13 August 2014

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014

EXCELLENT OPERATIONAL PERFORMANCE WITH SIGNIFICANT INCREASE IN REVENUES AND PROFIT

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 2014.

Financial Highlights:

- Total revenues up 95% to US$46.3 million (30 June 2013: US$23.8 million) due to the additional recognition of revenues from the Triumph Park project and full consolidation of the Vernissage Mall in Yaroslavl following the acquisition of its partner’s share providing Mirland with 100% control over the asset;
- Net operating income (“NOI”) from investment properties (Company's share) up 28% to US$19.9 million (30 June 2013: US$15.6 million);
- Gross profit increased 58% to US$21.0 million (30 June 2013: US$13.3 million);
- EBITDA increased 74% to US$12.0 million (30 June 2013: US$6.9 million);
- Net profit of US$0.3 million (30 June 2013: US$4.0 million) due to net foreign exchange losses of approximately US$5.3 million, which were offset by increased operational profitability, recognition of revenues in residential projects, fair value adjustments of investment properties and gain from the acquisition of the remaining 49.5% share in Vernissage Mall;
- Total assets increased 15% to US$1,031.7 million, of which 89% are property and land assets, surpassing US$1 billion for the first time, (31 December 2013: US$893.2 million),
- Total equity of US$326.6 million (31 December 2013: US$331.7 million), equating to 32% of total assets;
- Net leverage remained low at 41.2% of total assets (31 December 2013: 40.1%).

Operational Highlights
Residential:

Triumph Park, St. Petersburg

Sales rates remain high with pricing of later phases increasing ahead of inflation:

- Phase I: All 510 apartments have been pre-sold, representing income of approximately US$69 million, which was recognised during the period, in accordance with IFRS standards. An occupancy permit was received from the relevant authorities and handover of apartments to owners was completed during the period;

- Phase II: Launched in Q3 2012, and to date 575 out of a total of 630 apartments (circa 91% of the scheme) have been pre-sold representing sales of approximately US$77.3 million. Build completion is expected by Q4 2014;
- Phase III: Strong sales launch in Q4 2013, with 558 out of 1,346 homes pre-sold, totalling circa 41% of the scheme, representing sales of approximately US$64.6 million;
- Phase IV: Start of construction of 1,244 units in Q3, sales programme due to commence later in the year.

Western Residence, Perkhushkovo, Moscow

- Sales of a further three houses at our Western Residence development in Perkhushkovo, Moscow, which takes the total number of units sold to 33 of the total 77 houses in the scheme.

Retail:

- Acquisition of the remaining 49.5% of the Vernissage Mall in Yaroslavl, consolidating MirLand's control and bringing its interest in the project to 100%;
- Both regional shopping centres, Vernissage Mall and Triumph Mall in Saratov, are 100% occupied and continue to report high levels of footfall. Half year NOI was up 25% (9% increase in like for like NOI) to US$11.7 million (H1 2013: US$ 9.4 million), the strongest ever performance from the retail portfolio;
- Planning is at advanced stages to extend Vernissage Mall by an additional 30,000 sqm.

Offices:

- High average occupancy rate of 94% at the MirLand Business Center. Half year like for like NOI up 34% to US$8.2 million.

Nigel Wright, Chairman, commented:

"We have made excellent operational progress and we are particularly pleased to have dramatically increased both revenues and gross profit despite an uncertain economic environment in Russia. Our net profit was down on the previous period, however our strong operational profitability partially offset the effect of a net foreign exchange loss.

"Our investment and development portfolios continue to perform well. We continue to achieve high occupancy rates across our commercial portfolio and higher sales prices at our Triumph Park development in St. Petersburg. Consumer confidence in Russia remains high and we are confident that we will continue to achieve strong sales at Triumph Park.

"The Russian economy remains challenging and the situation in the Ukraine remains unresolved, whilst a weakening Rouble has the potential to have a further impact despite the continued excellent performance of the underlying business. However, we continue to monitor the situation and our three new refinancings during the period have been agreed on attractive terms, ensuring that we remain strongly positioned to generate further value for shareholders."

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MirLand has continued to deliver excellent progress during the first half year of 2014, with further operational and financial milestones achieved across the business, in accordance with our strategy:

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

FINANCIAL REVIEW

Balance Sheet

Our balance sheet remains strong with total assets as at 30 June 2014 increasing to US$1,031.7 million (31 December 2013: US$893.2 million), total equity of US$326.6 million as at 30 June 2014 (31 December 2013: US$331.7 million) and net cash of US$83.2 million.

MirLand's assets are externally valued semi-annually on 30 June and 31 December by Cushman & Wakefield. Based on the 30 June 2014 valuation, investment properties and investment properties under construction increased in value to US$605.0 million as at 30 June 2014 (31 December 2013: US$490.6), mainly due to the full consolidation of the Vernissage Mall in the valuation, and the improved operational performance of the Company’s commercial assets. In carrying out the valuations, no change was made to the discount and capitalization rates by Cushman & Wakefield.

