14 August 2013

MIRLAND DEVELOPMENT CORPORATION PLC
("MirLand" / "Company")

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2013

MIRLAND BUILDS MOMENTUM WITH STRONG SALES ACROSS RESIDENTIAL DEVELOPMENT PROGRAMME

MirLand Development Corporation, one of the leading international residential and commercial property developers in Russia, announces its interim results for the six months ended 30 June 2013.

Financial Highlights:

- Total revenues up 19.0% to US$23.8 million (30 June 2012: US$20.0 million) due to high occupancy in the investment portfolio (approximately 99%) and positive impact of rental indexation
- Net operating income ("NOI") from investment properties (Company's share) up 21.1% to US$15.5 million (six months ended 30 June 2012: US$12.8 million)
- Gross profit up 92.8% to US$13.3 million (30 June 2012: US$6.9 million)
- EBITDA increased 23.2% to US$6.9 million (30 June 2012: US$5.6 million)
- Net profit of US$4.0 million (30 June 2012: loss of US$0.7 million) due to increased operational profitability and fair value adjustments of investment properties
- Total assets up 10.7% to US$823.0 million (31 December 2012: US$743.7 million), of which 92% are property and land assets
- Total equity increased by 3.6% to US$328.8 million (31 December 2012: US$317.3 million), equating to 40% of total assets
- Net leverage reduced to 39.9% of total assets (31 December 2012: 40.9%)
- In May 2013, the Company undertook a private placement of new D Series Bonds to two institutional investors; the Bonds raised additional NIS debt of approximately US$17.2 million, before expenses
- In July 2013 the Company issued approximately US$67.2 million in NIS, before expenses of new E Series Bonds in a public offering

Operational Highlights

<u>Residential:</u>

Triumph Park in St. Petersburg

On-going high rate of sales indicating prospect of solid future income:

- Phase I: 505 out of 510 apartments pre-sold to date (484 at 31 December 2012), indicating a projected income of approximately US$66 million to be recognized during the second half of 2013 in accordance with IFRS standards; occupancy permit received from the government authorities and accordingly the delivery of flats will commence at the beginning of September
- Phase II: Launched in Q3 2012, 432 out of 630 units were pre-sold – sales (to 13 August 2013) totalling circa 69% of the scheme. This represents sales of approximately US$58 million
- Phase III: Planning ongoing with marketing of approximately 1,350 units on track to commence in Q4 2013

<u>Retail:</u>

- Both regional shopping centres, Vernissage Mall in Yaroslavl and Triumph Mall in Saratov, are fully occupied and report high level of footfall. Half year NOI up 18% to US$9.4 million, compared to the first half of 2012;
- In April 2013 an agreement for the sale of land, designated for development of a commercial center in the city of Penza, was signed for a consideration of approximately US$4million dollars. The net profit recognized amounted to approximately US$0.5 million

<u>Offices:</u>

- 98% average occupancy rate across all office projects, located in Moscow's business district at he MirLand Business Center. Half year NOI up 25% to US$6.2 million, compared to the first half of 2012.

Nigel Wright, Chairman, commented:

"Against the backdrop of a Russian economy that continues to show growth, albeit at a slightly lower level than last year, we have achieved strong residential sales momentum which we are optimistic will be maintained for the rest of the year and beyond.

"Furthermore, having made good progress in terms of diversifying the Company's funding sources and refinancing historic debt, we are well positioned to deliver value, not only from our existing portfolio but also through further developing our pipeline portfolio and seeking new opportunities. In light of the success of our flagship residential development, Triumph Park, we continue to assess potential acquisition opportunities where we can apply our rigorous assessment and development skills, with the aim of delivering long term shareholder value."

For further information, please contact:

MirLand Development Corporation plc	+7 495 787 4962
Roman Rozental, CEO	+7 499 130 31 09
roman@mirland-development.com	
Yevgeny Steklov, CFO	+7 903 628 24 50
yevgeny@mirland-development.com	
FTI Consulting	+44 20 7831 3113
Dido Laurimore / Will Henderson	
dido.laurimore@fticonsulting.com	
will.henderson@fticonsulting.com	
Investec Bank plc	+44 20 7597 4000
Jeremy Ellis / David Anderson	

MirLand has delivered a strong first half with improvements in a wide range of key performance indicators against the backdrop of a Russian economy that continues to show growth. We have made further progress in successfully delivering the business plan and strategy:

- to maximize returns from our existing diversified portfolio of assets;
- to successfully complete those projects currently under construction; and
- to activate pipeline projects and selectively seek new projects subject to availability of appropriate funding and market demand.

In addition, due to improved market conditions and the growing availability of financing sources, MirLand continues to identify and assess opportunities for new investments that have the potential to enhance long term shareholder value. The Company is seeing a growing number of potentially attractive deals becoming available in the market.

FINANCIAL REVIEW

Balance Sheet

Total assets as at 30 June 2013 increased to US$823.0 million (31 December 2012: US$743.7 million). Total equity accounted for US$328.8 million as at 30 June 2013 (31 December 2012: US$317.3 million). Cash amounted to US$45.8 million.

MirLand's assets are externally valued semi-annually on 30 June and 31 December by Cushman & Wakefield. Based on the June 2013 valuation, investment properties and investment properties under construction increased in value to US$441.2 million as at 30 June 2013 (31 December 2012: US$354.3), mainly due to the full consolidation of the Century Project in the valuation and the improved operational performance of the Company’s commercial assets. In carrying out the valuations, no change was made in the discount and capitalization rates by Cushman & Wakefield.

Inventories of buildings for sale increased from US$269.9 million as at 31 December 2012 to US$283.9 million (30 June 2013) due to further investment made during the period being compensated for by the appreciation of the US$ against the Rouble.

