13 May 2015

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2015

MirLand, one of the leading international residential and commercial property developers in Russia, announces its results for the three months ended 31 March 2015.

Financial Highlights:

- Total revenues up 42% to US$39.1 million (31 March 2014: US$27.6 million) due to an increase in income from the sale of residential units;
- Net operating income ("NOI") from investment properties (Company's share) down to US$6.0 million (31 March 2014: US$10.5 million), mainly due to movement in the Russian real estate market;
- Gross profit remains positive at US$6.4 million (31 March 2014: US$10.2 million);
- EBITDA remains positive at US$3.1 million (31 March 2014: US$6.2 million);
- Loss of US$12.0 million (31 March 2014: net income of US$10.9 million) due to the ongoing impact of adverse conditions in the Russian economy, which resulted in the negative fair value adjustment of investment properties of approximately US$17 million following a decrease in projected NOI. In addition, the Company recorded net foreign exchange losses of US$6.4 million. This was partly offset by a positive fair value adjustment of investment properties of US$16.6 million following an appreciation of the US Dollar against the Rouble of approximately 4%, resulting in the nominal appreciation of commercial assets at the same rate;
- Total assets amounted to US$719.2 million, of which 88% are property and land assets (31 December 2014: US$756.6 million);
- Total equity of US$123.7 million (31 December 2014: US$141.4 million), equating to 17% of total assets;
- Net leverage stands at 60.0% of total assets (31 December 2014: 57%);
- The Company is continuing its discussions with the trustees of the Series A-F bondholders to agree a restructuring of its debt and will update the market in due course.

Operational Highlights

<u>Residential:</u>

Triumph Park, St. Petersburg

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

- Phase II: Handover of final apartments to owners on track to complete in the first half of 2015;

- Phase III: Sales momentum continuing with an additional 31 sales since 1 January 2015. In total 898 apartments out of 1,346 have been pre-sold, totalling circa 67% of the scheme and representing sales of approximately US$64 million;
- Phase IV: Construction of 1,244 units began in Q3 2014, followed by the commencement of sales in Q1 2015. Approximately 175 units were pre-sold off plan during the initial three months of sales.

Western Residence, Perkhushkovo, Moscow

- Sales of a further six houses at our Western Residence development in Perkhushkovo, Moscow, have completed since 1 January 2015, taking the total number of units sold to 47 of the 77 houses in the scheme.

Retail:

- Satisfactory performance achieved despite pressures on rents and occupancy rates during the first quarter, with quarterly NOI of US$3.5 million from the Vernissage Mall and Triumph Mall compared to US$6.5 million last year;
- Occupancy rates remain high at circa 98%;
- An agreement to sell land for the construction of a 15,000 sqm extension of the Vernissage Mall, which will house an international DIY retailer, was signed during the period. The store is expected to be open and trading within a year and the Board expects the introduction of the retailer to increase the attractiveness of the Mall as a retail destination.

Offices:

- Occupancy rates slightly decreased at the MirLand Business Centre, and stand at 82% – in line with the market trend. NOI has reduced to US$2.5 million in the first quarter of 2015.

Nigel Wright, Chairman, commented:

“The Company continued to face significant challenges during the first quarter due to testing macro-economic conditions in the Russian market beyond our control. Against the extremely difficult backdrop, our core business has proved resilient. The significant increase in total revenues, mainly due to the continuing success of our St. Petersburg residential project as buyers seek refuge from a falling Rouble in bricks and mortar, is particularly pleasing to note. We did, however, suffer a significant fall in net operating income during the period, largely as a result of our strategy to seek to maintain high occupancy rates at our income producing properties through offering rental concessions to key occupiers. We believe that offering such support to tenants caught in the pincer of falling Rouble incomes and high US dollar denominated rents will pay dividends in the long term.

“In the meantime, negotiations with our existing bondholders continue in a positive vein and we are hopeful of achieving a satisfactory outcome for all parties. We will keep the market fully updated on developments in this regard.

"There have been some moderately encouraging signs in both the Russian economy and the real estate markets recently. A stronger oil price and improved exchange rate, combined with some evidence of increased levels of real estate investment by both domestic and foreign investors, can only be helpful. However, overall net capital outflows continue, albeit at a reduced rate. It is too early to predict the sustainability of these indicators.

