling interest	<u>29,509</u>	<u>-</u>	<u>-</u>
<b>TOTAL EQUITY</b>	<u>340,709</u>	<u>365,824</u>	<u>317,347</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>800,397</u>	<u>729,821</u>	<u>743,654</u>

\*) Reclassified, see Note 2b.

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

## INTERIM CONSOLIDATED INCOME STATEMENTS

	Three months ended 31 March		Year ended 31 December
	2013	2012 *)	2012 *)
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Rental income from investment properties	10,974	7,812	32,231
Income from sale of inventories	478	1,628	8,079
Revenues from management fees	397	471	1,641
Total revenues	11,849	9,911	41,951
Cost of sales of inventories	(802)	(2,553)	(12,833)
Cost of maintenance and management	(5,281)	(4,107)	(14,874)
Gross profit before deductions	5,766	3,251	14,244
Impairment of inventory of buildings for sale	-	-	(8,041)
Gross profit	5,766	3,251	6,203
General and administrative expenses	(3,029)	(3,644)	(14,607)
Marketing expenses	(871)	(428)	(2,102)
Fair value adjustments of investment properties and investment properties under construction	12,582	(22,927)	(31,554)
Other income (expense), net	(319)	263	(1,832)
Group's share in earnings (losses) of associates	1,508	(1,648)	6,340
Operating profit (loss)	15,637	(25,133)	(37,552)
Finance income	236	459	1,382
Finance costs	(5,860)	(5,627)	(24,941)
Net foreign exchange differences	(9,984)	11,721	19,892
Profit (loss) before taxes	29	(18,580)	(41,219)
Taxes on income (tax benefit)	(482)	1,260	1,083
Net profit (loss)	511	(19,840)	(42,302)
Attributable to:			
Equity holders of the parent	(322)	(19,840)	(42,302)
Non controlling interest	833	-	-
Basic and diluted net earnings (loss) per share attributable to equity holders of the parent (US dollars)	(0.003)	(0.19)	(0.41)

\*) Reclassified, see Note 2b.

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**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Three months ended</b>		<b>Year ended</b>
	<b>31 March</b>		<b>31 December</b>
	<b>2013</b>	<b>2012 *)</b>	<b>2012 *)</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>U.S. dollars in thousands</b>		
Net profit (loss)	511	(19,840)	(42,302)
Other comprehensive income (loss) (net of tax effect):			
<u>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</u>			
Transfer of currency translation reserve to income statement for obtaining control in companies accounted for the equity method	244	-	-
Exchange differences on translation of foreign operations	(6,192)	35,315	8,178
Group's share of net other comprehensive income (loss) of companies accounted for the equity method	(759)	2,650	1,662
Total other comprehensive income (loss)	(6,707)	37,965	9,840
Total comprehensive income (loss)	(6,196)	18,125	(32,462)
Attributable to:			
Equity holders of the parent	(6,147)	18,125	(32,462)
Non controlling interest	(49)	-	-
	(6,196)	18,125	(32,462)

\*) Reclassified, see Note 2b.

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 equity attributable to equity parent	Non Controlling interest	Total equity
	U.S. dollars in thousands								
<u>At 1 January 2012</u>	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138	-	347,138
Net loss for the year	-	-	-	-	-	(42,302)	(42,302)	-	(42,302)
Other comprehensive income	-	-	-	-	9,840	-	9,840	-	9,840
Total comprehensive income (loss), net					9,840	(42,302)	(32,462)	-	(32,462)
Equity component of transaction with controlling shareholders (1)	-	-	-	1,826	-	-	1,826	-	1,826
Share-based payment transactions	-	-	845	-	-	-	845	-	845
<u>At 31 December 2012</u>	1,036	359,803	12,186	8,391	(42,286)	(21,783)	317,347	-	317,347
Net profit (loss) for the year	-	-	-	-	-	(322)	(322)	833	511
Other comprehensive income	-	-	-	-	(5,825)	-	(5,825)	(882)	(6,707)
Total comprehensive loss, net					(5,825)	(322)	(6,147)	(49)	(6,196)
Obtaining control in companies accounted for the equity method	-	-	-	-	-	-	-	29,558	29,558
<u>At 31 March, 2013 (unaudited)</u>	1,036	359,803	12,186	8,391	(48,111)	(22,105)	311,200	29,509	340,709

