

18 November 2015

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE
NINE MONTHS ENDED 30 SEPTEMBER 2015

INCREASED REVENUES AND RESILIENT PERFORMANCE,
DESPITE TOUGH MARKET CONDITIONS

MirLand, one of the leading international residential and commercial property developers in Russia, announces its results for the nine months ended 30 September 2015.

Financial Highlights:

- Total revenues up 24% to US\$76.8 million (30 September 2014: US\$61.8 million) due to an increase in income from the sale of residential units;
- Net operating income (“NOI”) from the Company’s share of the investment portfolio of US\$17.6 million (30 September 2014: US\$ 31.3 million), mainly due to depreciation in the Russian Rouble against the US Dollar and the negative movement in the Russian real estate market;
- Gross profit of US\$18.6 million (30 September 2014: US\$ 31.4 million);
- EBITDA of US\$10.5 million (30 September 2014: US\$17.7 million);
- Loss of US\$83.7 million (30 September 2014: net income of US\$25.9 million) due to the on-going impact of adverse conditions in the Russian economy, which resulted in the negative fair value adjustment of the Company’s share of the investment portfolio of approximately US\$70.2 million following a decrease in projected NOI. In addition, the Company recorded a net foreign exchange loss of US\$49 million. There was also a positive fair value adjustment of the Company’s share of the investment portfolio of US\$48.7 million following depreciation of the Russian Rouble against the US Dollar of approximately 18%, resulting in nominal appreciation of commercial assets at the same rate;
- Total assets amounted to US\$649.6 million, of which 89% are property and land assets (31 December 2014: US\$756.6 million);
- Total equity of US\$51.2 million (31 December 2014: US\$141.4 million);
- Net leverage stands at 74.2% of total assets (31 December 2014: 57%);

On 17 November 2015, Mirland confirmed that a proposed Settlement Plan and amended trust deeds to the Bonds (Series A-F) were approved by the Company’s Bondholders (Series A-F) subject to various conditions.

Operational Highlights

Residential:

Triumph Park, St. Petersburg

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

- Phase II: Handover of final apartments during the third quarter of 2015.
- Phase III: Sales momentum continuing with an additional 40 sales in the last quarter taking sales for the current financial year to 105. In total, 947 apartments out of 1,346 have been pre-sold, totalling circa 72.5% of the scheme and representing sales of approximately US\$63 million;
- Phase IV: Construction of 1,244 units began in Q3 2014, followed by the commencement of sales in Q1 2015. 349 apartments were pre-sold off plan within the initial nine months with sales totalling approximately 30% of the scheme or US\$24 million, up from 22% at the half year with 112 further apartments sold.

Western Residence, Perkhushkovo, Moscow

- Continued progress, with the sale of a further three houses at our Western Residence development in Perkhushkovo, Moscow, taking sales completed since 1 January 2015 to 12 and the total number of units sold to 52 of the 77 houses within the scheme.

Retail:

- Satisfactory performance achieved despite ongoing pressure on rents and occupancy rates during the period, with nine months NOI of US\$10.4 million from the Vernissage Mall and Triumph Mall, compared to US\$17.5 million for the same period last year;
- Occupancy levels remain high as an average of 95%;
- 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 completed during the third quarter. The store is expected to be open and begin trading within the next six months and the Board expects the introduction of the retailer to increase the attractiveness of the Mall as a retail destination.

Offices:

- Occupancy rates decreased by 1% at the MirLand Business Centre, and stand at 82% – in line with the market average. NOI reduced to US\$7.1 million (Company share) over the first nine months of 2015, from US\$12 million at September 2014.

Nigel Wright, Chairman of Mirland, commented:

“Mirland continues to face significant challenges in the months ahead. Despite an encouraging increase in revenues, solid performance at our Triumph Park residential project and stable occupancy rates in our key retail investments our results and cash flows continue to be adversely affected by the weak Rouble and the uncertain outlook for the Russian economy.

“Net leverage has increased significantly over the past year due principally to a downward valuation of our property portfolio and adverse currency movements. It is especially unfortunate that our financial results

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have disappointed largely as a result of external factors over which we have little or no control. We continue, however, to work diligently on those areas we can control through prudent cost and asset management. I am especially grateful to our management team for their unrelenting efforts in the face of considerable head winds.

