12 November 2014

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

MirLand, one of the leading international residential and commercial property developers in Russia, announces its interim results for the nine months ended 30 September 2014.

Financial Highlights:

- Total revenues up 33% to US$61.8 million (30 September 2014: US$46.3 million) due to the further revenue recognition from the Triumph Park project, increase in revenues of the yielding assets and full consolidation of the Vernissage Mall in Yaroslavl;
- Net operating income (“NOI”) from investment properties (Company's share) up 25% to US$29.9 million (30 September 2013: US$24.0 million) due to increase in revenues, decrease of operating expenses and full consolidation of the Vernissage Mall in Yaroslavl;
- Gross profit increased 34% to US$31.4 million (30 September 2013: US$23.4 million);
- EBITDA increased 23% to US$17.7 million (30 September 2013: US$14.4 million);
- Net profit of US$25.9 million (30 September 2013: US$0.6 million) due to fair value adjustments of investment properties following appreciation of the US Dollar against the Rouble of approximately 20.3% which resulted in nominal appreciation of commercial assets at the same rate (in real terms, the yielding assets depreciated by approximately US$19 million following 0.5% increase of CAP rates in the Russian real estate market), increased operational profitability and recognition of revenues in residential projects, which were offset by net foreign exchange losses of US$45.1 million;
- Total assets increased 15% to US$1,015.6 million, of which 88% are property and land assets, surpassing US$1 billion, (31 December 2013: US$893.2 million),
- Total equity of US$306.8 million (31 December 2013: US$331.7 million), equating to 30% of total assets;
- Net leverage remains low at 41.4% of total assets (31 December 2013: 40.1%).

Operational Highlights
<u>Residential:</u>

Triumph Park, St. Petersburg

Sales continue at a high rate with pricing of later phases increasing ahead of inflation:

- Phase I: All 510 apartments have been 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 have been completed;
- Phase II: Launched in Q3 2012. To date 601 out of a total of 630 apartments (circa 95% of the scheme) have been pre-sold representing sales of approximately US$70.1 million. An occupancy permit was received from the relevant authorities and the handover of apartments to owners will start this month and is expected to be completed in the first half of 2015;
- Phase III: Strong sales launch in Q4 2013, with an additional 128 apartments sold. 686 out of 1,346 homes now pre-sold, totalling circa 51% of the scheme, representing sales of approximately US$69.5 million ;
- Phase IV: Construction of 1,244 units commenced in Q3, sales programme due to commence in Q1 next year in order to maximise sales prices.

Western Residence, Perkhushkovo, Moscow

- Sales of a further two houses at our Western Residence development in Perkhushkovo, Moscow, since 30 June 2014, taking the total number of units sold to 35 of the 77 houses in the scheme.

Retail:

- Strong operating performance from retail portfolio with nine month NOI on the Vernissage Mall and Triumph Mall up 24% (6% increase in like for like NOI) to US$17.9 million (Nine months 2013: US$ 14.4 million), the strongest ever performance;
- Planning progressing to extend Vernissage Mall by an additional 30,000 sqm., and construction permits have now been received.

Offices:

- Strong average occupancy rate of 89% at the MirLand Business Center. Nine months like for like NOI up 25% to US$12.0 million.

Nigel Wright, Chairman, commented:

"It is once again pleasing to report significant progress in our underlying business for the third quarter, evidenced by material increases in revenues, net operating income and profitability. We continue to achieve a high volume of sales at our key residential development project, Triumph Park, St. Petersburg, and occupancy levels remain high throughout our retail and office investment properties.

"Whilst this is highly encouraging, extraneous factors over which we have no control are again likely to have some adverse impact on the current quarter and into 2015, as ongoing Rouble devaluation has an adverse effect on some of our tenants. We remain optimistic about our core business activities but of course cannot ignore the possible effects of continuing sanctions and low oil prices on the Russian economy as a whole."

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MirLand has continued to deliver excellent progress during the first nine months 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 increased marginally to 41.4% of total assets (31 December 2013: 40.1%) but still remains in line with the Board's conservative view on gearing. Total net borrowings amounted to US$420.7 million (31 December 2013: US$357.7 million).