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

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Currency translation reserve	Retained earnings (accumulated deficit)	Total
	U.S. dollars in thousands						
<u>At 31 December 2011</u>	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138
Net income for the year	-	-	-	-	-	(19,840)	(19,840)
Other comprehensive loss	-	-	-	-	37,965	-	37,965
Total comprehensive income (loss), net	-	-	-	-	37,965	(19,840)	18,125
Share-based payment transactions	-	-	561	-	-	-	561
Equity component of transaction with controlling shareholders	-	-	-	-	-	-	-
<u>At 31 March 2012 (unaudited)</u>	<u>1,036</u>	<u>359,803</u>	<u>11,902</u>	<u>6,565</u>	<u>(14,161)</u>	<u>679</u>	<u>365,824</u>

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

**MIRLAND DEVELOPMENT CORPORATION PLC**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three months ended</b>		<b>Year ended</b>
	<b>31 March</b>		<b>31 December</b>
	<b>2013</b>	<b>2012 *)</b>	<b>2012 *)</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>U.S. dollars in thousands</b>		
<u>Cash flows from operating activities:</u>			
Net income (loss)	511	(19,840)	(42,302)
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	(597)	1,286	705
Depreciation and amortization	141	118	491
Finance costs (income), net	15,608	(6,553)	3,667
Share-based payment	-	561	845
Fair value adjustment of investment properties and investment properties under construction	(12,582)	22,927	31,554
Group's share in loss (earnings) of associates	(1,508)	1,648	(6,340)
Loss from obtaining control in company accounted for equity method	244	-	-
	<u>1,306</u>	<u>19,987</u>	<u>30,922</u>
Working Capital adjustments:			
Increase (decrease) in trade receivables	1,843	333	(4,095)
Decrease (increase) in VAT receivable and others	528	(428)	2,991
Increase in inventories of buildings for sale	(8,498)	(3,960)	(32,544)
Increase (decrease) in trade payables	(79)	32	(59)
Increase (decrease) in other accounts payable	14,846	5,025	70,319
	<u>8,640</u>	<u>1,002</u>	<u>36,612</u>
Interest paid	(6,239)	(6,865)	(23,851)
Interest received	-	2	4,291
Taxes paid	(138)	(153)	(629)
	<u>(6,377)</u>	<u>(7,016)</u>	<u>(20,189)</u>
Net cash flows generated from (used in) operating activities	<u>4,080</u>	<u>(5,867)</u>	<u>5,043</u>

\*) Reclassified, see note 2b.

