14 May 2014

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2014

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 three months ended 31 March 2014.

Financial Highlights:

- Total revenues up 134% to US$27.6 million (31 March 2013: US$11.8 million) due to the additional recognition of revenues from our Triumph Park project;
- High occupancy rate of 96% across the investment portfolio along with the positive impact of rental indexation;
- Net operating income (“NOI”) from investment properties (Company's share) up 29% to US$9.0 million (31 March 2013: US$7.0 million);
- Gross profit up 76% to US$10.2 million (31 March 2013: US$5.8 million) ;
- EBITDA increased 63% to US$6.2 million (31 March 2013: US$3.8 million);
- Net profit of US$10.8 million (31 March 2013: US$0.5 million) due to 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 in Yaroslavl, which has given Mirland 100% control over the asset;
- Total assets of US$908.5 million up by 7% (31 December 2013: US$853.1 million), of which 90% are property and land assets;
- Total equity reached US$323.0 million (31 December 2013: US$331.7 million), equating to 36% of total assets;
- Net leverage remained low at 45.4% of total assets (31 December 2013: 41.9%).

Operational Highlights
Residential:

Triumph Park, St. Petersburg

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

- Phase I: All 510 apartments pre-sold, representing income of approximately US$66 million, 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, to date we have pre sold 549 out of a total of 630 apartments (circa 87% of the scheme) representing sales of approximately US$72 million. Completion is expected by Q4 2014;
- Phase III: Strong sales launch in Q4 2013, with 435 out of 1,346 homes pre-sold, totalling circa 32% of the scheme, representing sales of approximately US$48 million.

Western Residence, Perkhushkovo, Moscow

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

Retail:

- We successfully acquired the remaining 49.5% and consolidated control of the Vernissage Mall in Yaroslavl, bringing our interest in the project to 100%. The asset is fully consolidated in our books from March 31, 2014;
- Both regional shopping centres, Vernissage Mall and Triumph Mall in Saratov, are 100% occupied and continue to report high levels of footfall. Quarterly NOI was up 16% to US$5.0 million (Q1 2013: US$ 4.3 million), the strongest ever performance from the retail portfolio;
- Planning at advanced stages to extend Vernissage Mall by an additional 30,000 sqm.

Offices:

- 93% average occupancy rate at the MirLand Business Center. Quarterly like for like NOI up 49% to US$4.0 million.

Nigel Wright, Chairman, commented:

“We have had an extremely busy and successful first quarter, delivering significant increases in all our key financial metrics, and completing a number of landmark transactions in line with our strategy. We focused on diversifying our sources of funding and I was particularly pleased to conclude three separate financing or refinancing arrangements, all agreed on highly attractive terms, reflecting the ongoing strength of our business.

“Our highly sustainable Triumph Park development continues to experience significant levels of customer demand, with strong pre-sales and construction continuing on schedule. We completed the handover of Phase I in March this year, and have received positive feedback from the new residents.

"Our commercial investment portfolio has also continued to perform strongly, with the retail portfolio recording its best ever results. Occupancy rates across the entire portfolio remain high at 98%.

"The broader Russian economy remains challenging with a reduction in projected GDP growth, and weakening of the Rouble against the US Dollar. Such factors are likely to have a macro effect on the Russian property market, and this may affect the future market environment despite our underlying business performing well. However, through the recent refinancing arrangements, we are strongly positioned to take advantage of the current point in the cycle, and will continue to generate value on behalf of our shareholders."

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MirLand has continued to deliver solid progress during the first quarter 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.

FINANCING

During the period, net leverage slightly increased to 45.4% of total assets (31 December 2013: 41.9%) but still remains relatively low. Total net borrowings amounted to US$412.5 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, following the Company's decision in December 2013 to consolidate the control of Vernissage mall by acquiring the remaining 49.5% of the shares in the Project which it did not already own, the 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 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.
2. In May, 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 11,000sqm office development investment asset in Moscow. The loan, which bears 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.
3. In April, 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.

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 83% of the flats pre-sold and build completion expected by the end of the year. Construction and sales of Phase III started in

October with a strong sales launch resulting in 435 (32% of the scheme) apartments being pre-sold in the first seven months since launch. The prices that the Company is achieving on the pre-sales of these later phases of the project are ahead of the rate of inflation as the scheme has progressed, underpinning good levels of profitability for the project.