Since the Company's half year results, we have made further progress in successfully securing new bank financing or refinancing agreements. These were all secured on highly attractive terms, and were in line with our strategy of diversifying our funding sources whilst keeping long term leverage at a relatively low level, with net leverage currently at 41.4%. Further details are set out below:

1. In September 2014, the Company issued new debentures (Series F) in the total amount of NIS142.6 million (approximately US$39.2 million). The Series F debentures bear an annual fixed interest rate of 5.5% and have been rated by Midroog at "ilBaa1/Stable". The debentures are repayable in five unequal annual payments, the first four payments are 5% of the principal amount and the fifth payment is 80% of the principal amount, payable on 30 September of each year from 2015 to 2019 (inclusive).
2. In September 2014, the Company successfully financed the fourth phase of 1,244 apartments at Triumph Park. Petra 8 LLC ("Petra"), a wholly owned subsidiary, entered into a loan agreement with SberBank, which also financed the previous three phases of this project. The loan agreement comprises a non-revolving credit line of up to US$87 million which will provide approximately 75% of the expected phase four construction costs, with the balance financed from sale proceeds. The loan fulfills the outstanding funding requirements for this latest phase of the project, and will be provided to Petra in tranches over the next three years, secured by way of mortgage, charge, pledge and other appropriate security interests for the benefit of the Bank. The Loan, which matures in four years, is in addition to three facilities previously granted by the Bank to Petra, the outstanding balance of which, to date, is approximately US$2.5 million.

   The net proceeds of the Series F Bonds issuance, as well as loans obtained by subsidiaries, will be applied for general working capital purposes and repayment of certain financial liabilities including, inter alia, Bonds and loans provided to subsidiaries in Russia.

Following a sharp quarterly devaluation of 17.1% of the Russian Rouble against the US Dollar, the Company recorded an exceptional nominal revaluation gain of US$93.4 million and nominal foreign exchange loss of US$ 55.8 million, in its Q3 2014 profit and loss statement. This nominal revaluation gain and nominal foreign exchange loss, had no impact on the Company's US Dollar denominated investment properties and loans provided to the Company's subsidiaries, respectively.

OPERATIONAL UPDATE

Good progress continues to be achieved in the pre-sale, build and delivery of Triumph Park in St. Petersburg, the Company's BREEAM certified sustainable residential project. Construction of Phase II has now completed, ahead of schedule with approximately 95% of the flats pre-sold, and delivery expected to start this month. Sales have continued to be strong on Phase III of the scheme, with 686 (51% of the scheme) apartments pre-sold in the first year of sales, and a further 128 apartments sold since the half year. The Company is continuing to achieve sales prices on these later phases ahead of the rate of inflation, underpinning the strong levels of profitability for the project.

The construction of Phase IV of the project representing a further 1,244 units commenced in Q3 2014, and we expect to launch the sales programme in the first quarter of 2015.

The Western Residence residential development scheme at Perkhushkovo, Moscow, has also maintained momentum with two further houses sold since the half year, taking total sales in 2014 to five houses. This takes the number now sold to 35 of a total of 77 houses in the scheme.

Our Vernissage Mall and Triumph Mall assets continue to be fully let, with footfall remaining high at both. The retail portfolio enjoyed its strongest ever operating performance, with net operating income up 24% to US$17.9 million compared to the same nine months last year. Our plans to gain a planning permission to increase the Vernissage Mall by an additional 30,000 sqm remain on track.

Occupancy at the MirLand Business Centre remains strong at circa 89% of the total lettable space, which is above the market average.

MARKET UPDATE

Although we are still seeing strong consumer demand for our product, the wider Russian economy remains challenging. Falling oil prices have had a major impact, as oil revenue makes up about half of the Russian state budget revenue, while sanctions imposed by the West have almost shut the global financial markets to Russian companies. In the short-term, the falling oil price will continue to weigh negatively on the Russian economy.

The Rouble has weakened by more than 30% since the beginning of the year, falling from 33.6RUB/USD in June 2014 to 39.4 RUB/USD at the end of September 2014, and reaching 46RUB/USD at the beginning of November 2014. The oil price fell from 110 USD/bbl in June 2014 to 94.7 USD/bbl at the end of 3Q14 and 82.3USD/bbl at the beginning of November 2014.