“I am also encouraged that we have reached agreement, subject to conditions, with our Bond Holders on the restructuring of our Bond Debt and I am grateful for the efforts made on both sides to reach a compromise of mutual benefit. However, the bank financing market continues to be challenging and we remain highly cautious about the availability of new finance in the short to medium term which is highly dependent on the progress of the economy as a whole.

“In summary, therefore, we do not underestimate the challenges we face but are determined to remain focused on maximising portfolio performance, doing our utmost to maintain and improve cash flow and strengthening our core business for the benefit of both creditors and shareholders.”

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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 of MirLand's assets revalued down by approximately 36% during 2014 and an additional 18% so far in 2015. This resulted in net leverage increasing further to 74.5% of total assets as at 30 September 2015 from 56.9% as at 31 December 2014. Total net borrowings amounted to US\$459.6 million at 30 September 2015 (31 December 2014: US\$430.1 million).

As reported at the time of the full year results in March 2015, the Company has been 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. On 17 November 2015, Mirland announced that, following preliminary meetings held in Israel on 11 November 2015, a proposed Settlement Plan and amended trust deeds to the Bonds (Series A-F) were approved by the Company's Bondholders (Series A-F). The Company will now act to convene a meeting of creditors pursuant to a ruling of the Cypriot Court on 14 July 2015.

The completion of the Settlement is subject to various conditions precedent by deadlines set in the Settlement documents, including, among other things, receiving approval of the Settlement by the Cypriot court, receipt of approval of the Tel Aviv Stock Exchange, and approval of the Company and its shareholders.

There is no certainty that the conditions precedent set out in the Settlement documents will be completed by the set deadlines, nor that that the Settlement will be completed.

Until the Settlement is completed, 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.

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. This follows the successful conclusion of Phase II with all flats sold and handed over to buyers during the third quarter of 2015. Sales have continued to be strong in Phase III of the scheme, resulting in 975 (72% of the scheme) apartments now having been pre-sold. The Company is continuing to achieve sale prices in Russian Rouble in these latter 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 377 units were pre-sold during the first nine months of sales.

We have also seen continued sales momentum at The Western Residence residential development in Perkhushkovo, Moscow, with a further three houses sold in the quarter taking total sales in the year to 12 houses. This takes the number of houses sold to 52 out of a 77 houses in total at the scheme.

Occupancy at our Vernissage Mall and Triumph Mall assets remained high at approximately 95%, and footfall was also resilient.

The Company announced in May 2015 the agreement to sell land for the construction of a 15,000 sqm extension to the Vernissage Mall to an international DIY retailer for a consideration of approximately 400 million Roubles (approximately US Dollar 6.1 million). During August 2015 the sale was completed and part of the consideration was received. According to the Company's obligation, 60% of the consideration was paid to the financing bank as early repayment of the loan principal.

Occupancy at the MirLand Business Centre remains in line with market averages at approximately 82% of the total rentable area.

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 nine months of 2015.

MARKET UPDATE

Russia's GDP contracted by 4.3% in the third quarter of 2015 compared with the same quarter in 2014. GDP is projected to fall by around 3.5% in 2015, and expected to grow by 0.3% in 2016, according to the Ministry of Economic Development of the Russian Federation. Meanwhile, the World Bank forecasts that Russia's GDP will contract by 3.8% during 2015.

The Russian Consumer Price Index ("CPI") in October 2015 reached 15.5% on a year-on-year basis, a decrease of 0.2% since September 2015. Since August 2015, the inflation outlook has fallen to 10% for 2015 from 12%.

Exchange rates have fluctuated between 50-70 RUB/USD so far in 2015 and were at 66.3 on 30 September 2015. As of the date of publication of this announcement the rate did not change materially.

Russia's Urals oil brand sold for an average of 56.99 USD/BBL between January and September 2015, down 47% from an average of 107.28 USD/BBL during the same period last year (according to the Ministry of Finance of Russia). Brent crude oil decreased to 45 USD/BBL as of the date of this announcement.

The Central Bank of Russia (CBR) interest rate averaged 6.7% from 2003 to 2015, reaching a record high of 17% in December 2014, and has declined gradually since to 11% on 31 July 2015 and currently remains at this rate.

Net capital outflow fell in the third quarter of 2015 to US\$52.2bn, according to estimated balance of payments data published by the CBR. In the second quarter of 2015 it was US\$20bn. The estimated figure for 2015 is currently US\$85bn according to the CBR and the Ministry of Finance of Russia, whilst the World Bank expects the figure to reach US\$113bn.