Inventories of buildings for sale increased from US$279.7 million as at 31 December 2013 to US$308.6 million (30 June 2014) due to further investment made during the period being compensated for by the appreciation of the US$ against the Rouble.

Equity and Liabilities

Total equity as at 30 June 2014 was US$326.6 million, including minority rights, a minor decrease on the US$331.7 million reported for 31 December 2013 mainly caused by devaluation of the Russian Rouble against the US Dollar. Shareholders' equity comprises 32% of total assets.

Net Financial liabilities as at 30 June 2014 were US$424.9 million in comparison to US$357.7 million at 31 December 2013. As at 30 June 2014, net financial liabilities comprised 41.2% of MirLand's total assets.

Income Statement

Rental income (income from the sale of inventories and revenues from management fees) increased 95% to US$46.3 million (H1 2013: US$23.8 million) primarily due 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 2014 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$8.8 million (H1 2013: US$42.2 million) and was mainly attributed to appreciation of the US Dollar against the Rouble of approximately 2.8% which resulted in nominal appreciation of commercial assets at the same rate.

The cost of maintenance and management of the Company's investment portfolio decreased from US$8.9 million in H1 2013 to US$8.4 million in H1 2014. This was due to the additional efficiency measures implemented by the Company, mainly in the office segment, despite the total rentable area increasing during the period.

The Company's gross profit for the period increased to US$21.0 million compared to US$13.3 million in the same period in 2013.

General and administrative expenses for the period slightly increased to US$6.7 million in comparison to US$6.4 million in the same period in 2013, mainly due to the full consolidation of the Vernissage Mall project.

Net financing costs for the period amounted to US$16.8 million in comparison to US$14.9 million in the same period of 2013, due to the raising of additional funds and full consolidation of the Vernissage Mall project. Foreign exchange differences resulted in a loss of US$5.8 million due to the appreciation of the US$ against the Rouble of approximately 2.8%, compared to a gain of US$27.3 million in H1 2013.

Net profit of US$0.3 million was recorded by the Company compared to US$4.0 million in H1 2013.

Net Asset Value

The Company's adjusted net asset value as at 30 June 2014 increased 0.5% to US$559.2 million, compared to US$556.7 million as at December 2013. As of 30 June 2014, the portfolio was valued at US$981.2 million, of which MirLand's share is US$939.0 million (December 2013: US$880.7 million).

The valuation of each asset in MirLand's real estate portfolio at 30 June 2014 is set out in the following table:

Ref.	City	Property Name and Address	Portfolio Market Value as of 30th of June 2014 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as of 30th of June 2014 (Rounded)	Total sqm of Land	Projected Net Leasable / Saleable Area in sqm upon Completion (excl. Parking)
001	Moscow	Hydromashservice	$71,100,000	100%	$71,100,000	12,237	16,696
002	Moscow	MAG	$81,800,000	100%	$81,800,000	21,940	18,535
003	Moscow Region	Western Residence, Perkhushkovo	$51,500,000	100%	$51,500,000	225,300	56,876
004	Saratov	Triumph Mall	$137,300,000	100%	$137,300,000	22,000	27,305
005	Moscow	Skyscraper	$0	100%	$0	n/a	n/a
006	Saint Petersburg	Triumph Park, Residential	$324,600,000	100%	$324,600,000	326,651	534,368
007	Saint Petersburg	Triumph Park, Trade Center	$31,700,000	100%	$31,700,000	81,663	117,775
008	Yaroslavl	Vernissage Mall	$102,800,000	100%	$102,800,000	120,000	34,092
009	Yaroslavl	Phase II	$13,200,000	100%	$13,200,000	180,000	55,245
010	Moscow	Tamiz Building	$46,000,000	100%	$46,000,000	4,500	11,737
011	Moscow	Century Buildings	$95,300,000	51%/61%	$53,063,000	5,800	20,904
012	Kazan	Triumph House	$12,200,000	100%	$12,200,000	22,000	31,480
013	Saratov	Logistics Complex	$7,200,000	100%	$7,200,000	260,000	104,000
014	Novosibirsk	Logistics Complex	$6,500,000	100%	$6,500,000	406,752	180,000
		Total	**$981,200,000**		**$939,000,000**		

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 2014, the Company invested US$24.2 million in new assets in comparison with US$5.5 million in H1 2013. Cash flow used in operating activities amounted to US$16.9 million, compared to US$2.2 in H1 2013. Cash flow provided by financing activities during the period amounted to US$59.4 million.

FINANCING

During the period, net leverage slightly increased to 41.2% of total assets (31 December 2013: 40.1%) but still remains relatively low. Total net borrowings amounted to US$424.9 million (31 December 2013: US$357.7 million).