"I do not underestimate the continuing challenges faced by the Company but feel we are taking all available steps to mitigate identified risk factors and maintain our cash resources.

"Longer term, we remain positive about both our business and Russia as a whole and I am hopeful that MirLand will be well placed to capitalise on any upturn when it arrives due to the prudent measures we have taken to date."

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FINANCING

The challenging economic environment has continued to have a substantial impact on the valuation of the Company’s real estate portfolio. This saw the value marked down by approximately 36% during 2014 and an additional 4% during the first quarter of 2015, resulting in net leverage increasing further to 60.0% of total assets at 31 March 2015 from 56.9% at 31 December 2014. Total net borrowings amounted to US$432.3 million (31 December 2014: US$430.1 million).

As reported at the time of the Full Year results in March 2015, the Company is in negotiation with the trustees of the Series A-F bondholders to agree a restructuring of its debt which addresses the challenges posed by the current instability in the Russian economy for the benefit of all the Company's creditors and shareholders.

Discussions are continuing and, during this period, the Company has agreed not to undertake certain transactions which would involve incurring any material obligations without giving the Trustees the agreed prior notice (the “Interim Period”).

Furthermore, the Company's controlling shareholders, Jerusalem Economy Ltd., Industrial Buildings Corporation Ltd. and Darban Investments Ltd., as well as Dunchoille Holdings Ltd. (a subsidiary wholly owned by the Company), have undertaken that, during the interim period, no disposal will be made of any of the Company's debentures held by them, unless they give the Trustees prior written notice specifying the particulars of the transaction.

The Company will update the market further on this in due course.

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. Following the successful conclusion of Phase II with all flats sold, the Company is now handing over the final flats to the buyers, which is expected to be completed by the end of June 2015. Sales have continued to be strong in Phase III of the scheme, with 898 (67% of the scheme) apartments now pre-sold. The Company is continuing to achieve sale prices in 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 175 units were pre-sold during the first three months of sales.

The Western Residence residential development scheme at Perkhushkovo, Moscow, has also maintained momentum with six further houses sold since the beginning of the year. This now takes the number sold to 47 of a total of 77 houses in the scheme.

Our Vernissage Mall and Triumph Mall assets remain over 97% let, with footfall high at both. An agreement to sell the land for the construction of a 15,000 sqm extension to of the Vernissage Mall, which will house an international DIY retailer, was signed during the period. It is expected to be trading within a year and the retailer should increase the attractiveness of the Mall. The Company estimates on the basis of available information, correct as of the date of this report, that the sale of the property and said lease of the additional land (instead of developing the unit by the Company as originally planned) which is subject to, amongst other things, bank financing approval and the purchaser receiving the rights to a lien on the property. This is expected to generate a free cash flow of approximately 180 million Roubles (approximately US$3.4 million) prior to the repayment of the loan principal to the financing bank which may need to be carried out, depending on its requirements.

Occupancy at the MirLand Business Centre remains high at circa 82% of the total lettable area, which is in line with the market average.

On account of the challenging economic environment, the Company has been providing certain discounts and limitation agreements on the exchange rate to its retail and office tenants, which led to a substantial decrease in its NOI in the first quarter of 2015.

MARKET UPDATE

The Rouble has gained 15% since the beginning of the second quarter after losing about half of its value in 2014. Oil prices have been one of the drivers for the Rouble's recovery. The Central Bank expects the volatility of the Rouble to reduce by the summer, returning to levels seen in the Autumn of 2014, before the regulator switched the currency to a free float regime in November.

The price of Urals oil reduced to an average of US$54.82/bbl in March 2015, down US$2.80/bbl from February 2015.

The interest rate in Russia has averaged 6.66% from 2003 until 2015, reaching an all-time high of 17% in December 2014, and declining gradually since to 12.5% (as at 30 April 2015).

Net capital outflow during the period was US$32.5bn (US$48.6 billion 1Q2014), the Central Bank forecast for 2015 is currently US$118bn.

By the end of 2014 the most relevant economic forecast was from the Russian Central Bank which is predicting oil prices to increase to US$60/bbl, and GDP to contract by 4.5% in 2015, with recovery starting around 2017. This compares with a recorded GDP growth in 1Q2015 of 0.4%.