Foreign Direct Investments into Russia data by CBR only covers the first quarter of 2015 with US\$4bn. The third quarter of 2015 is estimated to be US\$2.6bn and the projection for the fourth quarter of 2015 is US\$4bn.

Russia's unemployment rate decreased to 5.2% in September 2015 from 5.3% in August 2015. It is the lowest rate since December 2014 and below market expectations.

Real Estate market

Prime yields in the third quarter of 2015 remained as the same as the previous two quarters, with 11% for offices, 11% for prime retail, and 13% for warehouses.

There are two key factors affecting commercial real estate today: devaluation of the Rouble and the excessive supply of real estate. While construction rates are still high, shrinking demand creates a downward pressure on rents.

Investment volumes are still declining: in the first nine months of 2015 they were 23% lower than the same period in 2014, totalling US\$2bn (offices: US\$913m; retail: US\$482m; warehouses: US\$464m; hotels and residential: US\$220). The overall forecast for 2015 is US\$2.5-3bn, and lower in 2016 at US\$2bn.

During the first nine months of 2015 US\$1.5bn and US\$848m were invested in Russian commercial real estate by domestic and foreign companies respectively. The share of foreign companies' investments increased slightly from 40% in the second quarter of 2015 to 42% in the third quarter of 2015. As has previously been the case, Moscow attracted the majority of the investment with 84%. Only 7% was invested in commercial real estate in St. Petersburg, and 9% in the regions.

Offices

In the first nine months of 2015 the total volume of investments in the office segment was US\$859m, representing approximately 57% of total investments. During the first nine months of 2015 new construction volume was 464,000 sqm. Net absorption is negative and signifies the lack of demand for new offices.

The average vacancy rate increased to 19.1% during the third quarter of 2015: 31.2% in Class A (2015F – 33%), and 14.4% in Class B (2015F – 16%). In the third quarter of 2015 the average rental rates for Class A premises were US\$690/sqm and US\$330/sqm for Class B (triple net). The forecast for the end of 2015 is US\$600/sqm for Class A and US\$280/sqm for Class B.

Retail

US\$482m was invested in retail (23% of total real estate investments) during the third quarter of 2015. 25 shopping centres with a total GLA of circa 750,000 sqm (including five in Moscow) opened in Russia during the first nine months of 2015. A number of notable investment deals took place, including the Mercedes-Benz Plaza BC and the Modny Sezon Retail Gallery. The 2015 forecast is for a total GLA of circa 1,300,000 sqm.

In the third quarter of 2015 the average vacancy rate in prime Moscow shopping malls was 2.4% while the overall vacancy rate in Moscow was 7.5%. During the first nine months of 2015 footfall at Moscow's shopping malls was at the lowest level since 2011. The average prime rental rate indicator for the third quarter of 2015 was US\$2,800/sqm.

Residential

The mortgage lending market in Russia is decreasing; circa 662bn RUB of mortgages were granted from January to August 2015, which is 38% lower than the same period in 2014. The average lending rate at the beginning of September 2015 was 13% (down from 13.5% in August 2015).

During the third quarter of 2015 delivery of new residential projects to St. Petersburg's housing market totalled circa 452,000 sqm, 45% less than the same period last year. 89% of the delivery to the market was attributed to the mass-market segment. As at the end of September 2015, there were 555 projects offered in St. Petersburg (4.3% higher than the second quarter of 2015).

In the third quarter of 2015, for the first time, mass market prices in Rouble decreased by 1.8% compared to the second quarter of 2015 (while the economy class decreased by 2.8%).

Industrial

During the first nine months of 2015, total investment volume in the industrial segment was US\$464m. Take-up in the third quarter of 2015 was 75% higher than the average for the period in 2008-2014. In the third quarter of 2015 75,000 sqm of quality warehouse space was delivered in Moscow and 122,000 sqm in the regions. Demand is supported by food retail activity. New construction so far in 2015 is half of the volume of that delivered in 2014.

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The third quarter 2015 vacancy rate was 9.5% in Class A and 7% in Class B industrial real estate. All vacant space in Moscow is offered for rent in Rouble. Rental rates in the third quarter of 2015 reached 3,800-4,500 RUB/sqm in Moscow and 3,500-4,000 RUB/sqm in the regions (prices per year, excluding OPEX and VAT).