Inflation is currently at a 3-year high of 8% and the Central Bank of Russia (CBR) has intervened heavily, spending about US$30 billion of foreign currency since the start of October 2014, totalling approximately US$70 billion. The CBR has increased the interest rate for the fourth time this year to 9.5%, on the back of rising inflationary expectations.

Russian GDP grew by 0.5% in the third quarter and the Russian Government expects growth of 1.2% in 2015 and 2.3% in 2016. However, the World Bank has predicted slower growth of 0.3% and 0.4%, respectively.

The unemployment rate reached 5.9% in September 2014. The forecast for 2014 is 6.2%.

Real Estate market

During the third quarter, prime yields increased by 0.5% to 9.25% for offices, prime retail increased 0.25% to 9.5%, and warehouses increased 0.25% to 11.5% (compared to 2Q14).

The total volume of investments in the first nine months of 2014 equalled US$3.7 billion (US$1.3bn in 3Q14), with offices making up US$2.0 billion, representing 55%, of the total. The forecast for 2014 is US$5 billion, with US$5.7 billion forecast for 2015 (a decrease from US$6.5bn).

Russian investors made up most of the deal volume with a 78% share (US$2.9 billion). Investment deals for assets in Moscow comprise more than 90% of total volume at US$3.3 billion.

Offices

Average rental rates are decreasing: Class A has decreased 8% from US$864/sqm to US$800/sqm (per year, triple net) and the Class B average rental rate has decreased 3% to US$516/sqm. According to Cushman & Wakefield, this trend is expected to continue in the coming years.

The average vacancy rate has increased by 1% to 15.1% in 3Q14 (26.6% in Class A and 11.8% in Class B), and is expected to grow further.

Retail

Construction volumes in Moscow and across Russia have hit record levels and 10 high-quality new shopping centres (GLA of 282.9K sqm) opened in 3Q14. The average vacancy rate for retail was 3.3% to 3Q14 and demand for new retail space has decreased significantly due to ongoing economic uncertainty (official estimates of retail turnover dynamics, decreasing footfall and inflation). Rental rates have started to decrease both in Moscow and the regions with average rent currently at US$500-1,800/ sq m/year.

Retail trade increased 1.7% in September 2014 compared to the same period in 2013. Retail trade YoY in Russia averaged 7.22% from 2006 until 2014, however, the forecasted trend is downwards: 2.0% in 2014 and 1.5% in 2015

Residential

The Russian housing market remained stable during 3Q14.

Approximately RUB1,098 billion of mortgages were granted during the first eight months of 2014, which is 37% higher than the same period in 2013. However, market growth has slowed in comparison with 2Q14 as the key refinancing rate reached 8.0% in July 2014 (9.5% at the end of October 2014), along with rising inflation and a stabilization of the market demand for new construction. The average lending rate in September 2014 was 12.32%.

3Q14 delivery of residential projects totalled approximately 658,000 sqm, which is 40% lower than 3Q13. Most of the delivery to the market was in the mass-market segment (81%).

Industrial

A record 940,000 sqm of industrial space was built in Moscow, along with 590,00 sqm built in the regions, during the first nine months of 2014. The vacancy rate increased by 4% to 7% and we have seen a slight compression in the rental rate.

Outlook

The Russian economy remains challenging and is experiencing some turbulence as a result of economic and geo-political uncertainties. Despite Russia’s low debt to GDP ratio, and the RCB’s substantial levels of foreign reserves, a combination of falling currency, rising inflation and slow economic growth suggests that the business environment generally and the economy as a whole will suffer for the remainder of this year and in 2015. The full impact of economic sanctions is unknown and their duration is uncertain. Furthermore we have no way of predicting either how far or for how long these adverse conditions will remain.

We have taken prudent steps to protect our business. Credit conditions will tighten as Russian Banks have difficulty accessing foreign capital markets but we are prudently leveraged and not unduly exposed in this respect. We believe we are well positioned to withstand any foreseeable difficulties. Despite rising mortgage rates, our residential sales are holding up well as buyers continue to seek refuge from a falling Rouble in bricks and mortar. With regard to rental income, we anticipate some reductions in cash flow as tenants seek concessions but again we have factored this into our own Business Plan. Long term we remain positive about both our business and Russia as a whole but inevitably there will be continuing uncertainty at least in the short to medium term.