Equity and Liabilities

Total equity as at 30 June 2013 was US$328.8 million, including minority rights, an increase on the US$317.3 million reported for 31 December 2012. Shareholders' equity comprises 40% of total assets.

Net Financial liabilities as at 30 June 2013 were US$328.5 million in comparison to US$304.2 million at 31 December 2012. As at 30 June 2012, net financial liabilities comprise 39.9% of MirLand's total assets.

Income Statement

Over the period, rental income, income from the sale of inventories and revenues from management fees amounted to US$23.8 million, up from US$20.0 million in H1 2012, an increase of 19%. This increase is largely attributable to the improvement in occupancy rates and further rent indexation at MirLand's yielding assets.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 30 June 2013 and has recognized the resulting movement in valuation through its income statement as fair value adjustments. The fair value adjustment during the period amounted to US$35.9 million (H1 2012: US$5.9 million) and was mainly attributed to appreciation of the US Dollar against the Rouble of approximately 7.7% which resulted in nominal appreciation of commercial assets at the same rate.

The cost of maintenance and management of the Company increased from US$7.6 million in H1 2012 to US$8.9 million in H1 2013 due to the full consolidation of the Century Project. On a like for like basis, there was no material change in the costs, despite substantial growth in rented areas, following further efficiency measures implemented by the Company.

The Company's gross profit for the period increased to US$13.3 million compared to US$6.9 million in the same period in 2012.

General and administrative expenses for the period decreased to US$6.4 million in comparison to US$6.9 million in the same period in 2012, again due to improved management efficiencies.

Net financing costs for the period amounted to US$14.9 million in comparison to US$11.3 million in the same period of 2012, due to the raising of additional funds. Foreign exchange differences resulted in a loss of US$27.3 million due to the appreciation of the US$ against the Rouble of approximately 7.7%, compared to a gain of US$1.9 million in H1 2012.

Net profit of US$4.0 million was recorded by the Company compared to loss of US$0.7 million in H1 2012.

Net Asset Value

The Company’s adjusted net asset value as at 30 June 2013 amounted to US$554.2 million, in comparison to US$544.8 million as at December 2012, an increase of 1.7%. As of 30 June 2013, the portfolio was valued at US$966.3 million, of which MirLand’s share is US$870.5 million (December 2012: US$868.0 million). The value of the units sold in Triumph Park, Saint Petersburg are not included in the current valuation. Adding future proceeds from these units as yet unrecognized in the profit and loss statement will bring Mirland’s share in the portfolio value to US$950 million.

The valuation of each asset in MirLand's real estate portfolio at 30 June 2013 is set out in the following table:

Ref.	City	Property Name and Address	Portfolio Market Value as of 30th of June 2013 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as of 30th of June 2013 (Rounded)	Total sqm of Land	Projected Net Leasable / Saleable Area in sqm upon Completion (excl. Parking)
001	Moscow	Hydromashservice	$71,800,000	100%	$71,800,000	12,237	16,696
002	Moscow	MAG	$82,100,000	100%	$82,100,000	21,940	18,535
003	Moscow Region	Western Residence, Perkhushkovo	$58,100,000	100%	$58,100,000	225,300	56,876
004	Saratov	Triumph Mall	$126,600,000	100%	$126,600,000	22,000	27,305
005	Moscow	Skyscraper	$0	100%	$0	n/a	n/a
006	Saint Petersburg	Triumph Park, Residential	$323,000,000	100%	$323,000,000	326,651	534,368
007	Saint Petersburg	Triumph Park, Trade Center	$31,600,000	100%	$31,600,000	81,663	117,775
008	Yaroslavl	Vernissage Mall	$98,500,000	50.5%	$49,700,000	120,000	34,092
009	Yaroslavl	Phase II	$9,100,000	50.5%	$4,600,000	180,000	55,245
010	Moscow	Tamiz Building	$44,500,000	100%	$44,500,000	4,500	11,737
011	Moscow	Century Buildings	$95,900,000	51%/61%	$53,390,000	5,800	20,904
012	Kazan	Triumph House	$9,000,000	100%	$9,000,000	22,000	31,480
013	Saratov	Logistics Complex	$7,300,000	100%	$7,300,000	260,000	104,000
014	Novosibirsk	Logistics Complex	$8,800,000	100%	$8,800,000	406,752	180,000
		Total	**$966,300,000**		**$870,490,000**		

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

We strongly believe in the quality of the assets owned by the Company and that the portfolio will deliver an attractive yield to our investors over the long term as the market continues to improve.

Cash flow

During H1 2013, the Company invested US$29.2 million in new assets in comparison with US$21.1 million in H1 2012. Cash flow used in operating activities amounted to US$2.2 million, compared to US$2.5 in H1 2012. Cash flow provided by financing activities during the period amounted to US$24.5 million.

FINANCING

During the period, net leverage decreased to 39.9% of total assets (31 December 2012: 40.9%). Total net borrowings amounted to US$316.8 million (31 December 2012: US$304.2 million).

In May 2013, Mashinostroenie & Hydravlika OJSC ("MAG") entered into a loan agreement with SberBank of Russia ("Sberbank") under which Sberbank will grant the subsidiary a credit line in an aggregate amount of up to US$19 million, for the purpose of refinancing MAG building 26. The building has now been fully renovated and has been let to a single tenant on a five year lease. The loan is for a period of approximately 6.5 years and bears fixed annual dollar interest at the rate of 8.75%, payable quarterly, in addition to other commissions as set out in the Loan agreement. There will be a final balloon payment of approximately 36%. Of the aforementioned credit line, an amount of US$10 million has already been obtained by the Company and the balance of US$9 million will be made available within a period of 11 months.