Nigel Wright

Chairman

18 November 2015

Roman Rozental

Chief Executive

18 November 2015

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>30 September</u>		<u>31 December</u>
	<u>2015</u>	<u>2014</u>	<u>2014</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	11,567	79,449	40,646
Restricted bank deposits	11,159	-	-
Trade receivables	2,999	2,817	1,502
Account receivables	9,254	14,843	6,530
VAT receivable	3,721	5,717	4,438
Inventories of buildings for sale	163,856	202,954	169,297
	<u>202,556</u>	<u>305,780</u>	<u>222,413</u>
NON-CURRENT ASSETS:			
Investment properties	312,700	531,500	383,800
Investment properties under construction	25,545	54,300	30,800
Inventories of buildings for sale	75,749	104,891	88,917
VAT receivable	306	358	314
Fixed assets, net	1,044	1,744	1,231
Other long term receivables	18,334	12,328	18,558
Prepaid expenses	509	520	517
Deferred taxes	12,823	4,173	10,056
	<u>447,010</u>	<u>709,814</u>	<u>534,193</u>
TOTAL ASSETS	<u><u>649,566</u></u>	<u><u>1,015,594</u></u>	<u><u>756,606</u></u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 September		31 December
	2015	2014	2014
	Unaudited		Audited
U.S. dollars in thousands			
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Long-term loans from banks which classified for short-term	200,487	-	181,588
Current maturities of long-term loans from banks	18,842	14,630	15,445
Current maturities of debentures	80,114	49,255	57,298
Credit from banks for financing of inventory of buildings for sale	17,200	2,440	3,300
Government authorities	1,848	2,412	1,868
Long-term Debentures which classified for short-term	165,689	-	178,316
Trade payables	11,787	15,234	8,262
Deposits from tenants	1,932	3,116	2,762
Advances from buyers	70,542	114,388	88,471
Other accounts payable	736	1,403	979
	<u>569,177</u>	<u>202,878</u>	<u>538,289</u>
NON-CURRENT LIABILITIES:			
Loans from banks and others	-	220,224	34,847
Debentures	-	213,612	-
Other non-current liabilities	10,695	18,247	12,562
Deferred taxes	18,474	53,874	29,461
	<u>29,169</u>	<u>505,957</u>	<u>76,870</u>
TOTAL LIABILITIES	<u>598,346</u>	<u>708,835</u>	<u>615,159</u>
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	12,572	12,489	12,530
Capital reserve for transactions with controlling shareholders	8,556	8,556	8,556
Foreign currency translation reserve	(177,958)	(107,121)	(174,197)
Accumulated deficit	(172,142)	1,673	(89,757)
TOTAL EQUITY CONTRIBUTABL TO EQUITY PARENT	<u>31,867</u>	<u>276,436</u>	<u>117,971</u>
Non-controlling interest	<u>19,353</u>	<u>30,323</u>	<u>23,476</u>
TOTAL EQUITY	<u>51,220</u>	<u>306,759</u>	<u>141,447</u>
TOTAL EQUITY AND LIABILITIES	<u>649,566</u>	<u>1,015,594</u>	<u>756,606</u>

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

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended 30 September		Year ended 31 December
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
Rental income from investment properties	25,012	41,007	52,525
Revenues from sale of residential units	49,567	17,752	29,796
Revenues from management fees	2,180	3,046	3,938
Total revenues	76,759	61,805	86,259
Cost of sales and maintenance of residential units	44,740	17,383	28,974
Cost of maintenance and management	9,654	12,986	18,228
Gross profit before impairment	22,365	31,436	39,057
Impairment of inventory	3,791	-	-
Gross profit	18,574	31,436	39,057
General and administrative expenses	8,010	9,973	13,043
Bond settlement expenses	1,673	-	-
Marketing expenses	3,913	2,844	4,053
Fair value adjustments of investment properties and investment properties under construction	(23,354)	82,936	84,802
Other expense, net	1,330	4,247	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	(19,706)	101,317	108,780
Finance income	1,594	1,095	1,521
Finance expenses	(26,970)	(26,932)	(36,942)
Net foreign exchange differences	(51,396)	(45,057)	(149,361)
Profit before taxes on income	(96,478)	30,423	(76,002)
Taxes on income (Tax benefit)	(12,801)	4,527	(13,125)
Net income	(83,677)	25,896	(62,877)
Attributable to:			
Equity holders of the parent	(82,385)	20,117	(71,313)
Non-controlling interests	(1,292)	5,779	8,436
	(83,677)	25,896	(62,877)
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	(0.80)	0.23	(0.69)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended		Year ended
	30 September		31 December
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
Net income	(83,677)	25,896	(62,877)
Other comprehensive income (loss) (net of tax effect):			
<u>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</u>			
Transfer of currency translation reserve to income statement for obtaining control in companies previously accounted for using the equity method	-	6,624	6,624
Exchange differences on translation of foreign operations	(6,592)	(54,273)	(130,853)
Group's share of net other comprehensive loss of companies accounted for using the equity method	-	(3,298)	(3,298)
Total other comprehensive loss	(6,592)	(50,947)	(127,527)
Total comprehensive loss	(90,269)	(25,051)	(190,404)
Attributable to:			
Equity holders of the parent	(86,146)	(25,481)	(183,987)
Non-controlling interests	(4,123)	430	(6,417)
	(90,269)	(25,051)	(190,404)