Nigel Wright	**Roman Rozental**
Chairman	**Chief Executive**
12 November 2014	**12 November 2014**

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 September 2014	30 September 2013	31 December 2013
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	79,449	47,414	66,154
Restricted bank deposits	-	229	-
Trade receivables	2,817	848	1,472
Other receivables	14,843	8,436	7,277
VAT receivable	5,717	5,355	4,147
Inventories of buildings for sale	202,954	213,668	180,157
Loans granted to companies accounted for at equity method	-	3,229	3,274
	305,780	279,179	262,481
NON-CURRENT ASSETS:			
Investment properties	531,500	*) 425,720	*) 431,500
Investment properties under construction	54,300	*) 56,700	*) 59,100
Inventories of buildings for sale	104,891	84,066	99,564
VAT receivable	358	464	415
Fixed assets, net	1,744	927	966
Other long term receivables	12,328	2,334	2,496
Prepaid expenses	520	636	615
Deferred taxes	4,173	*) 2,090	2,244
Investment in companies accounted for at equity method	-	28,810	33,789
	709,814	601,747	630,689
TOTAL ASSETS	1,015,594	880,926	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 September 2014	30 September 2013	31 December 2013
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks and others	-	44,892	19,635
Current maturities of long-term loans from banks and debentures	63,885	41,426	58,797
Credit from banks for financing of inventory of buildings for sale	2,440	8,826	9,730
Government authorities	2,412	2,238	2,962
Trade payables	15,234	8,736	7,629
Deposits from tenants	3,116	2,824	4,090
Advances from buyers	114,388	104,823	75,684
Other accounts payable	1,403	2,301	1,282
	202,878	216,066	179,809
NON-CURRENT LIABILITIES:			
Loans from banks and others	220,224	106,576	129,123
Debentures	213,612	187,521	206,606
Other non-current liabilities	18,247	4,979	5,113
Deferred taxes	53,874	*) 37,438	*) 40,802
	505,957	336,514	381,644
TOTAL LIABILITIES	708,835	552,580	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	12,489	12,186	12,396
Capital reserve for transactions with controlling shareholders	8,556	8,391	8,556
Foreign currency translation reserve	(107,121)	(59,305)	(61,523)
Accumulated deficit	1,673	(24,583)	(18,444)
TOTAL EQUITY CONTRIBUTABL TO EQUITY PARENT	276,436	297,528	301,824
Non controlling interest	30,323	30,818	29,893
TOTAL EQUITY	306,759	328,346	331,717
TOTAL EQUITY AND LIABILITIES	1,015,594	880,926	893,170

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

*) Restated. See Note 2d.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended 30 September		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Rental income from investment properties	41,007	33,671	46,255
Revenues from sale of residential units	17,752	11,487	56,050
Revenues from management fees	3,046	1,115	1,505
Total revenues	61,805	46,273	103,810
Cost of sales and maintenance of residential units	17,383	9,746	46,680
Cost of maintenance and management	12,986	13,165	17,370
Gross profit	31,436	23,362	39,760
General and administrative expenses	(9,973)	(9,133)	(13,282)
Marketing expenses	(2,844)	(2,713)	(5,389)
Fair value adjustments of investment properties and investment properties under construction	82,936	*) 41,553	*) 55,212
Other expense, net	4,247	774	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	5,174	7,591
Operating income	101,317	57,469	82,806
Finance income	1,095	879	1,080
Finance expenses	(26,932)	(23,245)	(32,445)
Net foreign exchange differences	(45,057)	(27,191)	(33,967)
Profit before taxes on income	30,423	7,912	17,474
Taxes on income	4,527	*) 7,313	*) 11,268
Net income	25,896	599	6,206
Attributable to:			
Equity holders of the parent	20,117	(2,800)	3,339
Non-controlling interests	5,779	3,399	2,867
	25,896	599	6,206
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	0.23	(0.03)	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