In May 2013, the Company carried out a private placement of new D Series Bonds with two institutional investors (the "**Bonds**"). The Bonds raised additional debt of NIS 62 million (approximately US$17.2 million, before expenses). They were issued on identical terms to the existing D Series bonds and were rated as "ilBaa1/Stable" on a local Israeli scale by Midroog, a subsidiary of Moody's Investor Services.

In July 2013, following the publication of an amendment to the Company's shelf prospectus and shelf offering report, the Company issued new debentures (Series E) in the total amount of NIS 240 million (approximately US$67.2 million). The debentures (Series E) bear annual fixed interest of 7.21% and have been rated by Midroog at "ilBaa1/Stable". The debentures are repayable in five unequal annual payments, the first payment is 10% of the principal and each of the second to the fifth payments is 22.5% of the principal, payable on 31 May of each of the years 2016 through 2020 (inclusive).

In August 2013, a wholly owned subsidiary of the Company, Limited liability Company Investicionno-Ipotechnaya Kompaniya ("IIK"), entered into the US$95 million loan agreement with Sberbank for a seven year term, at fixed interest rate of 7%, payable quarterly. The loan refinances IIK’s existing debt of US$36 million and allows the business to release additional funds. The loan is secured by various mortgages, charges, pledges and other customary security interests for the benefit of the bank which have been entered into by both IIK and the Company. The loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 53% at the end of the term.

On 6 August 2013 and 13 August 2013 the Company partly repaid the short-term loans from banks which are secured by non-cancelable bank guarantees of the controlling shareholders with the total amount of US$25 million.

The net proceeds of the Bonds D and E issuances as well as loans obtained by subsidiaries will be applied for general working capital purposes and repayment of certain financial liabilities including, inter alia, bank loans guaranteed by Parent Companies, Bonds and loans provided to subsidiaries in Russia.

The recent fundraisings support our strategy to diversify funding sources whilst keeping long term leverage at a relatively low level, with net leverage currently representing 39.9%.

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 19 apartments have been sold from the first phase taking it close to being fully sold and sales on Phase II are progressing very well. The government authorities have issued the required occupancy permit for Phase 1 of the scheme, allowing delivery to buyers to proceed at the beginning of September. The Company has now finalised the detailed design with regard to Phase III and is taking the final steps in obtaining a construction permit with the intention of launching it to the market in Q4 2013.

In April 2013, Tamiz, a 100% subsidiary of the Company, completed the sale of land designated for the development of a commercial center in the city of Penza, Central Russia, for a consideration of approximately US$4 million. Following the sale, the Company recognized a gain of approximately US$0.5 million in its Financial Statements.

On 4 January 2013, 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 for this waiver, the Company has agreed to pay its partners US$600,000, which is to be entirely offset against a loan presently outstanding to one of the partners of US$1 million and the repayment date of the loan was extended by six months to 16 August 2014. 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 Centre office buildings are at 98% average.

MARKET UPDATE

The Russian economy showed modest signs of improvement, exhibiting slower but positive growth of 1.8% during the first five months of the year. This is forecast to increase to 2.4% by the year end. Consumer markets remained strong (11.4% nominal growth) and unemployment is relatively low at 5.2%. Inflation is at 6.8% currently and is forecast to rise to 7% by the year end. The gentle upward trend in the oil price has benefitted the economy, remaining above the US$100 per barrel level. Having been raised to 8.25% in September 2012, the Central Bank Refinancing Rate has since remained unchanged, the authorities having taken into account the outlook for inflation and the overall economy. Unemployment remains low by historic standards at 5.2%. Capital outflows continue to cast a shadow with a full year outflow forecast at circa

US$50 billion. The Government maintains a very substantial contingency reserve fund in excess of US$500 billion.

Real Estate market

The Real Estate market remains generally positive across Russia in general with Moscow still undersupplied with quality stock. The total volume of investments in H1 2013 accounted for US$4.63 billion. The majority of this is attributable to Russian investors, who were responsible for 71% of the volume, and the forecast total level for 2013 is US$8 billion.

Landmark investment transactions during the year have included Morgan Stanley acquiring the Metropolis shopping centre in Moscow for US$1.2 billion and O1 Properties (a Russian company) acquiring the White Square business center for US$1 billion.

Regional investment volumes continue to be relatively low, only circa 2%, as investment activity tends to concentrate around developed markets such as Moscow and St. Petersburg (80-85% of investments absorbed in Moscow).

Office segment

The total volume of investments in the office segment in Moscow in H1 2013 was US$1.71 billion (US$4.63 billion). The average vacancy rate has increased from 12.14% in Q1 2013 to 13.15% (19.1% in Class A and 11.5% in Class B) in Q2 2013. Despite the increase in the overall vacancy rate, rental rates showed growth in Q2 2013: the Class A average rate has grown from US$850/sqm to US$870/sqm. Class B average modestly increased to US$500/sqm from US$490/sqm in Q1 2013. H1 2013 take up in high quality space was at a high level, the same as Q4 2012, with 451,000 sqm leased or sold. The forecast for new construction remains at 700,000 sqm.

Retail segment

Demand for quality space is steady, and the vacancy rate in Moscow remains low at less than 1%

In Q2 2013 rental rates for gallery space in Moscow (US$500-3,800/sqm per year) and the regions were stable (30-60% below Moscow levels). Forecasts indicate that rental rate growth will not exceed 5%.

New supply in 2013 is expected to amount to 3.1 million sqm, with 90 quality retail centers planned for delivery all over Russia.

Residential segment

Demand for residential real estate remains strong and has been supported by mortgage affordability.

