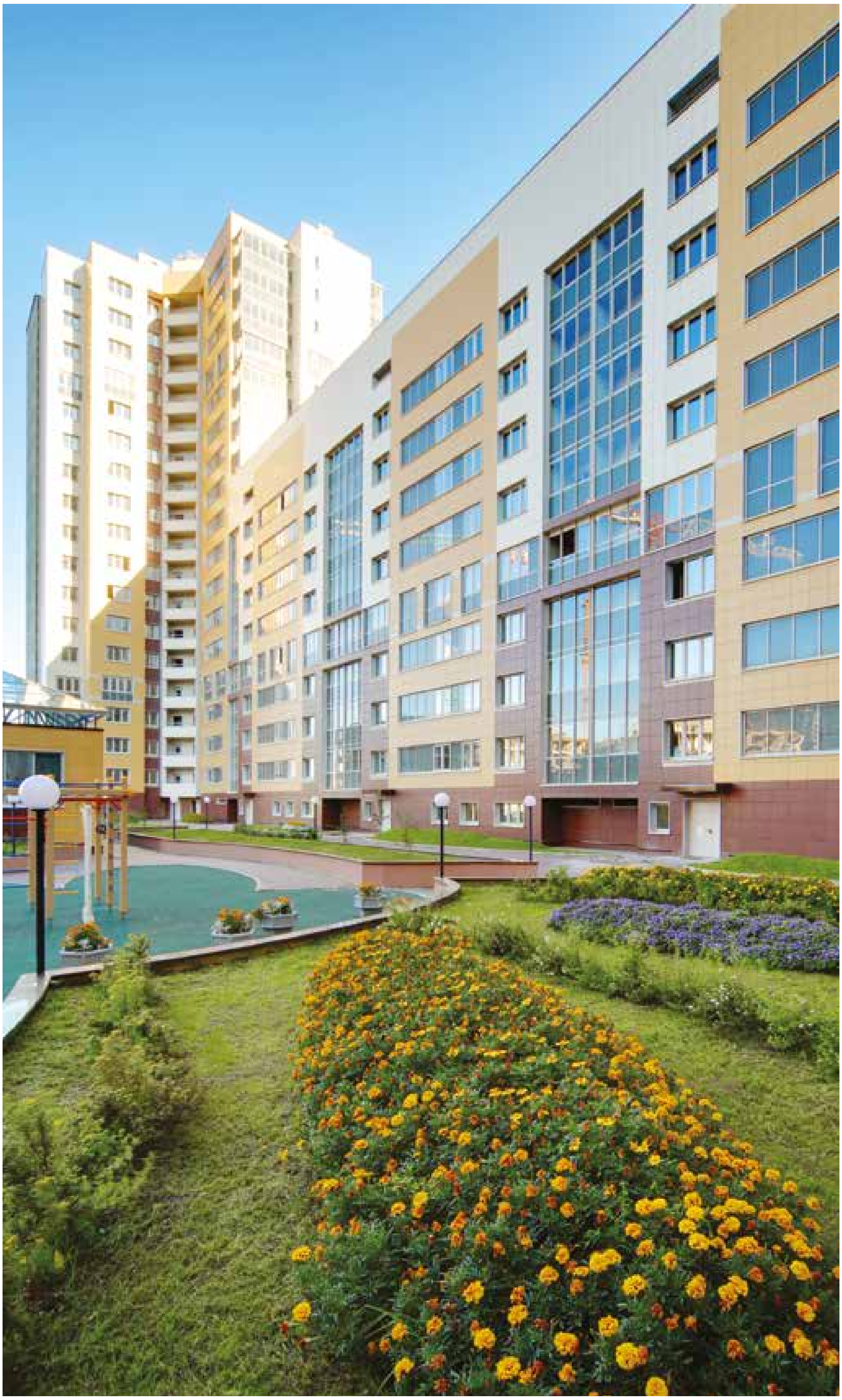
MirLand

Development Corporation Plc

Annual Report and Accounts 2014



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www.mirland-development.com

Who We Are

MirLand Development Corporation
Is one of the leading international residential and commercial property developers in Russia.

MirLand was established in 2004 as part of the Fishman Group, a global investment group with over US$2bn of combined annual income and a strong international track record of over 30 years of investing in, developing and managing real estate assets via public companies.

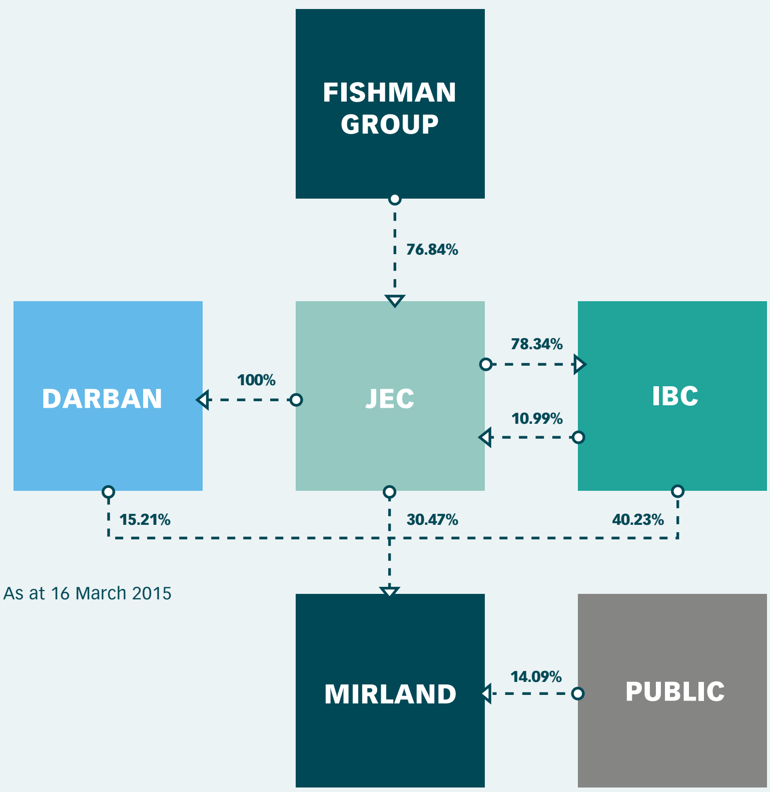
In December 2006, the Company successfully raised net US$293m through its IPO on the AIM market of the London Stock Exchange.

To date, the Company has successfully raised additional public debt of approximately US$346m through several bond issuances in Israel, providing it with greater financial flexibility and enhancing its ability to deliver its existing portfolio and pipeline of projects.

The Company's net leverage stands at 56.9% of its total assets.

The Company currently owns 13 residential and commercial projects across Russia, with a total rentable/saleable area of approximately 1.3m sqm upon completion. Of these, six commercial projects are already yielding, and the two residential projects are generating income. Three projects are at various stages of planning and in the process of obtaining permits.

Our Corporate Structure*



* As at 16 March 2015

Financial Highlights

Total Revenues
US$56.5m

Net Operating Income
US$37.3m

Gross Profit
US$39.1m

EBITDA
US$22.9m

Total Assets
US$756.6m

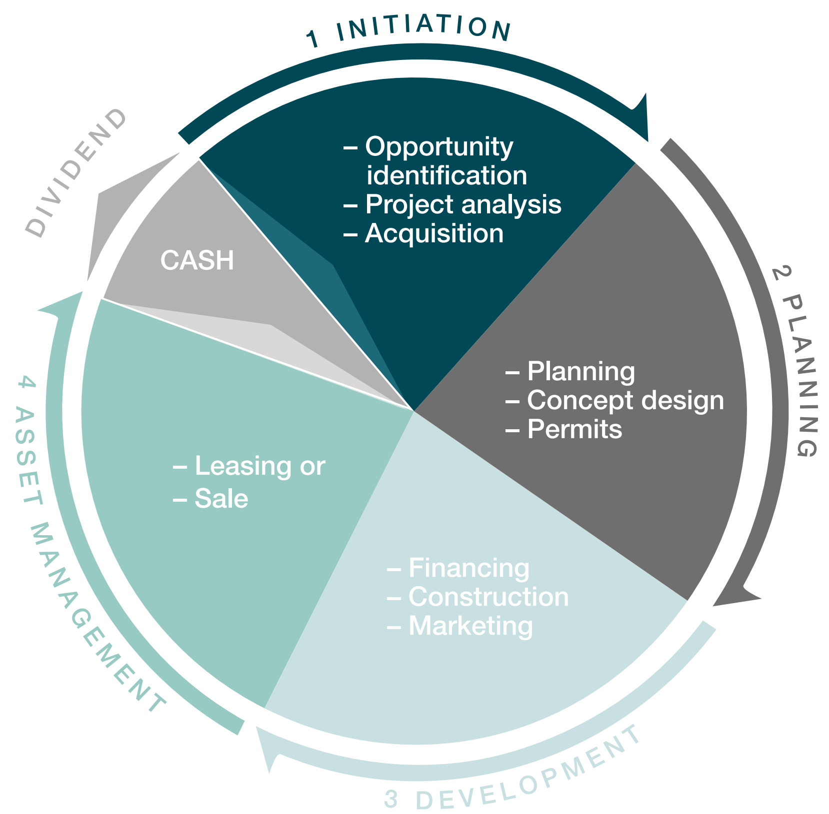
Total Equity
US$141.4m

Our Business

MirLand has a comprehensive and integrated approach towards real estate development, as the Company is involved in the full life cycle of a project from its initiation to its successful completion, maximising the return on every asset.

Our Business Model

We believe that our full and integrated business model, together with the diversification of our portfolio, enables us to manage and control our risks in order to maximise returns to our shareholders.



1. Initiation
We carefully choose plots of land with proper zoning or with a high probability of obtaining proper zoning for the future project, in order to reduce risk and shorten the time to market. We put great emphasis on analysing and understanding the potential of each project and aim to secure our land rights in an optimal way to ensure future success.

2. Planning
We select experienced international architects to undertake project planning and concept design in order to achieve high standards and efficient planning. Adding local architects to the team allows us to tailor our plans to the specific target market. Our team and consultants work closely with local authorities in order to obtain building permits on time and in accordance with local practice and our standards.

3. Development
We develop our projects with highly qualified and experienced contractors that we choose carefully. The majority of contracts are on a turnkey basis, allowing us to hedge our expense level.

- We choose leading marketing agencies in order to secure the best mix of tenants in our commercial projects and optimal cash flow stream in our residential projects;
- We also work closely with international and Russian banks in order to secure and optimise the financing structure of each project;

4. Asset Management
We work to optimise our income upon completion of each property by maintaining appropriate strategies for each sector in our portfolio.

- Commercial projects are held to generate stable cash flow and are managed by professional companies. However, should the right opportunity arise, a commercial project might be sold, if we feel that it is the best way to generate maximum value from the property.
- Residential projects (apartments and houses) are sold to end buyers.

Our Strategy

MirLand is involved in the acquisition, development, construction, rental and sale of commercial and residential real estate in Russia.

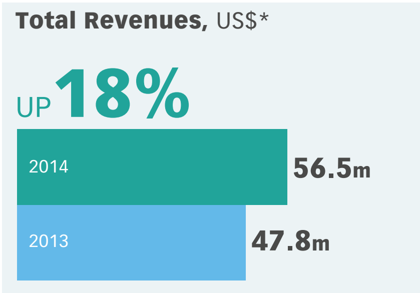
Our Competitive Strengths

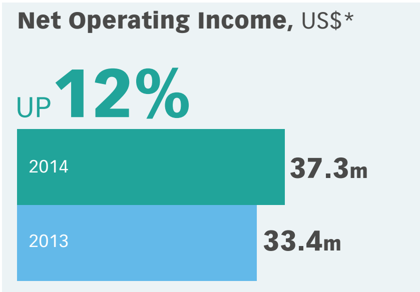
- Maintain diversification of the portfolio between various sectors, locations and development stage.
- Hold commercial properties for lease, unless compelling realisation opportunities arise.
- Develop residential properties for sale.
- Use diverse financing sources to accelerate business activity and growth.
- Acquire new projects and developments according to availability of financial sources and market conditions.

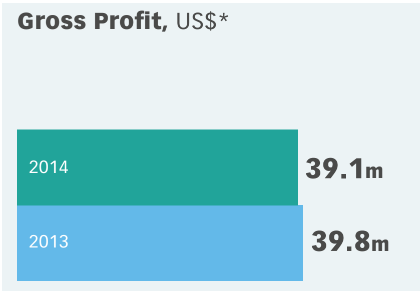
How We Performed in 2014

Financial Highlights

- **Total revenues from investment properties** up 18% to US$56.5m (31 December 2013: US$47.8m) due to an increase in income from yielding assets and full consolidation of the Vernissage Mall in Yaroslavl;
- **Net operating income** ("NOI") from investment properties (Company's share) up 12% to US$37.3m (31 December 2013: US$33.4m), mainly due to full consolidation of the Vernissage Mall in Yaroslavl and increase in income;
- **Gross profit** remains flat at US$39.1m (31 December 2013: US$39.8m);
- **EBITDA** down 8% to US$22.9m (31 December 2013: US$24.9m) due to a decrease in net income from residential projects;
- **Loss** of US$62.9m (31 December 2013: net income of US$6.2m) 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$185.8m following a decrease in projected NOI, a 1.5% increase to discount rates and 1% increase to CAP rates in the real estate market. In addition, the Company recorded net foreign exchange losses of US$175.9m. This was partly offset by a positive fair value adjustment of investment properties of US$270.6m following an appreciation of the US Dollar against the Rouble of approximately 72%, resulting in the nominal appreciation of commercial assets at the same rate;
- **Total assets** amounted to US$756.6m, of which 89% are property and land assets (31 December 2013: US$893.2m);
- **Total equity** of US$141.4m (31 December 2013: US$331.7m), equating to 19% of total assets;
- **Net leverage** stands at 56.9% of total assets (31 December 2013: 40.1%);
- 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

Residential:

Triumph Park, St Petersburg

Sales rate remains high with prices of later phases increasing ahead of inflation:

- Phase I: All 510 apartments have been sold, representing income of approximately US$69m, all of which was recognised during the period, in accordance with IFRS standards. An occupancy permit was received from the relevant authorities and delivery of apartments to owners has been completed;
- Phase II: Launched in Q3 2012. To date, 620 out of a total of 630 apartments (circa 98% of the scheme) have been sold, representing sales of approximately US$51.1m. An occupancy permit was received from the relevant authorities and the handover of apartments to owners commenced during 2014 and is expected to complete in the first half of 2015;
- Phase III: Strong sales launch in Q4 2013, with an additional 867 apartments out of 1,346 pre-sold, totalling circa 64% of the scheme, representing sales of approximately US$63.5m;
- Phase IV: Construction of 1,244 units commenced in Q3 2014, followed by the commencement of sales in Q1 2015. Approximately 82 units were pre-sold off plan during the initial two weeks of sales.

Western Residence, Perkhushkovo, Moscow

- Sales of a further 14 houses at our Western Residence development in Perkhushkovo, Moscow, have completed since 1 January 2014, taking the total number of units sold to 44 of the 77 houses in the scheme.

Retail:

- Satisfactory performance achieved despite pressures on rents and valuations during the fourth quarter with annual NOI from the Vernissage Mall and Triumph Mall down 7% to US$23.9m (2013: US$25.7m);
- The construction of a circa. 15,000 sqm extension to the Vernissage Mall commenced during the period, with advanced negotiations currently underway with an international DIY retailer regarding the pre-sale of a built-to-suit unit.

Offices:

- Occupancy rates remain high at the MirLand Business Center, which stands at 86% leased. Like-for-like NOI up 10% to US$15.0m.

Triumph Park

Vernissage Mall

Triumph Mall

Chairman's Statement

MirLand has delivered a positive operating performance during the 2014 financial year with further operational and financial milestones achieved across the business, despite having to navigate an increasingly challenging economic environment in Russia.

Nigel Wright
Chairman

Financing

The challenging economic environment has had a substantial impact on the independent valuation of the Company's real estate portfolio, which has been marked down in value by approximately 36% resulting in net leverage increasing substantially to 56.9% of total assets (31 December 2013: 40.1%). Total net borrowings amounted to US$430.1m (31 December 2013: US$357.7m).

Against this context and, further to the announcement on 25 January 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.

During the 2014 financial year, and prior to the significant deterioration of the economic situation in Russia, MirLand had made good progress in successfully securing new bank financing or refinancing agreements. These new facilities 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. Further details are set out below:

- In September 2014, the Company issued new debentures (Series F) in the total amount of NIS142.6m (approximately US$39.2m). The Series F debentures bear an annual fixed interest rate of 6.5% following increase of 1% due to the fact that they have been rated by Midroog at "B1 Negative". 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 31 December of each year from 2015 to 2019 (inclusive).
- 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$87m which will provide approximately 75% of the expected phase four construction costs, with the balance financed from sale proceeds. The loan fulfils 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$2.6m.
- In May 2014, a 51% owned subsidiary of the Company entered into a new non-revolving US$26m refinancing loan agreement with Nordea Bank against Century, its 11,000 sqm office investment asset in Moscow. The loan, which bears an interest rate of LIBOR + 6.85%, is for a period of five years. The loan principal is to be paid in quarterly instalments, with the last repayment representing 73% of the loan balance.
- In April 2014, a 61% owned subsidiary of the Company replaced its existing US$11m loan facility from Sberbank of Russia with a new US$18m facility with a fixed interest rate of 7.7%, compared to LIBOR + 7.7% for the previous loan, with all other terms remaining unchanged.
- On 20 March 2014, a subsidiary of the Company entered into a US$49m loan agreement with the Bank of Moscow to refinance the Vernissage Mall project. The loan, which bears a fixed interest rate of 7.75%, is for a period of seven years, after which it will be possible to extend the period by three additional years. The loan principal is to be paid in quarterly instalments, with the last repayment representing 49% of the loan balance. The refinancing follows the Company's decision in December 2013 to acquire the remaining 49.5% of shares in the asset, consolidating its control of the project.

We are very pleased to have negotiated these new facilities, as detailed above, particularly in the context of high interest rates, and considering the levels to which rates have since moved.

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

Following a sharp annual devaluation of 72% of the Russian Rouble against the US Dollar, the Company recorded an exceptional nominal revaluation gain of US$270.6m and nominal foreign exchange loss of US$175.9m in its 2014 annual 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 or loans provided to the Company's subsidiaries.

Operational Update

Despite the challenges in the market, operational progress continues to be in line with expectations. 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 98% of the flats pre-sold and the handover of circa 290 flats now concluded. Sales have continued to complete at a strong pace on Phase III of the scheme, with 867 (65% of the scheme) apartments pre-sold in the first 15 months of the sales process. The Company continues to market and achieve sales prices on these later phases ahead of the rate of inflation, underpinning the strong levels of profitability for the project in Rouble terms.

The construction of Phase IV of the project, representing a further 1,244 units, commenced in Q3 2014 and the sales programme launched in the first quarter of 2015 with 82 flats pre-sold in the first 2 weeks of sales.

The Western Residence residential development scheme at Perkhushkovo, Moscow has also maintained momentum with 12 further houses sold since the beginning of 2014. This takes the number now sold to 44 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. The retail portfolio enjoyed a strong operating performance, with net operating income up 14% to US$22.4m compared to 2013. We have commenced the construction of a circa 15,000 sqm extension to the Vernissage Mall, with advanced negotiations currently underway with an international DIY retailer regarding the pre-sale of a built-to-suit unit.

Occupancy at the MirLand Business Centre remains high at circa 86% 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 will lead to a substantial decrease in its NOI in the coming year.

Results

Total assets as at 31 December 2014 decreased by 15.3% to US$756.6m, as compared to US$893.2m as of 31 December 2013. Equity as at 31 December 2014 was US$141.4m compared to US$331.7m the preceding year.

Losses for the year amounted to US$62.9m (31 December 2013: net income of US$6.2m), due to the turmoil in the Russian market, which resulted in negative fair value adjustment of investment properties of approximately US$185.8m following a decrease in projected NOI, a 1.5% increase to discount rates and 1% increase to CAP rates in the real estate market. In addition, the Company recorded net foreign exchange losses of US$149.4m. This was partly offset by positive fair value adjustment of investment properties of US$270.6m following an appreciation of the US Dollar against the Rouble of approximately 72%, resulting in the nominal appreciation of commercial assets at the same rate.

Over the period, net operating income ("NOI") from investment properties increased by 12% to US$37.3m (31 December 2013: US$33.4m) due to decrease in operational expenses and full consolidation of Vernissage mall project.

MirLand's assets are externally valued semi-annually on 30 June and 31 December of each year. The valuation is conducted by Cushman & Wakefield. As a result of the above mentioned financial crisis, the value of MirLand's portfolio (Company's share) decreased by approximately 33.1% to US$589.5m as at 31 December 2014 (31 December 2013: US$880.7m).

Residential. Triumph Park, St. Petersburg

Phase I apartments all sold	Phase II apartments 98% sold	Phase III apartments 64% sold
510apt	620apt	867apt

Adjusted NAV, based on Cushman & Wakefield's valuation, was US$164.6m (31 December 2013: US$556.7m), a decrease of 70.4%.

Portfolio Development

Despite the challenges of the Russian economy, MirLand's focus for 2014 was to continue to deliver its flagship residential project already under construction, manage carefully its income-producing investment properties in order to decrease operational expenses, and execute its high quality pipeline of development projects. MirLand will continue to keep this strategy under review in light of macro-economic developments in Russia.

Residential

MirLand has continued to make significant progress at its flagship residential led development, Triumph Park in St Petersburg. All 510 apartments have been sold in Phase I and Phase II launched in Q3 2012 with 620 out of a total of 630 apartments (circa 98% of the scheme) sold, representing sales of approximately US$51.1m. An occupancy permit for Phase II was received from the relevant authorities and the handover of apartments to owners commenced during 2014 and is expected to complete in the first half of 2015. We saw strong sales in Phase III in Q4 2013, with an additional 867 apartments out of 1,346 pre-sold, totalling circa 64% of the scheme, representing sales of approximately US$63.5m.

In Q3 2014 we commenced construction of 1,244 units at Phase IV followed by the commencement of sales in Q1 2015. Approximately 82 units were pre-sold off plan during the initial two weeks of sales.

The project offers high quality and competitively priced housing in St Petersburg's strengthening residential market. Situated on a 40 hectare site, the project represents one of the few large scale developments in the city in close proximity to major transport links. Furthermore, the development is the first eco-residential complex in St Petersburg certified by BREEAM, the world's leading assessment organisation of green and sustainable construction. It will provide attractive features including ecologically friendly construction materials, energy efficient design, reduced CO_2 emissions, water purification filters and high speed eco lifts certified according to ISO 14001. The flexibility of the apartment mix in terms of both range of sizes and fit-out options is designed to appeal to a wide range of purchasers.