During the period we successfully secured three new bank financing or refinancing agreements, all on highly attractive terms, in line with our strategy of diversifying our sources of funding:

1. On 20 March 2014, a subsidiary of the Company entered into a US$49 million loan agreement with the Bank of Moscow to refinance the Vernissage Mall project. The loan, which bears a fixed interest rate of 7.75%, is for a period of seven years, after which it will be possible to extend the period by three additional years. The loan principal is to be paid in quarterly installments, with the last repayment representing 49% of the loan balance. The refinancing follows the Company's decision in December 2013 to acquire the remaining 49.5% of the shares, and consolidate its control in the project.
2. In April 2014, a 61% owned subsidiary of the Company, replaced its existing US$11 million loan facility from Sberbank of Russia, with a new US$18 million facility, with a fixed interest rate of 7.75%, compared to LIBOR + 7.7% for the previous loan, with all other terms remaining unchanged.
3. In May 2014, a 51% owned subsidiary of the Company entered into a new non-revolving US$26 million refinancing loan agreement with Nordea Bank against Century, its 11,000 sqm office development investment asset in Moscow. The loan, which bears an interest rate of LIBOR + 6.85%, is for a period of five years. The loan principal is to be paid in quarterly installments, with the last repayment representing 73% of the loan balance.

OPERATIONAL UPDATE

The Company has made good progress in the pre-sale, build and delivery of its BREEAM certified sustainable residential project, Triumph Park in St. Petersburg. The government authorities issued the required occupancy permit for Phase I of the scheme, and handovers to owners which began in September 2013 were completed in March. Construction of Phase II is on schedule with approximately 91% of the flats pre-sold, with build completion expected by the end of the year. Construction and sales of Phase III started in October 2013 with a strong sales launch resulting in 558 (41% of the scheme) apartments being pre-sold in the first ten months. The Company is achieving sales prices on these later phases of the project ahead of the rate of inflation as the scheme has progressed, underpinning good levels of profitability for the project.

The construction of Phase IV of the project with 1,244 additional units commenced in Q3 2014, and we will begin sales later in the year.

The Western Residence residential development scheme at Perkhushkovo, Moscow, has also maintained momentum with a further three houses sold in addition to the five sold last year. This takes the number now sold to 33 of a total of 77 houses in the scheme.

Our Vernissage Mall and Triumph Mall assets continue to be fully let, with footfall at both remaining high. The retail portfolio again enjoyed its strongest ever operating performance, with net operating income up 25% to US$11.7 million compared to the same half last year. We continue to look at increasing our exposure to this sector, and planning permission to increase Vernissage Mall by 30,000 sqm is at an advanced stage, with current plans including the development of a new cinema, anchor store and clothing stores. We continue to seek new opportunities in this area. The occupancy rate of the MirLand Business Centre remains relatively high at circa 94% of the total lettable space, which is above the market average.

MARKET UPDATE

GDP growth accelerated to 1.2% y/y in the second quarter 2014 from 0.9% y/y in Q1 2014. However, the 0.5% GDP growth outlook for 2014 remains unchanged according to the Ministry of Economic Trade & Development, indicating an anticipated slowdown in the second half. The inflation rate for 2014 is expected to reach 6.7% and forecasted to show some slowdown in 2015. Unemployment is 6.2% and is expected to remain below 7% in the near future. Retail trade turnover growth rate still exceeds economic growth, so the consumer market remains a key priority for business. Industrial output increased from 1.1% y/y in Q1 2014 to 2.5% y/y in Q2 2014.

On 25 July, The Central Bank of Russia (CBR) raised its benchmark one-week repo rate by 50 bps to 8%, aiming to curb the devaluation of the Russian Rouble and the increase in inflation, caused by geopolitical factors.

The average price of oil per barrel amounted to US$107.88 in 2013, which has now decreased to US$104.8 from US$110 per barrel in June. The Economic Development Ministry forecasts the average price at US$104 per barrel for 2014.

Net capital outflow for 1H 2014 was US$74bn and the full-year is forecast at US$120bn. FDI flows to Russia will fall by half (US$41bn) of last year's level in 2014 as the situation in Ukraine prompts companies to delay expansion.

Sanction discussions have intensified recently and four months since inception, the sanction landscape is now clearer. Russia's cooperation at the international level is now challenged, with the revocation of its membership in the G8, the EBRD’s decision to cease financing new projects in Russia and The Hague court’s ruling to satisfy the US$50bn claim of YUKOS’ shareholders.

Real Estate market

The total volume of real estate investment in H1 2014 was US$2.4bn (almost half of the US$4.63bn total investment seen in H1 2013). The forecast for 2014 is US$5bn and this is expected to increase further in 2015 to circa US$6.5-7.0bn, with Russian domestic investors making up the majority of this volume at circa 88%. Most of the investment deals took place in the Moscow market at over 90% of the total volume at US$2.2bn.

Prime yields remained stable in Q2 2014, but are expected to expand in Q3 2014 by 0.25% for all segments: 8.75% for offices, 9.25% for retail, and 11.25% for warehouses. This revision reflects the 0.5% percentage point key rate increase by CBR.

Office segment

The total volume of investments in the office market in H1 2014 was US$1.71bn, representing 70% of the total volume (US$2.4bn) of investments. The average vacancy rate has increased by 2.4% to 14.1% in H1 2014 (23.7% in Class A and 12.1% in Class B offices), and is expected to grow further due to new developments coming on line coupled with low underlying demand. During the six months, the Class A average rental rate has decreased from $870/sqm to $809/sqm (per year, triple net) but the Class B average rental rate is stable at $528/sqm.