Most analysts believe the current inflation spike of 16.9% y/y to be transitory due to the effects of exchange rate depreciation and an expectation that the import ban will be removed in the short term. Year-to-date inflation was 7.5% by the end of 1Q2015.

The unemployment rate increased to 5.9% in March 2015 from 5.3% in December 2014 (a record low of 4.8% was seen in August 2014).

Real Estate market

Prime yields in 1Q 2015 were 11% for offices, 11% for prime retail, and 13% for warehouses, the same as in the previous quarter.

The total volume of investments in 1Q2015 in commercial real estate was US$0.7bn. US$322 million and US$385 million were invested by domestic and foreign companies, respectively. The share of foreign companies' investments exceeded 50%. Despite the volatile global and domestic economic environment, the forecast for investments is US$2.5bn by the end of [2015]. As usual, Moscow attracted the majority of the investments at US$632 million (89%). Only US$55 million (8%) was invested in commercial real estate in St. Petersburg.

Offices

The total volume of investments in the office segment was US$470 million in 1Q 2015 (66% of total investments), including US$447 million invested in Moscow and US$22 million invested in St. Petersburg.

The average rental rates for class A premises are now US$611 and US$287 (triple net) for class B. Since 4Q2014 the average rental rates have decreased by 20% in Class A and 40% in Class B to (31 March 2015).

The average vacancy rate has increased to 17.5%: 30.9% in Class A (2015F – 35.7%), and 13.5% Class B (2015F – 14.7%). The vacancy rate is growing largely due to existing premises rather than new supply being delivered to the market.

Retail

1Q2015 saw low volumes invested in retail – with just US$96 million invested (14% of total investments).

Six new shopping centres with a total GLA of 348,700 sqm were opened in the regions, compared to 11 new shopping centres in 2014 with a total GLA of 410,383 sqm and three in Moscow.

In prime Moscow shopping malls the average vacancy rate remains below 2%. Footfall in Moscow shopping malls remains at the same level as in 1Q 2014 and is considered to be stable.

The prime rental rate indicator decreased from US$3,500 to US$3,200.

Residential

The mortgage lending market is decreasing: circa153.5bn RUB of mortgages were granted in January and February 2015, which is 23% lower than the same period last year.

The average lending rate at the beginning of March 2015 was 14.7% (2.1% higher than in December 2014), the highest since 2010 according to the Agency for Housing Mortgage Lending. The increase has already led to a slowing of residential construction by 10% over the first two months of this year.

1Q 2015 delivery of new residential projects to the market totalled in circa890k sqm., 6% less than in 4Q 2014. Most of the delivery to the market remains in the mass-market segment (c860k sqm). 1Q 2015 demand amounted to 800k sqm, which is 51% lower than 4Q 2014 and 39% less than 1Q 2014. Against this supply and demand dynamics, housing prices slightly increased by 1.8% in economy and business classes during 1Q2015 compared with the beginning of the year.

Industrial

Total investment volume in the segment was US$120 million in 1Q 2015. New construction in Moscow accounted for 260,000 sqm of industrial space.

The vacancy rate increased from 7% to 9.5% in Class A, and from 5% to 6% in Class B. 90% of the vacant space marketed with Rouble lease rates. The average lease length is less than five years.

Nigel Wright	**Roman Rozental**
Chairman	**Chief Executive**
12 May 2015	**12 May 2015**

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March		31 December
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	28,311	62,556	40,646
Restricted cash	11,159	-	-
Trade receivables	2,540	1,549	1,502
Accounts receivables	6,302	8,213	6,530
VAT receivable	4,262	4,575	4,438
Inventories of buildings for sale	144,809	179,420	169,297
	197,383	256,313	222,413
NON-CURRENT ASSETS:			
Investment properties	361,300	488,524	383,800
Investment properties under construction	38,300	50,999	30,800
Inventories of buildings for sale	90,656	97,759	88,917
VAT receivable	316	360	314
Fixed assets, net	1,179	1,387	1,231
Other long term receivables	18,736	7,189	18,558
Prepaid expenses	510	537	517
Deferred taxes	10,815	5,393	10,056
	521,812	652,148	534,193
TOTAL ASSETS	719,195	908,461	756,606