In Q4 2011 the construction of Phase I of the Western Residence project in Perkhushkovo (77 houses out of 163) was completed and the houses are now being marketed to prospective to the buyers. To date, a total of 44 houses have been sold.

Retail

The Company owns two retail projects located in large prosperous regional cities. Both are over 97% occupied and enjoy high footfall throughout the year.

As part of our strategy to grow the retail segment of the portfolio, we have now started the construction of Phase IIa of the Vernissage Mall (approximately 15,000 sqm) in Yaroslavl, which is being built-to-suit and under advanced negotiations to be sold in its entirety to an international DIY retailer. In addition, we are currently in negotiations with a single tenant for a tailor-made theme store development which will be let on a long term lease agreement at Triumph House, a retail project in Kazan.

Offices

The office segment of the portfolio comprises four income-producing investment properties – Hydromashservice, MAG, Century Bld and Tamiz – all located at the MirLand Business Center, which provides good quality office space in Moscow.

Dividend Policy

MirLand has adopted a dividend policy that is intended to reflect long term earnings and cash flow potential while, at the same time, maintaining both prudent dividend cover and adequate capital resources within the business.

In light of the challenges currently facing the Company, the Board has determined it inappropriate to declare a dividend for the financial year ended 31 December 2014.

Overview

Business Review

Management and Governance

Financial Statements

Additional Information

Our People

The Board of Directors and Senior Management team consist of dedicated individuals whose expertise has proved invaluable throughout this year. They have recommended and implemented positive and necessary changes to the Business Plan in light of rapidly changing economic circumstances and been involved in key decisions throughout.

As Chairman, I place considerable emphasis on rigorous Board management and, in addition to formal meetings, I meet and communicate with my colleagues on a regular basis.

Once again I would like to pay tribute to both my executive and non-executive Board colleagues and all our staff. Together they form the backbone of our business and I thank them for their continuing dedication, energy and achievement. Their efforts have ensured that the Company is well positioned to face the challenges of the future.

The Board of Directors and the management are fully committed to sound corporate governance. As in previous years, detailed information regarding our approach to governance issues, our internal controls and key team members will be provided in our Annual Report & Accounts.

Outlook

Since last reporting to shareholders the Russian business environment has been adversely affected by a well-publicised series of events that were both unforeseeable and beyond our control. The combined effects of a major devaluation in the Rouble, economic sanctions, further reductions to oil prices, low growth and high inflation have damaged both the real estate sector and the business environment as a whole. Given this exceptional combination of factors our core business has proved remarkably resilient and our results at the operating level remain encouraging. Unfortunately, however, the economic events I refer to have had a major adverse impact on our portfolio valuations and bottom line profitability.

The Russian economy remains challenging and is experiencing continued turbulence as a result of prevailing and continuing economic and geopolitical uncertainties. Despite stabilisation measures taken by the Russian Government and the Central Bank, a combination of falling currency, rising inflation, low oil prices and the recent downgrades of the Russian Federation's sovereign credit rating suggests that the business environment generally and the economy as a whole will continue to suffer 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 believe we have taken prudent steps to protect our business to the greatest extent possible but we cannot control the impact of outside factors, either political or economic, on our core activities. We continue to monitor the situation closely while evaluating the potential impact on the Group's cash flow and portfolio valuation. We believe we are capable of withstanding 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 business plan. Long term, we remain positive about both our business and Russia as a whole but as outlined below we face a number of considerable challenges. Inevitably there will be continuing uncertainty at least in the short to medium term.

Nigel Wright
Chairman

16 March 2015

Our Investment Strategy and Key Performance Indicators

MirLand's vision is to be a leading developer of real estate in Russia and, by following its strategy, the Company aims to enhance shareholder value and increase returns. The following metrics represent the key performance indicators used by the Company to evaluate its performance.

Focus on the Successful Development of Projects

Strategic Principles

- Commitment to the successful and timely completion of portfolio projects at all development stages.

Achievements in 2014

- Triumph Park in St Petersburg, the flagship residential project. Phase I completed and delivered to the owners. Phase II construction completed in Q4 2014 and the apartments handover to the owners is in process. Phase III construction of 1,346 apt is in advanced stages. Phase IV construction of 1,244 units commenced in Q3 2014.
- Advanced planning for construction of retail projects: Phase IIa of Vernissage Mall in Yaroslavl and Triumph House in Kazan.

Financing

Strategic Principles

- Use diverse financing sources to accelerate business activity and growth.

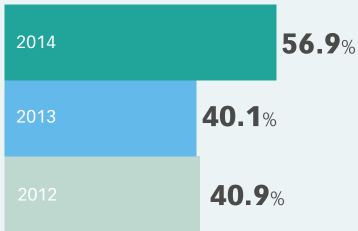
Achievements in 2014

- Refinancing loan facilities totalling approximately US$175.5m with a leading Russian banks.
- Obtaining a construction credit line for Phase IV of Triumph Park project in St Petersburg of approximately US$87.5m.
- Credit line obtained for MirLand office project in Moscow of approximately US$39m.
- Credit line obtained for Vernissage Mall in Yaroslavl of approximately US$49m.

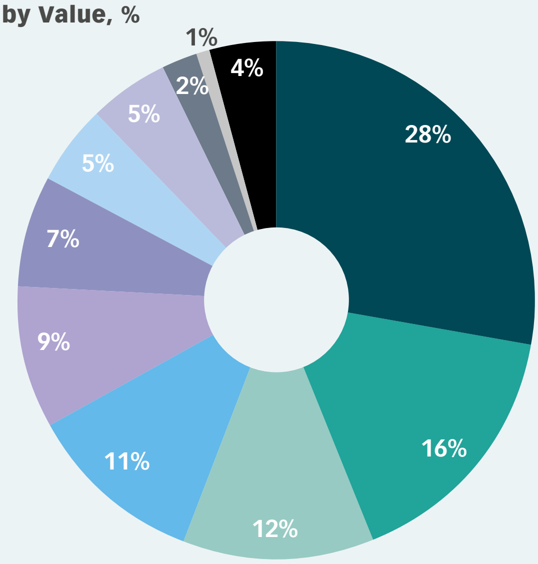
Key Performance Indicators

Net Leverage of Total Assets, %

56.9%



Assets by Value, %



621.6m US$ total value

- 28% Triumph Park
- 16% Triumph Mall
- 12% Century
- 11% Vernissage Mall
- 9% MAG
- 7% Hydro
- 5% Tamiz
- 5% Western Residence
- 2% Vernissage Mall Phase II
- 1% Triumph House
- 4% Other

Source: CW

Maintain a Diversified Portfolio

Strategic Principles

- Maximise opportunities while minimising risks through diversifying geographic location and segmentation.
- Maintain a mixed portfolio which holds both yielding and development projects from different sectors, with varying durations and phasing.
- Residential projects are built for sale; commercial projects are developed for investment and are retained for income generation.

Achievements in 2014

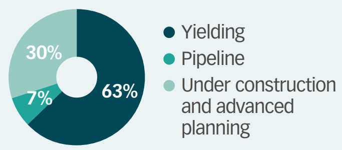
- Residential projects produced total consideration of more than US$191m. Phases II-III sales campaign successful launch while under construction, resulted in circa 98% of Phase II and approximately 64% of Phase III (1,487 apartments) pre-sold to date.
- Commercial projects occupancy level remained above 90%.

Preserving a Balanced Portfolio

- The Company’s portfolio includes two residential projects, and 11 commercial projects including offices, retail and logistics.
- The Company’s portfolio assets are spread across Russia: in Moscow, St Petersburg and a variety of large regional cities.

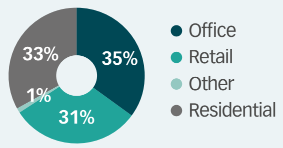
Key Performance Indicators

Development Stage by Value, %



Source: CW

Segment Distribution by Value, %



Source: CW

Geographic Distribution by Value, %

Source: CW

Grow and Improve Core Base of Yielding Properties

Strategic Principles

- Improve operational results and increase occupancy of existing yielding assets.

Achievements in 2014

- 100% occupancy rate at Triumph Mall in Saratov.
- 97% occupancy rate at Vernissage Mall in Yaroslavl.
- Average occupancy rate of approximately 88% for all office projects in MirLand Business Center: Hydro, MAG, Century Buildings and Tamiz.

Generate Value Through Active Management

Strategic Principles

- Actively market assets before completion.
- Identify market opportunities to increase yields.
- Sell properties at the optimal time.
- Take advantage of diverse financing opportunities.

Achievements in 2014

- Significant progress made during the year in terms of sales, construction and financing.

Acquire Attractive Sites in Targeted Locations for Future Developments

Strategic Principles

- Focus on high-quality developments which offer higher yields and capital growth.
- Invest in Moscow, St Petersburg and attractive regional cities with more than 500,000 inhabitants.
- Invest in a variety of high-yielding sectors.
- Invest in yielding or development projects that can be delivered to market in a short time.

Priorities for 2015

- Enhanced construction and sales of housing in Triumph Park and Western Residence projects.
- An increase of liquidity through strict cash flow management.
- Maintaining high occupancy levels in our yielding portfolio.
- Reduction of OPEX, G&A and other expenses.
- To continue our efforts to increase and diversify our financial resources including obtaining financing at the project level.
- Maintenance of a land bank portfolio for future development, subject to availability of funds and market demand.

Portfolio at a Glance

Retail | Offices | Residential | Logistics

Moscow and Moscow Region

Hydromashservice
Yielding
16,700 sqm

MAG
Yielding
18,500 sqm

Century Buildings
Yielding
20,900 sqm

Tamiz
Yielding
11,700 sqm

Western Residence Phase I
Saleable area
13,390 sqm*

* (excluding sold houses)

Western Residence Phase II
In Planning
34,607 sqm

St Petersburg

Triumph Park
Under construction
122,500 sqm
Saleable area in planning
378,500 sqm
Leasable area in planning
117,775 sqm

Saratov

Triumph Mall
Yielding
27,300 sqm

Saratov Logistics
In planning
104,000 sqm

Kazan

Triumph House
In planning
16,783 sqm

Yaroslavl

Vernissage Mall
Yielding
34,100 sqm

Vernissage Mall Phase II
Under construction
15,000 sqm
In planning
40,000 sqm

Novosibirsk

Novosibirsk Logistics Centre
In planning
180,000 sqm

Triumph Park is a large-scale residential development in St Petersburg. First of its kind in Russia, designed according to the best practice of sustainability and BREEAM standards.

Where dreams become opportunities

Triumph Park is the Company's flagship project of a multi-phased development of a large-scale residential neighbourhood. The development is the first eco-residential complex in St Petersburg, BREEAM certified, with low environmental impact built according to western standards. The flexibility of the apartment mix in terms of both the range of unit sizes and the fit-out options is designed to appeal to a wide range of purchasers.

- Phase I of the project, with total net sellable area of is approximately 27,700 sqm plus approximately 1,000 sqm of retail space and two levels of underground parking, was completed in Q2 2013. All 510 apartments have been sold and delivered to the owners.
- Phase II comprising circa 34,000 sqm, was launched in Q3 2012. To date, 620 out of a total of 630 apartments (circa 98% of the scheme) have been sold. Construction completed in Q4 2014. An occupancy permit was received and the handover of apartments to owners commenced in Q42014 and is expected to be completed in the first half of 2015.
- Phase III construction of circa 63,200 sqm commenced in Q3 2013. Sales launch in Q4 2013, showed impressive results with 867 apartments out of 1,346 pre-sold (circa 64% of the scheme) up to date.
- Phase IV construction of 1,244 apartments with total net sellable area of 60,700 sqm and circa 3,500 sqm of commercial area, commenced in Q3 2014. Sales launched in Q1 2015 with 82 apartments pre-sold off plan during the initial two weeks of sales.

On completion of the entire development, expected by 2021, Triumph Park will comprise 9,000 apartments, approximately 58,000 sqm of retail space, 60,000 sqm of offices and a variety of public amenities such as kindergartens, schools and parks.

Triumph Park offers its residents a modern comfort lifestyle, a synergy of social neighbourhood, ecology and innovations. MirLand is highly involved in various social responsibility projects, in order not only to provide housing, but to create a community.

Triumph Park Sustainability awards winner

- Triumph Park became the first project in Russia to be awarded a design-stage BREEAM certificate.
- Twice a winner of Green Awards.
- Awarded Gold Certificate Winner of Green Zoom.

Triumph Park creates sustainability history in Russia

- Triumph Park development in St Petersburg has become **the first residential project in Russia to be awarded a design-stage BREEAM certificate**, which was later confirmed by obtaining a post-construction BREAM certificate
- **Triumph Park is twice a winner of Green Awards**, the Russian Federal competition on sustainable development and energy efficiency. The winner of the national round of the international FIABCI Prix d'Excellence 2015, and the finalist in the urban real estate category of the Russia's Annual Urban Awards.
- Triumph Park was awarded a **Gold Certificate of GREEN ZOOM**, a Russian standard for sustainable development.
- Project's low-energy buildings have **energy-efficient** lifts and natural ventilation designed to maximise the use of daylight within the apartments. It also incorporates environmentally friendly building materials with high thermal performance, and over 95% of waste is diverted from landfill.

Location

- St Petersburg, a city with a population of 5m people
- Well-developed residential district
- Easily accessible from downtown and main routes, located within a short walking distance to the underground public transportation station
- Well-developed infrastructure in the neighbourhood

Main characteristics

- 41 ha land plot
- Over 1m gross sqm of quality residential and commercial areas
- Market adjusted apartment mix for each phase
- Underground parking, schools, kindergartens
- Closed, secured and eco-landscaped internal yards
- Energy-efficient, environmentally friendly eco-complex
- BREEAM certification issued by BRE
- Socially responsible development

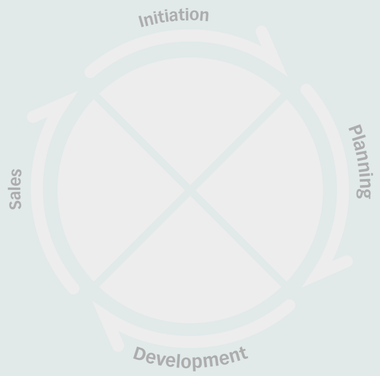
Phase I

100% **sold**

Number of apartments	**510**
Sellable area	**27,719 sqm**
Commercial area	**1,076 sqm**
Sales commencement	**Q4 2011**
Credit line	**US$41m***
Completion	**Q2 2013**

Project Status
Sold and delivered to owners

* Fully repaid



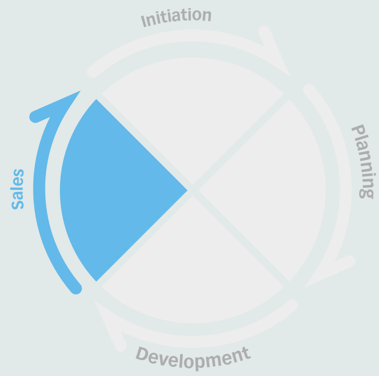
Phase II

98% **sold**

Number of apartments	**630**
Sellable area	**34,088 sqm**
Commercial area	**1,107 sqm**
Sales commencement	**Q3 2012**
Credit line	**US$47.5m***
Completion	**Q4 2014**

Project Status
Handover of apartments in process

* Fully repaid

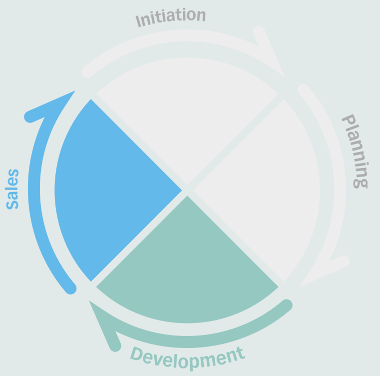


Phase III

64% **sold**

Number of apartments	**1,346**
Sellable area	**63,186 sqm**
Commercial area	**1,323 sqm**
Sales commencement	**Q4 2013**
Credit line	**US$96m**
Expected completion	**Q4 2016**

Project Status
Under construction

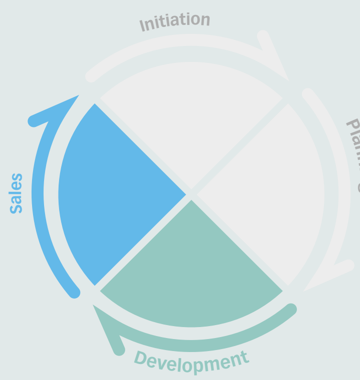


Phase IV

7% sold

Number of apartments	**1,244**
Sellable area	**60,694 sqm**
Commercial area	**3,475 sqm**
Sales commencement	**Q1 2015**
Credit line	**US$87m**
Expected completion	**Q4 2017**

Project Status
Under construction

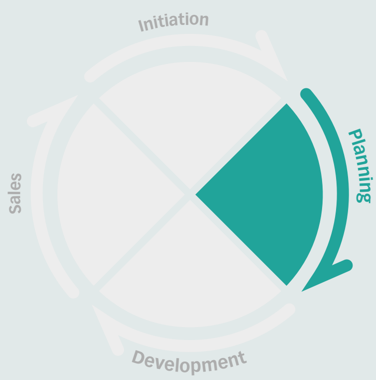


Phase V-VIII

In planning

Number of apartments	**~5,500**
Sellable area	**378,713 sqm**
Commercial area	**28,794**

Project Status
In planning

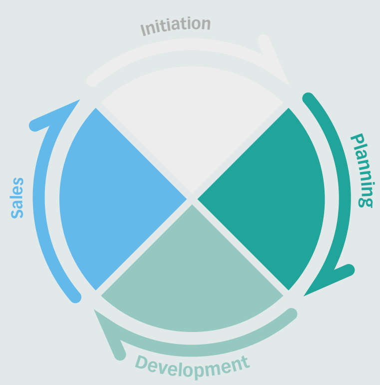


Portfolio

Triumph Park

9,000
apartments

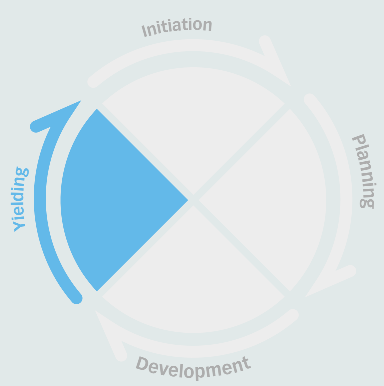
Location	**St Petersburg**
Land area	**41 ha**
Total saleable area	**560,000 sqm**
Leasable area	**117,775 sqm**
Sales commencement	**Q4 2011**
Planned completion	**Q4 2021**
Freehold rights	**100%**



Triumph Mall

100%
occupied

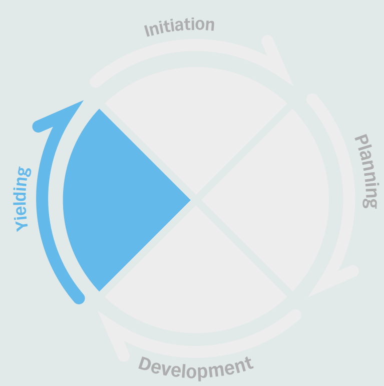
Location	**Saratov**
Land area	**2.2 ha**
Leasable area	**27,300 sqm**
Completed	**Q4 2010**
Freehold rights	**100%**



Vernissage Mall

97%
occupied

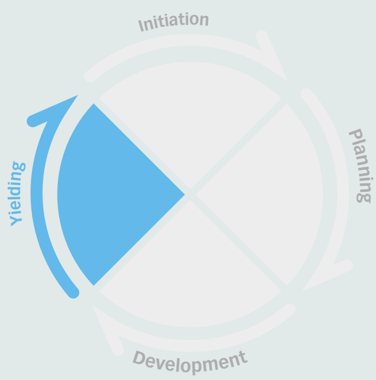
Location	**Yaroslavl**
Land area	**12 ha**
Leasable area	**34,100 sqm**
Completed	**Q2 2007**
Freehold rights	**100%**



Hydromashservice

80% occupied

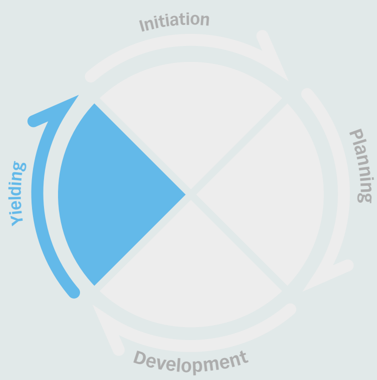
Location	**Moscow**
Land area	**1.2 ha**
Leasable area	**16,700 sqm**
Completed	**Q4 2008**
Leasehold rights	**100%**



MAG

78% occupied

Location	**Moscow**
Land area	**2.2 ha**
Leasable area	**18,500 sqm**
Completed	**Q4 2007**
Leasehold rights	**100%**

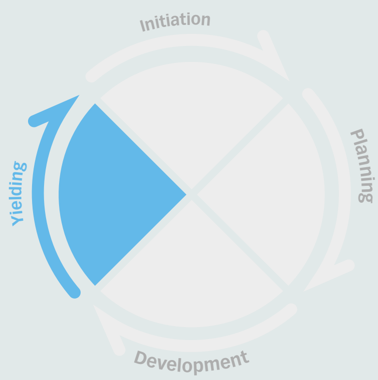


Century Buildings

95% occupied

Location	**Moscow**
Land area	**0.58 ha**
Leasable area	**20,900 sqm**
Completed	**Q1 2009**
Leasehold rights	**61%/51%***

* This project is comprised of two buildings.

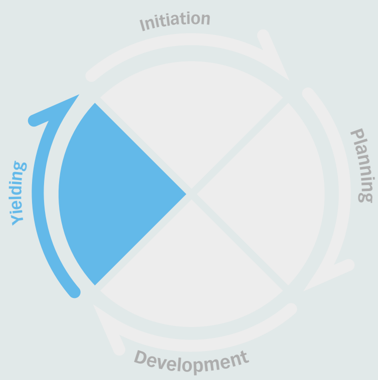


Portfolio continued

Tamiz

95%
occupied

Location	**Moscow**
Land area	**0.45 ha**
Leasable area	**11,700 sqm**
Sales commencement	**Q3 2011**
Leasehold rights	**100%**

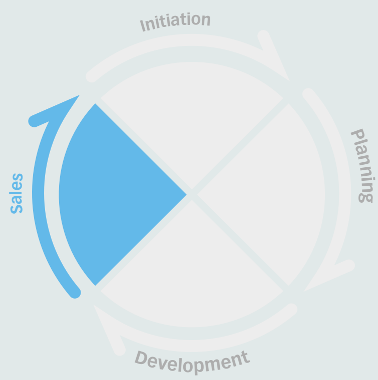


Western Residence Phase I

57%
houses sold

Location	**Perkhushkovo**
Land area	**11 ha**
Saleable area*	**13,390 sqm**
Phase I completed	**Q4 2011**
Freehold rights	**100%**

* Excluding sold houses. Sales: 44 out of 77 houses were sold as of the date of this report.