In H1 2014, the total volume of office deals (sold and let) decreased by 32% compared to H1 2013 and amounted to 538,000 sqm of space. 2014 monthly take-up decreased to 80K-100K sqm compared to 150K in 2012-2013. The construction volume significantly exceeds current office demand: H1 2014 absorption was circa 20% of the delivered areas. This year might be a record year of new construction since 2009.

Retail segment

In Q2 2014 macroeconomic uncertainty and tenant rotation led to an increase in the average vacancy rate in Moscow’s high quality shopping centres from 2.5% to 3.5% and is likely to reach 4.5% to 5% by the end of the year. According to JLL forecasts, 2014 completions will reach the level of 1.7 to 1.8 million sqm in Russia which will be lower than the record figure seen in 2008 (1.85 million sq m). Nonetheless, by the end of the year, total stock in Russia will exceed 18 million sqm and Russia will become the second largest market for shopping centres in Europe after the UK (with 18.2 million sqm of space) and ahead of France (16.5 million sqm).

Rental rates remained fairly stable in Q2 2014. The average rent is US$500-1,800 per sqm per year, dependent on the asset's location and quality. Regardless of the macroeconomic uncertainty, new international retailers continue to target the Russian market.

Residential segment

The mortgage lending market continued its positive trend (but with increasing costs) with 643.8bn Roubles of mortgages granted during the first five months of 2014, which is1.3x higher than the same period in 2013. The average lending rate was 12.2%, which is expected to increase by 0.5-1% in Q3 2014.
Market prices increased slightly in Q2 2014. The price change varies according to the project's segment: compared to Q1 2014, business is up by 1.3% and economy is up by 0.8%.

In the second quarter of 2014, delivery of residential projects totaled 394K sqm, 18% higher than 2Q13. Most of the delivery to the market was in the mass-market segment (81%).

Logistics segment

Construction activity remains high in the Moscow area and the regions. During H1 2014, 637,000 sqm and 261,000 sqm, respectively, of quality warehouses were delivered - a record volume for the market. The vacancy rate increased from 0.5% to 3%. The average rental rates for Class A projects in Moscow remained the same in Q2 2014, and stood at US$130-135 per sqm per year, whereas a slight decrease was observed in the regions.

Outlook

We have made excellent operational progress and we are particularly pleased to have dramatically increased both revenues and gross profit despite an uncertain economic environment in Russia. Our net profit was down on the previous period, however our strong operational profitability partially offset the effect of a net foreign exchange loss.

Our investment and development portfolios continue to perform well. We continue to achieve high occupancy rates across our commercial portfolio and higher sales prices at our Triumph Park development in St. Petersburg. Consumer confidence in Russia remains high and we are confident that we will continue to achieve strong sales at Triumph Park.

The Russian economy remains challenging and the situation in the Ukraine remains unresolved, whilst a weakening Rouble has the potential to have a further impact despite the continued excellent performance of the underlying business. However, we continue to monitor the situation and our three new refinancings during the period have been agreed on attractive terms, ensuring that we remain strongly positioned to generate further value for shareholders.

Following the period end, we announced the appointment of Alexander Regenbogen to the Board as an independent non executive director, and the retirement of Steven Holm as non executive director and Chairman of the Remuneration committee. These changes were prompted by recent amendments to the Israeli legal and regulatory framework which, inter alia, meant that Mr. Holm no longer fully satisfied the Independence criteria set out for non executive directors for public companies.

We would like to thank Steven for his hard work and considerable achievements on the company's behalf. However, we are delighted to welcome Alexander Regenbogen to our Board. We are confident that we will benefit from his extensive experience and proven track record and that he will be an invaluable asset as we continue to create value for our shareholders.

Nigel Wright	**Roman Rozental**
Chairman	**Chief Executive**
13 August 2014	**13 August 2014**

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	83,150	45,757	66,154
Restricted bank deposits	-	287	-
Trade receivables	3,277	878	1,472
Other receivables	9,337	7,874	7,277
VAT receivable	5,263	4,508	4,147
Inventories of buildings for sale	205,585	219,602	180,157
Loans granted to companies accounted for at equity method	-	3,184	3,274
	306,612	282,090	262,481
NON-CURRENT ASSETS:			
Investment properties	547,501	420,900*)	431,500*)
Investment properties under construction	57,500	56,700*)	59,100*)
Inventories of buildings for sale	102,969	64,329	99,564
VAT receivable	414	390	415
Fixed assets, net	1,908	923	966
Other long term receivables	8,181	1,929	2,496
Prepaid expenses	980	635	615
Deferred taxes	5,627	3,620	2,244
Investment in companies accounted for at equity method	-	27,873	33,789
	725,080	577,299	630,689
TOTAL ASSETS	1,031,692	859,389	893,170

*) Restated. See Note 2d.