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

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March 2015	31 March 2014	31 December 2014
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Long-term loans from banks which classified for short-term	212,659	-	181,588
Credit from banks and others	-	19,717	-
Current maturities of long-term credit from banks	15,906	64,922	15,445
Current maturities of debentures	60,007	-	57,298
Credit from banks for financing of inventory of buildings for sale	9,437	11,309	3,300
Long-term Debentures which classified for short-term	173,787	-	178,316
Trade payables	6,715	9,881	8,262
Deposits from tenants	2,248	3,675	2,762
Advances from buyers	72,072	71,927	88,471
Other accounts payable	2,930	7,587	2,847
	555,761	189,018	538,289
NON-CURRENT LIABILITIES:			
Loans from banks and others	-	173,767	34,847
Debentures	-	205,314	-
Other non-current liabilities	11,959	17,327	12,562
Deferred taxes	27,761	-	29,461
	39,720	396,408	76,870
TOTAL LIABILITIES	595,481	585,426	615,159
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	12,545	12,427	12,530
Capital reserve for transactions with controlling shareholders	8,556	8,556	8,556
Foreign currency translation reserve	(179,137)	(78,633)	(174,197)
Accumulated deficit	(102,430)	(10,283)	(89,757)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	100,373	292,906	117,971
Non-controlling interest	23,341	30,129	23,476
Total equity	123,714	323,035	141,447
TOTAL EQUITY AND LIABILITIES	719,195	908,461	756,606

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
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands (except earnings (loss) per share data)		
Rental income from investment properties	8,623	11,716	52,525
Revenues from sale of residential units	29,843	15,504	29,796
Revenues from management fees	677	357	3,938
Total revenues	39,143	27,577	86,259
Cost of sales and maintenance of residential units	27,938	13,630	28,974
Cost of maintenance and management	3,726	3,717	18,228
Gross profit before provision for impairment	7,479	10,230	39,057
Impairment of inventory	1,086	-	-
Gross profit	6,393	10,230	39,057
General and administrative expenses	3,009	3,299	13,043
Marketing expenses	1,747	1,610	4,053
Fair value adjustments of investment properties and investment properties under construction	(438)	31,749	84,802
Other expense, net	21	1,696	1,992
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	4,009
Operating income (loss)	1,220	39,383	108,780
Finance income	550	276	1,521
Finance expenses	(8,632)	(8,281)	(36,942)
Net foreign exchange differences	(6,384)	(23,719)	(149,361)
Profit (loss) before taxes on income	(13,246)	7,659	(76,002)
Tax benefit	(1,269)	(3,188)	(13,125)
Net income (loss)	(11,977)	10,847	(62,877)
Attributable to:			
Equity holders of the parent	(12,673)	8,161	(71,313)
Non-controlling interests	696	2,686	8,436
	(11,977)	10,847	(62,877)
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	(0.1)	0.08	(0.69)

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		Year ended 31 December
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
Net profit	(11,977)	10,847	(62,877)
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	6,624
Exchange differences on translation of foreign operations	(5,771)	(22,886)	(130,853)
Group's share of net other comprehensive loss of companies accounted for the equity method	-	(3,298)	(3,298)
Total other comprehensive loss	(5,771)	(19,560)	(127,527)
Total comprehensive loss	(17,748)	(8,713)	(190,404)
Attributable to:			
Equity holders of the parent	(17,613)	(8,949)	(183,987)
Non-controlling interest	(135)	236	(6,417)
	(17,748)	(8,713)	(190,404)

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 2015	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447
Net profit (loss) for the year	-	-	-	-	-	(12,673)	(12,673)	696	(11,977)
Other comprehensive loss	-	-	-	-	(4,940)	-	(4,940)	(831)	(5,771)
Total comprehensive income (loss)	-	-	-	-	(4,940)	(12,673)	(14,957)	(135)	(17,748)
Share-based payments	-	-	15	-	-	-	15	-	15
At 31 March 31, 2015	1,036	359,803	12,545	8,556	(179,137)	(102,430)	(179,137)	23,341	123,714

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

	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	-	-	-	-	-	(71,313)	(71,313)	8,436	(62,877)
Other comprehensive loss	-	-	-	-	(112,674)	-	(112,674)	(14,853)	(127,527)
Total comprehensive income (loss)	-	-	-	-	(112,674)	(71,313)	(183,987)	(6,417)	(190,404)
Share-based payments	-	-	134	-	-	-	134	-	134
At 31 December 2014	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447