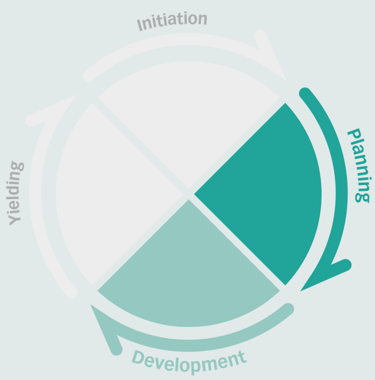


Vernissage Mall Phase II

55,000
sqm leasable area

Location	**Yaroslavl**
Land area	**18 ha**
Leasable area	**55,000 sqm**
Planned commencement*	**Q1 2015**
Planned completion	**Q4 2015**
Freehold rights	**100%**

* Sub phase I



Projects in Planning

Retail | Offices | Residential | Logistics

Triumph House

16,783
sqm leasable area

Location	**Kazan**
Development of home design and improvement centre at favourable location in the city.	
Land area	**2.2 ha**
Leasable area	**16,783 sqm**
Planned commencement	**Q2 2015**
Planned completion	**Q4 2016**
Freehold rights	**100%**

Saratov Logistics

104,000
sqm leasable area

Location	**Saratov**
Phased development of a logistics centre close to the federal highways and the city ring road.	
Land area	**26 ha**
Leasable area	**104,000 sqm**
Freehold rights	**100%**

Novosibirsk Logistics

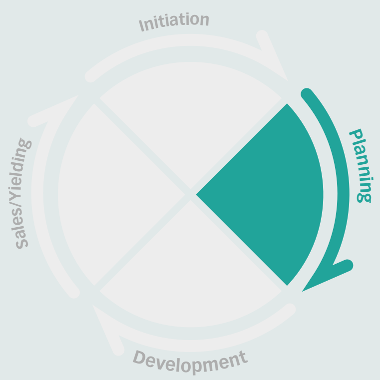
180,000
sqm leasable area

Location	**Novosibirsk**
Phased development of a logistics centre close to the federal highways and railways.	
Land area	**40.6 ha**
Leasable area	**180,000 sqm**
Leasehold rights	**100%**

Western Residence, Phase II

34,607
sqm saleable area

Location	**Perkhushkovo**
Development of 86 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow.	
Land area (Phase II)	**11.5 ha**
Saleable area	**34,607 sqm**
Freehold rights	**100%**



Our Markets

Russian Business Environment

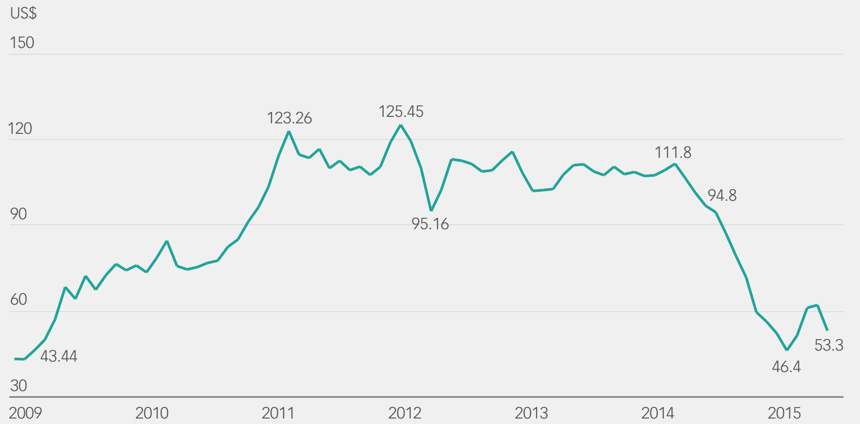
Key economic indicators	2012	2013	**2014**
Population (m)	143.0	143.3	**143.7**
GDP per capita (PPP, US$)	23,700	24,298	**24,764**
GDP growth rate (%)	3.5	1.5	**0.6**
Inflation (%)	6.5	6.5	**11.4**
Unemployment rate	5.5	5.5	**5.3**
RUB/US$ exchange rate	30.4	32.9	**56.3**
Sovereign credit rating	BBB	BBB	**BB+**

In 2014 Russia faced two major events that negatively impacted its economy. The first was the military unrest in East Ukraine and annexation of Crimea by Russia that started in March and led to economic sanctions from the US and the EU against Russia.

The second was the sharp decrease in oil prices that initiated in the middle of the year and led to an approximately 50% drop in the second half of 2014, while the oil sector represents 65% of Russia's total export revenues.

On the back of falling oil prices, increasing geopolitical tension and a surprise cut in the key policy rate by the Central Bank of Russia ("CBR") the value of the Rouble collapsed and has continued to slide since the middle of 2014. Measures taken by the Russian Government and the CBR's December key policy rate hike of 750 bps have helped to stabilise the Rouble. In January 2015, S&P downgraded Russia's sovereign credit rating to BB+ with negative outlook. Subsequently, the market reaction to the CBR's decision on 30 January 2015 to cut its policy rate by 200 bps was sharply negative and required the CBR to intervene with US$700m to stabilise the Rouble. Therefore, at the beginning of 2015 the Rouble continued its devaluation against the US$ and against the dual currency basket. On 30 January, the government revealed an anti-crisis package of RUB2.3tn (approximately US$37bn) which it plans to commit to support the economy.

Brent oil prices 2009–2015



Source: Central Bank of Russia

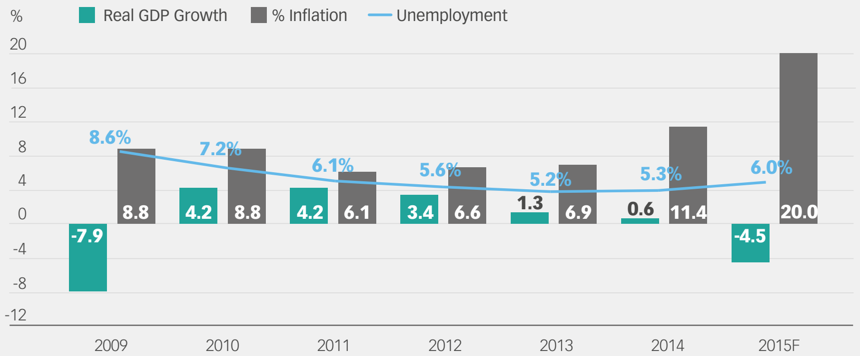
Currency RUB–US$ 2009–2015

Source: Central Bank of Russia

Rosstat's preliminary estimate for Russia's 2014 real GDP growth stands at 0.6% while inflation increased to 11.4 % during the year, driven by high food inflation and the devaluation of the Rouble. This decline in growth from 1.3% in 2013 was due to weaker domestic and external demand. Consumption remained the main growth driver, yet its pace of expansion slowed to 1.5%, compared to 3.9% in 2013. Depressed investment demand was reflected in the contraction of fixed capital investment by 2.5%, while companies continued destocking. Growth was supported by stronger net exports due to the weaker Rouble. Manufacturing and financial services were the main growth contributors on the production side. On the upside, unemployment remained low during the year. A continued decline in imports due to political sanctions on Russia from the US and the EU, together with weak currency, are expected to support the consumption of indigenous goods whilst simultaneously boosting export performance as trade activity will become more attractive with a weak local currency.

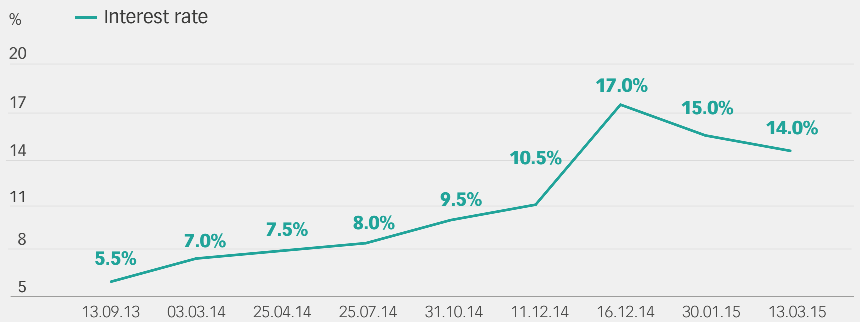
Rosstat's January survey points to a worsening of business conditions across all major manufacturing industries, with the aggregate seasonally adjusted index falling to the lowest level since the 2009 crisis. The survey suggests that weak domestic demand and growing political uncertainty have become the two most important factors affecting investor confidence. This reflects Russia's balance of payments which deteriorated significantly in the fourth quarter of 2014, affected by a terms of trade shock and again accelerating capital outflows. Net capital outflows grew in in the fourth quarter to US$59.5bn. For 2014, capital outflows in the amount of US$130.5bn (7% of GDP) triggered the deterioration in

Real GDP Growth, Inflation and Unemployment



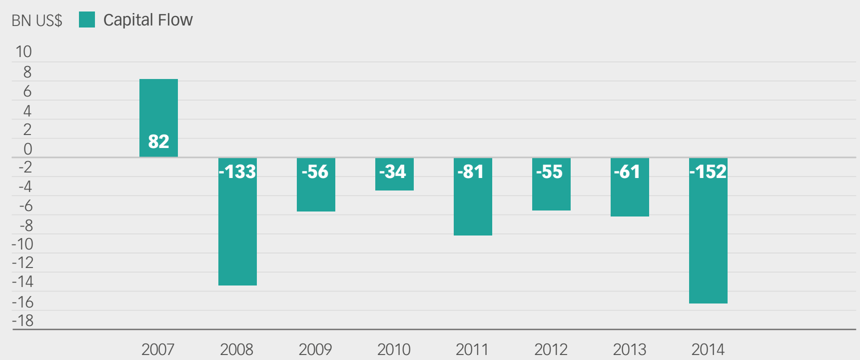
Source: Rosstat, MED, CBR, Alfa Bank

CBR Interest Rate



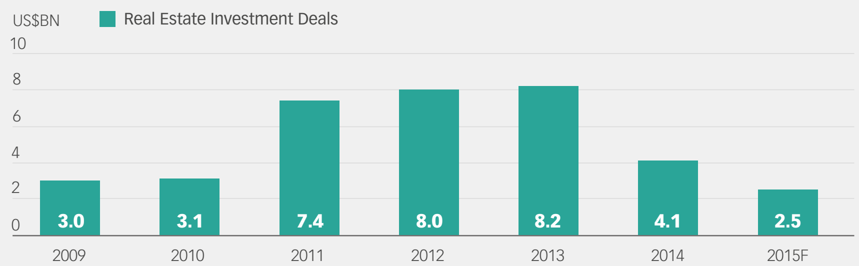
Source: Rosstat, MED, CBR, Alfa Bank

Capital Flow



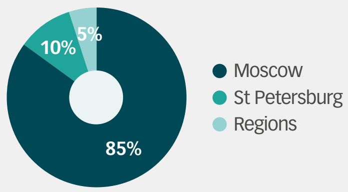
Source: Rosstat, MED, CBR, Alfa Bank

Overall Volume of Real Estate Investment Deals, US$BN



Source: Colliers International

Breakdown by Real Estate Investments by Region in 2014, %



Source: Colliers International

the balance of payments and required the CBR to spend US$86.5bn of its reserves, decreasing its reserve stock by 25.6% since the beginning of the year. The World Bank revised its Russia growth forecast for 2015 to –3.8%, based on a new oil price projection of US$53/bbl.

The 2014 federal budget deficit was the result of the measures to support the economy. The Ministry of Finance issued on 30 December 2014, RUB1tn (approximately US$16bn) in treasury bonds to recapitalise the banking system. The overall budget deficit remained at the same level compared with 2013. This was largely the result of the Rouble depreciation, which boosted oil revenues and led to an increase in total government revenues to 20.4% of GDP from 19.7% of GDP a year before.

In spite of the economic challenges, Russia still has large foreign exchange reserves that amounted to US$385bn at the end of 2014. These reserves will continue to support the balance of payments gap and help to stabilise the Rouble's devaluation. In addition, the reserves might also be used to support the Russian banking system as capital ratios are starting to deteriorate and liquidity support by some banks may be needed.

However, the level of government debt, as a percentage of GDP remains low, at 32.5% at the end of 2014 (14% in 2013), which is still much lower than many OECD and other European countries.

Positive news came during February 2015 as a cease-fire in East Ukraine was declared. It is not yet clear what impact this cease-fire will have on the western sanctions regime and on the wider Russian economy should this agreement prove stable.

Russian Real Estate Market

In 2014 total volume invested in commercial real estate in Russia was back to 2010 levels and decreased sharply to US$4.1bn, compared to 2011–2013 yearly investments which stood at US$7.5–8.1bn. This decrease in investment volume is attributed to both the global and domestic macroeconomic environment and the forecast for 2015 is even lower. Foreign investment in real estate reduced to only 20% of total investment (34% in 2013) or US$0.8bn (US$2.4bn in 2013).

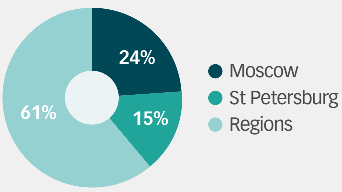
The macroeconomic environment also led to a sharp increase in capitalisation rates during the year by 2.5% to 11% in the office sector, by 2.0% to 11% in the shopping centres sector and by 2% to 13% in the warehouse sector. This increase occurred mainly during the fourth quarter of the year as the CBR increased the interest rate to 17%, while trying to support the devaluation of the Rouble. However, these new capitalisation rates do not fully reflect new financing terms, and therefore this outward movement may continue.

As with previous years, the office sector led the investments in Russian real estate with US$2.2bn (54% of total investment), out of which US$2.0bn was invested in Moscow and US$0.2bn was invested in St Petersburg. However, investments in this sector reduced by 37% relative to 2013. Other sectors demonstrated weaker performance with investment in the retail sector amounting to US$0.6bn (down 77% from 2013) and investments in the warehouse sector of US$0.4bn (down 74% from 2013).

The Office Sector

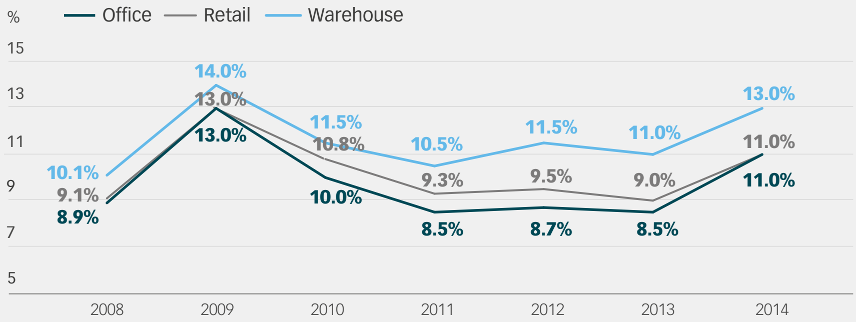
During 2014 most market indicators presented negative trends mainly due to a decrease in demand for office premises and a cycle peak of new construction. New construction added 1.4m sqm to the market, representing a record high for the last five years of new development. However, the net absorption was only 300,000 sqm which is 4.5 times less than the new construction volume which entered the market. The volume of premises under construction remains high, however

Structure of Total Stock at the end of 2014, %



Source: Colliers International

Prime Yields in Moscow, %



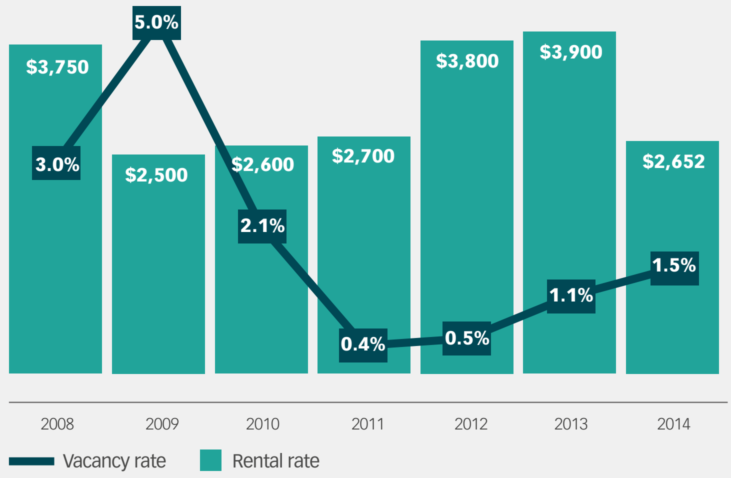
Source: Rosstat, MED, CBR, C&W, Alfa Bank

developers are tending to halt work on new projects.

Tenant requirements to reduce costs has led to rent reductions, space use efficiency and cancellation of expansion plans. The sharp Rouble depreciation initiated a trend of "deDollarisation" of lease contracts, mainly in class B buildings. In class A buildings this trend is not so apparent, however landlords of these assets are prepared to become more flexible. Take-up during the year amounted to only 1.3m sqm, on par with 2010 volumes, culminating a three year decrease in demand for the leasing and purchasing of space. Rental asking prices reduced principally towards the end of the year and were 30% lower in 4Q 2014 than in 4Q 2013.

The reduction in demand together with the significant supply of new buildings on the market has caused an increase in vacant space to 2.6m sqm, while an additional 0.7m sqm which will be delivered during 2015 is already being offered for lease. By the end of 2014, 17.2% of all existing office premises in Moscow (12% at the end of 2013) was vacant. Demand for class A office space fell more significantly resulting in a 31% vacancy level at year end, whereas class B offices present a lower 13% vacancy level.

Moscow Prime Retail Rental Rate Indicator and Vacancy Rate, US$/sqm,%



Source: CW

The Retail Sector

Russia is the largest market in Europe and has the biggest retail turnover in EMEA with US$611.8bn in 2013. While modern retail space only started being developed about 10 years ago, shopping has become a conventional cultural pastime for many. The majority of good quality projects are located in large cities, although in recent years developers have also increased their activity in cities with less than 500,000 people.

The economic downturn, devaluation and inflation influenced consumer spending during 2014 and the negative trend is expected to continue in 2015. Retail sales in Russia grew by only 1.9% during 2014 (3.9% in 2013) and real disposable income grew by just 1% (2% in 2013). This growth has been attributed to the strong consumption trend in November and December as the Rouble continued its devaluation and inflation expectations were on the rise. In addition to the decrease in real wages in December 2014, the increase in financing costs will reduce the consumer credit that fuelled spending in previous years.

Since the middle of 2014, demand for retail premises has decreased significantly. The main reasons for the decline are: the reduction in sales volumes due to import restrictions and high purchase prices, in addition to the high cost of imports and consequently retail prices which conflict against a decrease in purchasing power, and general future uncertainty. Tenants have consequently started to renegotiate their lease agreements due to a decline in sales expectations and growing economic uncertainty.

2014 was a record year for the construction of quality retail premises as 60 new shopping centres with a GLA of 2.1m sqm were delivered in 49 cities across Russia. In Moscow, 14 new shopping centres were opened with 0.67m sqm of GLA, including Avia Park which is the biggest mall in Europe. Outside Moscow, 46 shopping centres were delivered with 1.54m sqm of GLA. The majority of these new centres had soft openings with low occupancy rates due to the slowing demand.

In light of the economic situation and the huge influx of new shopping centres, vacancy rates in existing shopping centres started to increase towards the end of the year, as the higher vacancy rates at new premises increased the competition.

The market situation has put downward pressure on leasing contracts. Many lease agreements have been transferred from US$ to Rouble. In addition, fixed rental prices are becoming less common as payments as a percentage of turnover is becoming an increasingly popular trend.

In Saratov, the market is young and not yet stabilised. The area of quality retail space is only 140 sqm per 1,000 inhabitants. In Yaroslavl, the retail sector has developed rapidly since 2004 and reached 300 sqm per 1,000 inhabitants. Almost all large retailers active in Russia, both local and international, are also active in Yaroslavl.

The Residential Sector

The residential sector in Russia presents one of the best opportunities for growth due to the low level of living space per capita and what has been a slowly developing mortgage market. The average area per capita is circa 24 sqm and the mortgage market amounts to only small proportion of GDP, significantly lower than in western countries. In 2014, approximately 1.1m apartments comprising a total area of 81m sqm were delivered in Russia, representing 15% growth over the year. Among the newly constructed apartments, 10.2% were built in the Moscow region, 4.1% were built in Moscow, and 4% were built is in St Petersburg.

2014 saw a record volume of residential schemes under development in St Petersburg, with 3.3m sqm under construction. Due to both economic instability and currency volatility there are concerns regarding the demand for new apartments, however it’s expected that high quality and well-designed projects will be less affected by the downturn, as evidenced by the 2008 financial crisis.

In December 2014, the residential market in St Petersburg experienced a boom in demand. However, expectations for 2015 are that demand will be lower as a result of increased mortgage rates and decreasing purchasing power in light of the falling Rouble. During the year average selling prices of apartments in St Petersburg increased by 9.4%. 60% of apartments were priced between 70–110 thousand Rouble per sqm, and 15% of apartments ranged between 110–130 thousand Rouble per sqm. Market expectations are that the prices will continue to increase by 5%–10%, which is lower than the expected rate of inflation.

As at the year-end, there are slightly more than 700 cottage settlements of all categories in the development stage in the Moscow region, as 120 of them can be referred to as concept development of business or prime class in comparison to our project. However, the development activity slowed down in 3Q 2014 due to the economic situation in Russia. Traditionally, the majority of demand has accounted for empty plots of land, however an increase in demand for town houses has recently been witnessed. Turnkey ready houses and town houses are on average 10%-30% more expensive than contracted land-plots. In 2014 demand shifted towards smaller properties which could accommodate a reduced budget.

Average price increases for apartments in Russia during 2014 were lower than the rate of inflation. In Moscow, prices increased by 8% and in St Petersburg an average apartment price increased by just 5%. The mortgage market in Russia increased by 30% (2013: 31%), however due to the sharp increase in the interest rate by the CBR at the end of 2014 it is not expected that mortgages will see any growth during 2015.