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
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks and others	-	78,407	19,635
Current maturities of long-term loans from banks and debentures	63,780	48,565	58,797
Credit from banks for financing of inventory of buildings for sale	12,763	13,140	9,730
Government authorities	3,552	2,210	2,962
Trade payables	10,069	9,114	7,629
Deposits from tenants	3,706	2,900	4,090
Advances from buyers	100,170	99,813	75,684
Other accounts payable	1,465	1,223	1,282
	195,505	255,372	179,809
NON-CURRENT LIABILITIES:			
Loans from banks and others	223,121	97,829	129,123
Debentures	208,432	136,314	206,606
Other non-current liabilities	18,050	4,653	5,113
Deferred taxes	60,026	36,413*)	40,802*)
	509,629	275,209	381,664
TOTAL LIABILITIES	705,134	530,581	561,453
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	12,458	12,186	12,396
Capital reserve for transactions with controlling shareholders	8,556	8,391	8,556
Foreign currency translation reserve	(66,579)	(61,878)	(61,523)
Accumulated deficit	(19,704)	(20,791)	(18,444)
TOTAL EQUITY CONTRIBUTABL TO EQUITY PARENT	295,570	298,747	301,824
Non controlling interest	30,988	30,061	29,893
TOTAL EQUITY	326,558	328,808	331,717
TOTAL EQUITY AND LIABILITIES	1,031,692	859,389	893,170

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

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*) Restated. See Note 2d.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Six months ended 30 June		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Rental income from investment properties	26,800	22,207	46,255
Revenues from sale of residential units	17,752	931	56,050
Revenues from management fees	1,747	689	1,505
Total revenues	46,299	23,827	103,810
Cost of sales and maintenance of residential units	16,947	1,639	46,680
Cost of maintenance and management	8,372	8,928	17,370
Gross profit	20,980	13,260	39,760
General and administrative expenses	6,723	6,432	13,282
Marketing expenses	2,137	1,793	5,389
Fair value adjustments of investment properties and investment properties under construction	8,776	42,204*)	55,212*)
Other expense, net	850	705	1,086
Group's share in earnings of companies accounted for using the equity method and gain from obtaining control in company previously accounted for using the equity method	4,009	4,607	7,591
Operating income	24,055	51,141	82,806
Finance income	531	534	1,080
Finance expenses	(17,365)	(15,476)	(32,445)
Net foreign exchange differences	(5,803)	(27,339)	(33,967)
Profit before taxes on income	1,418	8,860	17,474
Taxes on income	1,094	4,860*)	11,268*)
Net income	324	4,000	6,206
Attributable to:			
Equity holders of the parent	(1,260)	992	3,339
Non-controlling interests	1,584	3,008	2,867
	324	4,000	6,206
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	(0.01)	0.01	0.03

*) Restated. See Note 2d.

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
	2014	**2013**	**2013**
	Unaudited		**Audited**
	U.S. dollars in thousands		
Net income	324	4,000	6,206
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 previously accounted for using the equity method	6,624	244	244
Exchange differences on translation of foreign operations	(8,871)	(19,860)	(19,450)
Group's share of net other comprehensive loss of companies accounted for using the equity method	(3,298)	(2,481)	(2,562)
Total other comprehensive loss	(5,545)	(22,097)	(21,769)
Total comprehensive loss	(5,221)	(18,097)	(15,563)
Attributable to:			
Equity holders of the parent	(6,316)	(18,600)	(15,898)
Non-controlling interests	1,095	503	335
	(5,221)	(18,097)	(15,563)

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 payments	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Accumulated deficit	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
	U.S. dollars in thousands								
At 1 January 2014	1,036	359,803	12,396	8,556	(61,523)	(18,444)	301,824	29,893	331,717
Net profit (loss) for the year	-	-	-	-	-	(1,260)	(1,260)	1,584	324
Other comprehensive loss	-	-	-	-	(5,056)	-	(5,056)	(489)	(5,545)
Total comprehensive income (loss)	-	-	-	-	(5,056)	(1,260)	(6,316)	1,095	(5,221)
Share-based payments	-	-	62	-	-	-	62	-	62
At 30 June 2014 (unaudited)	1,036	359,803	12,458	8,556	(66,579)	(19,704)	295,570	30,998	326,558

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	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 payments	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Accumulated deficit	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
	U.S. dollars in thousands								
At 1 January 2013	1,036	359,803	12,186	8,391	(42,286)	(21,783)	317,347	-	317,347
Net profit for the year	-	-	-	-	-	3,339	3,339	2,867	6,206
Other comprehensive loss	-	-	-	-	(19,237)	-	(19,237)	(2,532)	(21,769)
Total comprehensive income (loss)	-	-	-	-	(19,237)	3,339	(15,898)	335	(15,563)
Obtaining control in companies previously accounted for using the equity method (Note 3)	-	-	-	-	-	-	-	29,558	29,558
Equity component of transaction with controlling shareholders (Note 12)	-	-	-	165	-	-	165	-	165
Share-based payments (Note 19)	-	-	210	-	-	-	210	-	210
At 31 December 2013	1,036	359,803	12,396	8,556	(61,523)	(18,444)	301,824	29,893	331,717