The mortgage interest rate was at 12.9% at the beginning of the year, and decreased to 12.7% in Q2 2013. The 2013 forecast is for a reduction to 12.6%. New mortgages extended in Russia since the beginning of 2013 (January to May) were over RUB441.3 billion (RUB32.4 billion in St. Petersburg), which is 10% higher than the same period last year. The projection of the CBR for 2013 is RUB 1,050 - 1,200 billion.

According to the European Mortgage Federation, Russia has one of the lowest levels of living space per capita compared to other European countries, at 23 sqm per person. It is expected to grow to 31 sqm by 2020.

Industrial segment

Despite the slowdown in GDP growth, demand for warehouse facilities remains high. In H1 2013 more than 310,000 sqm of quality warehouse space was delivered in the Moscow region and 186,000 sqm to the other regions across Russia. Traditionally, the basis of demand is mainly formed by companies in the retail trade segment and distribution, which represent about 41% of market share (Q3 2012 to Q2 2013).

OUTLOOK

Against the backdrop of a Russian economy that continues to show growth, albeit at a slightly slower level than last year, we have achieved strong residential sales momentum which we are optimistic will be maintained for the rest of the year and beyond. We are also encouraged by the high occupancy exhibited by our investment assets and the increasing net operating income-flow derived from them.

Furthermore, having made good progress in terms of diversifying the Company’s funding sources and refinancing historic debt, we feel well positioned to deliver value, not only from our existing portfolio, but also through further developing our pipeline portfolio and seeking new opportunities. In light of the success of our flagship residential development Triumph Park, we continue to assess potential acquisition opportunities where we can apply our rigorous assessment and development skills, with the aim of delivering long term shareholder value.

Nigel Wright	**Roman Rozental**
Chairman	**Chief Executive**
14 August 2013	**14 August 2013**

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	2013	*) 2012	*) 2012
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	45,757	23,290	25,669
Restricted bank deposits	287	1,706	1,119
Trade receivables	878	1,290	2,476
Other receivables	7,874	3,790	7,627
VAT receivable	4,508	6,380	4,801
Inventories of buildings for sale	219,602	171,594	190,821
Loans granted to associates	3,184	-	9,070
	282,090	208,050	241,583
NON-CURRENT ASSETS:			
Investment properties	390,664	278,357	302,789
Investment properties under construction	50,523	80,222	51,552
Inventories of buildings for sale	64,329	67,368	79,100
VAT receivable	390	212	226
Fixed assets, net	923	881	825
Other long-term receivables	1,929	3,866	3,038
Prepaid expenses	635	541	541
Deferred taxes	3,620	3,618	2,350
Investments in associates	27,873	54,433	61,650
Loans granted to associates	-	12,747	-
	540,886	502,245	502,071
TOTAL ASSETS	822,976	710,295	743,654

*) Restated, see Note 2b.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	2013	*) 2012	*) 2012
	Unaudited		Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks and others	78,407	68,671	68,523
Current maturities of long-term loans from banks and debentures	48,565	41,594	50,360
Credit from banks for financing of inventory of buildings for sale	13,140	20,626	15,421
Government authorities	2,210	2,383	2,679
Trade payables	9,114	8,524	7,294
Deposits from tenants	2,900	1,793	2,663
Advances from buyers	99,813	30,423	77,321
Other accounts payable	1,223	864	2,211
	255,372	174,878	226,472
NON-CURRENT LIABILITIES:			
Loans from banks and others	97,829	57,980	81,385
Debentures	136,314	135,809	114,169
Other non-current liabilities	4,653	3,714	4,281
	238,796	197,503	199,835
TOTAL LIABILITIES	494,168	372,381	426,307
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	12,186	11,969	12,186
Capital reserve for transactions with controlling shareholders	8,391	6,565	8,391
Foreign currency translation reserve	(61,878)	(61,282)	(42,286)
Retained earnings (accumulated deficit)	(20,791)	19,823	(21,783)
TOTAL EQUITY CONTRIBUTABL TO EQUITY PARENT	298,747	337,914	317,347
Non controlling interest	30,061	-	-
TOTAL EQUITY	328,808	337,914	317,347
TOTAL EQUITY AND LIABILITIES	822,976	710,295	743,654

*) Restated, see Note 2b.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Six months ended 30 June		Year ended 31 December
	2013	*) 2012	*) 2012
	Unaudited		Audited
	U.S. dollars in thousands		
Rental income from investment properties	22,207	15,448	32,231
Income from sale of inventories	931	3,711	8,079
Revenues from management fees	689	825	1,641
Total revenues	23,827	19,984	41,951
Cost of sales and maintenance of inventories	(1,639)	(5,487)	(12,833)
Cost of maintenance and management	(8,928)	(7,628)	(14,874)
Gross profit before deductions	13,260	6,869	14,244
Impairment of inventory of buildings for sale	-	-	(8,041)
Gross profit	13,260	6,869	6,203
General and administrative expenses	(6,432)	(6,920)	(14,607)
Marketing expenses	(1,793)	(732)	(2,102)
Fair value adjustments of investment properties and investment properties under construction	35,942	5,949	(31,554)
Other expense, net	(705)	(979)	(1,832)
Group's share in earnings of associates	4,607	3,885	6,340
Operating profit (loss)	44,879	8,072	(37,552)
Finance income	534	999	1,382
Finance expenses	(15,476)	(12,317)	(24,941)
Net foreign exchange differences	(27,339)	1,857	19,892
Profit (loss) before taxes	2,598	(1,389)	(41,219)
Taxes on income (tax benefit)	(1,402)	(693)	1,083
Net profit (loss)	4,000	(696)	(42,302)
Attributable to:			
Equity holders of the parent	992	(696)	(42,302)
Non-controlling interest	3,008	-	-
Basic and diluted net earnings (loss) per share attributable to equity holders of the parent (US dollars)	0.01	(0.01)	(0.41)