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

**MIRLAND DEVELOPMENT CORPORATION PLC**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended
	31 March		31 December
	2013	2012	2012
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Acquisition of additional interest in jointly controlled entity	-	(1,500)	(1,500)
Additions to investment properties	(278)	(1,924)	(7,881)
Additions to investment properties under construction	(1,013)	(42)	(2,277)
Purchase of fixed assets	(125)	(200)	(279)
settlement of restricted deposit	424	-	620
Loans granted to related parties	(70)	(1,446)	(1,630)
Proceeds from repayment of loans granted to associates	16	-	12,088
Cash from obtaining control in companies accounted for the equity method	86	-	-
Repayment of loans granted to related parties	-	-	250
	<u>(960)</u>	<u>(5,112)</u>	<u>(609)</u>
Net cash flows used in investing activities			
<u>Cash flows from financing activities:</u>			
Repayment of debentures	-	-	(26,456)
Receipt of loans from banks	15,296	5,314	91,118
Receipt of loans from shareholders	-	-	12,422
Repayment of loans from shareholders	-	(5,567)	(18,306)
Repayment of loans from banks and others	(13,156)	(6,665)	(69,268)
	<u>2,140</u>	<u>(6,918)</u>	<u>(10,490)</u>
Net cash flows generated from (used in) financing activities			
Exchange differences on balances of cash and cash equivalents	(353)	(307)	249
Increase (decrease) in cash and cash equivalents	4,907	(18,204)	(5,807)
Cash and cash equivalents at the beginning of the period	<u>25,669</u>	<u>31,476</u>	<u>31,476</u>
Cash and cash equivalents at the end of the period	<u><u>30,576</u></u>	<u><u>13,272</u></u>	<u><u>25,669</u></u>
 (a) <u>Cash generated from obtaining control in companies accounted for the equity method:</u>			
The subsidiaries' assets and liabilities at date of sale:			
Working capital (excluding cash and cash equivalents)	2,793	-	-
Investment properties	(85,760)	-	-
Other receivables	(71)	-	-
Deferred taxes	(119)	-	-
Loans from banks	10,849	-	-
Other non-current liabilities	866	-	-
Loans from related party	5,973	-	-
Foreign currency translation reserve	244	-	-
Non-controlling interests	29,558	-	-
Loss from obtaining control in companies accounted for the equity method	(244)	-	-
Investment in associate	35,997	-	-
	<u>86</u>	<u>-</u>	<u>-</u>
 (b) <u>Significant non-cash transactions:</u>			
obtaining control in companies accounted for the equity method against offset of loans previously granted	<u>600</u>	<u>-</u>	<u>-</u>

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

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**NOTE 1:- GENERAL**

- a. These interim consolidated financial statements have been prepared in a condensed format as of 31 March 2013 and for the three-month period then ended ("interim condensed consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of 31 December 2012 and for the year then ended ("annual financial statements").
- b. Based on management plans and as reflected in the Company's forecasted cash flows, the Company expects to finance its activities in 2013, 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 31 March 2013 amounting to approximately \$ 72 million, revenues from sales of building projects that are expected to be completed during 2013 and issuance of new bonds for consideration of approximately NIS 62 million (see note 7).

In addition, the short-term loans from banks amounting to approximately \$ 69 million are secured by non-cancelable bank guarantees of the controlling shareholders until the full repayment of the loans.

In respect of the management expectations, based on the above, the Company expected to comply with all of its liabilities.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. Basis of preparation of the interim financial statements:

The interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standard IAS 34 ("Interim Financial Reporting").

- b. New standards, interpretations and amendments adopted by the Company:

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 as noted below:

IFRS 10, IFRS 11, IAS 28R - Consolidated Financial Statements Joint Arrangements, Investments in Associates and Jointly Controlled Entities

IFRS 10 - CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10 replaces the parts of previous existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements.

IFRS 10 had no impact on the Company's consolidated financial statements.

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## IFRS 11- JOINT ARRANGEMENTS

IFRS 11 replaces IAS 31 interests in Joint Ventures.

The main effect of IFRS 11 arises from joint ventures of the Group in Inomotor and Avtoprioriet ("Century companies") and Inverton which previously, under IAS 31, were recognized using the proportionate consolidation method and under IFRS 11 are accounted for at equity method. During January 2013, the Company obtained control over Century companies and since then started to consolidate them, see Note 3.

### IAS 28R, "Investments in Associates and Joint Ventures":

IAS 28R ("IAS 28R") supersedes IAS 28. The main changes included in IAS 28R compared to IAS 28 address the accounting treatment of investments in joint ventures using the equity method.

### Amendments to IFRS 10, IFRS 11, IFRS 12 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities ("the Amendments"):

In July 2012, the IASB issued Amendments to the above Standards which provide reliefs with respect to the transition provisions and allow restatement of comparative amounts for one year only. The restatement of comparative amounts for earlier periods is optional.

The company began to apply the amendment in financial statements as of January 1, 2013.