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
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Net profit	324	4,000	6,206
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	(208)	4,747*)	10,779*)
Depreciation and amortization	91	136	230
Finance expenses, net	22,637	42,281	65,332
Share-based payment	62	-	210
Fair value adjustment of investment properties and investment properties under construction	(8,776)	(42,204)*)	(55,212)*)
Group's share in earnings of associates	(4,009)	(4,607)	(7,591)
Loss from obtaining control in company accounted for equity method	-	244	244
Gain from sale of investment property	-	(548)	(548)
	9,797	49	13,444
Working capital adjustments:			
Decrease (increase) in trade receivables	(1,842)	2,193	2,491
Increase in VAT receivable and others	(1,440)	(292)	(36)
Increase in inventories of buildings for sale	(29,877)	(24,087)	(16,767)
Increase (decrease) in trade payables	331	(65)	450
Increase in other accounts payable	23,537	28,542	5,558
	(9,291)	6,291	(8,304)
Interest paid	(17,504)	(12,200)	(28,247)
Interest received	123	-	430
Taxes paid	(372)	(321)	(344)
	(17,753)	(12,521)	(28,161)
Net cash used in operating activities	(16,923)	(2,181)	(16,815)

*) Restated. See Note 2d.

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
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Additions to investment properties	-	(4,011)	(6,466)
Additions to investment properties under construction	(1,546)	(1,036)	(1,125)
Purchase of fixed assets	(760)	(166)	(389)
Settlement of restricted deposit, net	-	832	1,119
Loans granted to related parties	(726)	(201)	(890)
Cash from obtaining control in companies previously accounted for using the equity method (a)	(21,140)	86	86
Proceeds from sale of investment property under construction	-	3,973	3,973
Advance paid for the acquisition of subsidiary	-	-	(3,000)
Net cash flows used in investing activities	(24,172)	(523)	(6,692)
Cash flows from financing activities:			
Issuance of debenture, net	-	16,852	125,267
Repayment of debentures	-	-	(28,685)
Receipt of loans from banks and others, net from origination costs	120,962	33,333	124,456
Repayment of loans from banks and others	(61,557)	(25,696)	(156,768)
Net cash flows generated from financing activities	59,405	24,489	64,270
Exchange differences on balances of cash and cash equivalents	(1,314)	(1,697)	(278)
Increase in cash and cash equivalents	16,996	20,088	40,485
Cash and cash equivalents at the beginning of the period	66,154	25,669	25,669
Cash and cash equivalents at the end of the period	83,150	45,757	66,154

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
	2014	2013	2013
	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)	146	2,793	2,793
Investment properties	(109,800)	(94,972)	(94,972)
Fixed assets, net	(313)	-	-
Other receivables	(49)	(71)	(71)
Deferred taxes	16,107	9,093	9,093
Loans from banks	21,419	10,849	10,849
Other non-current liabilities	12,700	866	866
Loans from related party	-	5,973	5,973
Indemnification assets	(5,737)	-	-
Foreign currency translation reserve	6,624	244	244
Non-controlling interests	-	29,558	29,558
Loss from obtaining control in companies accounted for using the equity method	702	(244)	(244)
Investment in associate	33,727	35,997	35,997
Loans granted to associates	3,344	-	-
	(21,140)	86	86
(b) Significant non-cash transactions:			
Obtaining control in companies accounted for using the equity method against offset of previously granted loans	-	600	600
Additions to investment property and investment property under construction	-	-	83

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 2014 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 2013 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 2014, inter alia, by revenues from sales of buildings in the Saint Petersburg project and free cash flow from commercial projects.

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 mentioned below:

Amendments to IAS 32, "Financial Instruments: Presentation", regarding offsetting financial assets and financial liabilities:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The effect of the adoption of the amendments to IAS 32 on the Company's financial statements was immaterial

c. Disclosure of new IFRS standards in the period prior to their adoption:

IFRS 15, "Revenue from Contracts with Customers":

IFRS 15 ("the Standard") was issued by the IASB in May 2014.
IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts, and the related Interpretations: IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".
The Standard introduces the following five-step model that applies to revenue from contracts with customers:
Step 1: Identify the contract(s) with a customer, including reference to contract consolidation and accounting for contract modifications.
Step 2: Identify the distinct performance obligations in the contract
Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.
Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or by making estimates and assessments.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation over time or at a point in time.

IFRS 15 also establishes the accounting treatment of incremental costs involving obtaining a contract and the costs directly related to fulfilling a contract.

The Standard will apply retrospectively to annual periods beginning on or after January 1, 2017. Early adoption is permitted. The Standard may be applied to existing contracts beginning with the current period and thereafter. No restatement of the comparative periods will be required as long as comparative disclosures about the current period's revenues under existing IFRS are included.

The Company is evaluating the possible impact of the adoption of IFRS 15 but is presently unable to assess their effect, if any, on the financial statements.

d. Changes in accounting policy:

In July 2014, the IFRIC issued a resolution regarding the recognition of deferred taxes in respect of temporary differences relating to asset companies when an entity expects the reversal of the temporary difference to be in the form of sale of shares in the asset company rather than the sale of the asset itself. Based on said IFRIC resolution and given the provisions of IAS 12, the Company is required to recognize deferred taxes both with respect to inside differences arising from the gap between the asset tax base and its carrying amount and with respect to outside differences arising from the gap between the shares' tax base and the investor's share of the net assets of the investee in the consolidated financial statements.