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								
<u>At 1 January 2015</u> (Audited)	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447
Net profit (loss) for the year	-	-	-	-	-	(82,385)	(82,385)	(1,292)	(83,677)
Other comprehensive loss	-	-	-	-	(3,761)	-	(3,761)	(2,831)	(6,592)
Total comprehensive income (loss)	-	-	-	-	(3,761)	(82,385)	(88,146)	(4,123)	(90,269)
Share-based payments	-	-	42	-	-	-	42	-	42
<u>At 30 September 2015</u> (unaudited)	<u>1,036</u>	<u>359,803</u>	<u>12,572</u>	<u>8,556</u>	<u>(177,958)</u>	<u>(172,142)</u>	<u>31,867</u>	<u>19,353</u>	<u>51,220</u>

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								
<u>At 1 January 2014</u>	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
<u>At 30 September 2014 (unaudited)</u>	<u>1,036</u>	<u>359,803</u>	<u>12,489</u>	<u>8,556</u>	<u>1,673</u>	<u>(107,121)</u>	<u>276,436</u>	<u>30,323</u>	<u>306,759</u>

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									
<u>At 1 January 2014</u>	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
<u>At 31 December 2014</u>	<u>1,036</u>	<u>359,803</u>	<u>12,530</u>	<u>8,556</u>	<u>(174,197)</u>	<u>(89,757)</u>	<u>117,971</u>	<u>23,476</u>	<u>141,447</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended		Year ended
	30 September		31 December
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
Net profit	(83,677)	25,896	(62,877)
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	(13,140)	3,338	(14,824)
Depreciation and amortization	132	149	201
Finance expenses, net	76,772	70,894	184,782
Share-based payment	42	93	134
Fair value adjustment of investment properties and investment properties under construction	23,354	(82,936)	(84,802)
Loss from obtaining control in company accounted for equity method	-	(4,009)	(4,009)
	<u>87,160</u>	<u>13,425</u>	<u>81,482</u>
Working capital adjustments:			
Decrease (increase) in trade receivables	(936)	(1,078)	1,879
Increase in VAT receivable and others	(635)	(2,219)	(3,022)
Decrease (increase) in inventories of buildings for sale	1,251	(57,775)	(78,763)
Increase (decrease) in trade payables	537	2,054	6,957
Increase (decrease) in other accounts payable	(5,815)	56,326	62,724
	<u>(5,598)</u>	<u>(2,692)</u>	<u>(10,225)</u>
Interest paid	(15,648)	(25,099)	(36,730)
Interest received	201	194	231
Taxes paid	(936)	(1,349)	(2,046)
	<u>(16,383)</u>	<u>(26,254)</u>	<u>(38,545)</u>
Net cash used in operating activities	<u>(18,498)</u>	<u>(15,521)</u>	<u>(30,165)</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended		Year ended
	30 September		31 December
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Additions to investment properties	-	(1,162)	(3,529)
Additions to investment properties under construction	(2,511)	(1,723)	(3,418)
Proceeds from sale of investment property under construction	3,170		
Purchase of fixed assets	-	(760)	(625)
Loans granted to related parties	-	(10,424)	(10,684)
Cash from obtaining control in companies previously accounted for using the equity method (a)	-	(21,140)	(21,140)
Net cash flows used in investing activities	<u>659</u>	<u>(35,209)</u>	<u>(39,396)</u>
<u>Cash flows from financing activities:</u>			
Issuance of debenture, net	-	39,152	39,152
Repayment of debentures	-	(18,033)	(32,211)
Receipt of loans from banks and others, net from origination costs	25,233	134,115	155,630
Repayment of loans from banks and others	(23,518)	(88,021)	(109,667)
Net cash flows generated from financing activities	<u>1,705</u>	<u>67,213</u>	<u>52,904</u>
Exchange differences on balances of cash and cash equivalents	<u>(1,786)</u>	<u>(3,188)</u>	<u>(8,851)</u>
Increase (decrease) in cash and cash equivalents	(17,920)	13,295	(25,508)
Cash and cash equivalents at the beginning of the period	<u>40,646</u>	<u>66,154</u>	<u>66,154</u>
Cash and cash equivalents at the end of the period	<u><u>22,726</u></u>	<u><u>79,449</u></u>	<u><u>40,646</u></u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended		Year ended
	30 September		31 December
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