Below is the effect of the change in accounting policies as a result of the initial adoption of IFRS 11 on the Company's financial statements:

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In the statements of financial position

<u>For March 31, 2012</u>	<u>As reported in the past</u>	<u>Influence of IFRS 11</u>	<u>As presented in this financial statements</u>
	<u>U.S. dollars in thousands</u>		
<u>CURRENT ASSETS:</u>			
Cash and cash equivalents	14,658	(1,386)	13,272
Restricted bank deposits	1,909	-	1,909
Trade receivables	5,118	(3,829)	1,289
Other receivables	2,841	(130)	2,711
VAT receivables	7,711	(365)	7,346
Inventories of building for sale	172,492	-	172,492
	<u>204,729</u>	<u>(5,710)</u>	<u>199,019</u>
<u>NON-CURRENT ASSETS:</u>			
Investments properties	382,432	(96,561)	285,871
Investments properties under construction	83,346	-	83,346
Inventories of buildings for sale	71,952	-	71,952
Loans granted to related parties	10,601	(10,601)	-
VAT receivables	261	-	261
Fixed assets, net	1,267	(196)	1,071
Other long-term receivables	4,417	-	4,417
Prepaid expenses	541	-	541
Deferred taxes	2,447	-	2,447
Investments in associates	-	55,556	55,556
Loans granted to associates	-	25,340	25,340
	<u>557,264</u>	<u>(26,462)</u>	<u>530,802</u>
	<u>761,993</u>	<u>(32,172)</u>	<u>729,821</u>

	<u>As reported in the past</u>	<u>Influence of IFRS 11</u>	<u>As presented in this financial statements</u>
	<u>U.S. dollars in thousands</u>		
<b><u>CURRENT LIABILITIES:</u></b>			
Credit from banks	67,842	-	67,842
Current maturities of long-term loans from banks and debentures	43,777	(3,087)	40,690
Credit from banks for financing of inventory of buildings for sale	22,288	-	22,288
Government authorities	3,634	(1,142)	2,492
Trade payables	9,355	(1,057)	8,298
Deposits from tenants	2,925	(997)	1,928
Advances from buyers	13,817	-	13,817
Other accounts payable	2,110	(720)	1,390
	<u>165,748</u>	<u>(7,003)</u>	<u>158,745</u>
<b><u>NON CURRENT LIABILITIES:</u></b>			
Loans from banks	78,115	(18,897)	59,218
Debentures	141,474	-	141,474
Other non-current liabilities	10,268	(6,272)	3,996
Deferred taxes	564	-	564
	<u>230,421</u>	<u>(25,169)</u>	<u>205,252</u>
Equity attributable to equity holders of the parent:			
Issued capital	1,036	-	1,036
Share premium	359,803	-	359,803
Capital reserve for share based payment transactions	11,902	-	11,902
Capital reserve for transactions with controlling shareholders	6,565	-	6,565
Foreign currency translation reserve	(14,161)	-	(14,161)
Accumulated deficit (retained earnings)	679	-	679
Total equity	<u>365,824</u>	<u>-</u>	<u>365,824</u>
Total equity and liabilities	<u>761,993</u>	<u>(32,172)</u>	<u>729,821</u>

	<b>December 31, 2012</b>		
	<b>As reported in the past</b>	<b>Influence of IFRS 11</b>	<b>As presented in this financial statements</b>
	<b>U.S. dollars in thousands</b>		
<u>For December 31,2012</u>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	26,685	(1,016)	25,669
Restricted bank deposits	1,119	-	1,119
Trade receivables	2,713	(237)	2,476
Other receivables	7,746	(119)	7,627
VAT receivables	5,111	(310)	4,801
Loans granted to related parties	3,665	(3,665)	-
Loans granted to associates	-	9,070	9,070
Inventories of building for sale	190,821	-	190,821
	<u>237,860</u>	<u>(3,723)</u>	<u>241,583</u>
<b>NON-CURRENT ASSETS</b>			
Investments properties	396,865	(94,076)	302,789
Investments properties under construction	51,552	-	51,552
Inventories of buildings for sale	79,100	-	79,100
VAT receivables	226	-	226
Fixed assets, net	1,015	(190)	825
Other long-term receivables	3,038	-	3,038
Prepaid expenses	541	-	541
Deferred taxes	2,437	(87)	2,350
Investments in associates	-	61,650	61,650
	<u>534,774</u>	<u>(32,703)</u>	<u>502,071</u>
	<u><u>772,634</u></u>	<u><u>(28,980)</u></u>	<u><u>743,654</u></u>