	Nine months ended 30 September		Year ended 31 December
	2014	**2013**	**2013**
	Unaudited		**Audited**
	U.S. dollars in thousands		
Net income	25,896	599	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	(54,273)	(17,214)	(19,450)
Group's share of net other comprehensive loss of companies accounted for using the equity method	(3,298)	(2,188)	(2,562)
Total other comprehensive loss	(50.947)	(19,158)	(21,769)
Total comprehensive loss	(25,051)	(18,559)	(15,563)
Attributable to:			
Equity holders of the parent	(25,481)	(19,819)	(15,898)
Non-controlling interests	430	1,260	335
	(25,051)	(18,559)	(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	Accumulated deficit	Foreign currency translation reserve	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	(18,444)	(61,523)	301,824	29,893	331,717
Net profit (loss) for the year	-	-	-	-	20,117	-	20,117	5,779	25,896
Other comprehensive loss	-	-	-	-	-	(45,598)	(45,598)	(5,349)	(50,947)
Total comprehensive income (loss)	-	-	-	-	20,117	(45,598)	(25,481)	430	(25,051)
Share-based payments	-	-	93	-	-	-	93	-	93
At 30 September 2014 (unaudited)	1,036	359,803	12,489	8,556	1,673	(107,121)	276,436	30,323	306,759

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	-	-	-	-	(2,800)	-	(2,800)	3,399	599
Other comprehensive loss	-	-	-	-	-	(17,019)	(17,019)	(2,139)	(19,158)
Total comprehensive income (loss), net	-	-	-	-	(2,800)	(17,019)	(19,819)	1,260	(18,559)
Obtaining control in companies accounting in the equity method	-	-	-	-	-	-	-	29,558	29,558
At 30 September 2013 (unaudited)	1,036	359,803	12,186	8,391	(24,583)	(59,305)	297,528	30,818	328,346

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

	Nine months ended 30 September		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Net profit	25,896	599	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	3,338	*) 6,971	*) 10,779
Depreciation and amortization	149	161	230
Finance expenses, net	70,894	49,557	65,332
Share-based payment	93	-	210
Fair value adjustment of investment properties and investment properties under construction	(82,936)	*) (41,553)	*) (55,212)
Group's share in earnings of associates	-	(5,174)	(7,591)
Loss from obtaining control in company accounted for equity method	(4,009)	244	244
Gain from sale of investment property	-	(548)	(548)
	13,425	9,659	13,444
Working capital adjustments:			
Decrease (increase) in trade receivables	(1,078)	1,703	2,491
Increase in VAT receivable and others	(2,219)	(815)	(36)
Increase in inventories of buildings for sale	(57,775)	(34,600)	(16,767)
Increase (decrease) in trade payables	2,054	396	450
Increase in other accounts payable	56,326	33,084	5,558
	(2,692)	(232)	(8,304)
Interest paid	(25,099)	(19,466)	(28,247)
Interest received	194	349	430
Taxes paid	(1,349)	(342)	(344)
	(26,254)	(19,459)	(28,161)
Net cash used in operating activities	(15,521)	(9,433)	(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

	Nine months ended 30 September		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Additions to investment properties	(1,162)	(4,838)	(6,466)
Additions to investment properties under construction	(1,723)	(1,081)	(1,125)
Purchase of fixed assets	(760)	(392)	(389)
Settlement of restricted deposit, net		890	1,119
Loans granted to related parties	(10,424)	(560)	(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	(35,209)	(1,922)	(6,692)
Cash flows from financing activities:			
Issuance of debenture, net	39,152	82,959	125,267
Repayment of debentures	(18,033)	(17,751)	(28,685)
Receipt of loans from banks and others, net from origination costs	134,115	88,706	124,456
Repayment of loans from banks and others	(88,021)	(120,168)	(156,768)
Net cash flows generated from financing activities	67,213	33,746	64,270
Exchange differences on balances of cash and cash equivalents	(3,188)	(646)	(278)
Increase in cash and cash equivalents	13,295	21,745	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	79,449	47,414	66,154

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		Nine months ended 30 September		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)	136	2,793	2,793
	Investment properties	(109,800)	(85,760)	(94,972)
	Fixed assets, net	(313)	-	-
	Other receivables	(49)	(71)	(71)
	Deferred taxes	16,107	(119)	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 September 2014 and for the nine-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 2015, 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 is 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".