The launch of Phase IV of the project with approximately 1,400 additional units is scheduled for the second half of 2014.

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 occupancy rate in the MirLand Business Centre remains high at circa 93%. The retail portfolio again enjoyed its strongest ever operating performance, with net operating income up 16% to US$5 million compared to the same quarter 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.

MARKET UPDATE

Expected revised GDP growth will be less than 0.5% in 2014 according to the Russian Ministry of Finance, with inflation expected to exceed 7% as a result of Rouble devaluation. However, the low unemployment rate of 5.6% remains a major strength and Russian Government debt as a proportion of GDP remains low at 13%, compared with 87% in the EU.

The Rouble has weakened approximately 9.0% against the US Dollar in the first quarter, and the price of Urals oil was trading at an average of US$108.3 per barrel for the year to date. In addition, the Bank of Russia raised its key lending rate to 7.5%.

Capital outflows reached US$50.6 billion in 1Q14 from US$27.5 billion in 1Q13, with the Russian Ministry of Economy predicting capital outflows could reach US$100 billion in 2014.

Real Estate market

In the first quarter, the total investment volume in Russia reached US$1.05 billion, materially below that recorded in the same period in 2013, with a projection for 2014 of US$5 billion. Cap rates in Moscow mostly remain stable: 9.25% in retail, 8.25% in the office sector (8.5% in 2013), and 11% in the industrial sector, although these may soften in the first half of 2014. Continuing geo-political concerns surrounding events in the Ukraine may adversely affect investor sentiment over the coming period and, based on valuer reports on the market, we anticipate that there may be a small rise in capitalization rates over the coming period which may lead to a modest but manageable softening in valuations of yielding assets.

Investment activity tended to concentrate around developed markets such as Moscow and St. Petersburg, as regional investment volumes remained under 10%. The share of international investors is expected to decrease to 2011-2012 levels of approximately25%.

Office segment

In the first quarter the average vacancy rate increased 0.5 percentage points to 12.7%; this may increase further by the year end as supply is expected to be higher than demand,. The average rental rate for quality space was slightly lower than at the end of 2013, with a Class A average of US$800/sqm and a Class B average of US$500/sqm (compared to US$860/sqm and US$530/sqm respectively). The new construction of quality space in Moscow is expected to reach circa 700,000 sqm in comparison to 892,000 sqm in 2013.

Retail segment

Vacancy rate increased in the first quarter to 2.5% (from 1%) whilst rental rates were stable both in Moscow and the regions. The construction volume of new retail space is high – nine new shopping centres (GLA 354,000 sqm) opened in the first quarter across Russia (six during Q1 2013). According to the C&W forecast, approximately 1.9 million sqm will be delivered in 2014, which is higher than the record level seen in 2008 (1.85 million sqm). In the first quarter, rental rates for gallery space in Moscow (US$500-4000/sqm per year) and the regions remained stable (30-60% below Moscow levels). Demand from retailers remains strong, as existing retailers looking to expand their presence across Russia. Visitor levels to Moscow's shopping centers stayed high, supported by consumer sentiment and real disposable income growth of 2.1% compared to August 2012.

Residential segment

The mortgage market is growing based on first quarter figures (203.5 million Roubles which is 1.4% higher than Q1 2013), and a positive trend in market prices has continued. The difference in rates varies according to the project's location from 1.9% to 5.9%.

The residential sector remains stable with positive trends, despite the devaluation of the Rouble. 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, although this is expected to grow to 31 sqm by 2020.

Logistics segment

Despite the slowdown in GDP growth, demand for warehouse facilities remains high, with a 2% vacancy rate for Class A. In the first quarter, 240,000 sqm of quality warehouse space were delivered in Moscow – a record volume for the past five years (quarterly average was 120-160,000 sqm). In general, rental rates for the quarter remained stable with an average of US$130-135/sqm for Class A warehouses.

Outlook

We have had an extremely busy and successful first quarter, delivering significant increases in all our key financial metrics, and completing a number of landmark transactions in line with our strategy. Our commercial investment portfolio has continued to perform strongly, with the retail portfolio recording its best ever results. Occupancy rates across the entire portfolio remain high at 96% and we are confident that the portfolio will generate increasingly strong returns. Demand for high quality new homes in St. Petersburg is driving customer interest in Triumph Park, and we are particularly pleased with the high sales rates we have achieved.