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
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net profit	(11,977)	10,847	(62,877)
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	(1,598)	(4,037)	(14,824)
Depreciation and amortization	35	44	201
Finance expenses, net	14,466	31,724	184,782
Share-based payment	15	31	134
Fair value adjustment of investment properties and investment properties under construction	438	(31,749)	(84,802)
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)	(4,009)
	13,356	7,996	81,482
Working Capital adjustments:			
Decrease (increase) in trade receivables	(597)	1,456	1,879
Decrease in VAT receivable and others	(623)	(999)	(3,022)
Increase (decrease) in inventories of buildings for sale	14,536	(11,157)	(78,763)
Increase in trade payables	606	760	6,957
Decrease (increase) in other accounts payable	(12,498)	1,834	62,724
	1,424	(8,106)	(10,225)
Interest paid	(5,057)	(6,173)	(36,730)
Interest received	98	88	231
Taxes paid	(244)	(310)	(2,046)
	(5,203)	(6,395)	(38,545)
Net cash flows from used in operating activities	(2,400)	(11,650)	(30,165)

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
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Additions to investment properties	-	-	(3,529)
Additions to investment properties under construction	(916)	(1,327)	(3,418)
Purchase of fixed assets	-	(36)	(625)
Loans granted to related parties	-	(140)	(10,684)
Cash from obtaining control in companies previously accounted for using the equity method (a)	-	(18,640)	(21,140)
			-
Net cash flows used in investing activities	(916)	(20,143)	(39,396)
Cash flows from financing activities:			
Issuance of debenture, net	-	-	39,152
Repayment of debentures	-	-	(32,211)
Receipt of loans from banks and others, net from origination costs	8,908	41,931	155,630
Repayment of loans from banks and others	(6,884)	(12,609)	(109,667)
Net cash flows generated from financing activities	2,024	29,322	52,904
Exchange differences on balances of cash and cash equivalents	116	(1,127)	(8,851)
Decrease in cash and cash equivalents	(1,176)	(3,598)	(25,508)
Cash and cash equivalents at the beginning of the period	40,646	66,154	66,154
Cash and cash equivalents and restricted cash at the end of the period	39,470	62,556	40,646

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
	2015	2014	2014
	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	136
Investment properties	-	(93,673)	(109,800)
Other receivables	-	(49)	(49)
Fixed assets, net	-	(313)	(313)
Deferred taxes	-	(20)	16,107
Loans from banks	-	21,419	21,419
Other non-current liabilities	-	12,700	12,700
Indemnification asset	-	(5,737)	(5,737)
Payables on account of obtaining control in company preciously accounted for using equity method	-	2,500	-
Foreign currency translation reserve	-	6,624	6,624
Profit (loss) from obtaining control in companies previously accounted for using the equity method	-	702	702
Investment in associates	-	33,727	33,727
Loans granted to associates	-	3,334	3,344
	-	(18,640)	(21,140)

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 2015 and for the three-month period then ended ("interim condensed consolidated financial statements"). These financial statements should be read in connection with the Company's annual financial statements and accompanying notes as of 31 December 2014 and for the year then ended ("annual financial statements").

b. 1. During 2014, mainly in the second half of the year, the Russian economy was subject to sanctions imposed on it by the west and in the last quarter of 2014, the Russian economy experienced a serious deterioration which resulted, Inter Alia, in the weakening of Russian Ruble in relation to the U.S. dollar by about 79% up to date. In the second half of 2014 and principally in December of that year, due to the decline in oil prices, the aggravation of the sanctions imposed by the West due to Geopolitical instability in the East Ukraine and the devaluation of the Russian Ruble, the Central Bank of Russia raised the interbank interest rate from 5.5% in January 2014 to 17% as of March 31, 2015. International rating agencies (S&P Moody's and Fitch Ratings) gradually lowered Russia's credit rating to BB+/Baa3 with a negative outlook. After the balance sheet date through the date of signing the financial statements, the Ruble dropped another 9% in its value in relation to the U.S dollar. During February, March and April 2015 the Central Bank of Russia lowered the interbank interest to 12.5%. After the balance sheet date and up to date the Russia Ruble appreciated by approximately 13% against the US Dollar.