	As reported in the past	Influence of IFRS 11	As presented in this financial statements
	U.S. dollars in thousands		
<b><u>CURRENT LIABILITIES:</u></b>			
Credit from banks	68,523	-	68,523
Current maturities of long-term loans from banks and debentures	53,493	(3,133)	50,360
Credit from banks for financing of inventory of buildings for sale	15,421	-	15,421
Government authorities	3,677	(998)	2,679
Trade payables	7,463	(169)	7,294
Deposits from tenants	3,636	(973)	2,663
Advances from buyers	77,321	-	77,321
Other accounts payable	2,346	(135)	2,211
	<u>231,880</u>	<u>(5,408)</u>	<u>226,472</u>
<b><u>NON CURRENT LIABILITIES:</u></b>			
Loans from banks	98,700	(17,315)	81,385
Debentures	114,169	-	114,169
Other non-current liabilities	10,538	(6,257)	4,281
	<u>223,407</u>	<u>(23,572)</u>	<u>199,835</u>
	<u>455,287</u>	<u>(28,980)</u>	<u>426,307</u>
Equity attributable to equity holders of the parent:			
Issued capital	1,036	-	1,036
Share premium	359,803	-	359,803
Capital reserve for share based payment transactions	12,186	-	12,186
Capital reserve for transactions with controlling shareholders	8,391	-	8,391
Foreign currency translation reserve	(42,286)	-	(42,286)
Accumulated deficit (retained earnings)	(21,783)	-	(21,783)
Total equity	<u>317,347</u>	<u>-</u>	<u>317,347</u>
Total equity and liabilities	<u>772,634</u>	<u>(28,980)</u>	<u>743,654</u>

In the consolidated income statement and consolidated statement of comprehensive income

<u>For three months ended March 31, 2012</u>	Three months ended March 31, 2012		
	As reported in the past	Influence of IFRS 11	As presented in this financial statements
	U.S. dollars in thousands		
Rental income from investment properties	10,628	(2,816)	7,812
Income from sale of inventories	1,628	-	1,628
Revenue from managing fees	<u>966</u>	<u>(495)</u>	<u>471</u>
Total revenues	13,222	(3,311)	9,911
Cost of sales of inventories	2,553	-	2,553
Cost of maintenance and management	<u>4,941</u>	<u>(834)</u>	<u>4,107</u>
Gross profit	<u>5,728</u>	<u>(2,477)</u>	<u>3,251</u>
General and administrative expenses	3,732	(88)	3,644
Marketing expenses	428	-	428
Fair value adjustments of investments properties and investment properties under construction	(29,671)	6,744	(22,927)
Other expenses, net	190	73	263
Groups share in earnings (losses) of associates operating loss	<u>-</u>	<u>(1,648)</u>	<u>(1,648)</u>
Operating loss	(27,913)	2,780	(25,133)
Finance income	264	195	459
Finance costs	(6,151)	524	(5,627)
Net foreign exchange differences	<u>15,220</u>	<u>(3,499)</u>	<u>11,721</u>
Loss before taxes on income	(18,580)	-	(18,580)
Taxes on income	<u>1,260</u>	<u>-</u>	<u>1,260</u>
Loss	<u>(19,840)</u>	<u>-</u>	<u>(19,840)</u>
Basic and diluted net earnings (loss) per share attributable to equity holders of the parent	<u>(0.19)</u>	<u>-</u>	<u>(0.19)</u>