Prior to the date of issuance of said resolution, according to the Company's accounting policy, it recorded deferred taxes in respect of temporary differences based on the tax implications and tax rate applicable to the sale of the shares in the asset company and not to the sale of the asset itself.

The effect of the change in accounting policy in view of the above IFRIC resolution on the Company's financial statements is as follows:

In the consolidated statements of financial position as of 31 December, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Non-current assets:			
Investment properties	397,683	33,817	431,500
Investment properties under construction	52,814	6,286	59,100
Non-current liabilities:			
Deferred taxes	(699)	(40,103)	(40,802)
Total Equity	331,717	-	331,717

In the consolidated statements of financial position as of 30 June, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Non-current assets:			
Investment properties	390,664	30,236	420,900
Investment properties under construction	50,523	6,177	56,700
Non-current liabilities:			
Deferred taxes	-	(36,413)	(36,413)
Total Equity	328,808	-	328,808

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the consolidated statements of income for the year ended 31 December, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Fair value adjustments of investment properties and investment properties under construction	45,085	10,127	55,212
Taxes on income	(1,141)	(10,127)	(11,268)

In the consolidated statements of income for the six months ended 30 June, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Fair value adjustments of investment properties and investment properties under construction	35,942	6,262	42,204
Taxes on income	1,402	(6,262)	(4,860)

NOTE 3:- BUSINESS COMBINATIONS

On December 23, 2013, the Company signed an agreement ("the agreement") for the purchase of 49.5% of the shares of Inverton Enterprises Limited ("Inverton" and "the purchased shares", respectively) in which the Company holds 50.5% and which owns Global LLC from the partner in Inverton ("the seller").

According to the agreement, the Company paid the seller an advance of 3 million US dollars on December 24, 2013. The outstanding consideration of $ 25.6 million was paid on March 4, 2014 and an additional amount of $ 2.5 million was paid in April 2014. The closing of the transaction was in March 2014, the joint venture agreement between the Company and the seller was terminated and as a result, the Company obtained control in Inverton and started to consolidate its financial statements.

As part of the transaction for obtaining control, the seller undertook to pay its share of the liability to the municipality of Yaroslavl if this payment is demanded in the next four years. As a result, an indemnification asset in a total of $ 5,737 thousand was recognized.

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

The fair value of the identifiable assets and liabilities of Inverton on the acquisition date:

	Fair value US dollars in thousands
Cash and cash equivalents	7,009
Other assets	2,119
Investment properties	109,800
	118,928
Loan from bank	21,419
Other liabilities	1,926
Deferred taxes	16,127
Other non-current liabilities	12,700
Loans from related parties	5,948
	58,120
Net identifiable assets	60,808
Assignment of loans from related parties to the Company	2,614
Profit from obtaining control	(7,326)
Total acquisition cost	56,096

The fair value of investment property was determined by external appraiser. A loan from bank was received close to the balance sheet date; therefore the carrying amount is equal to its fair value. The balances of cash and cash equivalents, trade receivables and other receivables, trade payables and other payables are approximate their fair value.

The total cost of the business combination amounted to $ 56,096 thousand and comprised a cash payment of $ 31,149 thousand (of which an amount of $ 3 million was paid in December 2013), less an indemnification asset receivable from the seller in a total of $ 5,737 thousand and an amount of $ 30,684 thousand which reflects the fair value of the existing investment in the acquire on the date of obtaining control.

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

Cost of acquisition:

	Fair value US dollars in thousands
Cash paid	31,149
Fair value of existing investment at acquisition date	30,684
Indemnification asset	(5,737)
Total	56,096
Cash flow on the acquisition:	
Cash and cash equivalents in Inverton at the acquisition date	7,009
Cash paid during the period	(28,149)
Cash from obtaining control paid during the period	(21,140)
Cash paid during 2013, as advance	(3,000)
Net cash	(24,140)

From the date of obtaining control, Inverton has contributed to the consolidated net income and the consolidated revenues an amount of $4,019 and $3,891 thousands, respectively. If the business combination had taken place at the beginning of the year, the consolidated net income and the consolidated revenues turnover would have amounted to $ 3,300 thousand and $ 50,187 thousand, respectively. The gain from obtaining control in Inverton amounted to $ 702 thousand and included a gain from a bargain purchase of $ 7,326 thousand and a loss of $ 6,624 thousand from the release of a foreign currency translation reserve accumulated on the investment on the date of obtaining control.