2. On December 18, 2014, the trustees of the holders of the Company's debentures (series A-F) called for a meeting for obtaining reports from the Company's representatives regarding the developments in the Company's business affairs and for discussing and deciding on actions to be taken to protect the rights of the creditors.

On the same date and following the announcement of the trustees of the holders of the Company's debentures, the Company announced that in view of the fluctuations in the Russian markets, the scheduled meeting of the holders of debentures and their appeals to the Company, the Company's Board decided to defer the principal and interest payments to the holders of debentures (series A-B) which were due on December 31, 2014.

In addition on the same date, the rating agencies (S&P Maalot and Midroog) announced the lowering of the Company's rating to ilCC and B1 with negative outlooks, respectively, this among others, following the Company's announcement of deferring the debenture payments of December 2014.

NOTE 1:- GENERAL (Cont.)

In the meeting of holders of debentures held on December 22, 2014, the Company announced that it requires time until the general situation in Russia and the Company's specific business affairs become clear. In early January 2015, the Company announced the results of the voting of the holders of debentures (series A-F) which resolved to temporarily defer the maturity dates of the principal and interest payments to the holders of debentures (series A-B) to February 1, 2015 (as well as authorizing the trustee to extend this date by an overall 60-day period) subject to depositing $ 11 million in an escrow account in favor of the Company (reflecting the payment that was due in December 2014) and provided that the Company initiate an immediate, consecutive and intensive dialog with the trustees of the debentures (who have been authorized to negotiate with the Company for reaching an arrangement) and the Company will sign a Stand Still letter and subject to the signing of the stand still letter by controlling shareholders of the Company, Jerusalem Economic Corporation Ltd., and Industrial Buildings Ltd., as long as the amount of the deposit is held in trust account, they will not sell the bonds (series A and B) held Biden to a third party.

On January 22, 2015, the Company signed a "standstill commitment" towards the trustees and the holders of the debentures in which it undertook, among others, to the following principals according to the specified in the "standstill commitment": not to make any material payments to its financial creditors in respect of any debt, whether in or outside of Israel beyond the amortization schedule settled with them, but due notice trustees, not to make any payments to the controlling shareholders in the Company, not to dispose of any material assets, not to distribute any dividends only with a prior notice to the trustees and also other commitments as detailed in the "standstill commitment"

During the first 4 months of 2015, the trustee of the series A-B decided to defer the maturity dates of the principal and interest payments to June 7, 2015.

On February 2, 2015, S&P announced another lowering of the Company's rating to D- with a negative outlook since the Company failed to meet its liabilities to the holders of debentures (series A and B) in the 30-day period following the original maturity date and given its intention to refinance the debt on the all the debenture series.

On February 10, 2015, the Company's Board decided to announce the deferral of payments to holders of all the series of debentures until negotiations with them are concluded.

During the first 4 months of 2015, the trustee of the debentures (series C) decided to defer the maturity dates of the interest payments to June 7, 2015.

In addition, the trustee of the debentures (series E) decided to defer the maturity dates of the interest payments to May 31, 2015.

On March 30, 2015 the Company published the arrangement principals which were agreed with the trustees and include, inter alia, increase of interest to all the series,

NOTE 1:- GENERAL (Cont.)

certain liabilities of the parent Companies and issuance of shares and options to the holders of debentures.

The Company continues negotiations with the trustees of the holders of the debentures in order to achieve a comprehensive arrangement.

As a result, the Company classified the outstanding debentures in an amount of $ 173.8 million as current liabilities in its financial statements as of March 31, 2015.

3. In the context of financing agreements with lending banks in Russia, certain financial covenants were determined with which the Company is not in compliance as of March 31, 2015 which include, among others, a certain LTV ratio, minimum occupancy rates and debt coverage and interest ratios. As a result, the Company classified in its financial statements as of March 31, 2015 loans from banks, in which the Company breaches its covenants, in an amount of $ 212.7 million as current liabilities.

4. The Group has a working capital deficiency of approximately $ 358.4 million as of March 31, 2015, a loss of approximately $ 12 million, total comprehensive loss of approximate $ 17.7 million for the quarter then ended and negative cash flows from operating activities of approximately $ 2.4 million for the quarter then ended.