The Logistics Sector

Since early 2014, the market for warehouses in the Moscow region has become more favourable for tenants. In the first half of the year the supply of good quality space increased significantly which resulted in the growth of vacancy rates. Therefore, for the first time since 2011 tenants can now close deals on existing space, not only on warehouses under construction.

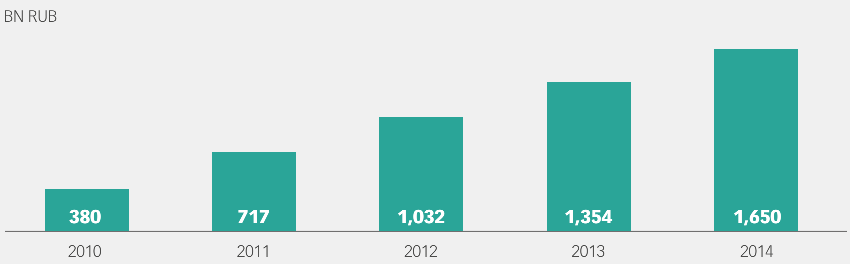
2014 presented record volumes of new construction that resulted in a 4% increase in vacancy rates in the Moscow region to 5% in class B and 7% in class A warehouses. Some near complete projects are expected to come to market in 2015.

In the regions, economic and political factors did not have such an affect on the market as in the Moscow region. As a result, regional demand during the year remained strong. During 2014, circa 1m sqm of quality warehouse space was delivered across Russia (excluding Moscow). New construction activity is expected to continue, as there is a lack in supply of quality warehouses in many regions. In comparison to 2014, take-up increased by 29%, with 77% of transactions relating to new lease agreements, and 23% were purchase transactions.

The demand, especially from food retailers, is not satisfied in all Russian regions. In 2014 the most active companies in the regions were retailers (mainly food retail) with a 65% market share, industrial companies (primarily car components and industrial equipment production) with a 22% market share, and logistic players with a 13% market share.

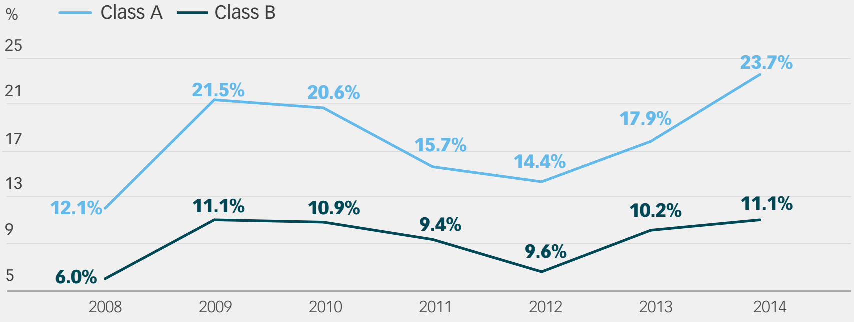
In the regions, local developers make mainly Rouble denominated agreements, therefore, the Rouble devaluation did not have a significant affect on the market and average rents have remained relatively stable. Contrastingly, in the Moscow region, rents decreased by 25% due to the devaluation of the Rouble.

Russia's Mortgage Lending Market, BN RUB



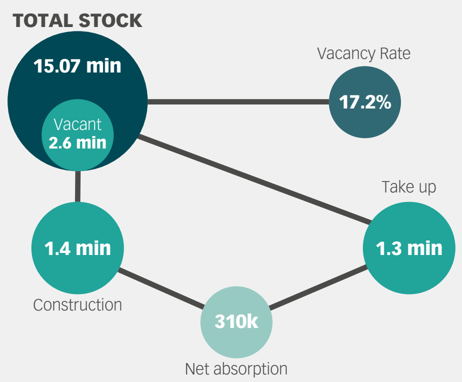
Source: Peterburgskaya Nedvizhimost

Class A&B Vacancy Rates in Moscow, %



Source: CW

Office Market Snapshot



Source: CW

Chief Executive's Statement

Focus on the progression of the development projects which have the greatest potential to deliver the best returns despite changing market conditions.

Roman Rozental
CEO

Strategy

MirLand's particular geographic focus is Moscow, St Petersburg and major regional cities with a population of over 500,000 people. MirLand invests primarily in projects where it identifies potential for a high return on equity and the generation of strong yields and income, stemming from demand for high quality commercial and residential real estate assets.

The key elements of MirLand's strategy are as follows:

- **Focus on the completion of existing projects:** The Company aims for the timely delivery of projects while ensuring they are completed to a high standard. Marketing of all of the Company's commercial projects is commenced during their development phase.
- **Portfolio Diversification:** To mitigate risk, the Company's portfolio is balanced between various sectors, locations and development stages.
  - Geographic location: investments are spread across Moscow, St Petersburg, and other major regional cities. Investment decisions are made following a detailed feasibility study and the close examination of local and national economic and demographic data, as well as the balance between supply and anticipated demand for international standard properties.
  - Sector: the Company invests in a balanced mix of residential, retail, office and logistics, as well as mixed-use projects.
  - The Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. The Company owns both yielding and development properties in order to obtain a relatively balanced spread in the use of working capital and demand for management's attention, that can, at the same time, generate an income flow from sales and yielding properties.
- **Realisation of assets:** The Company will continuously assess whether to retain yielding properties or realise their market value through disposal, depending on the opportunity and on prevailing market conditions. The Company uses revenues from yielding assets to diversify its income sources.
- **Use of diverse financing sources to accelerate business activity and growth:** Equity, shareholders' loans, corporate loans (some of which have been guaranteed by our main shareholders), project financing and bond issuances are used to finance the Company's activities and projects.
- **Enhancing business cooperation with local partners, especially in the regions:** Having a local partner provides daily monitoring of the projects and thus a greater level of control over quality, costs and delivery for the Company. In addition, these relationships are expected to lead to future investment opportunities.

The recent financial turmoil has led the Company to adjust its operational focus to be more directed on managing its core activities and available financial resources.

This has been achieved through:

- focus on the progression of the development projects which have the greatest potential to deliver the best returns despite changing market conditions;
- further phasing of larger projects;
- development of the remaining projects according to changes in the market demand and to the availability of financial sources;
- strong emphasis on keeping high occupancy rates in yielding commercial projects;
- high prioritisation of financing.

This strategy supports the Company's position as one of the leading international real estate companies in Russia. The backing of the Company's main shareholders, together with the diversification of financial sources, enables MirLand to continue to develop and maintain its portfolio and help support it in its mission of creating value for its shareholders.

In addition, in the event that market conditions begin to improve and the availability of financing sources in Russia increases, the Company might consider increasing its portfolio when good opportunities arise, through acquisitions of new real estate assets, either yielding or development projects, that can be delivered in a short time to the market.

Portfolio

MirLand currently has 13 projects, six of which are yielding assets (offices in Moscow and regional retail), two project are under construction (Phase IIa of Vernissage Mall and Phase III and Phase IV of the Triumph Park project in St Petersburg), two are completed residential projects (Phase I in Western Residence in Perkhushkovo and Triumph Park)) and three projects are at various stages of planning and in the process of obtaining permits (in addition to the Phase II of the Western Residence project in Perkhushkovo and phases V-VIII of the Triumph Park project in St Petersburg).

The Company's portfolio has been valued by Cushman & Wakefield at US$589.5m (MirLand's share) as at 31 December 2014, based on the Company's freehold/leasehold rights. This value represents a decrease of approximately 33% since 31 December 2013.

Yielding Projects:

MirLand Business Center comprises Class B+ office buildings of Hydro, MAG, Century Buildings and Tamiz projects. The complex is located in the northern part of Moscow's Novoslobodsky business district. The site enjoys good transport links and excellent access.

Hydromashservice (Hydro), Moscow – offices
Class B+ office complex. Part of the MirLand Business Center

- Land area: 1.2 ha
- Leasable area: 16,700 sqm
- Completed: Q4 2008
- Leasehold rights of land: 100%
- Occupancy rate: 80%
- Financing: US$20m financed by Sberbank in September 2012 (principal balance as of 31 December 2014: US$18.1m)

MAG, Moscow – offices
Class B+ office complex. Part of the MirLand Business Center.

- Land area: 2.2 ha
- Leasable area: 18,500 sqm
- Completed: Q4 2007
- Leasehold rights of land: 100%
- Occupancy rate: 78%
- Financing: US$49m financed by Sberbank in 2012-2014 (principal balance as of 31 December 2014: US$45.3m)

Century Buildings, Moscow – offices
Two Class B+ office buildings Part of the MirLand Business Center.

- Leasable area: 20,900 sqm
- Completed: Q1 2009
- Leasehold rights of land: 61%/51%
- Occupancy rate: 95%
- Financing: US$39m financed by Sberbank and Nordea bank in 2014 (principal balance as of 31 December 2014: US$37m)

Tamiz, Moscow – offices
New class B+ office building Part of the MirLand Business Center.

- Leasable area: 11,700 sqm
- Completed: Q3, 2011
- Leasehold rights of land: 100%
- Occupancy rate: 95%

Vernissage Mall, Yaroslavl – retail
A Western standard single floor shopping centre in Yaroslavl, located at the entrance road to Yaroslavl from Moscow.

- Land area: 12 ha
- Leasable area: 34,100 sqm
- Completed: Q2 2007
- Freehold rights: 100%
- Occupancy rate: 97%
- Financing: US$49m financed by Bank of Moscow in April 2014 (principal balance as of 31 December 2014: US$44.2m).

Triumph Mall, Saratov – retail
The first multi-storey retail and entertainment centre in Saratov. The complex is strategically located near the historical city centre on an important retail avenue in the city.

- Land area: 2.2 ha
- Leasable area: 27,300 sqm
- Completed: Q4 2010
- Freehold rights: 100%
- Occupancy rate: 100%
- Financing: US$95m financed by Sberbank in June 2013 (principal balance as of 31 December 2014: US$87.3m)

Completed Residential Projects:

Western Residence – Phase I, Perkhushkovo, Moscow region – residential complex
Development of 77 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow, targeting the high end of middle class segment.

- Land area (Phase I): 11 ha
- Saleable area (Phase I): 13,390 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 44 houses have been sold;
- Completion: Phase I (77 townhouses and cottages) was completed in Q4, 2011.

Project Under Construction:

Triumph Park, St Petersburg – residential complex
Phased development of a residential neighbourhood which, upon completion, will comprise approximately 9,000 apartments, commercial and public areas with good accessibility to the city and its airport. The commercial areas will include offices and a commercial centre with underground parking. The public facilities will include kindergartens, a school and parks.

- Land area: 41 ha
- Saleable area: 560, 000 sqm
- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2021
- Freehold rights: 100%
- Marketing:
  - Sales and construction of Phase II, which consists of approximately 32,600 sqm representing 630 apartments, was launched in September 2012.
  - Sales and construction of Phase III, which consists of approximately 61,800 sqm representing 1,346 apartments, was launched in September 2013.
  - Launch of sales of Phase IV, which will consist approximately 60,694 sqm representing 1,244 apartments, was in Q1 2015
- Sales:
  - Phase I: sold out;
  - Phase II: to date, 620 sale contracts have been executed;
  - Phase III: to date, 867 sale contracts have been executed;
  - Phase IV: to date, 82 reservation contracts have been executed in the first two weeks of sales
- Financing:
  - credit line of US$41m for Phase I construction was obtained from Sberbank in November 2011 and fully repaid;
  - credit line of US$47.5m for Phase II construction was obtained from Sberbank in September 2012 and fully repaid;
  - credit line of US$96m for Phase III construction was obtained from Sberbank in September 2013 (principal balance as of 31 December 2013: US$2.6m)
  - credit line of US$87m (conversion rate as of the signing date) for Phase IV construction was obtained from Sberbank in September 2014 (principal balance as of 31 December 2014: US$0.7m)

Projects in Planning:

Big Box Complex, Yaroslavl – retail
Development of a retail complex adjacent to the Vernissage mall in Yaroslavl.

- Land area: 18 ha
- Leasable area: 55,000 sqm
- Planned construction commencement: Q1 2015 (Phase IIa)/ Q1 2016 (Phase IIb)
- Planned completion: Q4 2015 (Phase IIa)/ Q4 2017 (Phase IIb)
- Freehold rights: 100%

Triumph House, Kazan – retail
Development of home design and improvement centre at favourable location in the city

- Land area: 2.2 ha
- Leasable area: 16,783 sqm
- Planned construction commencement: Q2 2015
- Planned completion: Q4 2016
- Freehold rights: 100%

Saratov – logistics
Phased development of a logistics centre in Saratov, located close to the federal highways and adjacent to the city ring road.

- Land area: 26 ha
- Leasable area: 104,000 sqm
- Planned construction commencement: n/a
- Planned completion: n/a
- Freehold rights: 100%

Novosibirsk – logistics
Phased development of a logistics centre in Novosibirsk, closely located to the federal highways and railways.

- Land area: 40.6 ha
- Leasable area: 180,000 sqm
- Leasehold rights: 100%
- Planned construction commencement: n/a
- Planned completion: n/a

Western Residence – Phase II, Perkhushkovo, Moscow region – residential
Development of 86 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow.

- Land area: 11.5 ha (Phase II)
- Saleable area: 34,607 sqm
- Freehold rights: 100%
- Planned construction commencement: n/a
- Planned completion: n/a

Outlook

We strongly believe in the quality of our portfolio and that our prudent and selective approach to its management and development will lead to an increase in long term value for our shareholders.

I would like to thank our shareholders for their ongoing support of the Company, MirLand's management team for its dedication, and the Company's employees, who are responsible for the day-to-day activities. I am confident that this strong team will continue working through the challenging, fast-paced market to realise MirLand's long term vision.

Roman Rozental
Chief Executive Officer

16 March 2015

Overview of Portfolio Market Values
as at December 2014

City	Property Name and Address	Portfolio Market Value as at 31 December 2013 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as at 31 December 2013 (Rounded)
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	$45,900,000	100%	$45,900,000
Moscow	MAG, 2-Khutorskaya str., 38A	$55,700,000	100%	$55,700,000
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	$31,000,000	100%	$31,000,000
Saratov	Triumph Mall, 167 Zarubina street	$96,500,000	100%	$96,500,000
St Petersburg	Triumph Park, Residential	$176,000,000	100%	$176,000,000
St Petersburg	Triumph Park, Trade Centre	$15,500,000	100%	$15,500,000
Yaroslavl	Vernissage Mall, Kalinina str.	$70,000,000	100%	$70,000,000
Yaroslavl	Phase II	$9,900,000	100%	$9,900,000
Moscow	Tamiz Building	$33,500,000	100%	$33,500,000
Moscow	Century Buildings	$72,300,000	51%/61%	$40,163,000
Kazan	Triumph House	$7,400,000	100%	$7,400,000
Saratov	Logistics Complex	$5,500,000	100%	$5,500,000
Novosibirsk	Logistics Complex	$2,400,000	100%	$2,400,000
Total		$621,600,000		$589,463,000

The full Cushman & Wakefield valuation is available on the Company's website, www.MirLand-development.com.

Based on the Cushman & Wakefield valuation as at December 2014, the Company's Adjusted NAV decreased to US$164.6m (31 December 2013: US$556.7m), a decrease of 70.4%. As a result, the NAV per share as at 31 December 2014 was US$1.6 in comparison to US$5.4 as at 31 December 2013.

Financial Review

Revenues for 2014 were US$56.5m and total assets amounted to US$756.6m.

Yevgeny Steklov
Chief Financial Officer

Total Assets at 31 December 2014 amounted to US$756.6m and Equity amounted to US$141.4m. The Company's adjusted net asset value was US$164.6m. The Company's real estate assets were valued on 31 December 2014 at US$621.6m (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US$589.5m.

Accounting Policy

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap 113.

Income Statement

The Company's revenues consist of rental income from investment properties, income from sales of residential units and fees from managing investment properties. Rental income and fees from investment properties increased to US$56.5m from US$47.8m, representing an 18% increase. This growth is mainly attributed to full consolidation of Vernissage mall following purchase of the partner's share and to management constant effort to decrease operational expenses of the Company. The Company's recognised income of US$29.8m from sale of inventory was due to the start of handover of residential units in Triumph Park Phase II and houses in the Western Residence project, to buyers.

The cost of maintenance and management of the Company increased from US$17.4m in 2013 to US$18.2m in 2014, which was largely attributed to the full consolidation of the Vernissage mall project (presented on equity basis in 2013). Like for like assets recorded a decrease of approximately 14% due to efficiency measures performed by the management.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2014 and has recognised the resulting movement in valuation through its income statement as fair value adjustments of investment properties and investment properties under construction.

The Company's general administrative expenses for the period were US$13.0m in comparison to US$13.3m in 2012. The decrease of 2% is mainly attributed to a reduction in salaries and to decrease in professional services purchased by the Company.

Marketing expenses for the period were US$4.1m in comparison to US$5.4m in 2013, largely attributed to the recognition of the brokerage fees relating to Phase II of the Triumph Park project.

Net financing costs for the period amounted to US$35.4m compared to US$31.4m in 2013. The increase is explained by additional financing raised by the Company to expand its development activities and deliver further growth through its activities.

The tax gain recorded in 2014 was mainly attributed to the increase of a deferred tax asset in the Company's balance sheet, due to recognition of foreign exchange losses attributed mainly to the Triumph park project in St Petersburg.

MirLand is a resident of Cyprus for tax purposes and is subject to a 12.5% corporate tax rate. MirLand's subsidiaries in Russia are subject to a 20% tax rate. Additional details are covered in note 16 to the financial statements.

The loss for 2014 amounted to US$62.9m in comparison to net profit of US$6.2m in 2013. The loss is mainly attributed to the sharp decrease in value of the Company's investment assets.

Balance Sheet

Total assets as at 31 December 2014 amounted to US$756.6m in comparison to US$893.2m in 2013, a decrease of 15.3%. The main reasons for the overall decrease were the decrease in cash and cash equivalents balance, decrease in a fair value of investment properties, compensated by continuing development of the Company's residential projects which were financed through bank financing on the project level and apartment sales.

The Company's real estate portfolio amounted to US$673m at the year end, and comprised 89% of the total assets, in comparison to US$770m as at 31 December 2013 which comprised 86% of the total balance sheet.

New Bank Loans Obtained During 2014

Project	Bank	Loan type	Original amount (US$m)	Amount obtained as of 31.12.14 (US$m)	Balance as of 31.12.14 (US$m)
Century buildings, Moscow	Sberbank, Nordea	Refinance	39.0	39.0	37.0
Vernissage mall, Yaroslavl	Bank of Moscow	Refinance	49.0	49.0	44.2
Triumph Park, phase 4	Sberbank	Construction	*87.5	7.8	2.6
			175.5	95.8	83.8

* Maximal availability, based on the exchange rate at the date of signing.

Equity and Liabilities

Equity as at 31 December 2013 decreased to US$141.4m from US$331.7m as at 31 December 2013. The decrease in equity from 2013 ascribed mainly to the decrease in the value of company's real estate portfolio as described above. MirLand's equity comprises 19% of its total assets.

Net financial liabilities as at 31 December 2014 amounted to approximately 430.1m compared to US$357.7m as at 31 December 2013.

During 2014, further emphasis was made on diversifying the company's funding sources by obtaining bank financing on the project level. In 2014, the following new bank loans were obtained:

Net Asset Value ("NAV")

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2014 at US$621.6m (for 100% rights from freehold/leasehold), of which MirLand's share is US$589.5m.

Cash Flow

During 2014, the Company used US$85.7m for investment in real estate properties (including change in buildings for sale) in comparison to US$50m in 2013. Cash flow used in operating activities amounted to US$30.2m. Cash flow provided by financing activities amounted to US$52.9m.

Financial Strategy

In 2014, MirLand's activities were primarily financed by project bank loans, bonds issuances and by revenues from yielding and residential projects. The Company's policy is to limit its leverage to 66% of the gross value of its assets, including all development, trading and investment properties. As described above, 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.

Typically, residential projects are constructed in phases, allowing the use of capital from pre-sales to finance ongoing development phases. However, the Company obtained construction loan facilities from Sberbank for the 1–4 phases of its flagship project, the Triumph Park in St Petersburg, respectively.

Wherever possible, the Company seeks to acquire finance on a non-recourse basis to minimise risk. The Company is negotiating with several banks for financing some of its other pipeline projects.

Market Risks

MirLand is exposed to market risks from changes in both foreign currency exchange rates and interest rates.

Foreign Currency Risks: The Company's functional currency across its operating subsidiaries is the Rouble, whereas the Company's reporting currency is the US Dollar. The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or measured in US Dollar. Although most transactions are settled in Roubles, the price for real estate property is tightly linked to the US Dollar. However, the current trend in Russia is to move toward Rouble linked transactions and therefore, the Company will consider in the future hedging its transactions for currency risks.

Interest Rate Risks: Whilst the Company does not currently have any significant interest bearing assets, changes in interest rates could affect the cost of current and future financing.

Credit Risks: The Company performs ongoing credit evaluations of its tenants, purchasers and contractors and its financial statements include specific allowances for doubtful accounts. The Company also seeks to mitigate the risk of non-payment in structuring its contractual arrangements with such parties.

Regulatory Risks: On 11 December 2013, the Law on Promotion of Competition and Reduction of Concentration (2013) (the "Concentration Law" or the "Law") was published in Israel where the Company's bonds are listed. The Law deals with a number of issues, including restrictions on control of reporting companies within pyramid holding structures and a ban on control by a second layer company of a company in a different layer, all as more thoroughly described in Section C of the Concentration Law. A company which, upon the date of publication of the Concentration Law, was a second layer company, and so long as it remains as such, is entitled to continue to control a company of a different layer (the: "Different Layer Company") for up to six years from the date of publication of the Concentration Law, if such a company controlled the "different layer" company prior to the publication (the "Intermediate Period"). During the Intermediate Period, special corporate governance rules shall apply, as set out in the Concentration Law.

On 16 July 2014 the Regulation on Promotion of Competition and Reduction of Concentration (Type of Companies that will not be regarded as Layer Companies and attribution of control directives') (2014) (the: "Regulation"). The Regulation define certain companies that will not be regarded as Layer Companies, since there is no public interest in determining such over such entities, for the purpose of the Intermediate Period provisions. The Intermediate Period provisions require that in Different Layer Companies, during the Intermediate Period, the majority of its directors will be independent according to the definition of the Law.

According to the Regulation definition, the Company is not regarded as Different Layer Company for the purpose of the Intermediate Period requirement purposes subject to certain conditions. The company took the necessary measures in order to adhere to the conditions set by the Regulations and hence is in line with the requirement of the Intermediate Period provisions.