For year ended December 31, 2012	Year ended December 31, 2012		
	As reported	Influence	As presented
	in the past	of IFRS 11	in this
	U.S. dollars in thousands		
			financial
			statements
Rental income from investment properties	47,267	(15,036)	32,231
Income from sale of inventories	8,079	-	8,079
Revenue from managing fees	3,689	(2,048)	1,641
Total revenues	59,035	(17,084)	41,951
Cost of sales of inventories	12,833	-	12,833
Cost of maintenance and management	18,396	(3,522)	14,874
Gross profit before deduction	27,806	(13,562)	14,244
Impairment of inventory of buildings for sale	8,041	-	8,041
Gross profit	19,765	(13,562)	6,203
General and administrative expenses	14,898	(291)	14,607
Marketing expenses	2,291	(189)	2,102
Fair value adjustments of investments properties and investment properties under construction	(37,258)	5,704	(31,554)
Other expenses, net	(1,664)	(168)	(1,832)
Groups share in earnings of associates operating loss	-	6,340	6,340
Operating loss	(36,346)	(1,206)	(37,552)
Finance income	1,007	375	1,382
Finance costs	(26,760)	1,819	(24,941)
Net foreign exchange differences	21,675	(1,783)	19,892
Loss before taxes on income	(40,424)	(795)	(41,219)
Taxes on income	1,878	(795)	1,083
Loss	(42,302)	-	(42,302)
Basic and dilute net earnings (loss) per share attributable to equity holders of the parent	(0.41)	-	(0.41)

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Changes in equity

<b>In the consolidated statement of changes in equity</b>	<b>As reported in the past</b>	<b>Influence of IFRS 11</b>	<b>As presented in this financial statements</b>
	<b>U.S. dollars in thousands</b>		
For January 1, 2012			
Retained earnings	<u>20,519</u>	<u>-</u>	<u>20,519</u>

In the consolidated statements of cash flows:

	<b>As reported in the past</b>	<b>Influence of IFRS 11</b>	<b>As presented in this financial statements</b>
	<b>U.S. dollars in thousands</b>		
	<b>(unaudited)</b>		
For three months ended March 31, 2012 (unaudited)			
From operating activities	<u>(4,557)</u>	<u>(1,310)</u>	<u>(5,867)</u>
From investing activities	<u>(5,112)</u>	<u>-</u>	<u>(5,112)</u>
From financing activities	<u>(7,535)</u>	<u>617</u>	<u>(6,918)</u>

	<b>Year ended December 31, 2012</b>		
	<b>As reported in the past</b>	<b>Influence of IFRS 11</b>	<b>As presented in this financial statements</b>
	<b>U.S. dollars in thousands</b>		
	<b>(unaudited)</b>		
For Year ended December 31, 2012 (audited)			
From operating activities	<u>15,213</u>	<u>(10,170)</u>	<u>5,043</u>
From investing activities	<u>(8,671)</u>	<u>8,062</u>	<u>(609)</u>
From financing activities	<u>(12,488)</u>	<u>1,998</u>	<u>(10,490)</u>

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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. Fair value takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use. IFRS 13 also specifies the characteristics of market participants and the assumptions that market participants would use when measuring fair value. The provisions of IFRS 13 are applied prospectively and they do not apply to comparative figures.

The initial adoption of IFRS 13 did not have a material effect on the Company's financial statements.

The fair value of the financial assets and liabilities is not significantly different from the value presented in the annual financial statements.

**NOTE 3:- BUSINESS COMBINATIONS**

On January 4, 2013, the Company has entered into an agreement with its partners in Inomotor LLC and Avtoprioriet LLC ("The Century Companies") according to which the partners will waive the Option previously granted to them for the acquisition of 1% of the Century Companies in a consideration of US Dollars 600 thousand. The parties agreed that such amount will be set off against the balance of the loan previously granted to one of the partners. In addition, the repayment date of the loan was extended in a six month.

Simultaneously, the Company amended its joint control agreements with the partners in the Century Companies in such a way that from the date of the amendment the Company obtained control over the Century Companies.

Till the date of control obtaining, the Century Companies were accounted at equity method.

The above transactions didn't have a material effect on the Company's results of operations.

The Group has elected to measure the non-controlling interests in the Century Companies at the proportionate share in the non-controlling interests in the acquired's identifiable net assets.