   The Company continues to monitor the economic developments in Russia which are external to the Group and beyond its control and is continuing taking steps to minimize its exposure to the situation. In view of all of the aforementioned, there is a material uncertainty which may cast significant doubt as to the Group's ability to continue to operate as a going concern. The financial statements do not include any adjustments to the carrying amounts of assets and liabilities and their classification which might be required if the Company is unable to continue to operate as a going concern.

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair values of financial instruments as of March 31, 2015:

	Carrying amount	Fair Value
	U.S. dollars in thousands	
Financial liabilities:		
Debentures (series A)	4,022	2,236
Debentures (series B)	18,264	6,560
Debentures (series C)	33,702	11,791
Debentures (series D)	41,338	15,205
Debentures (series E)	99,329	33,801
Debentures (series F)	37,139	12,904
	233,794	82,497

The fair value of the bonds is measured based on quoted market prices, according to Level 1 of the fair value hierarchy.
There is no material change in the fair value of bank loans in compare to the value presented in the annual financial statements.

NOTE 4:- SEGMENTS

	Commercial	Residential	Total
		Unaudited	
Three months ended 31 March 2015:		U.S. dollars in thousands	
Segment revenues	9,300	29,843	39,143
Segment results	4,577	(1,214)	3,633
Unallocated income			(2,143)
Finance costs, net			(14,466)
Profit before taxes on income			(13,246)

NOTE 4:- SEGMENTS (Cont.)

	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

	Commercial	Residential	Total
		U.S. dollars in thousands	
Year ended 31 December 2014:			
Segment revenues	56,463	29,796	86,259
Segment results	121,905	(4,944)	116,961
Unallocated expenses			(8,181)
Finance expenses, net			(184,782)
Income before taxes on income			(76,002)

NOTE 5: - SUBSEQUENT EVENTS

1. On the 7th of April 2015, it was decided by the Trustee of the bondholders (Series C) upon a technical deferral of the date of the payment of principal and interest on the securities which was scheduled for 14.04.2015, such that the determinant date will fall on 15.04.2015, this is without introducing any changes to the set date of payment on 30.04.15.

2. On the 12th of April 2015, it was decided by the Trustee of the bondholders (Series A and B) upon a technical deferral of the date of the payment of principal and interest on the securities which was scheduled for 30.04.2015, such that the determinant date will fall on 20.04.2015 and the date of payment will fall on 06.05.2015.

3. On the 14th of April 2015, it was decided by the Trustee of the bondholders (Series C) upon a deferral of principal and interest to 07.06.2015.

NOTE 5: - SUBSEQUENT EVENTS (Cont.)

4. At the Bondholders' (Series A and B) meeting held on 15th April 2015, it was decided upon a deferral of the principal and interest payments to 07.06.2015.

5. On the 16th of April 2015, the Trustee of the bondholders (Series F) announced the deferral of the principal and interest payments to 31.05.2015.

6. In April, 2015, a sub-subsidiary of the Company (Global 1 LLC) ("Sub-subsidiary") which holds the rights of the Yaroslavl Project (Vernissage Mall Project) contracted into a series of agreements that obligate the Sub-subsidiary to sell an area of land of about 20,800 square metres to an International chain that is involved in the "Do-It-Yourself industry" ("The Chain") for consideration of approximately 400 Million Rubles, including VAT (approximately US Dollar 7.7 million). The chain has taken upon itself the construction obligations of the shop (Big Box) on the land through an undertaking to open the shop on a date no later than 30 June 2016. Additionally, the sub-subsidiary will lease to the chain additional land of about 6,070 square metres for a period of 49 years and will allow the chain access to other areas of the land for the purpose of building the shop. The sub-subsidiary will be responsible for removing all encumbrances and liens on the land before the rights are transferred to the chain, and similarly to establish the necessary infrastructure for running the shop.

   The company estimates on the basis of available information, correct to date, that the sale of the property and said lease of the additional land (instead of building the shop by the company as planned) which is subject, among other things, to bank financing approval and them receiving the rights to a lien on the property. This is expected to generate a free cash flow of approximately 180 million Rubles (approximately US Dollar 3.4 million) prior to the loan principal repayment to the financing bank that may need to be carried out according to its requirements.

7. On the 12th of May 2015, the Trustee of the bondholders (Series C and D) announced the deferral of the principal and interest payments to 30.06.2015. For additional details see the Immediate Reports of the company from 12 May 2015 (Reference No. 2015-01-017544 and 2015-01-017550).

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