The Company intends, in conjunction with its group of controlling companies, to take the necessary action in order to comply with the Concentration Law.

Yevgeny Steklov
Chief Financial Officer

16 March 2014

Board of Directors

Nigel Wright
Non-executive Director and Chairman of the Board, age 60

Nigel Wright started work in the City of London in 1975 and has spent his entire career in Banking, Corporate Finance and Real Estate. He spent the first half of his career with Grindlays Bank (now ANZ Group), Bank of America and UBS Phillips & Drew gaining considerable experience in property finance, mergers & acquisitions, stock broking, company flotations and capital markets. He is presently on the Board of several UK companies in an executive capacity including Rich Investments Limited, a substantial privately owned real estate investment company, Front Street Finance Limited, a property finance business, and Jeroboams Limited, a retail and wholesale wine business. He has extensive Public Company experience, including several years on the Board of Mountleigh Group plc, a substantial real estate and retailing business operating throughout the UK, Europe and the USA. He also founded and was Managing Director of First Residential Investment Limited which developed around 1,800 residential properties throughout England and Wales. He was later appointed Managing Director of London & Henley Property Holdings, a property investment and development company with a substantial portfolio of retail development and office investment property in the UK.

Eyal Fishman
Non-executive Director, Chairman of the Investment Committee, age 45

Eyal Fishman has served as chief executive officer of various companies in the Fishman Group, including Celio Chains Israel, P.K.P. Design Ltd and Fishman Chains Ltd. He serves as chairman of the board of Fishman Retail Chains, and Home Center (DIY) Ltd. Eyal is a member of the board of directors of Jerusalem Economy Ltd and Darban Investments Ltd, both are the Company's significant shareholders, an office he has held for the past 16 years.

Roman Rozental
Chief Executive Officer, Certified Public Accountant, age 47

Roman Rozental began his tenure in the Company as the chief financial officer, since its initiation until 2011. Prior to MirLand, Roman has served as chief financial officer of several Israeli and international companies for more than a decade. He acquired extensive experience of working in Russia through Filuet Company, an international logistics operator, with significant operations in Russia. At the beginning of his career, Roman was a senior auditor for the Israeli affiliate of PricewaterhouseCoopers, leading a team of auditors, with overall responsibility for tax and audit services for international publicly traded companies.

Elias Eliades
Non-executive Director, Chairman of the Nomination Committee, age 67

Elias Eliades, who qualified as a lawyer in Cyprus, has extensive experience in the Cypriot civil service and government. He is currently the chairman of Pafilia Group, a property development company in Pafos, Cyprus. Before joining Pafilia Group in 1988, he was the Minister of Defence in Cyprus and, for three years, the Deputy Minister of Internal Affairs.

Yevgeny Steklov
Chief Financial Officer, Certified Public Accountant, age 36

Yevgeny Steklov has worked for the last eight years in several financial positions in MirLand. He acquired vast experience in the real estate field through his tenure in Ernst & Young Israel. Graduated in Economics and Accounting and also has an MBA, both from Tel Aviv University. Born in Russia and is fluent in Russian, English and Hebrew.

Eliezer Fishman
Non-executive Director, Certified Public Accountant, age 71

Eliezer Fishman has over 45 years' experience in the real estate sector and holds a majority interest in numerous Israeli companies ranging from real estate to communications to various industrial and commercial companies. Outside Israel, Eliezer is mainly involved, through his companies, in real estate. He is the chairman of several public companies and, together with his family and entities controlled by them, holds a controlling shareholding in MirLand.

Caroline Brown
Non-executive Director, Chairman of the Audit Committee, age 52

Caroline Brown has over 20 years' experience in corporate finance and the financial management of public companies. She has served as chief financial officer for three AIM-quoted companies and chaired the Audit Committee for London-listed WSP Group plc, a consulting engineering company active in the international real estate sector. She is a qualified accountant and a chartered director.

Alexander Regenbogen
Non-executive Director, Chairman of the Remuneration Committee, age 45

Alexander Regenbogen has over 15 years of experience in the Romanian real estate and finance industries. Since 2007 he has worked as an independent consultant & project manager in various fields: management of several residential projects, corporate finance advisory, macro-economic analysis and project feasibility studies. In 2012 he received a mandate from DS-Apex Holdings LTD (one of Israel's leading capital markets investment houses) to incorporate in Romania a financial institution with full licenses and activities in the fields of asset management, mutual funds distribution, stock exchange brokerage, and investment banking. Between 2000–2006, he served in various top executive positions at Eurom Bank (current Bank Leumi Romania), including President of the Executive Committee. Mr Regenbogen is a member of the Institute of Certified Public Accountants in Israel,and holds a MBA from ESLSCA Business School in Paris and a BA degree in Accounting and Economics from Tel Aviv University.

Saydam Salaheddin
Non-executive Director, Lawyer, age 44

Saydam Salaheddin has over 15 years' experience in the investment banking sector. Until recently he was responsible for global real estate and Turkey at Renaissance Capital in Moscow, prior to which he spent 13 years at Credit Suisse in London and Moscow. Saydam began his career as a corporate lawyer in London in 1996, next joining Morgan Stanley and then Credit Suisse as an Analyst. As a Director, Saydam became responsible for Eastern Europe, CIS and Turkey within the Real Estate group of Credit Suisse Europe and moved to Moscow in 2007. Saydam remains an adviser to the boards of several of the largest real estate and construction companies active in Russia, including Renaissance Construction and Development and MR Group.

How We Manage Risks

The Company's activities in the Russian real estate market expose it to various risks; managing these risks demands preparedness, active involvement and risk mitigating actions.

The Company's experienced management and its comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's performance. The Audit Committee reviews and monitors, on a periodic basis, the exposure of the activity to various risks and the management mitigation actions related to these risks.

Market

Changes in the Russian economic and political environment

- Monitoring changes in the Russian environment through ongoing research from diverse sources.

Real estate market risks

- The Company's management has extensive experience in the real estate development sector, enabling it to deal with a changing market environment.
- The investment strategy is to maintain a diversified portfolio regarding geographical location, sector and stage of development.

Development

Dependence on contractors' and subcontractors' risks

- Contractors are thoroughly investigated before engagement.
- Contractors' operations are supervised and monitored by the senior management.

Planning, general construction and development risks

- The Company's partners and managers hold substantial knowledge of the Russian market.
- The Company works with international advisors and also benefits from their familiarity with the Russian market.
- The Company conducts bid processes that also require fixed prices.
- The Company purchases applicable insurance policies for all of its assets.

Financial

Foreign exchange risk

The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US Dollars.

Interest rate risk

The Company is looking into diversified financing tools such as hedging or fixed rate loans.

Credit risks

- Performance of ongoing credit evaluations of tenants, purchasers and contractors.
- Deposits and specific allowances from tenants.

Additional requirements for capital

- The Company is acting to diversify its financing resources through various markets and tools.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2014.

Country of Incorporation
The Company was incorporated in Cyprus on 10 November 2004 as a private limited liability company in accordance with the Cyprus Companies Law, Cap. 113. On 27 November 2006, the Company was converted from a private company to a public company in accordance with the provisions of the Companies Law, Cap. 113.

Principal Activities
During the year the Group continued its activities of property development, trading and investment. It will continue the same activities in 2015.

The Group did not carry out any research and development activities during the year.

Review of Business Development and Prospects
Development of the Group's activities and its prospects are reviewed in the Chairman's Statement on pages 6 to 9 and the Chief Executive's Statement on pages 28 to 31.

Results for the Year
The results of the Group are set out in the Consolidated Income Statement on page 54 which shows a net income/(loss) for the financial year of US$(62.9)m (2013: US$6.2m). The Consolidated Statement of Financial Position on pages 52 to 53 shows net assets of US$141.4m (2013: US$331.7m).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2014.

Share Capital and Treasury Shares
There were no changes in the share capital of the Company during the year.

During the year, the Company did not make any acquisitions of its own shares either by itself directly or through persons acting on their own name but on the Company's behalf.

Directors
The Directors of the Company who served during the year are listed on pages 36 and 37.

There were no material changes in the composition, assignment of responsibilities or remuneration of the Board during the year.

Directors' and Other Interests

The interests of the Directors in the shares of the Company at 31 December 2014, with comparative figures as at 31 December 2013, are as follows:

Director	**Number of shares as at 31 December 2014**	Number of shares as at 31 December 2013
Nigel Wright	**20,050**	20,050
Roman Rozental	**0**	0
Yevgeny Steklov	**0**	0
Caroline Brown	**2,050**	2,050
Steven Holm**	**48,000**	48,000
Eliezer Fishman*	**245,213**	245,213
Eyal Fishman*	**335,000**	335,000
Elias Eliades	**0**	0
Saydam Salaheddin	**0**	0
Alexander Regenbogen**	**0**	0

* Eliezer and Eyal Fishman held jointly 200,000 ordinary shares through an entity controlled by them and their family.

** As of 11 August, 2014 Steven Holm retired as Non-executive Director and Chairman of the Remuneration Committee. Alexander Regenbogen appointed to the Board as an independent Non-executive Director and replaced Steven Holm in his position as Chairman of the Remuneration Committee and as a member of Audit Committee.

Details of Directors' share options are set out on page 50.

In addition to the disclosures above, as at 16 March 2015, the Company was aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage Holding
Jerusalem Economy Ltd	31,551,701	30.47
Industrial Buildings Corporation Ltd	41,660,688	40.23
Darban Investments Ltd	15,746,405	15.21

Each of Jerusalem Economy Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd are controlled by the Fishman Group which is, in turn, controlled by Eliezer Fishman and certain members of his family, including Eyal Fishman.

The Company is not aware of any other interests amounting to 3% or more.

Global 1 LLC ("Global 1"), a wholly owned subsidiary of the Company entered into a lease with Home Centers, a private company owned by the Fishman Group which is controlled by Eliezer Fishman and certain members of his family including Eyal Fishman. The terms were concluded on an arm's length basis. In May 2014, Global 1 entered into an agreement with Home Centers under which Global 1 has the right to early termination of the lease agreement. As of September 2014, the lease agreement provided for a maximum Dollar-Rouble rate similar to agreements with other tenants. On 1 January 2015 Global 1 entered a new short-term lease agreement with Home Centers.

Hydro leased offices to Home Centers, the lease period terminated on 30 June 2014.

Loans, guaranteed by the Company's controlling shareholders, were repaid by the Company in May 2014.

Further details are provided in Note 22 of the consolidated financial statements.

Statement of Directors' Responsibilities

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period and comply with International Financial Reporting Standards (IFRS). The Directors are responsible for ensuring that applicable accounting standards have been followed and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements for the year ended 31 December 2014.

The Directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group. They are also responsible for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insurance of Directors

The Group maintains directors' and officers' liability insurance for MirLand's Directors in respect of their duties as Directors.

Financial Risk Management

The financial risks and uncertainties are stated in Note 15 of the consolidated financial statements. The Group is also exposed to other business risks which relate to the markets in which it operates. The Group monitors and manages these risks through various control mechanisms.

Charitable Donations

During the year, the Group didn't make significant amount donations.

Health and Safety

The Company seeks to achieve the highest standards in respect of health and safety of employees, and the safety of tenants.

Branches

Heckbert 22 Group Financing Limited KFT, MirLand's Hungarian subsidiary, provides loans to operating subsidiaries of MirLand through a branch in Switzerland. Otherwise, the Group did not operate through any branches during the year.

Auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Ernst & Young Cyprus have expressed their willingness to continue in office as auditors to the Company and Group. Resolutions to reappoint them as auditors to the Company and for the Directors to fix their remuneration will be proposed at the next AGM.

Post-Balance Sheet Events

The significant post-balance sheet events are described in Note 25 of the consolidated financial statements.

Nigel James Wright
Chairman

16 March 2015

Corporate Social Responsibility

As an international developer in Russia, MirLand recognises its social responsibility.

Investors
We are committed to keeping our investors well informed of our business strategy and performance, both through our regular circulars and website and through personal meetings and presentations. The Company's CEO and CFO meet regularly with institutional shareholders and potential investors, in which the management introduced the Company's business strategy and updated investors regarding new developments.

Employees
The Company is committed to safeguarding the health, safety and welfare of its employees. During the last financial year, no significant injuries, diseases or other dangerous occurrences have occurred in the Company. Our goal is to have a clean record.

For that purpose the Company provides, and will continue to provide, health and safety education to its managers and employees.

Tenants
The Company is committed to preserving the excellent reputation and the high international building standards of the Fishman Group. In particular, the Company is committed to safeguarding the safety and maintaining the satisfaction of its tenants.

The Environment
The Company is committed to maintaining the international environmental standards of the Group, and considers regulatory compliance to be a minimum standard. A significant portion of management attention is dedicated to the monitoring of the Company's employees and contractors, and their adherence with regulatory and internal environmental standards. All property acquisitions are subject to an engineering study, which includes a thorough examination of the environmental impact of the project, and an audit of its energy and water consumption, waste management, water and air pollution, ozone depletion and other issues.

The Company's flagship project in St Petersburg is the first in Russia to be recognised by BREEAM which is the world's leading environmental assessment and rating system for buildings.

Charity
The Board has stated its intention to donate to communities in cities and neighbourhoods in which it holds and develops real estate projects or to other communities that may approach the Company with an appropriate request for a donation. In 2014, the Company didn't make material amount donations. As market conditions improve, the Company intends to continue its charity policy.

Corporate Governance Report

As the Company's shares are traded on AIM, MirLand is not required to comply with the UK Corporate Governance Code, nor to comply with the equivalent corporate governance regime of its country of incorporation, Cyprus. As stated in the Company's Admission Document, however, the Board of MirLand believes that it is essential to maintain the highest standards of corporate governance appropriate for a company of MirLand's size. Accordingly, a statement of how the principles of the UK Corporate Governance Code have been applied in the period since admission to AIM, and how it is intended they continue to be applied, is given below.

Board Composition, Roles and Independence

During the financial year, MirLand's Board comprised nine Directors.

The roles of Chairman and Chief Executive Officer are distinct. The principal differentiating factors in their respective responsibilities are:

Chairman
Reports to the Board.
Only the Chief Executive Officer reports to him.
Responsible for running the Board.

Chief Executive Officer
Reports to the Chairman – all executive management report to him, directly or indirectly.
Responsible for running the business – responsible for implementing the Board's decisions.

Committee membership will be continually reviewed to ensure the most appropriate composition for each committee based on the skills and experience of the Directors.

The UK Corporate Governance Code recommends that the Board of Directors of a listed company should include a balance of Executive and Non-executive Directors (and, in particular, independent Non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision-taking. The UK Corporate Governance Code states that the Board should determine whether a Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board has considered the independence of its Non-executive Directors in line with the principles of the UK Corporate Governance Code (section B.1.1) and, following careful consideration, assessed the independence of the Non-executive Directors as follows:

Director	Determination	Notes
Nigel Wright (Chairman)	Independent	No section B.1.1 criteria apply*
Caroline Brown	Independent	No section B.1.1 criteria apply*
Steven Holm**	Independent	No section B.1.1 criteria apply
Elias Eliades	Independent	No section B.1.1 criteria apply
Saydam Salaheddin	Independent	No section B.1.1 criteria apply
Eliezer Fishman	Not independent	Represents a significant shareholder
Eyal Fishman	Not independent	Represents a significant shareholder
Alex Regenbogen**	Independent	No section B.1.1 criteria apply

* A Director serving on the Board for more than nine years from the date of their election is a criteria for assessing independence. Nigel Wright and Caroline Brown have served on the Board since 27 November 2006 (nine years). The Board have taken this into account when assessing their independence.

** As of 11 August, 2014 Steven Holm retired as Non-executive Director and Chairman of the Remuneration Committee. Alexander Regenbogen appointed to the Board as an independent Non-executive Director and replaced Steven Holm in his position as Chairman of the Remuneration Committee and as a member of Audit Committee.

Of MirLand's six Non-executive Directors (excluding the Chairman), four of the Non-executive Directors are considered by the Board to be independent.

Board Conduct

The Board meets at least four times each year, for the consideration of strategy and to monitor and evaluate the Group's performance and prospects.

The table below sets out the dates of the scheduled Board meetings held in 2014 and provides details of the Directors' attendance at each meeting. During the year 18 Board meetings were held. The number of meetings attended by each of the Board is shown below.

	Nigel Wright (Chairman)	Caroline Brown	Steven Holm(1)	Roman Rozental	Eliezer Fishman	Eyal Fishman	Elias Eliades	Yevgeny Steklov	Saydam Salaheddin	Alexander Regenbogen(2)
22.01.2014*	✓	✗	✓	✓	✗	✗	✓	✓	✓	n/a
29.01.2014*	✓	✓	✓	✓	✗	✓	✗	✓	✓	n/a
28.02.2014*	✓	✓	✓	✓	✗	✓	✗	✓	✗	n/a
10.03.2014†	✓	✓	✓	✓	✗	✓	✓	✓	✓	n/a
20.03.2014*	✓	✓	✓	✓	✗	✓	✗	✓	✗	n/a
11.04.2014*	✓	✗	✗	✓	✗	✓	✓	✓	✓	n/a
12.05.2014†	✓	✓	✗	✓	✗	✓	✓	✓	✓	n/a
08.08.2014**	✓	✗	✓	✓	✓	✓	✓	✓	✓	n/a
11.08.2014*	✗	✗	✗	✗	✗	✓	✓	✓	✗	✗
26.08.2014*	✓	✗	n/a	✓	✗	✓	✓	✓	✓	✓
09.09.2014*	✓	✗	n/a	✓	✗	✓	✓	✓	✓	✓
12.09.2014*	✓	✗	n/a	✓	✗	✓	✓	✓	✓	✓
10.11.2014†	✓	✓	n/a	✓	✗	✓	✓	✓	✓	✓
05.12.2014*	✓	✗	n/a	✓	✗	✓	✓	✓	✗	✓
18.12.2014*	✓	✓	n/a	✓	✗	✓	✓	✓	✓	✓

* Board meeting held by telephone
** Board meeting held in London
† Board meeting held in Cyprus
(1) Steven Holm resigned as a director on 8 August 2014
(2) Alexander Regenbogen was appointed as a director on 8 August 2014

Further to the scheduled Board meetings, the Board will also meet (if necessary, by teleconference) to consider substantial transactions or issues as they arise. If any Director is unable to attend such meetings, the Chairman will seek to speak to any such Director in advance.

At each scheduled Board meeting, there is a formal schedule of matters reserved for the Board's attention which may include:

a) setting the overall strategy;
b) approving major transactions to the extent such are relevant;
c) establishing debt funding strategies, including gearing ratios and other financial risk strategies, such as hedging policies;
d) accounting policies; and
e) operational review.

An annual budget is produced, together with longer-term projections, which are presented to the Board for approval. At each meeting the Board discusses progress against the budget and monitors any variances. Where applicable, revisions are made to expected out-turn against which further progress can be monitored.

The Board also discusses in detail the projected financial impact of major proposed acquisitions and disposals, including their financing. All such proposed substantial investments are considered by all Directors.

The above will be subject to continual review and will be updated as appropriate to ensure that the most important matters affecting the business are dealt with by the main Board.

Board packs containing relevant financial and non-financial information are supplied to Directors in advance of each Board/Committee meeting. Additional requests for information from Directors are met and Directors are entitled to table agenda items at Board meetings.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Non-executive Directors' terms of appointment entitle them to take independent professional advice as required, at the Company's expense.

Retirement by Rotation and Re-election

Directors are, under the Company's Articles of Association, required to stand for re-election at intervals of no more than three years.

Under the provisions of the Company's Articles of Association, one-third of the Directors are required to retire by rotation each year and, accordingly, Elias Eliades, Yevgeny Steklov and Saydam Salaheddin will retire by rotation and their re-appointment to the Board is subject to the approval of shareholders. The Board considers that the performance of these Directors has, since their appointment, been effective and that they have demonstrated commitment to their roles. Accordingly, it recommends the re-election of each of them.

Alexander Regenbogen was appointed to the Board during the course of the year and further to the provisions of the Company's Articles of Association holds office until this AGM at which he will be proposed for re-election.

In addition, the UK Corporate Governance code provides that any non-executive director that has served for more then 9 years on the Board is subject to annual re-election and accordingly, Nigel Wright and Caroline Brown will retire and their re-appointment to the Board is subject to the approval of shareholders.

Biographical details of the Directors are given on pages 36 and 37.

Relations with Shareholders

The Chief Executive Officer and the Chief Financial Officer meet regularly with institutional shareholders and analysts. Additional meetings are arranged to ensure open dialogue throughout the year. It is proposed that Non-executive Directors should also be available for such meetings, subject to institutional shareholder requests.

Press releases are issued throughout the year and the Company maintains a website (www.mirland-development.com) on which all press releases are posted and which also contains major corporate information. Additionally, this Annual Report, which is sent to all registered shareholders, contains extensive information about the Group's activities. Enquiries from individual shareholders on matters relating to their shareholding and the business of the Group are welcomed.

The AGM is a key forum for communication with shareholders. The Directors shall attend the AGM, and the chairmen of all committees will be available to answer questions. The Notice of Meeting and Annual Report and Accounts will be sent out at least 20 working days before the meeting. Shareholders are encouraged to attend the AGM to discuss the progress of the Group.

Separate votes will be held for each proposed resolution, including the approval of the Remuneration Committee report, and a proxy count is given in each case.

Biographical details of the Directors are given on pages 36 and 37.

Investment Committee

On Admission, MirLand formed an Investment Committee. The committee is chaired by Eyal Fishman; its other members are Nigel Wright and Elias Eliades*.

Its role is to monitor and approve the investment decisions made by the Company's management and it is responsible for, among others, the Company's real estate and financial investment policy, evaluation of the Company's real estate portfolio, the review and approval of substantial real estate transactions, including acquisition, sale and lease agreements, and for reviewing and reporting to the Board on all potential investments into, and disposals from, the portfolio.

At appropriate times, the Chief Executive Officer prepares and submits an asset evaluation for review by the Investment Committee. This is accompanied by a report including information on all transactions under consideration or that have been approved or executed since the previous report. The Investment Committee is also responsible for making recommendations of changes to the Company's business plan.

The Investment Committee held one meeting in 2014 on 10 March 2014, which was attended by all of the members.

	10 March 2014
Eyal Fishman	✓
Nigel Wright	✓
Steven Holm*	✓

* Following Steven Holm's resignation on 8 August 2014, Mr Elias Eliades was appointed as a member of the Investment Committee.