The ongoing situation in the Ukraine is still uncertain, and we continue to monitor developments closely. We do not presently anticipate any significant adverse effect on our business. The broader Russian economic outlook does however remain challenging, with low forecast GDP growth, and continuing weakening of the Rouble against the US Dollar. Such factors are likely to have a macro effect on the Russian property market, and this may modestly affect the future market environment despite the underlying strength of our own portfolio, which is performing well. In light of this, we have however taken prudent steps through our recent refinancing arrangements to ensure we remain well positioned to take advantage of any weakening in the market, and are confident that we will continue to generate value on behalf of our shareholders.

Nigel Wright	**Roman Rozental**
Chairman	**Chief Executive**
14 May 2014	**14 May 2014**

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March		31 December
	2014	**2013**	**2013**
	Unaudited		**Audited**
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	62,556	30,576	66,154
Restricted bank deposits	-	695	-
Trade receivables	1,549	969	1,472
Other receivables	8,213	7,666	7,277
VAT receivable	4,575	4,235	4,147
Inventories of buildings for sale	179,420	201,144	180,157
Loans granted to associates	-	3,140	3,274
	256,313	248,425	262,481
NON-CURRENT ASSETS:			
Investment properties	488,524	390,976	397,683
Investment properties under construction	50,999	52,268	52,814
Inventories of buildings for sale	97,759	75,064	99,564
VAT receivable	360	413	415
Fixed assets, net	1,387	978	966
Other long term receivables	7,189	2,358	2,496
Prepaid expenses	537	543	615
Deferred taxes	5,393	2,881	2,244
Investment in companies accounted for at equity method	-	26,491	33,789
	652,148	551,972	590,586
TOTAL ASSETS	908,461	800,397	853,067

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

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March		31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks	19,717	79,266	19,635
Current maturities of long-term loans from banks and debentures	64,922	47,048	58,797
Credit from banks for financing of inventory of buildings for sale	11,309	14,462	9,730
Government authorities	3,242	2,451	2,962
Trade payables	9,881	9,496	7,629
Deposits from tenants	3,675	2,983	4,090
Advances from buyers	71,927	91,281	75,684
Other accounts payable	4,345	1,269	1,282
	189,018	248,256	179,809
NON-CURRENT LIABILITIES:			
Loans from banks and others	173,767	90,161	129,123
Debentures	205,314	116,423	206,606
Other non-current liabilities	17,327	4,848	5,113
Deferred taxes	-	-	699
	396,408	211,432	341,541
TOTAL LIABILITIES	585,426	459,688	521,350
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	12,427	12,186	12,396
Capital reserve for transactions with controlling shareholders	8,556	8,391	8,556
Foreign currency translation reserve	(78,633)	(48,111)	(61,523)
Accumulated deficit	(10,283)	(22,105)	(18,444)
	292,906	311,200	301,824
Non-controlling interest	30,129	29,509	29,893
TOTAL EQUITY	323,035	340,709	331,717
TOTAL EQUITY AND LIABILITIES	908,461	800,397	853,067

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

INTERIM CONSOLIDATED INCOME STATEMENTS

	Three months ended 31 March		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands (except earnings (loss) per share data)		
Rental income from investment properties	11,716	10,974	46,255
Income from sale of inventories	15,504	478	56,050
Revenues from management fees	357	397	1,505
Total revenues	27,577	11,849	103,810
Cost of sales of inventories	13,630	802	46,680
Cost of maintenance and management	3,717	5,281	17,370
Gross profit	10,230	5,766	39,760
General and administrative expenses	3,299	3,029	13,282
Marketing expenses	1,610	871	5,389
Fair value adjustments of investment properties and investment properties under construction	31,749	12,582	45,085
Other expense, net	(1,696)	(319)	(1,086)
Group's share in earnings of associates and gain from obtaining control in company previously accounted for using the equity method	4,009	1,508	7,591
Operating profit	39,383	15,637	72,679
Finance income	276	236	1,080
Finance costs	(8,281)	(5,860)	(32,445)
Net foreign exchange differences	(23,719)	(9,984)	(33,967)
Profit before taxes	7,659	29	7,347
Taxes on income (tax benefit)	(3,188)	(482)	1,141
Net profit	10,847	511	6,206
Attributable to:	8,161	(322)	3,339
Equity holders of the parent	2,686	833	2,867
Non-controlling interest	10,847	511	6,206
Basic and diluted net earnings (loss) per share attributable to equity holders of the parent (US dollars)	0.08	(0.003)	0.03