(a) <u>Cash generated from obtaining control in companies accounted for using the equity method:</u>			
The subsidiaries' assets and liabilities at date of sale:			
Working capital (excluding cash and cash equivalents)	-	136	136
Investment properties	-	(109,800)	(109,800)
Fixed assets, net	-	(313)	(49)
Other receivables	-	(49)	(313)
Deferred taxes	-	16,107	16,107
Loans from banks	-	21,419	21,419
Other non-current liabilities	-	12,700	12,700
Indemnification assets	-	(5,737)	(5,737)
Foreign currency translation reserve	-	6,624	6,624
Loss from obtaining control in companies accounted for using the equity method	-	702	702
Investment in associate	-	33,727	33,727
Loans granted to associates	-	3,344	3,344
	-	(21,140)	(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 30 September 2015 and for the nine-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 101% 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 January 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, there was no material change in the Russian Ruble in relation to the U.S dollar. During 2015 the Central Bank of Russia lowered gradually the interbank interest to 11%. After the balance sheet date and up to date there was no change in the Russian Ruble against the US Dollar. However continuance of the depreciation on the Russian Ruble against the US Dollar could have additional negative affect on the Company equity.

 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.

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 by them 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 2015, the trustee of the series A-B decided to defer the maturity dates of the principal and interest payments to December 31, 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.

On the 6th of July, 2015 the Company filed a motion with the Cypriot court to convene meetings in order to approve the bond settlement between the Company and the bond holders. On July, 14, 2015 the Cypriot court approved the Company motion.

During September, 2015 the trustees for the Bondholders (Series A), (Series C), (Series D), (Series E) and (Series F) announced the postponement of the payment periods of the principal and interest until 31 October 2015.

On 30 March 2015, 22 June 2015 and on 6 July 2015 the Company published the principles of the settlement as agreed upon with the bondholders trustees, including, among other things, deferment of the payment of the principal, raising the interest amount to all bond series, undertakings of the controlling shareholder of the Company and the issuance of shares and options to the bondholders.

On 6 July 2015, the Company submitted an application to the Court in Cyprus for the convention of meetings for the purpose of approving the settlement between the Company and its bondholders. On 14 July 2015 the Court in Cyprus approved the Company's motion.

On 2 July 2015, the TASE published notice of the redemption of partial payment it had not received from the Exchange's clearing house, such that the unpaid balance for Bond Series B is to be recorded separately.

On 6 July 2015, the Company published the principal amendments that were added to its settlement plan with Company bondholders and an immediate report regarding the submission of a motion to the Court in Cyprus for the convention of a meeting with the purpose of approving the settlement between the Company and its bondholders. On 14 July 2015 the Company announced that the Court in Cyprus had authorized the Company's petition.

On 21 September 2015, a presentation for the Company's bondholders was published.

Following preliminary meetings held in Israel on 11 November 2015 ("Preliminary Meetings"), a proposed Settlement Plan and amended trust deeds to the Bonds (Series A-F) (the "Settlement" or the "Settlement Plan") have been approved between by the Company's Bondholders (Series A-F) (the "Bondholders").

At the Preliminary Meetings, the below resolutions were passed:

The Series C-F Bondholders approved the Settlement with a majority greater than 75% of the par value of each series.