Nomination Committee

The Nomination Committee consists of three Non-executive Directors. The committee is chaired by Elias Eliades and its other two members are Nigel Wright and Eyal Fishman. The terms of reference of the Nomination Committee are available on the Group's website and principally relate to preparing selection criteria and appointment procedures for members of the Board and reviewing on a regular basis the structure, size and composition of the Board. The committee will also consider future appointments in respect of the Board's composition as well as make recommendations regarding the membership of the Audit and Remuneration Committees.

The Nomination Committee was tasked with filling the position vacated by the retirement of Mr Holm from the Board. It successfully identified Mr Regenbogen as a suitable candidate to replace Mr Holm. The Nomination Committee has also continues to meet to consider the composition of the Board generally, and to evaluate its balance of skills, knowledge and experience, in accordance with best practice.

In addition, the UK Corporate Governance Code provided that any non-executive director that has served for more than nine years on the Board is subject to annual re-election. Accordingly Nigel Wright and Caroline Brown will retire at this year's AGM and their reappointment to the Board will be subject to shareholder approval.

The Nomination Committee held one meeting in 2014 on 8 August 2014 to consider the appointment of Mr Regenbogen. The meeting was attended by all of the members.

	8 August 2014
Eyal Fishman	✓
Nigel Wright	✓
Elias Eliades	✓

Internal Controls

The Board has overall responsibility for the Group's internal control and effectiveness in safeguarding the assets of the Group. Internal control systems are designed to reflect the particular type of business and operations risks and to identify and manage risks, but not entirely all risks to which the business is exposed. As a result internal controls can only provide a reasonable, but not absolute, assurance against material misstatements or loss.

The processes used by the Board to review the effectiveness of the internal controls are through the Audit Committee, internal audit function and the executive management reporting to the Board on a regular basis where business plans, budgets and authorisation limits for the approval of significant expenditure, including investments, are appraised and agreed.

The Board also seeks to ensure that there is a proper organisational and management structure across the Group with clear responsibilities and accountability. The Board is also at liberty to engage independent professional advice on risk assessment matters.

Audit Committee

In addition to ongoing discussions that are held between the Chairman of the Audit Committee and the Chief Financial Officer of the Company, the Audit Committee formally meets at least four times each year, before each Board meeting, reporting any relevant matters to the Board where appropriate. Attendance of the individual Directors, who all served on the committee or attended its meetings throughout the year, is shown below. The Audit Committee comprised three independent Non-executive Directors. Caroline Brown has the particular recent, relevant financial experience recommended by the UK Corporate Governance Code.

	5/10 March 2014	12 May 2014	5/8 August 2014	10 November 2014
Caroline Brown (member)	✓	✓	✗	✓
Steven Holm (member)	✓	✗	✓	n/a
Saydam Salaheddin (member)	✓	✓	✓	✗
Alexander Regenbogen (member)	n/a	n/a	n/a	✓
Roman Rozental	✓	✓	✓	✓
Yevgeny Steklov	✓	✓	✓	✓

The Audit Committee adheres to detailed terms of reference, which are available for inspection on the Group's website. The Audit Committee must consider, among other matters:

i) the integrity of the financial statements of the Company, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems;
ii) auditors' reports; and
iii) the terms of appointment and remuneration of the auditor.

The committee supervises and monitors, and advises the Board on, risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and a number of other audit-related issues.

The Company's CFO is invited to attend meetings of the committee. Once each year the Audit Committee meets with management without the auditors present, and also the auditors without management present.

Internal Audit

The Company's internal audit function is outsourced to a certified accountant in Cyprus who was nominated by the Audit Committee and approved by the Board. Baker Tilly Klitou and Partners Limited were nominated to be the internal auditors of the Company in October 2007. The internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the Audit Committee and the Board and is available for any meetings of the Audit Committee or Board. Baker Tilly Klitou and Partners Limited filed its reports for 2014 in the months of March, May, August and November 2014.

Going Concern

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 minimise 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.

Share Dealing Code

The Company has adopted a share dealing code for the members of the Board and certain employees which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules) and the Company will take all reasonable steps to ensure compliance with such code by the members of the Board and any applicable employees.

Controlling Shareholders

The Company's founder shareholders, Jerusalem Economy Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd have effective control of the Company. The Board is satisfied that MirLand is capable of carrying on its business independently of these founder shareholders. To ensure that all transactions and relationships between the parties are at arm's length and on a normal commercial basis, the Company has entered into a relationship agreement with the founder shareholders. If a conflict of interest arises between the founder shareholders and the Company, no Director who is deemed to be related to the founder shareholders will take part in the Board's decisions on the matter. Currently, these Directors are Eliezer Fishman and Eyal Fishman.

The Board has adopted a code for small related party transactions whereby related party transactions of less than 1% on the class costs may be entered into by management, subject to a procedure supervised by the Audit Committee.

Remuneration Committee and Directors' Remuneration Report

This report, in accordance with usual practice, will be put to shareholders for approval at the AGM. Ernst & Young LLP have audited certain parts of this report where indicated.

Remuneration Committee

The Remuneration Committee comprises three independent Non-executive Directors and normally meets at least twice each year; in 2014 the Remuneration Committee met in August and November. The Remuneration Committee was chaired by Steven Holm until his retirement on 8 August 2014, following which it is now chaired by Alexander Regenbogen; the other members are Caroline Brown and Nigel Wright. The Remuneration Committee determines and reviews, among other matters, the remuneration of Executive Directors and any share incentive plans of the Company. In addition, the Remuneration Committee will prepare an annual report on the remuneration policies of the Company. The committee's terms of reference are available on the Group's website. Two Remuneration Committee meetings were held in 2014:

	12 August 2014	10 November 2014
Caroline Brown	✓	✓
Nigel Wright	✓	✓
Steven Holm*	n/a	n/a
Alexander Regenbogen*	✗	✓

* As of 11 August, 2014 Steven Holm retired as Non-executive Director and Chairman of the Remuneration Committee. Alexander Regenbogen appointed to the Board as an independent Non-executive Director and replaced Steven Holm in his position as Chairman of the Remuneration Committee.

Remuneration Policy

MirLand's remuneration policy is designed to attract, motivate and retain high-calibre individuals to enable the Group to operate strategically for the continued benefit of shareholders, over the long term. The committee aims to provide Executive Directors and senior managers with packages that are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Group's strategic objectives and enhance shareholder value. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

The remuneration of Non-executive Directors is a matter for the Chairman and the Executive Directors. No Director or manager may be involved in any decisions as to his/her own remuneration.

Within the framework of the agreed remuneration policy the committee determines the remuneration package of the Chairman, the Executive Directors and other senior managers, including the size of, and the performance conditions applying to, awards made under the Company's cash bonus, and share option schemes. The committee also advises the Board on employee benefit structure throughout the Group. The Chief Executive Officer and the Chief Financial Officer may provide advice to the Remuneration Committee as necessary (save in respect of their own remuneration).

Service Contracts and Letters of Appointment

The Executive Directors have rolling service contracts which may be terminated on six months' notice. There are provisions for earlier termination by the Company in certain specific circumstances.

Each Non-executive Director has specific terms of reference. Their letters of appointment provide for termination by either side on three months' notice. The letters of appointment contain no entitlement of compensation for early termination.

Details of the contract dates and notice periods are set out below:

	Contract date	Notice period
Nigel Wright	27 November 2006	3 months
Yevgeny Steklov	14 May 2012	6 months
Roman Rozental	16 October 2009	6 months
Caroline Brown	27 November 2006	3 months
Alexander Regenbogen*	8 August 2014	3 months
Eliezer Fishman	27 November 2006	3 months
Eyal Fishman	27 November 2006	3 months
Elias Eliades	11 September 2007	3 months
Saydam Salaheddin	13 September 2012	3 months

* As of 11 August, 2014 Steven Holm retired as Non-executive Director and Chairman of the Remuneration Committee. Alexander Regenbogen appointed to the Board as an independent Non-executive Director and replaced Steven Holm in his positions.

Other than salary and benefits in relation to the notice period described in the table, there are no other terms in any of the contracts that would give rise to compensation payable for early termination, or any other liability of the Company.

Other Directorships

Eliezer Fishman is Chairman of each of Jerusalem Economy Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd, and Eyal Fishman is a Director of Jerusalem Economy Ltd and Darban Investments Ltd, all founder shareholders and substantial shareholders of the Company. Although there are no current conflicts of interest, it is possible that the fiduciary duties owed by these Directors to the founder shareholders may give rise to conflicts of interest with the duties they owe to the Group.

Non-Performance Related Remuneration

Basic salaries and benefits are reviewed by the Remuneration Committee annually and approved by the Board. Automatic increases are by reference to cost of living, responsibilities and market rates for all employees and are performed at the same time of year. Executive Directors, along with other senior members of staff, receive a car allowance. Executive Directors are entitled to senior employees insurance.

The Chairman's and Non-executive Directors' fees are reviewed on a biannual basis by the entire Board.

Pensions

Directors are not entitled to pension plans.

Performance Related Remuneration

MirLand grants performance related remuneration.

The auditors have audited the following parts of the Remuneration Report:

Non-performance related remuneration, US$

Chairman and Executive directors	Nigel Wright	Roman Rozental	Yevgeny Steklov	Total
Salary and fees	160,444	385,388	186,151	731,983
Other taxable benefits	–	121,467	66,294	187,761
Share incentive plan	–	–	123,809	123,809
Bonuses		206,583	124,614	331,197
Total remuneration for the year ended 31 December 2014	**160,444**	**713,438**	**500,868**	**1,374,750**
Total remuneration for the year ended 31 December 2013	150,048	734,318	289,299	1,173,665

Non-performance related remuneration, US$

Non-executive Directors	Caroline Brown	Eliezer Fishman	Eyal Fishman	Elias Eliades	Steven Holm	Alexander Regenbogen	Saydam Salaheddin	Total
Salary and fees	85,612	65,865	87,100	69,123	61,059	32,930	79,027	480,707
Other taxable benefits	–	–	–	–	–	–	–	–
Share incentive plan	–	–	–	–	–	–	–	–
Total remuneration for the year ended 31 December 2014	**85,612**	**65,865**	**87,100**	**69,123**	**61,059**	**32,930**	**79,027**	**480,707**
Total remuneration for the year ended 31 December 2013	81,276	62,520	81,276	68,772	93,780	–	75,024	462,648

Remuneration Committee and Directors' Remuneration Report
continued

Details of share awards and options are included below.

Directors' Share Options

Director	Number of options	Number vested as at 31 December 2014	Exercise price of options (GBP)
Nigel Wright	0	n/a	n/a
Roman Rozental	1,122,995	1,122,995	2.5/2.3
Alex Regenbogen*	0	n/a	n/a
Yevgeny Steklov	258,750	86,250	2.6
Caroline Brown	0	n/a	n/a
Steven Holm*	0	n/a	n/a
Eliezer Fishman	0	n/a	n/a
Eyal Fishman	0	n/a	n/a
Elias Eliades	0	n/a	n/a
Saydam Salaheddin	0	n/a	n/a

* As of 11 August, 2014 Steven Holm retired as Non-executive Director and Chairman of the Remuneration Committee. Alexander Regenbogen appointed to the Board as an independent Non-executive Director and replaced Steven Holm in his positions.

The above listed share options are issued in accordance with the reward policies of the Company as set out in the "Principles of the 2012-2016 reward programme". This policy was adopted and announced on the 13 November 2013 having been reviewed by the remuneration committee.

Share Price Performance

On behalf of the Board

Alexander Regenbogen
Chairman of the Remuneration Committee

16 March, 2015

Independent Auditors' Report to the Members of MirLand Development Corporation Plc

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of MirLand Development Corporation Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matter

We draw attention to the matter discussed in Note 1b to the consolidated financial statements regarding the crisis in the Russian economy and its implications on the Group, and to the negotiations being held with the trustees of the holders of the Company's debentures (series A–F) for examining the deferral of payments to the bond holders based on the Company's announcement of the deferral of principal and interest payments to the holders of all debentures and in view of the said crisis. In the context of the above, as at 31 December 2014, the Company reclassified the related non-current liabilities into current liabilities. As a result of the above, among others, the Group has a working capital deficit of approximately US$315.9 million as of December 31, 2014, a loss of approximately US$62.9 million for the year then ended and negative cash flows from operating activities of approximately US$30.2 million. In addition, during the year ended on December 31, 2014 the total equity attributed to shareholders of the Company decreased in the amount of approximately US$183.8 million. These conditions, along with other matters as set forth in Note 1b, indicate the existence of a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to the carrying amounts of assets and liabilities and their classification which might be required if the Group is unable to continue to operate as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Stavros Pantzaris
Certified Public Accountant
and Registered Auditor

for and on behalf of
Ernst & Young Cyprus Limited
Certified Public Accountants and
Registered Auditors

Nicosia
16 March, 2015

Consolidated Statement of Financial Position

	Note	31 December 2014 US$000	31 December 2013* US$000
Assets			
Current assets:			
Cash and cash equivalents		**40,646**	66,154
Trade receivables		**1,502**	1,472
Accounts receivables	5a	**6,530**	7,277
VAT receivable	2i	**4,438**	4,147
Inventories of buildings for sale	6	**169,297**	180,157
Loans granted to companies accounted for at equity method		**–**	3,274
		222,413	262,481
Non-current assets:			
Investment properties	7	**383,800**	*431,500
Investment properties under construction	8	**30,800**	*59,100
Inventories of buildings for sale	6	**88,917**	99,564
VAT receivable		**314**	415
Fixed assets, net		**1,231**	966
Other long-term receivables	5b	**18,558**	2,496
Prepaid expenses		**517**	615
Deferred taxes	16	**10,056**	2,244
Investment in companies accounted for at equity method	4c	**–**	33,789
		534,193	630,689
Total assets		**756,606**	893,170

* Restated. See Note 2z.

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

	Note	31 December 2014 US$000	31 December 2013* US$000
Equity and liabilities			
Current liabilities:			
Long-term loans from banks which are classified for short-term	1b,11	**181,588**	–
Credit from banks and others	10	**–**	19,635
Current maturities of long-term credit from banks	11	**15,445**	10,783
Current maturities of debentures	13	**57,298**	48,014
Credit from banks for financing of inventory of buildings for sale	11	**3,300**	9,730
Long-term Debentures which are classified for short-term	13,1b	**178,316**	–
Trade payables		**8,262**	7,629
Deposits from tenants	14	**2,762**	4,090
Advances from buyers	6c,d	**88,471**	75,684
Other accounts payable		**2,847**	4,244
		538,289	179,809
Non-current liabilities:			
Loans from banks and others	11	**34,847**	129,123
Debentures	13	**–**	206,606
Other non-current liabilities	14	**12,562**	5,113
Deferred taxes	16	**29,461**	*40,802
		76,870	381,644
Total liabilities		**615,159**	561,453
Equity attributable to equity holders of the parent:			
Issued capital	17	**1,036**	1,036
Share premium		**359,803**	359,803
Capital reserve for share-based payment transactions	19	**12,530**	12,396
Capital reserve for transactions with controlling shareholders	12	**8,556**	8,556
Foreign currency translation reserve		**(174,197)**	(61,523)
Accumulated deficit		**(89,757)**	(18,444)
Total equity attributable to equity holders of the parent		**117,971**	301,824
Non-controlling interest		**23,476**	29,893
Total equity		**141,447**	331,717
Total equity and liabilities		**756,606**	893,170

* Restated. See Note 2z.

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

Consolidated Income Statement

	Note	**31 December 2014 US$000**	31 December 2013 US$000	31 December 2012 US$000
		(except for share and per share data)		
Rental income from investment properties		**52,525**	46,255	32,231
Revenues from sale of residential units	6	**29,796**	56,050	8,079
Revenues from management fees		**3,938**	1,505	1,641
Total revenues		**86,259**	103,810	41,951
Cost of sales and maintenance of residential units		**28,974**	46,680	12,833
Cost of maintenance and management	20a	**18,228**	17,370	14,874
Gross profit before provision for impairment		**39,057**	39,760	14,244
Impairment of inventory		**–**	–	8,041
Gross profit		**39,057**	39,760	6,203
General and administrative expenses	20b	**13,043**	13,282	14,607
Marketing expenses		**4,053**	5,389	2,102
Fair value adjustments of investment properties and investment properties under construction	7,8	**84,802**	*55,212	*(32,468)
Other expense, net	20d	**1,992**	1,086	1,832
Group's share in earnings of companies accounted for using the equity method and gain from obtaining control in a company previously accounted for using the equity method	4c	**4,009**	7,591	6,340
Operating income (loss)		**108,780**	82,806	(38,466)
Finance income	20c	**1,521**	1,080	1,382
Finance expenses	20c	**(36,942)**	(32,445)	(24,941)
Net foreign exchange differences		**(149,361)**	(33,967)	19,892
Profit (loss) before taxes on income		**(76,002)**	17,474	(42,133)
Taxes on income (tax benefit)	16	**(13,125)**	*11,268	*(169)
Net income (loss)		**(62,877)**	6,206	(42,302)
Attributable to:				
Equity holders of the parent		**(71,313)**	3,339	(42,302)
Non-controlling interests		**8,436**	2,867	–
		(62,877)	6,206	(42,302)
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	18	**(0.69)**	0.03	(0.41)

* Restated. See Note 2z.

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

Consolidated Statement of Comprehensive Income

	31 December 2014 US$000	31 December 2013* US$000	31 December 2012 US$000
Net income (loss)	**(62,877)**	6,206	(42,302)
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	–
Exchange differences on translation of foreign operations	**(130,853)**	(19,451)	8,178
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	**(3,298)**	(2,562)	1,662
Total other comprehensive income (loss)	**(127,527)**	(21,769)	9,840
Total comprehensive income (loss)	**(190,404)**	(15,563)	(32,462)
Attributable to:			
Equity holders of the parent	**(183,987)**	(15,898)	(32,462)
Non-controlling interests	**(6,417)**	335	–
	(190,404)	(15,563)	(32,462)

* Restated. See Note 2z.

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

Consolidated Statement of Changes In Equity

	Issued capital US$000	Share premium US$000	Capital reserve for share-based payments US$000	Capital reserve for transactions with controlling shareholders US$000	Foreign currency translation reserve US$000	Accumulated deficit US$000	Total equity attributable to equity holders of the parent US$000	Non-controlling interest US$000	Total equity US$000
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 (Note 19)	–	–	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 consolidated financial statements.

	Issued capital US$000	Share premium US$000	Capital reserve for share-based payments US$000	Capital reserve for transactions with controlling shareholders US$000	Foreign currency translation reserve US$000	Accumulated deficit US$000	Total equity attributable to equity holders of the parent US$000	Non-controlling interest US$000	Total equity US$000
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 consolidated financial statements.

	Issued capital US$000	Share premium US$000	Capital reserve for share-based payments US$000	Capital reserve for transactions with controlling shareholders US$000	Foreign currency translation reserve US$000	Retained earnings (accumulated deficit) US$000	Total equity US$000
At 1 January 2012	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138
Loss	–	–	–	–	–	(42,302)	(42,302)
Other comprehensive income	–	–	–	–	9,840	–	9,840
Total comprehensive income (loss)	–	–	–	–	9,840	(42,302)	(32,462)
Equity component of transaction with controlling shareholders	–	–	–	1,826	–	–	1,826
Share-based payments	–	–	845	–	–	–	845
At 31 December 2012	1,036	359,803	12,186	8,391	(42,286)	(21,783)	317,347

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

Consolidated Statement of Cash Flows

	31 December 2014 US$000	31 December 2013* US$000	31 December 2012 US$000
Cash flows from operating activities:			
Net profit (loss)	**(62,877)**	6,206	(42,302)
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	**(14,824)**	*10,779	*(209)
Depreciation and amortisation	**200**	230	491
Finance expenses, net	**184,783**	65,332	3,667
Share-based payment	**134**	210	845
Fair value adjustment of investment properties and investment properties under construction, net	**(84,802)**	*(55,212)	*32,468
Group's share in earnings of associates net from loss (gain) from obtaining control of a company accounted for by equity method	**(4,009)**	(7,347)	(6,340)
Gain from sale of investment property	**–**	(548)	–
	81,482	13,444	30,922
Working Capital adjustments:			
Decrease (increase) in trade receivables	**1,879**	2,491	(4,095)
Decrease (increase) in VAT receivable and others	**(3,022)**	(36)	2,991
Increase in inventories of buildings for sale	**(78,763)**	(16,767)	(32,544)
Increase (decrease) in trade payables	**6,957**	450	(59)
Increase in other accounts payable	**62,724**	5,558	70,319
	(10,225)	(8,304)	36,612
Interest paid	**(36,730)**	(28,247)	(23,851)
Interest received	**231**	430	4,291
Taxes paid	**(2,046)**	(344)	(629)
	(38,545)	(28,161)	(20,189)
Net cash flows generated from (used in) operating activities	**(30,165)**	(16,815)	5,043

* Restated. See Note 2z.

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

	31 December 2014 US$000	31 December 2013* US$000	31 December 2012 US$000
Cash flows from investing activities:			
Acquisition of additional interest in jointly controlled entity	–	–	(1,500)
Additions to investment properties	(3,529)	(6,466)	(7,881)
Additions to investment properties under construction	(3,418)	(1,125)	(2,277)
Purchase of fixed assets	(625)	(389)	(279)
Settlement of restricted deposit, net	–	1,119	620
Repayment of loans granted to related parties	–	–	250
Loans granted to related parties	(10,684)	(890)	(1,630)
Proceeds from repayment of loans granted to companies accounted for using the equity method	–	–	12,088
Cash from obtaining control in companies previously accounted for using the equity method (a)	(21,140)	(2,914)	–
Proceeds from sale of investment property under construction	–	3,973	–
Net cash flows used in investing activities	(39,396)	(6,692)	(609)
Cash flows from financing activities:			
Issuance of debenture, net	39,152	125,267	–
Repayment of debentures	(32,211)	(28,685)	(26,456)
Receipt of loans from banks and others, net from origination costs	155,630	124,456	91,118
Repayment of loans from banks and others	(109,667)	(156,768)	(69,268)
Receipt of loans from shareholders	–	–	12,422
Repayment of loans from shareholders	–	–	(18,306)
Net cash flows generated from (used in) financing activities	52,904	64,270	(10,490)
Exchange differences on balances of cash and cash equivalents	(8,851)	(278)	249
Increase (decrease) in cash and cash equivalents	(25,508)	40,485	(5,807)
Cash and cash equivalents at the beginning of the year	66,154	25,669	32,333
Adjustment due to IFRS 11 implementation	–	–	(857)
Cash and cash equivalents at the end of the year	40,646	66,154	25,669

* Restated. See Note 2z.