	<u>Fair value</u> <u>US dollars in</u> <u>thousands</u>
Cash and cash equivalents	86
Trade receivables	38
Other receivables	38
VAT receivables	254
Investment properties	85,760
Deferred taxes	119
Other long-term receivables	71
	<u>86,366</u>
Trade payables	(228)
Loans from bank and others	(12,854)
Government authorities	(111)
Deposits from tenants	(779)
Other non-current liabilities	(866)
Loans from related parties	(5,973)
	<u>(20,811)</u>
Net identifiable assets	65,555
Non-controlling interests	(29,558)
	<u>35,997</u>

The total cost for business combination was \$ 36,597 thousand and comprised a waiver of an option previously granted to the partner in the amount of \$ 600 thousand, which reflected the fair value of the existing investment in Century companies at the date when control was obtained.

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Cost of acquisition:

	<u>Fair value</u> <u>US dollars in</u> <u>thousands</u>
Cash paid	-
Option (1%) previously granted to the sellers, at fair value	600
Fair value of existing investment at acquisition date	<u>35,997</u>
Total	36,597

Cash flow on the acquisition:

Cash and cash equivalents in Century companies at the acquisition date	86
Cash paid	<u>-</u>
Net cash	<u>86</u>

From the date of acquisition, Century companies have contributed \$ 2,208 thousand to the consolidated net income and \$ 2,261 thousand to the consolidated revenue.

**NOTE 4:- SEGMENTS**

General:

As discussed in the annual consolidated financial statements, the Group has the following operating segments:

1. Commercial real estate segment.
2. Residential real estate segment.

Segments performance is evaluated based on the operating profit or loss which, in certain cases, as explained in the following table, is measured differently from operating profit or loss in the consolidated financial statements.

Joint controls entities, which accounted using the equity method, presented as part of the results of commercial real estate segment.

The Group's financing (including finance costs and finance income) and taxes on income are managed on a group basis and are not allocated to segments.

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
<b>Three months ended 31 March 2013:</b>	<u>U.S. dollars in thousands</u>		
Segment revenues	<u>11,371</u>	<u>478</u>	<u>11,849</u>
Segment results	<u>18,869</u>	<u>(1,346)</u>	17,523
Unallocated expenses			(1,886)
Finance costs, net			<u>(15,608)</u>
Loss before taxes on income			<u>29</u>
	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
<b>Three months ended 31 March 2012 *)</b>	<u>U.S. dollars in thousands</u>		
Segment revenues	<u>8,283</u>	<u>1,628</u>	<u>9,911</u>
Segment results	<u>(20,938)</u>	<u>(1,530)</u>	(22,468)
Unallocated expenses			(2,665)
Finance costs, net			<u>6,553</u>
Loss before taxes on income			<u>(18,580)</u>

\*) Reclassified, see Note 2b.

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
<b>Year ended 31 December 2012 *)</b>	<b>U.S. dollars in thousands</b>		
Segment revenues	<u>33,872</u>	<u>8,079</u>	<u>41,951</u>
Segment results	<u>(10,572)</u>	<u>(16,789)</u>	<u>(27,361)</u>
Unallocated expenses			(10,191)
Finance Income, net			<u>(3,667)</u>
Loss before taxes on income			<u>(41,219)</u>

\*) Reclassified, see Note 2b.

**NOTE 5:- DISCLOSURE OF JOINTLY CONTROLLED ENTITY ACCOUNTED FOR USING THE EQUITY METHOD OF ACCOUNTING**

The Company does not attach the financial statements of Inverton Enterprises Limited, a company which accounted for the equity method, since its results was not material during the previous period, and is not expected to be material in the next period.

Summarized data for each associate and the jointly controlled entity accounted for using the equity method of accounting.

Below is summarized data for associate for all reported periods:

Summarized financial information of financial position

	<u>31 March</u>		<u>31 December</u>
	<u>2013</u>	<u>2012</u>	<u>2012</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
Current assets	1,887	1,566	1,408
Non- current assets	46,476	47,409	46,601
Current liabilities	(2,915)	(2,370)	(2,996)
Non- current liabilities	<u>(19,007)</u>	<u>(22,587)</u>	<u>(19,322)</u>
Equity attributable to equity holders of the Company	26,441	24,018	25,691
Non controlling interest	<u>-</u>	<u>-</u>	<u>-</u>
	<u>26,441</u>	<u>24,018</u>	<u>25,691</u>