*) Restated, see Note 2b.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2013	*) 2012	*) 2012
	Unaudited		Audited
	U.S. dollars in thousands		
Net profit (loss)	4,000	(696)	(42,302)
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
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	(19,860)	(8,642)	8,178
Group's share of net other comprehensive income (loss) of companies accounted for the equity method	(2,481)	(514)	1,662
Total other comprehensive income (loss)	(22,097)	(9,156)	9,840
Total comprehensive loss	(18,097)	(9,852)	(32,462)
Attributable to:			
Equity holders of the parent	(18,600)	(9,852)	(32,462)
Non controlling interest	503	-	-
	(18,097)	(9,852)	(32,462)

*) Restated, see Note 2b.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Retained earnings (accumulated deficit)	Foreign currency translation reserve	Total equity attributable to equity parent	Non Controlling interest	Total equity
	U.S. dollars in thousands								
At 1 January 2013	1,036	359,803	12,186	8,391	(21,783)	(42,286)	317,347	-	317,347
Net loss for the year	-	-	-	-	992		992	3,008	4,000
Other comprehensive loss	-	-	-	-		(19,592)	(19,592)	(2,505)	(22,097)
Total comprehensive income (loss), net	-	-	-	-	992	(19,592)	(18,600)	503	(18,097)
Obtaining control in companies accounting in the equity method	-	-	-	-	-	-	-	29,558	29,558
At 30 June 2013 (unaudited)	1,036	359,803	12,186	8,391	(20,791)	(61,878)	298,747	30,061	328,808

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Retained earnings	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 profit for the year	-	-	-	-	-	(696)	(696)
Other comprehensive loss	-	-	-	-	(9,156)	-	(9,156)
Total comprehensive loss, net	-	-	-	-	(9,156)	(696)	(9.852)
Share-based payment transactions	-	-	628	-	-	-	628
At 30 June 2012 (unaudited)	1,036	359,803	11,969	6,565	(61,282)	19,823	337,914

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued 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 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

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2013	*) 2012	*) 2012
	Unaudited		Audited
	U.S. dollars in thousands		
Net profit (loss)	4,000	(696)	(42,302)
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	(1,515)	(996)	705
Depreciation and amortization	136	206	491
Finance expenses, net	42,281	9,461	3,667
Share-based payment	-	628	845
Fair value adjustment of investment properties and investment properties under construction	(35,942)	(5,949)	31,554
Group's share in earnings of associates	(4,607)	(3,885)	(6,340)
Loss from obtaining control in company accounted for equity method	244	-	-
Gain from sale of investment property	(548)		-
	49	(535)	30,922
Working capital adjustments:			
Decrease (increase) in trade receivables	2,193	(746)	(4,095)
Decrease (increase) in VAT receivable and others	(292)	963	2,991
Increase in inventories of buildings for sale	(24,087)	(15,830)	(32,544)
Increase (decrease) in trade payables	(65)	62	(59)
Increase (decrease) in other accounts payable	28,542	23,642	70,319
	6,291	8,091	36,612
Interest paid	(12,200)	(11,880)	(23,851)
Interest received	-	2,711	4,291
Taxes paid	(321)	(220)	(629)
	(12,521)	(9,389)	(20,189)
Net cash provided by (used in) operating activities	(2,181)	(2,529)	5,043

*) Restated, see Note 2b.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2013	*) 2012	*) 2012
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Acquisition of additional interest in jointly controlled entity	-	(1,500)	(1,500)
Additions to investment properties	(4,011)	(4,618)	(7,881)
Additions to investment properties under construction	(1,036)	(91)	(2,277)
Purchase of fixed assets	(166)	(216)	(279)
Settlement of restricted deposit	832	-	620
Repayment of loans granted to related parties	-	250	250
Loans granted to related parties	(217)	(1,446)	(1,630)
Proceeds from repayment of loans granted to associates	-	10,017	12,088
Cash from obtaining control in companies accounted for the equity method	86	-	-
Proceeds from sale of investment property under construction	3,973	-	-
Net cash provided by (used in) investing activities	(523)	2,396	(609)
Cash flows from financing activities:			
Repayment of debentures	-	-	(26,456)
Issuance of debentures	16,852	-	-
Receipt of loans from banks and others	33,333	19,361	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	(25,696)	(22,264)	(69,268)
Net cash provided by (used in) financing activities	24,489	(8,470)	(10,490)
Exchange differences on balances of cash and cash equivalents	(1,697)	417	249
Increase (decrease) in cash and cash equivalents	20,088	(8,186)	(5,807)
Cash and cash equivalents at the beginning of the period	25,669	31,476	31,476
Cash and cash equivalents at the end of the period	45,757	23,290	25,669

*) Restated, see Note 2b.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		Six months ended 30 June		Year ended 31 December
		2013	2012	2012
		Unaudited		Audited
		U.S. dollars in thousands		
(a)	Cash generated from obtaining control in companies accounted for using the equity method:			
	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 using the equity method	(244)	-	-
	Investment in associate	35,997	-	-
		86	-	-
(b)	Significant non-cash transactions:			
	Obtaining control in companies accounted for using the equity method against offset of previously granted loans	600	-	-

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

NOTE 1:- GENERAL

a. These interim consolidated financial statements have been prepared in a condensed format as of 30 June 2013 and for the six months 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 the next 12 months after the balance sheet date, inter alia, by obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 30 June 2013 amounting to approximately US$ 69 million (for additional loan provided after the balance sheet date, see note 8b), revenues from sales of building projects that have been completed during 2013 and issuance of bonds (see Note 8a).

In addition, the short-term loans from banks amounting to approximately US$ 69 million are secured by non-cancelable bank guarantees of the controlling shareholders until the full repayment of the loans (for repayment of part of these loans after the balance sheet date – see note 8c).