The Series A-B Bondholders did not approve the Settlement with the requisite majority, such that the Series A Bondholders voted in favour of the Settlement with a majority of 56% of the participating voting parties and the Series B Bondholders voted against the Settlement with a majority of 90% of the participating voting parties.

As a result of the above and in accordance with the direction motion provided by the Tel Aviv Court on 3 August 2015, the trustee of each Bond series shall vote in the meeting of the creditors as follows:

The trustee of Series A Bonds shall split the votes of the participants in proportion to the voting majority at the Preliminary Meeting being 56% for and 44% against; the trustee of Series B Bonds shall, since the proportion of those opposed to the Settlement is greater than 75% of the par value of the series, vote against the Settlement for the entire value of the series; and the trustees of Series C-F Bonds, since the proportion of those in favor of the Settlement is greater than 75% of the par value of the series, vote in favor of the Settlement for the entire value of the series.

In light of the above and with particular consideration given to the Series A-B Bondholders who were opposed to the Settlement and with regard to the simple majority of the creditors needed to approve the Settlement in Cyprus, the Company wishes to announce that the Bondholders (Series A-F) have approved the Settlement with the Company.

The Company will now act to convene a meeting of creditors pursuant to a ruling of the Cypriot Court on 14 July 2015.

The completion of the Settlement is subject to various conditions precedent by deadlines set in the Settlement documents, including, among other things, receiving approval of the Settlement by the Cypriot court, receipt of approval of the Tel Aviv Stock Exchange, and approval of the Company and its shareholders.

There is no certainty that the conditions precedent set out in the Settlement documents will be completed by the set deadlines, nor that that the Settlement will be completed.

The Company is evaluating the accounting influence that rises from the bond settlement if and when it will be approved.

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 September 30, 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 September 30, 2015 loans from banks, in which the Company breaches its covenants, in an amount of \$ 200.5 million as current liabilities.
4. The Group has a working capital deficiency of approximately \$ 366.6 million as of September 30, 2015, a loss attributed to the equity holders of the parent of approximately \$ 82.4 million, total comprehensive loss attributed to the equity holders of the parent of approximate \$ 86.1 million for the nine months then ended and negative cash flows from operating activities of approximately \$ 18.5 million for the nine months 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.

NOTE 3:- FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair values of financial instruments as of September 30, 2015:

	<u>Carrying amount</u>	<u>Fair Value</u>
	<u>U.S. dollars in thousands</u>	
Financial liabilities:		
Debentures (series A)	4,234	1,468
Debentures (series B)	18,287	6,478
Debentures (series C)	35,805	11,974
Debentures (series D)	43,735	13,459
Debentures (series E)	104,774	31,192
Debentures (series F)	38,968	12,496
	<u>245,803</u>	<u>77,067</u>

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

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
	<u>U.S. dollars in thousands</u>		
Nine months ended 30 September 2015:			
Segment revenues	<u>27,192</u>	<u>49,567</u>	<u>76,759</u>
Segment results	<u>(8,390)</u>	<u>(4,724)</u>	(13,114)
Unallocated expenses			(6,592)
Finance costs, net			<u>(76,772)</u>
Loss before taxes on income			<u>(96,478)</u>
	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
	<u>U.S. dollars in thousands</u>		
Nine months ended 30 September 2014:			
Segment revenues	<u>44,053</u>	<u>17,752</u>	<u>61,805</u>
Segment results	<u>111,466</u>	<u>(3,694)</u>	107,772
Unallocated expenses			(6,455)
Finance costs, net			<u>(70,894)</u>

Profit before taxes on income	30,423
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	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)
Loss before taxes on income			(76,002)

NOTE 5:- INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER CONSTRUCTION

Below are details of the impact on the decline in the fair value of investment property and investment property under construction in the first nine months ended September 30, 2015

	U.S. dollars in thousands
An increase in fair value is due to depreciation of the Russian Ruble against the US Dollar	50,857
A real decrease in the fair value	(74,211)
The total decrease in fair value of investment property and investment property under construction, net	(23,354)

NOTE 6: - MATERIAL EVENTS DURING THE PERIOD

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 meters 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 6.1 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 meters 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.

During July, 2015 the bank holding the pledge on the ground, approved the sale and during August, 2015 the sale was completed and the first payment was received, the second payment is scheduled to be received in December, 2015 and the third payment is scheduled to be received in March, 2016. According to the Company obligation 60% of the consideration received was paid to the financing bank.