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

Consolidated Statement of Cash Flows continued

		31 December 2014 Unaudited US$000	31 December 2013* Audited US$000	31 December 2012 Audited US$000
(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	–
	Investment properties	**(109,800)**	(94,972)	–
	Fixed assets, net	**(313)**	–	–
	Other receivables	**(49)**	(71)	–
	Deferred taxes	**16,107**	9,093	–
	Loans from banks	**21,419**	10,849	–
	Other non-current liabilities	**12,700**	866	–
	Loans from related party	**–**	5,973	–
	Indemnification assets	**(5,737)**	–	–
	Foreign currency translation reserve	**6,624**	244	–
	Non-controlling interests	**–**	29,558	–
	Gain (Loss) from obtaining control in companies accounted for using the equity method	**702**	(244)	–
	Investment in associate	**33,727**	35,997	–
	Loans granted to associates	**3,344**	–	–
		(21,140)	86	–
(b)	**Significant non-cash transactions:**			
	Obtaining control in companies accounted for using the equity method against offset of previously granted loans	**–**	600	–
	Additions to investment property and investment property under construction	**–**	83	5,121

* Restated. See Note 2z.

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

Notes to Consolidated Financial Statements

Note 1: General

a. MirLand Development Corporation Plc ("the Company") was incorporated in Cyprus on 10 November 2004 under the Cyprus Companies Law, Cap. 113 as a private company limited by shares. Its registered office is located at Thessalonikis Street, Nicolaou Pentadromos Centre, 6th floor, Limassol 3025, Cyprus.

The Company's shares are traded on AIM and its bonds are traded on the Tel Aviv Stock Exchange.

The principal activities of the Company and its subsidiaries ("The Group") are investment and development of residential and commercial real estate assets in Russia.

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 Rouble in relation to the US Dollar by about 72%. 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 east Ukraine and the devaluation of the Russian Rouble, the Central Bank of Russia raised the interbank interest rate from 5.5% in January 2014 to 17%. 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 Rouble dropped another 9% in its value in relation to the US Dollar. During February and March 2015 the Central Bank of Russia lowered the interbank interest to 14%.

2. On 18 December 2014, the trustees of the holders of the Company's debentures (series A–F) called for a meeting to obtain reports from the Company's representatives regarding the developments in the Company's business affairs and to discuss and decide upon 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 had decided to defer the principal and interest payments to the holders of debentures (series A–B) which were due on 31 December 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 22 December 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 1 February 2015 (as well as authorising the trustee to extend this date by an overall 60-day period) subject to depositing $11m in an escrow account in favour of the Company (reflecting the payment that was due in December 2014) and provided that the Company initiate an immediate, consecutive and intensive dialogue with the trustees of the debentures (who have been authorised 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–B) held Biden to a third party.

On 22 January 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 principles 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 amortisation 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"

On 26 January 2015, 9 February 2015 and 25 February 2015, the trustee of the debenture (series A–B) decided to defer the maturity dates of the principal and interest payments to 31 March 2015.

On 2 February 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–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.

Note 1: **General** continued

On 10 February 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 15 February 2015 and 25 February 2015, the trustee of the debentures (series C) decided to defer the maturity dates of the interest payments to 31 March 2015.

The Company is negotiating 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 US$178.3m as current liabilities in its financial statements as of 31 December 2014.

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 31 December 2014 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 31 December 2014 loans from banks, in which the Company breaches its covenants, in an amount of US$181.6m as current liabilities.

4. The Group has a working capital deficiency of approximately US$315.9m as of 31 December 2014, a loss of approximately US$62.9m, total comprehensive loss of approximate US$190.4m for the year then ended and negative cash flows from operating activities of approximately US$30.2m for the year then ended. Moreover, during 2014 the equity attributable to the parent company reduced by US$183.9m.

   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 minimise 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.

c. Definitions:

In these financial statements:

The Company	MirLand Development Corporation Plc.
Parent Company	Jerusalem Economic Company Ltd.
The Group	MirLand Development Corporation Plc and its investees as listed below.
Subsidiaries	Companies over which the Company exercises control (as defined in IFRS 10) and whose financial statements are consolidated with those of the Company.
Jointly controlled entities	Companies held by a number of entities, among which contractual agreement exists for joint control and whose financial statements are presented in equity method, according to IFRS 11.
Investees	Subsidiaries and joint controlled entities
Related parties	As defined in IAS 24 (revised)

Note 2: Significant Accounting Policies

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

1. Measurement basis:

The Group's financial statements have been prepared on a cost basis, except for: investment property and investment property under construction which are presented at fair value through profit or loss.

The Group has elected to present the statement of income using the function of expense method.

2. Basis of preparation of the financial statements:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

Furthermore, the consolidated financial statements are prepared in accordance with the requirements of the Cyprus Companies Law Cap.113.

The financial statements have been prepared under the assumption that the Company continues as a going concern.

b. The operating cycle:

The Group has two operating cycles. The operating cycle of construction projects may generally last four years. The operating cycle of the remaining activities is one year. Accordingly, in respect of construction projects, when the operating cycle exceeds one year, the assets and liabilities directly attributable to this activity are classified in the statement of financial position as current assets and liabilities based on the operating cycle.

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

d. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognising a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

Note 2: Significant Accounting Policies continued

Contingent consideration is recognised at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss or in the statement of comprehensive income. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognises the resulting gain on the acquisition date.

e. Investments in associates:
Associates are companies in which the Group has significant influence over the financial and operating policies without having control. The investment in an associate is accounted for using the equity method.

f. Investments accounted for using the equity method:
The Group's investments in associates are accounted for using the equity method.

Under the equity method, the investment in the associate or in the joint venture is presented at cost with the addition of post-acquisition changes in the Group's share of net assets, including other comprehensive income of the associate or the joint venture. Gains and losses resulting from transactions between the Group and the associate or the joint venture are eliminated to the extent of the interest in the associate or in the joint venture.

The financial statements of the Company and of the associate or joint venture are prepared as of the same dates and periods. The accounting policies applied in the financial statements of the associate or the joint venture are uniform and consistent with the policies applied in the financial statements of the Group.

The equity method is applied until the loss of significant influence in the associate or classification as investment held for sale.

On the date of loss of significant influence, the Group measures any remaining investment in the associate at fair value and recognises in profit or loss the difference between the fair value of any remaining investment plus any proceeds from the sale of the investment in the associate and the carrying amount of the investment on that date.

g. Functional and foreign currencies:
1. Functional currency and presentation currency:
The financial statements are presented in thousands of US Dollars.

The Group determines the functional currency of each Group entity, and this currency is used to separately measure each Group entity's financial position and operating results. The Company's functional currency is the US Dollar.

When an investee's functional currency differs from the Company's functional currency, that investee represents a foreign operation whose financial statements are translated into the Company's functional currency so that they can be included in the consolidated financial statements.

Assets and liabilities are translated at the closing rate at the end of each reporting period. Goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the date of acquisition of the foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the end of each reporting period. Profit and loss items are translated at average exchange rates for all the relevant periods. All resulting translation differences are recognised as a separate component of other comprehensive income.

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation.

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognised in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the cumulative amount recognised in other comprehensive income is reattributed to non-controlling interests.

Note 2: Significant Accounting Policies continued

g. Functional and foreign currencies: continued

2. Foreign currency transactions, assets and liabilities:

Transactions in foreign currencies are initially recorded at the exchange rate on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the operation at the exchange rates prevailing at the reporting date. Exchange rate differences are carried to the income statement. Non-monetary assets and liabilities are translated into the functional currency of the operation at the exchange rates prevailing on the date of the transaction (or date of later revaluation). Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the date of the initial transaction.

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

g. Cash and cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

h. Short-term deposits:

Short-term deposits comprise cash at banks whose maturity exceeds three months from the day of the investment.

i. Long-term VAT receivable:

Long-term VAT receivable represents VAT which was paid upon the purchase of land and during the construction of the projects and is stated at its estimated present value using a discount rate of 8.25%.

j. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Group's management, is doubtful.

k. Inventories of buildings for sale:

Cost of inventories of buildings and apartments for sale comprises identifiable direct costs of land such as taxes, fees and duties and construction costs. The Company also capitalises borrowing costs as part of the cost of inventories of buildings and apartments for sale from the period in which the Company commenced development of the land.

Real estate under construction is measured at cost. Cost of real estate includes borrowing costs relating to the financing of the construction of the assets until their completion, planning and design costs, indirect costs attributable to construction and other related costs.

Inventories of buildings and apartments for sale are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling costs.

l. Revenue recognition:

Revenues are recognised in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. When the Company acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. When the Company acts as an agent and is not exposed to the risks and rewards associated with the transaction, revenues are presented on a net basis. Revenues are measured at the fair value of the consideration less any trade discounts, volume rebates and returns.

Following are the specific revenue recognition criteria which must be met before revenue is recognised:

Rendering of services, including management fees:

Revenue from the rendering of services is recognised by reference to the stage of completion as of the reporting date. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Note 2: Significant Accounting Policies continued

l. Revenue recognition: continued

Revenues from sale of residential apartments:

Revenues from the sale of residential apartments are recognised when the principal risks and rewards of ownership have passed to the buyer. These criteria are usually met when construction has effectively been completed, the residential apartment has been delivered to the buyer and the buyer has paid the entire consideration for the apartment.

Rental income from operating lease:

Rental income is recognised on a straight-line basis over the lease term. Fixed increases in rent over the term of the contract are recognised as income on a straight-line basis over the lease period. The aggregate cost of lease incentives granted is recognised as a reduction of rental income on a straight-line basis over the lease term.

m. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

Loans and receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortised cost less directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term borrowings are measured based on their terms, normally at face value.

2. Financial liabilities:

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit or loss, loans at amortised cost or derivatives designated as effective hedging instruments. The Group determines the classification of the liability on the date of initial recognition. All liabilities are initially recognised at fair value. Loans are presented net of directly attributable transaction costs.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

Financial liabilities measured at amortised cost:

After initial recognition, loans, including debentures, are measured based on their terms at amortised cost using the effective interest method taking into account directly attributable transaction costs.

3. Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognised amount and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

4. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Note 2: Significant Accounting Policies continued

m. Financial instruments: continued

b) Financial liabilities:

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability.

5. Impairment of financial assets:

The Group assesses at each reporting date whether a financial asset or Group of financial assets is impaired.

Financial assets carried at amortised cost:

There is objective evidence of impairment of debt instruments, loans and receivables and held-to-maturity investments carried at amortised cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

n. Leases:

The tests for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the principles below as set out in IAS 17.

The Group as lessee:

Operating leases:

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The Group as lessor:

Operating leases:

Lease agreements where the Group does not actually transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases.

Initial direct costs incurred in respect of the lease agreement, except those relating to investment property which are carried to the Income Statement, are added to the carrying amount of the leased asset and recognised as an expense in parallel with the lease income. Lease income is recognised as revenue in the Income Statement on a straight-line basis over the lease term.

o. Fixed assets:

Office furniture and equipment are stated at cost, including direct acquisition costs, less accumulated depreciation and accumulated impairment losses, and excluding day-to-day servicing expenses.

Depreciation is calculated on a straight-line basis over the useful life of the asset.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

p. Borrowing costs in respect of qualifying assets:

The Group capitalises borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

The capitalisation of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and the activities to prepare the asset are in progress and ceases when substantially all the activities to prepare the qualifying asset for its intended use or sale are complete.

Note 2: Significant Accounting Policies continued

q. Investment property and investment properties under construction:
Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment property are included in profit or loss when they arise.

The fair value model is also applied to property under construction for future use as investment property when fair value can be reliably measured. However, when the fair value of the investment property is not reliably determinable due to the nature and scope of the project risks, the property is measured at cost less, if appropriate, any impairment losses, until the earlier of the date when fair value becomes reliably determinable or construction is completed.

Investment property is derecognised on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal.

The Group determines the fair value of investment property on the basis of valuations by independent valuers who hold recognised and relevant professional qualifications and have the necessary knowledge and experience.

r. Impairment of non-financial assets:
The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. Impairment losses are recognised in profit or loss.

An impairment loss of an asset, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

s. Taxes on income:
The tax charges/credit in respect of current or deferred taxes are carried to the Income Statement other than if they relate to items that are directly carried to equity or to other comprehensive income.

1. Current income taxes:
The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred income taxes:
Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilised. Also, temporary differences for which deferred tax assets have not been recognised are reassessed and deferred tax assets are recognised to the extent that their recoverability has become probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively.

Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

Note 2: Significant Accounting Policies continued

t. Provisions:
A provision in accordance with IAS 37 is recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

u. Share-based payment transactions:
The Company's employees are entitled to receive remuneration in the form of equity-settled, share-based payment transactions.

Equity-settled transactions:
The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model.

The cost of equity-settled transactions is recognised in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period").

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

v. Earnings (loss) per share:
Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

w. Fair value measurement:
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

1. In the principal market for the asset or liability, or
2. In the absence of a principal market, in the most advantageous market for the asset or liability

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities,
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Note 2: Significant Accounting Policies continued

x. Significant accounting judgements, estimates and assumptions used in the preparation of the financial statements:
In the process of applying the significant accounting policies, the Group has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

1. Judgements:

Classification of leases:
In order to determine whether to classify a lease as a finance lease or an operating lease, the Group evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, the Group evaluates such criteria as the existence of a "bargain" purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

2. Estimates and assumptions:

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Investment property and investment property under development:
Investment property and investment property under development that can be reliably measured are presented at fair value at the end of the reporting period. Changes in their fair value are recognised in profit or loss. Fair value is determined generally by independent valuation experts using economic valuations that involve valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimate of the suitable discount rate for these cash flows. Investment property under development also requires an estimate of construction costs. If applicable, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued asset.

The fair value measurement of investment property requires valuation experts and the Company's management to use certain assumptions regarding rates of return on the Group's assets, future rent, occupancy rates, contract renewal terms, the probability of leasing vacant areas, asset operating expenses, the tenants' financial stability and the implications of any investments made for future development purposes in order to assess the future expected cash flows from the assets.

Reliable measurement of fair value of investment property under construction:
In evaluating whether the fair value of investment property under construction can be reliably measured, the Group considers, among others, the following relevant indicators:

1. Is the property being constructed in a developed, liquid market;
2. Are there any price quotations from recent transactions or prior valuations from acquisitions or sales of properties with similar characteristics and location;
3. Has a construction contract been signed with the prime contractor;
4. Have the required building permits been obtained;
5. What percentage of rentable area has been pre-leased to tenants;
6. Are construction costs reliably determinable;
7. Is the value of the completed property reliably determinable.

If after evaluating the above indicators it is determined that the fair value of investment property under construction can be reliably measured, the property is measured at fair value in accordance with the Group's policy for investment property. If fair value cannot be reliably measured, then investment property under construction is measured at cost less, if appropriate, any impairment loss.

Inventories of building for sale:
The net realisable value is assessed based on management's evaluation including forecasts and estimates as to the amounts expected to be realised from the sale of the project inventory and the construction costs necessary to bring the inventory to a saleable condition.

Deferred tax assets:
Deferred tax assets are recognised for carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be recognised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Note 2: Significant Accounting Policies continued

y. Disclosure of new IFRSs in the period prior to their adoption:

1. IFRS 15, "Revenue from Contracts with Customers":

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", 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".

IFRS 15 is to be applied retrospectively for annual periods beginning on or after 1 January, 2017. Early adoption is permitted.

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

2. IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39," Financial Instruments: Recognition and Measurement".

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortised cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognised in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

IFRS 9 is to be applied for annual periods beginning on 1 January, 2018. Early adoption is permitted.

The Company is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

z. Changes in accounting policies in view of adoption of new standards:

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 recognise 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.

Note 2: Significant Accounting Policies continued

z. Changes in accounting policies in view of adoption of new standards: continued
The effect of the change in accounting policy in view of the above IFRIC resolution on the Company's financial statements is as follows:

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

	As previously reported US$000	Restatement US$000	As currently presented US$000
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 income for the year ended 31 December, 2013:

	As previously reported US$000	Restatement US$000	As currently presented US$000
Fair value adjustments of investment properties and investment properties under construction, net	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 31 December, 2012:

	As previously reported US$000	Restatement US$000	As currently presented US$000
Fair value adjustments of investment properties and investment properties under construction, net	(31,554)	(914)	(32,468)
Taxes on income	(1,083)	914	(169)

Note 3: Business Combinations

a. Business combination in 2014:
On 23 December 2013, the Company (via its subsidiary) 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 US$3m on 24 December 2013. The outstanding consideration of US$25.6m was paid on 4 March 2014 and an additional amount of US$2.5m was paid in April 2014.

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 US$5,737 thousand was recognised.

Note 3: Business Combinations continued

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

	Fair value US$000
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 an external appraiser. A loan from the bank in amount of US$21.4m was received close to the balance sheet date; therefore the carrying amount is equal to its fair value.

Cost of acquisition:

	Fair value US$000
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 US$14,108 and US$9,864 thousands, respectively. If the business combination had taken place at the beginning of the year, the consolidated loss would have amounted to US$59,903 thousand and the consolidated revenues turnover would have amounted to US$90,148 thousand. The gain from obtaining control in Inverton amounted to US$702 thousand and included a gain from a bargain purchase of US$7,326 thousand and a loss of US$6,624 thousand from the release of a foreign currency translation reserve accumulated on the investment on the date of obtaining control.

b. Business combination in 2013:

On 4 January 2013, the Company entered into an agreement with its partners in the Century Companies according to which the partners will waive the option previously granted to them for the acquisition of 1% of the Century Companies in consideration of US$600 thousand. The parties agreed that such amount will be set off against the balance of the loan previously granted to one of the partners.

Simultaneously, the Company amended its joint control agreements with the partners in the Century Companies in such a way that from the date of the amendment the Company obtained control over the Century Companies.
Before the date of obtaining control, the Century Companies were accounted for using the equity method.

The Group has elected to measure the non-controlling interests in the Century Companies at the proportionate share of the non-controlling interests in the acquired identifiable net assets.

Note 3: Business Combinations continued

b. Business combination in 2013: continued

	Fair value US$000
Cash and cash equivalents	86
Trade receivables	38
Other receivables	38
VAT receivables	254
Investment properties	85,760
Deferred taxes	119
Other long-term receivables	71
	86,366
Trade payables	(228)
Loans from bank and others	(12,854)
Government authorities	(111)
Deposits from tenants	(779)
Other non-current liabilities	(866)
Loans from related parties	(5,973)
	(20,811)
Net identifiable assets	65,555
Non-controlling interests	(29,558)
Total acquisition cost	35,997

Cost of acquisition

	Fair value US$000
Cash paid	–
Waiver of option (1%) previously granted to the sellers, at fair value	600
Fair value of existing investment on acquisition date	35,997
Total	36,597
Cash flow on the acquisition	
Cash and cash equivalents in the Century Companies on acquisition date	86
Cash paid	–
Net cash	86

Note 4: Interest in Investees

a. Investment in companies accounted at equity method:

	2014 US$000	2013 US$000
Balance as of 1 January	33,789	61,650
Changes during the year:		
Obtaining control in companies previously accounted for using the equity method (1)	(33,727)	(35,997)
Groups share in earnings of companies accounted for using the equity method	3,290	7,591
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	(3,352)	(2,455)
Balance for 31 December	–	30,789
Advance paid for acquisition of subsidiary	–	3,000

(1) See Note 3.

Note 4: Interest in Investees continued

b. Summarised financial data of Century's companies subsidiaries with material non-controlling interests:

As of 31 December, 2014 the Company holds 61% of the share on Inomotor and 51% of Avtoprioritet.

	31 December 2014 US$000	31 December 2013 US$000
Statement of financial position at reporting date (as presented in the subsidiary's financial statements):		
Current assets	4,288	1,494
Non-current assets	96,231	83,875
Current liabilities	(2,940)	(2,597)
Non-current liabilities	(46,062)	(16,026)
Total equity	51,517	66,746
Non-controlling interests	23,476	29,893
Total equity attributable to equity holders of the parent	28,041	36,853

	31 December 2014 US$000	31 December 2013 US$000
The subsidiary's operating results (as presented in the subsidiary's financial statements):		
Revenues	9,509	9,545
Net income	18,062	6,342
Other comprehensive loss	(33,292)	(5,028)
Total comprehensive income (loss)	(15,230)	1,314
Net income attributable to:		
non-controlling interests	8,436	2,867
Equity holders of the parent	9,626	3,475
Total comprehensive income (loss) Attributable to:		
non-controlling interests	(6,417)	335
Equity holders of the parent	(8,813)	979

	31 December 2014 US$000	31 December 2013 US$000
The subsidiary's cash flows (as presented in the subsidiary's financial statements):		
From operating activities	116	2,455
From investing activities	(23,930)	–
From financing activities	27,115	(1,278)
Exchange differences on balances of cash	(372)	(63)
Net increase in cash and cash equivalents	2,929	1,114

Note 5: Trade and Other Receivables

a. Trade and other receivables:

	31 December 2014 US$000	31 December 2013 US$000
Deferred sales commission	**4,205**	3,138
Advances to suppliers	**572**	2,905
Tax authorities	**1,211**	468
Other trade receivables	**542**	766
	6,530	7,277

b. Other long-term receivables:

	31 December 2014 US$000	31 December 2013 US$000
Loans granted to related parties (1)	**14,190**	2,496
Indemnification assets (2)	**4,274**	-
Others	**94**	-
	18,558	2,496

(1) See Note 23a, 23b, 23g.
(2) See Note 3a, 23g.

Note 6: Inventories of Buildings for Sale

a. The Group has two residential projects, one in St Petersburg, which is the largest project of the Group, and the other one is in Moskva Western Residence Project. The Group intends to build approximately 9,000 apartments in several phases. The first phase includes 510 apartments and was completed and delivered during 2013 and 2014. The construction of the second Phase, which includes 630 apartments, has completed during the last quarter of 2014, and the Group has started to deliver the apartments. The third phase includes 1,346 apartments and the fourth phase includes 1,244 apartments, those phases are under construction, and the sales of the apartments have been started.

b. Composition:

	31 December 2014 US$000	31 December 2013 US$000
St Petersburg Project	**218,557**	212,306
Western Residence Project	**39,657**	67,415
	258,214	279,721

Current assets:

	31 December 2014 US$000	31 December 2013 US$000
Land	**22,065**	29,273
Construction costs	**147,232**	150,884
	169,297	180,157

Non-current assets:

	31 December 2014 US$000	31 December 2013 US$000
Land	**21,396**	21,773
Construction costs	**67,521**	77,791
	88,917	99,564

c. This includes capitalised borrowing costs of approximately 2,782 thousand US Dollars for the year ended 31 December 2014 (in 2013 – 1,415 thousand US Dollars).