Summarized financial information of comprehensive income

	<b>31 March</b>		<b>31 December</b>
	<b>2013</b>	<b>2012</b>	<b>2012</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>U.S. dollars in thousands</b>		
revenues	<u>1,959</u>	<u>1,853</u>	<u>7,674</u>
Gross profit	<u>1,915</u>	<u>1,324</u>	<u>5,560</u>
Operating profit	<u>2,315</u>	<u>2,300</u>	<u>3,186</u>
Profit (loss) before taxes	1,649	(759)	2,665
Taxes on income	<u>139</u>	<u>-</u>	<u>795</u>
Net profit (loss)	<u>1,510</u>	<u>(759)</u>	<u>1,870</u>
Attributable to:			
Equity holders of the parent	1,510	(759)	1,870
Non controlling interest	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,510</u>	<u>(759)</u>	<u>1,870</u>
Other comprehensive income (loss)	<u>(759)</u>	<u>2,650</u>	<u>1,662</u>
Total comprehensive income	<u>751</u>	<u>1,891</u>	<u>3,532</u>
Attributable to:			
Equity holders of the parent	751	1,891	3,532
Non controlling interest	<u>-</u>	<u>-</u>	<u>-</u>
	<u>751</u>	<u>1,891</u>	<u>3,532</u>

**NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD**

1. During the period, a subsidiary of the Company entered into an agreement with an Investment house which is a non-related party ("Investment house") for the provision of a short term credit line in the amount of NIS 37 million (approximately US\$ 10 million). Till now, the Company used NIS 32 million (approximately US\$ 8.8 million) of the credit line. The loan bears interest at Israeli Prime + 2% (5.75% as of March 31, 2013), payable quarterly. For the purpose of ensuring repayment of the loan, guarantees were given by the company in favor of the Investment house. Additionally, the Company pledged the Bonds owned by the subsidiary in favor of the Investment house. Within the framework of the agreement, a financial covenant was set whereby the outstanding loan ratio to the value of the Bonds (held by the subsidiary) will not be greater than 1.

As of March 31, 2013 the Company is in compliance with such financial covenant.

2. The Company evaluated the immediate influence of the debt crisis in Cyprus. The Company has deposits in Cyprus banks in insignificant amounts, and therefore the influence on the financial statements is immaterial. The Company is monitoring and will continue to monitor the abovementioned issue.

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3. On January 24th 2013, an indirect subsidiary of the Company, 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. During February 2013 the Company 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.

The objection of the Company was denied by the Moscow government, mainly based on the procedural arguments. Following the objection the subsidiary of the Company filed the claim against the Moscow government to cancel abovementioned decision. The first hearing in the court was scheduled to June 2013. The intention of the Company is to continue to take different measures, including a legal, in order to protect its rights.

#### **NOTE 7: - SUBSEQUENT EVENTS**

1. On April 22, 2013 Tamiz Company, a 100% subsidiary of the Company, completed the sale of land designated for the development of a commercial center in the city of Penza, for a consideration of approximately US\$4 million. The sale is not expected to have material effect on the financial statements.

2. On May, 2013, the Company received commitments from several investors to purchase Series D Bonds of the Company in private placements, of par value NIS 60,000,000 ("New bonds")

The issuance of the new bonds will be carried out by way of a series extension at a price of NIS 104.08 per NIS 100 par value.

The adjusted value of the bonds series D is NIS 107.37 per NIS 100 par value, therefore the new bonds are issued at a discount.

After the consummation of the aforementioned private offering the series of bonds (Series D) will stand at an amount of NIS 272,089,500 par value.

The total proceeds that the Company expects to receive from the new bond issuance amounts to approximately NIS 62,448 thousands (US\$ 17,563 thousands) (gross) (approximately NIS 61,990 thousands (US\$ 17,419 thousands), net.

The terms of the new bonds will be identical to the terms of the bonds (Series D), as described in the shelf prospectus published by the Company on May 31, 2010, as amended on July 28, 2010 and the shelf offering report of the Company dated 9 November 2010.