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Amendments to IFRS 10 and IAS 28 regarding sale or transfer of assets between an investor and an investee or its joint venture:

In September 2014, the IASB issued amendments to IFRS 10 and IAS 28 ("the Amendments") regarding the accounting treatment of the sale or transfer of assets (an asset, a disposal group or subsidiary) between an investor and an investee or the investee's joint venture.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

According to the Amendments, when the investor loses control over a subsidiary or a disposal group which does not constitute a business in a transaction with an investee or its joint venture, the gain will be partially eliminated so that the gain that will be recognized is the gain from the sale to external entities only. Also according to the Amendments, if the remaining rights held by the investor represent a financial asset as defined in IFRS 9, the gain will be fully recognized.

If the transaction with an investee or its joint venture involves loss of control in a subsidiary of a disposal group that constitutes a business, the gain will be fully recognized.

The Amendments are to be applied prospectively for transactions that occur in annual periods beginning on January 1, 2016 or thereafter. Earlier application is permitted.

The Company believes that the Amendments are not expected to have a material impact 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:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 September, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Non-current assets:			
Investment properties	394,110	31,610	425,720
Investment properties under construction	50,456	6,244	56,700
Deferred taxes	2,509	(419)	2,090
Non-current liabilities:			
Deferred taxes	-	37,438	37,438
Total Equity	328,346	-	328,346

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 nine months ended 30 September, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Fair value adjustments of investment properties and investment properties under construction	34,276	7,277	41,553
Taxes on income	(36)	(7,277)	(7,313)

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	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.

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

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.

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 $ 13,696 and $ 7,554 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 September 30, 2014:

	Carrying amount	Fair Value
	U.S. dollars in thousands	
Financial liabilities:		
Debentures (series A)	4,255	4,346
Debentures (series B)	17,811	17,393
Debentures (series C)	35,329	38,081
Debentures (series D)	60,050	64,357
Debentures (series E)	106,752	113,747
Debentures (series F)	38,672	38,948
Loans from banks with variable interest rate	228,014	230,480
	490,883	507,352

The fair value of the bonds is measured based on quoted market prices, according to Level 1 of the fair value hierarchy.
The fair value of bank loans measured at Level 3 of the fair value hierarchy.

NOTE 5:- SEGMENTS

Nine months ended 30 September 2014:	Commercial	Residential	Total
	Unaudited		
	U.S. dollars in thousands		
Segment revenues	44,053	17,752	61,805
Segment results	111,466	(3,694)	107,772
Unallocated expenses			(6,455)
Finance costs, net			(70,894)
Profit before taxes on income			30,423

Nine months ended 30 September 2013 (unaudited):	Commercial	Residential	Total
	U.S. dollars in thousands		
Segment revenues	34,786	11,487	46,273
Segment results	64,672	(1,531)	63,141
Unallocated expenses			(5,672)
Finance expenses, net			(49,557)
Profit before taxes on income			7,912

NOTE 5:- SEGMENTS (Cont.)

	Commercial	Residential	Total
		Unaudited	
Year ended 31 December 2013		U.S. dollars in thousands	
Segment revenues	47,760	56,050	103,810
Segment results	88,689	2,925	91,614
Unallocated expenses			(8,808)
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 with certain events which have occurred and which may develop between Ukraine and Russia, since the beginning of the year, western countries have imposed various sanctions on Russia. As of the date of publishing of the financial statements, Russia's credit risk rating, as set forth by Standard & Poor's, has dropped from BBB to BBB-. During the third quarter of 2014, and as a result in the decrease in oil prices, the increased severity of the sanctions imposed by western countries and weakening of Russian Ruble, the Central Bank of Russia raised, for the fourth time this year, the inter-bank interest rate from 7.5% to 9.5%, in an attempt to stop the inflation rate. As such, as of the beginning of the year and through to the date of the financial statements, the Ruble weakened in relation to the U.S Dollar about 20%. Following the date of the financial statements and through to the date of publishing of the financial statements, the Ruble weakened in relation to the U.S Dollar by an additional 17%. The continued devaluation of Ruble will ultimately have a negative impact on the Company's equity.

Based on a market letter and review received by the Company from its external and independent valuators, the Company increased the cap rate, used for the valuation of the Company's yielding assets on September 30, 2014, by 0.5%, relative to the interest rate set forth in the valuation of June 30, 2014, which reflects an overall decline of the Russian economy growth and weakening of the Russian ruble, which reflects possible risks, associated with the decrease of cash flows based on the properties' performance in the Russian real estate market.