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:

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

<u>IFRS 10 - Consolidated Financial Statements</u>

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The initial adoption of IFRS 10 had no impact on the Company's consolidated financial statements.

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.

Under the equity method, the investment in the associate is presented at cost with the addition of post-acquisition changes in the Group's share of net assets, including other comprehensive income of the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The equity method is applied until the loss of significant influence or classification as an asset held-for-sale.

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 the financial statements as of 1 January 2013.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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:

In the statements of financial position

As of 30 June 2012 (unaudited)	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands		
CURRENT ASSETS			
Cash and cash equivalents	25,388	(2,098)	23,290
Restricted bank deposits	1,706	-	1,706
Trade receivables	1,492	(202)	1,290
Other receivables	3,974	(184)	3,790
VAT receivables	6,654	(274)	6,380
Inventories of building for sale	171,594	-	171,594
	210,808	(2,758)	208,050
NON-CURRENT ASSETS			
Investments properties	367,507	(89,150)	278,357
Investments properties under construction	80,222	-	80,222
Inventories of buildings for sale	67,368	-	67,368
Loans granted to related parties	4,413	(4,413)	-
VAT receivables	212	-	212
Fixed assets, net	1,058	(177)	881
Other long-term receivables	3,866	-	3,866
Prepaid expenses	541	-	541
Deferred taxes	3,618	-	3,618
Investments in associates	-	54,433	54,433
Loans granted to associates	-	12,747	12,747
	528,805	(26,560)	502,245
	739,613	(29,318)	710,295

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands		
CURRENT LIABILITIES			
Credit from banks	68,671	-	68,671
Current maturities of long-term loans from banks and debentures	44,608	(3,014)	41,594
Credit from banks for financing of inventory of buildings for sale	20,626	-	20,626
Government authorities	2,829	(446)	2,383
Trade payables	9,020	(496)	8,524
Deposits from tenants	2,637	(844)	1,793
Advances from buyers	30,423	-	30,423
Other accounts payable	988	(124)	864
	179,802	(4,924)	174,878
NON CURRENT LIABILITIES			
Loans from banks and others	76,406	(18,426)	57,980
Debentures	135,809	-	135,809
Other non-current liabilities	9,682	(5,968)	3,714
	221,897	(24,394)	197,503
EQUITY ATTRIBUTSBLE 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	11,969	-	11,969
Capital reserve for transactions with controlling shareholders	6,565	-	6,565
Foreign currency translation reserve	(61,282)	-	(61,282)
Retained earnings	19,823	-	19,823
TOTAL EQUITY	337,914	-	337,914
TOTAL EQUITY AND LIABILITIES	739,613	(29,318)	710,295

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands		
As of 31 December 2012 (audited)			
CURRENT ASSETS			
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)	-
Inventories of building for sale	190,821	-	190,821
Loans granted to associates	-	9,070	9,070
	237,860	3,723	241,583
NON-CURRENT ASSETS			
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
	534,774	(32,703)	502,071
	772,634	(28,980)	743,654

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands		
CURRENT LIABILITIES			
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
	231,880	(5,408)	226,472
NON CURRENT LIABILITIES			
Loans from banks	98,700	(17,315)	81,385
Debentures	114,169	-	114,169
Other non-current liabilities	10,538	(6,257)	4,281
	223,407	(23,572)	199,835
	455,287	(28,980)	426,307
EQUITY ATTRIBUTSBLE 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	(21,783)	-	(21,783)
TOTAL EQUITY	317,347	-	317,347
TOTAL EQUITY AND LIABILITIES	772,634	(28,980)	743,654

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the consolidated income statement and consolidated statement of comprehensive income

For the six months ended 30 June 2012 (unaudited)	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands (except per share data)		
Rental income from investment properties	25,168	(9,720)	15,448
Income from sale of inventories	3,711	-	3,711
Revenue from management fees	1,825	(1,000)	825
Total revenues	30,704	10,720	19,984
Cost of sales and maintenance of inventories	(5,487)	-	(5,487)
Cost of maintenance and management	(9,256)	1,628	(7,628)
Gross profit	15,961	(9,092)	6,869
General and administrative expenses	(7,103)	183	(6,920)
Marketing expenses	(775)	43	(732)
Fair value adjustments of investments properties and investment properties under construction	2,263	3,686	5,949
Other expenses, net	(722)	(257)	(979)
Group's share in earnings of associates operating loss	-	3,885	3,885
Operating profit	9,624	(1,552)	8,072
Finance income	708	291	999
Finance expenses	(13,645)	1,328	(12,317)
Net foreign exchange differences	1,924	(67)	1,857
Loss before taxes on income	(1,389)	-	(1,389)
Tax benefit	(693)	-	(693)
Loss	(696)	-	(696)
Basic and diluted loss per share attributable to equity holders of the parent	(0.01)	-	(0.01)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For the year ended 31 December 2012 (audited)	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands (except per share data)		
Rental income from investment properties	47,267	(15,036)	32,231
Income from sale of inventories	8,079	-	8,079
Revenue from management fees	3,689	(2,048)	1,641
Total revenues	59,035	(17,084)	41,951
Cost of sales and maintenance 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)
Group's 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 expenses	(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 loss per share attributable to equity holders of the parent	(0.41)	-	(0.41)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the consolidated statement of changes in equity

	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands		
As of 1 January 2012 (audited)			
Retained earnings	20,519	-	20,519

In the consolidated statements of cash flows

	As reported in the past	Influence of IFRS 11	As presented in these financial statements
	U.S. dollars in thousands		
For the six months ended 30 June 2012 (unaudited)			
From operating activities	5,199	(7,728)	(2,529)
From investing activities	(2,822)	5,218	2,396
From financing activities	(9,710)	1,240	(8,470)

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, except as mentioned in Note 4.