NOTE 4:- FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair values of financial instruments as of June 30, 2014:

	Carrying amount	Fair Value
	U.S. dollars in thousands	
Financial liabilities:		
Debentures (series A)	4,518	4,676
Debentures (series B)	17,589	17,608
Debentures (series C)	58,194	61,495
Debentures (series D)	63,691	68,668
Debentures (series E)	112,782	122,217
	256,774	274,664

NOTE 5:- SEGMENTS

Six months ended 30 June 2014:	Commercial	Residential	Total
		Unaudited	
		U.S. dollars in thousands	
Segment revenues	28,547	17,752	46,299
Segment results	30,309	(2,145)	
Unallocated expenses			(4,109)
Finance costs, net			(22,637)
Profit before taxes on income			1,418

Six months ended 30 June 2013 (unaudited):	Commercial	Residential	Total
		U.S. dollars in thousands	
Segment revenues	22,896	931	23,827
Segment results	57,776	(2,689)	55,087
Unallocated expenses			(3,946)
Finance expenses, net			(42,281)
Profit before taxes on income			8,860

Year ended 31 December 2013	Commercial	Residential	Total
		Unaudited	
		U.S. dollars in thousands	
Segment revenues	47,760	56,050	103,810
Segment results	88,689	2,925	91,614
Unallocated expenses			(8,807)
Finance expenses, net			(65,332)
Profit before taxes on income			17,474

NOTE 6: - MATERIAL EVENTS DURING THE PERIOD

a. Following the matters discussed in Note 25b to the Company's annual financial statements, in relation to certain events which have occurred between Russia and the Ukraine and may have a significant impact on the Russian economy which cannot be foreseen at this stage. Since the beginning of the year, various western countries have imposed sanctions on Russia, all of which have impacted the Russian economy, thus making it unpredictable. As of the date of the financial statements, Russia's credit risk rating was decreased by Standard & Poor's which resulted in the raising of the interbank interest rate by the Central Bank of Russia. From the beginning of the year, the Russian Ruble weakened in relation to the US dollar by about 3%. After the balance sheet date and until the publishing of the financial statements, the Russian Ruble weakened in relation to the US dollar by additional 7%. The continued devaluation of the Ruble might have a negative effect on the Company's equity.

b. On March 30, 2014 the Company's sub-subsidiary Global 1 LLC entered into loan agreement with the Bank of Moscow ("Bank"), pursuant to which the bank will provide credit to the sub-subsidiary up to the amount of $ 49 million for the purpose of refinancing of Vernissage Mall project. The loan is for the period of seven years, after which it will be possible to extend the loan period by three years. The loan principal is to be paid in quarterly installments, with the last payment representing 49% of the loan balance. The loan bears fixed annual interest rate of 7.75%, which is to be payable on quarterly basis.

   The loan is secured by various mortgages, charges, pledge of lease area in Vernissage Mall, pledges and other customary security interests for the benefit of the bank. Additional terms of the loan include the securities and a guarantee provided by the Company.

   The Company undertook to maintain an LTV for the project of no more than 70% and an occupancy rate of more than 90%, in order to comply with the debt service coverage ratio, which shall be no less than 1.35.

   As of June 30, 2014 the Company is in compliance with the above financial covenants.

c. On March 14, 2014 the limited liability company Inomotor, a 61% owned subsidiary of the Company, has entered into the $ 18 million loan refinancing agreement with SberBank (the "Bank"). The loan bears a fixed annual interest rate of 7.7%, payable quarterly. The Loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 50% at the end of the term. The Company needs to comply with LTV of 60%.

   The Loan is secured by various mortgages, charges, pledge of 10,000sqm office development investment asset in Moscow, pledges and other customary security interests for the benefit of the Bank and entered into by both Inomotor and the Company.

   As of June 30, 2014 the Company is in compliance with the above financial covenant.

d. On May 7, 2014 the limited liability company Avtoprioritet, a 51% owned subsidiary of the Company, has entered into the $ 26 million loan refinancing agreement with Nordea Bank (the "Bank"). The loan bears a variable annual interest rate of Libor + 6.85%, payable quarterly. The Loan will be repaid within five years through regular quarterly payments and a final balloon payment of 73% at the end of the term. The Company needs to comply with LTV of 65% and DSCR of not less than 1.2.

NOTE 6: - MATERIAL EVENTS DURING THE PERIOD (Cont.)

The Loan is secured by various mortgages, charges, pledge of 11,000sqm office development investment asset in Moscow, pledges and other customary security interests for the benefit of the Bank and entered into by both Avtoprioritet and the Company.
As of June 30, 2014 the Company is in compliance with the above financial covenants.

e. On May 12, 2014, the Company fully repaid credit from banks, secured through irrevocable guarantees of the controlling shareholders in an amount of approximately $ 20 million.

f. Further to that set forth in the Company's financial statements as of December 31, 2013, in connection with the cancellation of the Skyscraper Project's long-term lease agreement, it should be noted that after the Company's sub-subsidiary, which owns the rights to the project, took all reasonable actions available to it, including legal actions to defend its position regarding the cancellation of the long-term lease agreement, all such claims which were filed with various levels of courts were denied.
The Company has fully deducted the asset from its financial statements as of December 31, 2012.

NOTE 7: - SUBSEQUENT EVENTS

On July 7, 2014 Maalot S&P re-approved the rating of the Company as BBB+ Stable.

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