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended 31 March 2014	Three months ended 31 March 2013	Year ended 31 December 2013
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
Net profit	10,847	511	6,206
Other comprehensive income (loss) (net of tax effect):			
<u>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</u>			
Transfer of currency translation reserve to income statement for obtaining control in companies previously accounted for using the equity method	6,624	244	244
Exchange differences on translation of foreign operations	(22,886)	(6,192)	(19,450)
Group's share of net other comprehensive loss of companies accounted for the equity method	(3,298)	(759)	(2,562)
Total other comprehensive loss	(19,560)	(6,707)	(21,769)
Total comprehensive loss	(8,713)	(6,196)	(15,563)
Attributable to:			
Equity holders of the parent	(8,949)	(6,147)	(15,898)
Non-controlling interest	236	(49)	335
	(8,713)	(6,196)	(15,563)

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

INTERIM 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
	Unaudited								
	U.S. dollars in thousands								
At 1 January 2014(audited)	1,036	359,803	12,396	8,556	(61,523)	(18,444)	301,824	29,893	331,717
Net profit for the year	-	-	-	-	-	8,161	8,161	2,686	10,847
Other comprehensive loss	-	-	-	-	(17,110)	-	(17,110)	(2,450)	(19,560)
Total comprehensive income (loss)					(17,110)	8,161	(8,949)	236	8,713
Share-based payments	-	-	31	-	-	-	31	-	31
At 31 March 2014	1,036	359,803	12,427	8,556	(78,633)	(10,283)	292,906	30,129	323,035

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Currency translation reserve	Retained earnings (accumulated deficit)	Total equity attributable Total equity attributable to equity parent	Non Controlling interest	Total equity
	Unaudited								
	U.S. dollars in thousands								
At 1 January 2013(audited)	1,036	359,803	12,186	8,391	(42,286)	(21,783)	317,347	-	317,347
Net profit (loss) for the year	-	-	-	-	-	(322)	(322)	833	511
Other comprehensive loss	-	-	-	-	(5,825)	-	(5,825)	(882)	(6,707)
Total comprehensive loss, net	-	-	-	-	(5,825)	(322)	(6,147)	(49)	(6,196)
Obtaining control in companies accounted for the equity method	-	-	-	-	-	-	-	29,558	29,558
At 31 March, 2013	1,036	359,803	12,186	8,391	(48,111)	(22,105)	311,200	29,509	340,709

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	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
	Audited								
	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	-	-	-	-	-	-	-	29,558	29,558
Equity component of transaction with controlling shareholders	-	-	-	165	-	-	165	-	165
Share-based payments	-	-	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 CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended 31 March		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net profit	10,847	511	6,206
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	(4,037)	(597)	652
Depreciation and amortization	44	141	230
Finance costs	31,724	15,608	65,332
Share-based payment	31	-	210
Fair value adjustment of investment properties and investment properties under construction	(31,749)	(12,582)	(45,085)
Loss due to obtaining control in company previously accounted for using the equity method	-	244	244
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)	(1,508)	(7,591)
Gain from sale of investment property under construction	-	-	(548)
	2,851	1,306	13,444
Working Capital adjustments:			
Decrease in trade receivables	1,456	1,843	2,491
Decrease (increase) in VAT receivable and others	(999)	528	(36)
Increase in inventories of buildings for sale	(11,157)	(8,498)	(16,767)
Increase (decrease) in trade payables	760	(79)	450
Increase in other accounts payable	1,834	14,846	5,558
	(8,106)	8,640	(8,304)
Interest paid	(6,173)	(6,239)	(28,247)
Interest received	88	-	430
Taxes paid	(310)	(138)	(344)
	(6,395)	(6,377)	(28,161)
Net cash flows generated from (used in) operating activities	(11,650)	4,080	(16,815)