Disclosure Of New Standards In The Period Prior To Their Adoption

Amendments to IAS 36 - Impairment of Assets:

In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the Amendments") regarding the disclosure requirements of fair value less costs of disposal. The Amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures will be based on the fair value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.

The Amendments are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted.

The required disclosures will be included in the Company's financial statements upon the first-time adoption of the Amendments.

IFRIC 21 - Levies:

In May 2013, the IASB issued IFRIC 21, "Levies", regarding levies imposed by governments through legislation. According to IFRIC 21, the liability to pay a levy will only be recognized upon the existence of a present obligation as a result of a past event.

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted.

The Company is evaluating the possible impact of the adoption of the amendments to IAS 32 but is presently unable to assess the effects, if any, on its financial statements.

NOTE 3:- BUSINESS COMBINATIONS

On 4 January 2013, the Company 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 consideration of 600 thousand US dollars. 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 by six months.

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.

Before the date of obtaining control, the Century Companies were accounted for at equity.

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. Accordingly, the Company recognized a loss from the realization of exchange differences in the amount of 244 thousand US dollars.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

	Fair value U.S. dollars in thousands
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
	86,366
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)
	(20,811)
Net identifiable assets	65,555
Non-controlling interests	(29,558)
Total acquisition cost	35,997

The total acquisition cost was 36,597 thousand US dollars including waiver of an option previously granted to the partner in the amount of 600 thousand US dollars, which reflected the fair value of the existing investment in the Century Companies on the date when control was obtained.

Cost of acquisition

	Fair value U.S. dollars in thousands
Cash paid	-
Waiver of option (1%) previously granted to the sellers, at fair value	600
Fair value of existing investment on acquisition date	35,997
Total	36,597

Cash flow on the acquisition

Cash and cash equivalents in the Century Companies on acquisition date	86
Cash paid	-
Net cash	86

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

From the date of acquisition, the Century Companies have contributed 7,019 thousand US dollars to the consolidated net income and 4,608 thousand US dollars to the consolidated revenues.

NOTE 4:- FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair values of financial instruments as of June 30, 2013:

	Carrying amount	Fair value
	U.S. dollars in thousands	
Financial liabilities:		
Debentures (series A)	6,420	6,494
Debentures (series B)	26,416	26,481
Debentures (series C)	73,911	75,792
Debentures (series D)	60,796	60,770
	167,543	173,605

NOTE 5:- 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.

Jointly controlled entities, which are accounted for using the equity method, are presented as part of the results of the 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- SEGMENTS (Cont.)

	Commercial	Residential	Total
	U.S. dollars in thousands		
Six months ended 30 June 2013 (unaudited):			
Segment revenues	22,896	931	23,827
Segment results	51,514	(2,689)	48,825
Unallocated expenses			(3,946)
Finance expenses, net			(42,281)
Loss before taxes on income			2,598

	Commercial	Residential	Total
	U.S. dollars in thousands		
Six months ended 30 June 2012 (unaudited) *):			
Segment revenues	16,273	3,711	19,984
Segment results	16,073	(2,667)	13,406
Unallocated expenses			(5,334)
Finance expenses, net			(9,461)
Loss before taxes on income			(1,389)

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

*) Reclassified, see Note 2b.

NOTE 6:- DISCLOSURE OF JOINTLY CONTROLLED ENTITY ACCOUNTED FOR USING THE EQUITY METHOD OF ACCOUTING

Summarized data for jointly controlled entity accounted for using the equity method of accounting, for all reported periods

The Group's share in the Summarized data of the financial statements of the associates:

Summarized financial information of financial position:

	30 June		31 December
	2013	2012	2012
	Unaudited		Audited
	U.S. dollars in thousands		
CURRENT ASSETS:			
Cash and cash equivalents	1,803	1,776	927
Trade receivables	219	203	216
Other receivables	-	144	96
VAT receivable	194	145	169
	2,216	2,268	1,408
NON-CURRENT ASSETS:			
Investment properties	46,733	45,178	46,396
Fixed assets, net	175	177	190
Other long term receivables	80	62	15
	46,988	45,417	46,601
CURRENT LIABILITIES:			
Current maturities of long-term loans from banks	1,382	1,382	1,382
Government authorities	725	351	936
Trade payables	72	70	40
Deposits from tenants	323	464	532
Other accounts payable	147	124	106
	2,649	2,391	2,996
NON-CURRENT LIABILITIES:			
Loans from banks	10,006	11,389	10,697
Loans from related parties	2,867	4,878	2,786
Other non-current liabilities	5,844	5,609	5,839
	18,717	21,876	19,322
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:	27,838	23,418	25,691

NOTE 6:- DISCLOSURE OF JOINTLY CONTROLLED ENTITY ACCOUNTED FOR USING THE EQUITY METHOD OF ACCOUTING (Cont.)

Summarized financial information of comprehensive income

	Six months ended 30 June		Year ended 31 December
	2013	**2012**	**2012**
	Unaudited		**Audited**
	U.S. dollars in thousands		
Rental income from investment properties	2,936	2,751	5,679
Revenues from management fees	1,032	967	1,995
Total revenues	3,968	3,718	7,674
Cost of sales and maintenance of inventories	(1,099)	(1,022)	(2,114)
Gross profit	2,869	2,696	5,560
General and administrative expenses	(138)	(139)	(152)
Fair value adjustments of investment properties and investment properties under construction	3,810	(59)	(2,354)
Other income, net	-	278	132
Operating profit	6,541	2,776	3,186
Finance expenses	(636)	(738)	(1,477)
Net foreign exchange differences	(1,080)	(306)	956
Profit before taxes	4,825	1,732	2,665
Taxes on income	216	-	795
Net profit	4,609	1,732	1,870
Other comprehensive income (loss)	(2,481)	(514)	1,662
Total comprehensive income (loss)	2,128	1,218	3,532

The Company does not attach the financial statements of Inverton Enterprises Limited, a company which accounted for the equity method, since the Company's management believes that the disclosure of the financial statements will not add significant information to that already included in the Company's' financial statements.