In light of the inability to foresee the continuance and impact of the political and financial events, the Company is unable to estimate any potential impact on the Company's financial statements. The Company's management will continue to follow developments and their impact on the real estate market, generally, and on the Company in particular.

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

Below are changes in fair value of investment properties and investment properties under construction from its fair value as of June 30, 2014:

	September 30, 2014	June 30, 2014	Change
	U.S. dollars in thousands		
Investment property	531,500	547,501	(16,001)
Investment property under construction	54,300	57,500	(3,200)
	585,800	605,001	(19,201)

Below is a breakdown of the aforementioned impact of changes in fair value of investment properties and investment properties under construction on the Company's results for the nine month period ending on September 30, 2014:

	U.S dollars in thousands
Increase in fair value as a result of the devaluation of the Russian Ruble in relation to the USD	97,336
Decrease in fair value as a result of the increase of the capitalization rate (CAP RATE)	(16,001)
Other increase in fair value, net	1,601
Total increase in fair value of investment properties and investment properties under construction, net	82,936

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

b. On March 30, 2014 the Company's sub-subsidiary Global 1 LLC entered into loan agreement with the Bank of Moscow ("the 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 September 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 of Russia (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 undertook to maintain an LTV of no more than 60%.

The Loan is secured by various mortgages, charges, pledge of the lease area in the project, pledges and other customary security interests for the benefit of the Bank and entered into by both Inomotor and the Company.
As of September 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 undertook to maintain an LTV of no more than 65% and DSCR of not less than 1.2.

The Loan is secured by various mortgages, charges, pledge of the lease area in the project, pledges and other customary security interests for the benefit of the Bank and entered into by both Avtoprioritet and the Company.
As of September 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.

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

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.

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

h. On September 16, 2014, the Company issued new debentures (Series F) in the total amount of NIS 144.4 million (approximately 39 million US dollars). The debentures (Series F) bear fixed annual interest of 5.5% and were rated by Midroog Moody's at "ilBaa1/Stable".

Bonds are due September 2019, with 5% repaid every September from 2015 to 2018, with the remaining 80% due in September 2019.

The effective interest rate of the new debentures is 5.97%.

The Company is required to meet several covenants until the full repayment of debentures Series E:

a) the Company's equity shall be higher than 140 million US dollars during the period of two consecutive quarters,

b) the ratio of Company's net debt in consolidated financial statements to net CAP shall not exceed 75% during the period of two consecutive quarters.

In case the ratio of debt in consolidated financial statements to net CAP will be higher than 65%, the annual interest rate will be adjusted.

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

On September 21, 2014, a wholly owned subsidiary Petra 8 LLC ("Petra") has entered into a new loan agreement with Sberbank of Russia (the "Bank"). The Bank will provide a non-revolving credit line of up to US$87 million (the "Loan") to finance the fourth phase of 1,244 apartments at MirLand's "Triumph Park" major residential development in St. Petersburg.

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

The Loan will provide approximately 75% of the expected fourth phase construction cost, with the balance financed from sale proceeds, and fulfils the outstanding funding requirement for this latest phase of the project. It will be provided to Petra in tranches over the next three years, and will be secured by way of mortgage, charge, pledge and other appropriate security interests for the benefit of the Bank and entered into by Petra and the Company.

The Loan principal will be available for 35 months and the Loan will mature in four years.

The Loan bears a fixed Ruble annual interest rate of 11.9% and is to be paid quarterly, in addition to other fees set out in the loan agreement, and is in addition to three facilities previously granted by the Bank to Petra, the outstanding balance of which, to date, is approximately $ 5 million.

The total net sellable area of the fourth phase of the project is approximately 60,600 square meters with approximately 1,300 square meters of commercial space. Physical completion of the fourth phase is scheduled for the second quarter of 2017.

NOTE 7: - SUBSEQUENT EVENTS

On November 10, 2014 the Company’s Board of Directors resolved to extend the expiration date of 374,332 options by an additional two years, which the Company issued in the past to its service provider, and as such, the exercise price of such options from 3.5 Pounds per share to an exercise price of 2.85 Pounds per share.

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