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended 31 March		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Additions to investment properties	-	(278)	(6,466)
Additions to investment properties under construction	(1,327)	(1,013)	(1,125)
Purchase of fixed assets	(36)	(125)	(389)
Cash from obtaining control in companies previously accounted for using the equity method (a)	(18,640)	86	86
Loans granted to related parties	(140)	(70)	(890)
Settlement of restricted deposit, net	-	424	1,119
Proceeds from repayment of loans granted to companies accounted for using the equity method	-	16	-
Proceeds from sale of investment property under construction	-	-	3,973
Advance paid for the acquisition of subsidiary	-	-	(3,000)
Net cash flows used in investing activities	(20,143)	(960)	(6,692)
Cash flows from financing activities:			
Receipt of loans from banks and others, net	41,931	15,296	124,456
Repayment of loans from banks and others	(12,609)	(13,156)	(156,768)
Issuance of debenture, net	-	-	125,267
Repayment of debentures	-	-	(28,685)
Net cash flows generated from financing activities	29,322	2,140	64,270
Exchange differences on balances of cash and cash equivalents	(1,127)	(353)	(278)
Increase (decrease) in cash and cash equivalents	(3,598)	4,907	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	62,556	30,576	66,154

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended 31 March		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
(a) Cash generated from obtaining control in companies accounted for 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	(93,673)	(85,760)	(85,760)
Other receivables	(49)	(71)	(71)
Fixed assets, net	(313)	-	-
Deferred taxes	(20)	(119)	(119)
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 asset	(5,737)	-	-
Payables on account of obtaining control in company preciously accounted for using equity method	2,500	-	-
Foreign currency translation reserve	6,624	244	244
Non-controlling interests	-	29,558	29,558
Loss from obtaining control in companies previously accounted for using the equity method	702	(244)	(244)
Investment in associates	33,727	35,997	35,997
Loans granted to associates	3,334	-	-
	(18,640)	86	86
(b) Significant non-cash transactions:			
Obtaining control in companies accounted for the equity method against offset of loans previously granted	-	600	600
Payables on account of obtaining control in company previously accounted for using equity method	2,500	-	-
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 31 March 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, free cash flow from commercial projects and obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 31 March 2013 amounting to approximately $ 67 million.

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.

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.

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	93,673
	102,801
Loan from bank	21,419
Other liabilities	1,926
Other non-current liabilities	12,700
Loans from related parties	5,948
	41,993
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 $ 28,609 thousand (of which an amount of $ 3 million was paid in December 2013), a debt payable of $ 2.5 million which was settled in early April 2014, 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	28,649
Payables on account of obtaining control in company previously accounted for using equity method	2,500
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	(25,649)
Cash from obtaining control paid during the period	(18,640)
Cash paid during 2013, as advance	(3,000)
Net cash	(21,600)

From the date of obtaining control, Inverton has not contributed to the consolidated net income or the consolidated revenues. 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 $ 13,823 thousand and $ 31,465 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:- SEGMENTS

	Commercial	Residential	Total
		Unaudited	
Three months ended 31 March 2014:		U.S. dollars in thousands	
Segment revenues	12,073	15,504	27,577
Segment results	38,859	212	39,071
Unallocated income			312
Finance costs, net			(31,724)
Profit before taxes on income			7,659

NOTE 4:- SEGMENTS (Cont.)

	Commercial	Residential	Total
		Unaudited	
Three months ended 31 March 2013:		U.S. dollars in thousands	
Segment revenues	11,371	478	11,849
Segment results	18,869	(1,346)	17,523
Unallocated expenses			(1,886)
Finance costs, net			(15,608)
Profit before taxes on income			29

	Commercial	Residential	Total
		Unaudited	
Year ended 31 December 2013		U.S. dollars in thousands	
Segment revenues	47,760	56,050	103,810
Segment results	78,561	2,925	81,486
Unallocated expenses			(8,807)
Finance Income, net			(65,332)
Loss before taxes on income			7,347

NOTE 5: - MATERIAL EVENTS DURING THE PERIOD

a. Following the matters discussed in Note 25b to the Company's annual financial statements, the present and future developments in the Ukraine due to the political instability in the country may have a significant impact on the Russian economy which cannot be foreseen at this stage.

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 9%. The continued devaluation of the Ruble might have a negative effect on the Company's equity.

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

b. On March 20, 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 annual interest in rate 7.75%, which is to be payable on quarterly basis.

   The loan is secured by various mortgages, charges, pledge of lease area in Yaroslavl, 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.

NOTE 6: - SUBSEQUENT EVENTS

a. 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.

b. On May 7, 2014 the limited liability company Avtoprioritet, a 51% owned subsidiary of the Company, has entered into the 26 million US dollars loan refinancing agreement with Nordea Bank (the "Bank"). The loan bears a variable 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 70% and DSCR of not less than 1.2.

   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.

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