NOTE 7:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. On 23 January 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 had been unlawfully terminated by the Moscow Government since any alleged breach of its terms had been due to the actions and omissions on the part of the Moscow Government itself.

   The objection of the Company was denied by the Moscow Government, based mainly on procedural arguments. Following the Company's objection, the subsidiary of the Company filed a claim against the Moscow Government to cancel the above mentioned decision. The first court hearing was held in June 2013. A second court hearing is scheduled for September 2013. The intention of the Company is to continue to take all measures, including legal steps, in order to protect its rights.

   The Company has fully impaired the project value as of 31 December 2012.

b. On 25 February 2013, Midroog announced that the rating of the Company's debentures (Series A, B and D) in circulation was increased from Baa2 to Baa1.

c. During the reporting period, a subsidiary of the Company entered into an agreement with an investment house which is an unrelated party ("the investment house") for the provision of a short-term credit line in the amount of NIS 37 million (approximately 10 million US dollars). As of June 30, 2013, the Company has used NIS 32 million (approximately 8.8 million US dollars) of the credit line. The loan bears interest at the rate of Israeli Prime + 2% payable quarterly. For the purpose of ensuring repayment of the loan, the Company provided an unlimited guarantee. Additionally, the subsidiary pledged Series D debentures of the Company owned by the subsidiary, in favor of the investment house. Within the framework of the agreement, a financial covenant was set whereby the ratio of the outstanding loan to the value of the debentures (held by the subsidiary) will not be greater than 1.

   As of 30 June 2013, the Company is in compliance with the above financial covenant.
   As to the repayment of the credit see Note 8d.

d. On 22 April 2013, Tamiz, a 100% owned subsidiary of the Company, completed the sale of land designated for the development of a commercial center in the city of Penza, Russia, in consideration of approximately 4 million US dollars. As a result, the Company recognized profit in the financial statements of approximately 500 thousand US dollars. As of the balance sheet date the Company received full consideration from the buyers.

e. In May 2013, the Company received commitments from several investors to purchase debentures (Series D) of the Company in private placements with par value of NIS 60,000,000 ("the new debentures").

   The issuance of the new debentures was carried out by way of a series expansion at a price of NIS 104.08 per NIS 100 par value, which reflects a discount on the debenture value on the issuance date.

NOTE 7:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

After the consummation of the aforementioned private placements, the par value of the debentures (Series D) is NIS 272,089,500.

The total proceeds that the Company received from the issuance of the new debentures amount to approximately NIS 62,448 thousand (17,563 thousand US dollars) (approximately NIS 61,930 thousand (17,419 thousand US dollars), net).

The effective interest rate of the new debentures is 7.86%.

f. On 19 May 2013, Mashinostroenie & Hydravlika OJSC ("the subsidiary") entered into a loan agreement with SberBank of Russia ("the Bank") under which the Bank will grant the subsidiary a credit line in an aggregate amount of up to 19 million US dollars ("the Loan"), for the purpose of refinancing one of the subsidiary's projects.

Out of aforementioned credit line, an amount of 10 million US dollars had been obtained by the Company and the balance of 9 million US dollars will be made available within a period of 11 months.

The Loan is for a period of approximately 6.5 years and bears fixed dollar interest at the rate of 8.75% per annum, payable quarterly, in addition to other commissions as set out in the Loan agreement.

To secure the repayment of the Loan, the Company and the subsidiary gave the Bank the following securities: a pledge over the entire holdings in the project; the Company's guarantee for the repayment of the debt and the full and complete fulfillment of the entire undertakings of the subsidiary, and a pledge over the loans between the Company and the subsidiary.

In addition, the Company undertook that the LTV ratio of the project will not exceed 70%.

As of 30 June 2013, the Company is in compliance with the above financial covenant.

g. 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 above mentioned issue.

NOTE 8: - SUBSEQUENT EVENTS

a. On 25 July 2013, the Company issued new debentures (Series E) in the total amount of NIS 240 million (approximately 67.2 million US dollars). The debentures (Series E) bear annual interest of 7.21% and were rated by Midroog Moody's at "ilBaa1/Stable".

The debentures are repayable in five unequal annual payments, the first payment is 10% of the principal and each of the second to the fifth payments is 22.5% of the principal, payable on May 31 of each of the years 2016 through 2020 (inclusive).

b. A wholly owned subsidiary of the Company, Limited liability Company Investicionno-ipotechnaya kompaniya ("IIK") has entered into a US$95 million loan agreement, at fixed interest of 7%, payable quarterly. The Loan refinances IIK existing debt of 36 million US dollars and allows the business to release additional funds which will be used by the Company for working capital purposes.

The Loan is secured by various mortgages, charges, pledges and other customary security interests for the benefit of the Bank, provided by both IIK and the Company. The Loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 53% at the end of the term.

c. On August 6 and 13, 2013 the Company has partly repaid the short-term loans from banks which are secured by non-cancelable bank guarantees of the controlling shareholders with the total amount of 25 million US dollar.

d. At the beginning of August 2013 the Company has repaid the loan which was granted to the Company during the first quarter 2013 by the investment house which is an unrelated party in the amount of NIS 32 million (approximately 8.8 million US Dollar).

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