Note 7: Investment Properties

a. Composition and adjustment:

	31 December 2014 US$000	31 December 2013 US$000
Balance at 1 January	**431,500**	320,200
Obtaining control [1]	**109,800**	95,000
Additions during the period	**2,932**	1,267
Fair value adjustments, net	**91,112**	46,868
Exchange rate differences	**(251,544)**	(31,835)
Balance at 31 December	**383,800**	431,500

(1) See also Note 3.

Below is detail of the influence on the fair value adjustments:

Increase due to devaluation of the Rouble with compare to US Dollar	251,544
Real decrease in fair value	(160,432)
Total increase in fair value of investment property	91,112

b. Fair value measurement of investment property:

Investment property is measured at fair value which has been determined based on a valuation performed by an external independent valuation expert who holds recognised and relevant professional qualifications and who has experience in the location and category of the property being valued. The fair value was measured with reference to recent real estate transactions for similar properties in similar locations as the property owned by the Company and based on the expected future cash flows from the property. In assessing cash flows, their risk is taken into account by using a discounted yield that reflects their underlying risk supported by the standard yield in the real estate market and by including adjustments for the specific characteristics of the property and the level of future income therefrom.

The valuation of investment property under construction is either determined on the basis of the residual or the discounted cash flow (DCF) methods, as deemed appropriate by the valuation expert. The estimated fair value is based on the expected future income from the completed project using yields adjusted for the significant risks which are relevant to the construction process, including construction costs and rent that are higher than the current yields of similar completed property. The remaining expected costs of completion plus development profit are deducted from the estimated future income, as above.

c. Significant assumptions (on the basis of weighted averages) used in the valuations are presented below:

Investment property	Valuation technique	Significant unobservable Inputs	Range (weighed average)
Office properties	DCF method	Rental value per sqm per year	317
		Vacancy rate	14%
		Average discount rate	14%
		Cap rate	10%
Retail property	DCF method	Rental value per sqm per year	334
		Vacancy rate	2%
		Average discount rate	14%
		Cap rate	11.5%

Note 7: Investment Properties continued

d. Fair value adjustment of investment property (level 3 in the fair value hierarchy):

	Office properties US$000	Retail property US$000
Balance at 1 January 2014	296,200	135,300
Fair value adjustments, net	51,605	39,507
Obtaining control in companies previously accounted for using the equity method [(1)]	–	109,800
Additions	–	2,932
Exchange rate differences	(140,405)	(111,139)
Balance at 31 December 2014	**207,400**	**176,400**

(1) See note 3.

Following the crisis in Russia, described in Note 1b., during the last quarter of 2014, multiple tenants asked to reduce the Dollar rental fees. As part of coping with the situation, the subsidiaries held negotiations with the tenants for reductions in the rental fees. In those negotiations the Group usually set a ceiling to the rate of exchange. Reductions were given in specific manner and for limited periods (commonly for three months).

e. Land:

	31 December 2014 US$000	31 December 2013 US$000
Freehold	**176,400**	135,300
Leasehold	**207,400**	296,200
	383,800	431,500

The Group leases lands for period of 15 to 42 years.

Note 8: Investment Properties Under Construction

a. Composition and adjustments:

	2014 US$000	2013 US$000
At 1 January	**59,100**	57,900
Additions for the year	**3,417**	1,127
Disposal	**–**	(3,529)
Fair value adjustments, net	**(6,310)**	8,344
Exchange rate differences	**(25,408)**	(4,742)
At 31 December	**30,800**	59,100

Below is detailed the influence on the fair value adjustments:

Increase due to devaluation of the Rouble compared with the US Dollar	25,408
Real decrease in fair value	(31,718)
Total decrease in fair value of investment property under construction	(6,310)

b. Fair value of investment property under construction:

Fair value is determined generally by independent valuation experts using economic valuations that involve valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimate of the suitable discount rate for these cash flows. Investment property under development also requires an estimate of construction costs. If applicable, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued asset.

Note 8: Investment Properties Under Construction continued

c. Description of valuation techniques used and key inputs to valuation on investment properties:

Investment Property under construction	Valuation technique	Significant unobservable inputs	Range (weighed average)
Retail properties	DCF method	Estimated rental value per sqm (US$)	211
		Estimated costs per sqm (US$)	1,089
		Discount rate	17.5% – 21.5%
		Average rate per sqm	248-441

d. Reconciliation of fair value:

	Retail properties US$000	Logistic centres US$000
Balance at 1 January 2014	42,800	16,300
Fair value adjustments, net	(3,510)	(2,800)
Disposal	–	–
Additions	3,375	42
Exchange rate differences	(19,766)	(5,642)
Balance at 31 December, 2014	22,900	7,900

e. Land:

	31 December 2014 US$000	31 December 2013 US$000
Freehold	28,400	50,200
Leasehold [1]	2,400	8,900
	30,800	59,100

(1) The leasehold rights are according to a lease agreement for 5 years, with option extend for additional 2 years. The lease period is about to terminate on 16 December 2015. The Group intends to extend the lease agreement and to exercise its extended option.

f. On 23 January 2013, the Company received a letter, dated 9 January 2013, from the Department of Land Resources of the Moscow government notifying RealService of the termination of its lease agreement in connection with the Skyscraper project.

In February 2013, the Company filed an objection with the Moscow government, in which it stated that such termination of the lease agreement is unlawful due to the fact that there was no material breach of the agreement, and the inability to complete construction was due to delayed actions by the government itself. The objection of the Subsidiary was denied by the Moscow Government, based mainly on procedural arguments. Following the Subsidiary's rejection, the Subsidiary of the Company filed a law suit against the Moscow Government to cancel the above mentioned decision. On 3 December 2013, Moscow Arbitration Court passed an award that the Subsidiary's claims were rejected. On 21 January 2014 the Subsidiary has launched an appellate claim to a second level Court. On 4 March 2014, the second level Court left the resolution unchanged. After the Subsidiary has taken all reasonable actions in order to protect its position regarding the termination of the lease agreement, all of its claims were denied by all courts. On 16 December 2014 the Subsidiary signed documentation transferring the rights in the land to the government.

The Group has fully deducted the asset from its financial statements as of 2012.

Note 9: Measurement Fair Value

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December, 2014:

		Fair value measurement using			
	Date of valuation 31/12/2014	Total US$000	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Investment property (Note 7)			–	–	
Office properties		176,400	–	–	176,400
Retail properties		207,400	–	–	207,400
Investment properties under construction (Note 8):					
Logistics Complex		15,300	–	–	15,300
Retail properties		15,300	–	–	15,300
Liabilities for which fair values are disclosed (Note 15):					
Long and short-term credit from banks		187,611	–	–	187,611
Debentures		67,645	67,645	–	–

There have been no transfers between Level 1 and Level 2 during the period.

Note 10: Short-Term Credit From Banks

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

Note 11: Long-Term Credits from Banks

a. Composition:

	Weighted interest rate %	31 December 2014 US$000	31 December 2013 US$000
Loans from banks in US Dollars with fixed interest rate [(1),(2),b]	8.4%	**212,254**	128,330
Loans from banks in Rouble with fixed interest rate [(4)]	11%	**3,300**	3,969
Loans from banks in US Dollars with variable interest rate [(3),b]	LIBOR + 6.85%	**19,626**	17,337
		235,180	149,636
Current maturities		**(15,445)**	(10,783)
Credit from banks for financing inventory of buildings for sale		**(3,300)**	(9,730)
Loans from banks which classified for short term*		**(181,588)**	–
		34,847	129,123

* As a result of incompliance with financial convents as determined by financial institutions, see also note b below.

(1) On March 30, 2014 the Group'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 US$49m 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 instalments, with the last payment representing 49% of the loan balance. The loan bears a 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.

In addition the Company granted securities and a guarantee for the loan.

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 31 December, 2014 the Company is not in compliance with the above financial covenants and accordingly classified the above loan to current liabilities.

(2) On March 14, 2014 the limited liability Company Inomotor, a 61% owned subsidiary of the Company, has entered into the US$18m 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 31 December, 2014 the Company is in compliance with the above financial covenant.

(3) On May 7, 2014 the limited liability Company Avtoprioritet, a 51% owned subsidiary of the Company, has entered into the US$26m 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 31 December, 2014 the Company is in compliance with the above financial covenants.

Note 11: Long-Term Credits from Banks continued

a. Composition: continued

(4) 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$87m (the "Loan") to finance the fourth phase of 1,244 apartments at MirLand's "Triumph Park" major residential development in St Petersburg.

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 Rouble 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 US$5m.

b. Financial covenants:

According to the agreements for the credit lines from banks in Russia, the Company's subsidiaries were required to meet several financial covenants, including a Loan to Value Ratio (LTV) of 70% and a Debt Service Coverage Ratio (DSCR) that varies from between 120% and 130%.

As of December 31, 2014, part of the Group's subsidiaries is not compliant with all of the financial covenants that were determined as part of the credit agreements. Therefore, the Company classified its loans from the bank in the amount of US$181.6m and presented them as of the reporting date under current liabilities.

c. Pledges and securities:

The Company's subsidiaries pledged their rights in the projects and the income stemming from the aforesaid financed projects. The balance of the secured properties as of 31 December 2014 amounted to approximately US$602m. Furthermore, in some cases the Group pledged its shares in the subsidiaries which own the projects in favour of the banks, as aforesaid.

d. The maturity dates of long-term loans:

	31 December 2014 US$000	31 December 2013 US$000
First year – current liabilities	24,630	23,465
Second year	17,560	10,517
Third year	19,917	12,223
Fourth year and after	184,961	110,693
	247,068	156,898
Origination costs	(11,888)	(7,262)
	235,180	149,636

Note 12: Loans and Guarantees from Shareholders

During September 2008, the main shareholders of the Company (companies that are part of Fishman Group) granted guarantees in favour of certain banks that secured lines of credit to the Company that were granted to the Company from banks. During 2014 the Company repaid its obligation to the banks (see also Note 10).

Note 13: Debentures

a. Composition

Series	Date of issuance	Nominal interest	Maturity date	Nominal value on date of issuance US$000	Linkage terms (principal and interest)	Effective annual interest rate	31 December 2014 Amount of debentures US$000	31 December 2014 Balance US$000	31 December 2013 Amount of debentures US$000	31 December 2013 Balance US$000
A	December 2007	6.5%	6 equal annual payments beginning 31 December 2010	10,085	Israel CPI	6.19%	**13,087**	**4,108**	13,087	4,483
B	December 2007	LIBOR +2.75%	6 equal annual payments beginning 31 December 2010	52,626	US Dollar exchange rate	5.15%	**68,225**	**18,036**	68,292	17,611
C	August 2010 February 2011	8.5% 9%*	5 equal annual payments beginning 31 December 2010	79,803	Israel CPI	5.59%– 8.88%	**119,224**	**34,269**	178,835	57,860
D	August 2010 February 2011/ May 2013	6% 6.5%*	4 equal annual payments beginning 30 November 2014	56,586	Israel CPI	6.16%– 7.86%	**155,288**	**42,125**	207,051	62,921
E	July 2013 December 2013	7.21% 8.21%*	5 annual payments beginning 31 May 2016	107,429	Not linked	6.29%– 7.59%	**382,400**	**99,693**	382,400	111,745
F (b)	September 2014	5.5% 6.5%*	5 annual payments beginning 30 September 2015	39,656	Not linked	6.94%	**144,389**	**37,383**	–	–
								235,614		254,620

* Following the lowering of the rating mention in note 1b, the annual interest rate on the debentures (series C-D) increased by 0.5% per annum and on the debentures (series E-F) increased by 1% per annum from 18 December, 2014 and until the date that the Company's rating is raised back to BBB or above.

b. On September 16, 2014, the Company issued new debentures (Series F) in the total amount of NIS 144.4m (approximately US$39.7m). The debentures (Series F) bear fixed annual interest of 5.5%.

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 F:

a) The Company's equity shall be higher than US$140m 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 31 December, 2014 the Company is not in compliance with the above financial covenants and accordingly classified the above debentures to current liabilities. (See also note 1b).

c. Regarding the negotiations between the Company and the trustees of the debentures, see Note 1b.

Note 13: Debentures continued

d. The expected maturities as of 31 December, 2014:

	Less than 1 year US$000	1 to 2 years US$000	2 to 3 years US$000	3 to 4 years US$000	4 to 5 years US$000	> 5 years US$000	Total US$000
Series A	3,971	–	–	–	–	–	3,971
Series B	17,543	–	–	–	–	–	17,543
Series C	16,495	16,495	–	–	–	–	32,990
Series D	14,149	14,149	14,149	–	–	–	42,447
Series E	–	9,833	22,124	22,124	22,124	22,124	98,329
Series F	–	1,856	1,856	1,856	1,856	29,702	37,126
	52,158	42,333	38,129	23,980	23,980	51,826	232,406
Premium							287
Total							232,693

* Not including interest accrued, in the amount of US$2,291 thousands as of 31 December 2014 which is part of current maturities of long-term loans from banks and debentures.

e. Debentures held by related parties are disclosed in Note 21b.

Note 14: Other Non-Current Liabilities

	31 December 2014 US$000	31 December 2013 US$000
Deposits from tenants (1)	6,707	9,203
Less short-term deposits from tenants	(2,780)	(4,090)
Liability to Yaroslavl municipality (2)	8,635	–
	12,562	5,113

(1) The deposits do not bear interest and usually represent up to three months of rent to be repaid at the end of the rent period.
(2) See Note 23g.

Note 15: Financial Instruments

a. Financial risk factors:

The Group's activities in the Russian market expose it to various financial risks such as market risk (foreign currency risk, interest rate risk and CPI risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

The Group performed sensitivity tests for principal market risk factors which can affect the results of operations or the reported financial position. Both risk factors and financial assets and liabilities were examined based on the materiality of each risk's exposure versus the functional currency and under the assumption that all of the other variables are fixed.

1. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has financial instruments held in Rouble, New Israeli Shekels ("NIS") and Hungarian Forint ("HUF") and main revenues in Rouble. The Group is exposed to changes in the value of those financial instruments due to changes in foreign currencies exchange rates. The Group's policy is not to enter into any exchange rate hedging transactions.

For the accelerated devaluation of the Rouble compared to the US Dollar, see also Note 1b. The Group has financial instruments stated in Rouble at the amount of US$9m, and financial instrument stated in ILS at the amount of US$206m.

Note 15: Financial Instruments continued

The following table represents the sensitivity to a reasonably possible change in the US Dollar/Rouble exchange rates:

	2014 Effect on profit (loss) before tax US$000	2013 Effect on profit (loss) before tax US$000
Increase of 5% in US Dollar/Rouble	**(11,647)**	(7,161)
Increase of 10% in US Dollar/Rouble	**(23,294)**	(14,322)
Increase of 20% in US Dollar/Rouble	**(46,588)**	(28,644)
Decrease of 5% in US Dollar/Rouble	**11,647**	7,161
Decrease of 10% in US Dollar/Rouble	**23,294**	14,322
Decrease of 20% in US Dollar/Rouble	**46,588**	28,644

The following table represents the sensitivity to a reasonable possible change in US Dollar/NIS exchange rates:

	2014 Effect on profit (loss) before tax US$000	2013 Effect on profit (loss) before tax US$000
Increase 5% in US Dollar/NIS	**(10,296)**	(14,038)
Decrease 5% in US Dollar/NIS	**10,296**	14,038

2. Credit risk:

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Following the crisis in Russia, and devaluation of the Russian Rouble compared to the US Dollar, as described in Note 1b, the Company is in negotiation with its customers, allowing specific reductions for limited periods, in order that customers should be able to pay their rental fees.

3. Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

The Group has loans from banks and issued debentures.

These balances bear variable interest and therefore expose the Group to cash flow risk in respect of increase in interest rates.

22% of the Company's loans bear floating interest rates.

The following table represents the sensitivity to a reasonably possible change in interest:

	2014 Effect on profit (loss) before tax US$000	2013 Effect on profit (loss) before tax US$000
Increase 1% in interest	**(377)**	(533)
Decrease 1% in interest	**377**	533

Notes to Consolidated Financial Statements continued

Note 15: Financial Instruments continued

4. Liquidity risk exposure:

The Group monitors the risk of a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, finance leases and hire purchase contracts. As a result of the crisis in the Russian economy, the Company announced the postponement of payments due to the holders of debentures of the Company, for details see Note 1b.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (Including payments for interest) And does not include the effects of negotiations with the debentures holders:

	31 December 2014					
	Less than 1 year US$000	1 to 2 Years	2 to 3 Years	3 to 4 years	> 5 years	Total
Loans from banks and others	43,327	34,455	35,349	35,763	179,236	328,130
Debentures	71,044	55,711	47,587	30,578	79,518	284,438
Accounts payable	9,240	–	8,635	–	–	17,875
	123,611	90,166	91,571	66,341	258,754	630,443

	31 December 2013					
	Less than 1 year US$000	1 to 2 Years	2 to 3 Years	3 to 4 years	> 5 years	Total
Loans from banks and others	35,476	21,004	21,805	22,121	111,516	211,922
Debentures	62,713	59,769	56,446	47,881	82,407	309,216
Credits from banks	20,056	–	–	–	–	20,056
Accounts payable	8,912	–	–	–	–	8,912
	127,157	80,773	78,251	70,002	193,923	550,106

5. Financial instruments and cash deposits:

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2014 and 2013 is the amount of cash balance.

6. Israeli Consumer Price Index risk:

a) The Series A, C and D Bonds issued by the Company are linked to the Israeli Consumer Price Index ("CPI"). The total amount of financial instruments which are linked to CPI is US$80,502 thousands and US$125,264 thousands as of 31 December 2014 and 31 December 2013, respectively.

b) The table below represents sensitivity to a reasonable possible change in CPI:

	2014 Effect on profit (loss) before tax US$000	2013 Effect on profit (loss) before tax US$000
Increase 0.2% in CPI	(1,610)	(1,253)
Decrease 0. 2% in CPI	1,610	1,253

Note 15: Financial Instruments continued

b. Fair value of financial instruments:

Set out below is a comparison by category of carrying amounts and fair values of all the financial instruments of the Group as of 31 December, 2013 and 31 December, 2012:

	31 December 2014		31 December 2013	
	Carrying amount US$000	**Fair value US$000**	Carrying amount **US$000**	Fair value **US$000**
Financial liabilities				
Long and short-term loans (1)	**226,461**	**187,611**	139,318	145,264
Debentures (series A) (2)	**4,108**	**1,181**	4,483	4,666
Debentures (series B) (2)	**18,036**	**6,663**	17,611	18,180
Debentures (series C) (2)	**34,269**	**9,764**	57,860	62,296
Debentures (series D) (2)	**42,124**	**11,891**	62,921	62,114
Debentures (series E) (2)	**99,693**	**27,483**	111,745	114,808
Debentures (series F) (2)	**37,384**	**10,663**	–	–

(1) Level 3 according to fair value hierarchy.
(2) Level 1 according to fair value hierarchy.

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- Fair value of the quoted notes and bonds is based on price quotations at the reporting date.
- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Bank loans	DCF	Discount rate	14.2%

Note 16: Income Tax

a. Tax rates applicable to the Company and its investees:

Cyprus – corporate tax rate – 12.5%.
Russia – corporate tax rate – 20%.
Israel – corporate tax rate – 26.5%.
Hungary – corporate tax rate – 19%.

b. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December 2014 US$000	31 December 2013 US$000	**31 December 2014 US$000**	31 December 2013 US$000	31 December 2012 US$000
Deferred tax liabilities:					
Investment property and Investment property under construction	**(59,822)**	(62,198)	**(19,429)**	(14,355)	4,327
Inventory of buildings	**(4,454)**	(15,452)	**6,021**	220	221
Deferred tax assets:					
Carry forward tax losses	**44,871**	39,092	**28,317**	3,354	(4,170)
Deferred tax expenses (income)			**14,909**	(10,781)	378
Deferred tax, net	**(19,405)**	(38,558)			

Note 16: Income Tax continued

b. Deferred taxes: continued

1. The deferred taxes are calculated at the average tax rate of 20% (2013 – 20%) based on the tax rates that are expected to apply at the time they are realised.

2. The Cyprus-Russian tax treaty was amended in 2012. Following this amendment a Cypriot holding company which will record a capital gain on the sale of a Russian real estate company will be subject to a 20% tax rate in Russia as of 1 January, 2017 (such sale is not subject to tax up to 31 December, 2016).

   The Group is evaluating the possible impact of the change, but is presently unable to assess the effects, if any, on its financial statements. The Group's management believes that the change will not have any material effect on the Company's results of operations, because the Group has accounted for a tax provision which was deducted from the fair value of the properties.

3. The new legislation on the transfer prices became valid from 1 January 2012, which allowed the authority to perform adjustments to the income for tax, in relation to related party transactions which their prices different from the fair value.

   Under this legislation, the tax burden had been transferred to the companies.

   The Group believes it will be able to prove that the related party transactions were made on market terms.

c. Tax expense (tax benefit):

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Current income tax	**1,784**	487	547
Deferred taxes	**(14,909)**	10,781	(378)
Tax expense (tax benefit) in income statement	**(13,125)**	11,268	169

d. A reconciliation between the tax expense in the Income Statement and the product of profit (loss) before tax multiplied by the current tax rate can be explained as follows:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Income (loss) before tax expense	**(76,002)**	17,474	(42,133)
Tax at the statutory tax rate in Russia (20%)	**(15,200)**	3,495	(8,427)
Increase (decrease) in respect of:			
Effect of different tax rate in Cyprus (12.5%) and Hungary (19%)	**1,653**	3,010	2,924
Earnings of companies accounted for at equity method for which deferred taxes were not recorded	**(658)**	(1,518)	(1,268)
Inter-company expenses for which deferred tax liabilities were recorded	**(11,768)**	(1,526)	246
Losses for which deferred tax assets were not recorded	**11,374**	6,363	6,769
Expenses not recognised for tax purposes	**1,313**	1,325	–
Others	**161**	119	(75)
Income tax expense (tax benefit)	**(13,125)**	11,268	169

* See also Note 16 b2.

e. Losses carried forward:

The tax losses carried forward by the Group companies' amount to approximately US$224.5m. Deferred tax assets amounting to US$44.9m have been recognised.

Deferred tax assets in the total amount of US$11.4m, on tax losses carried forward in the amount approximately US$57m, were not recorded.

Note 17: Equity

a. Composition of issued capital:

	31 December 2014 US$	231 December 2013 US$
Authorised shares of $ 0.01 par value each	1,350,000	1,350,000
Issued and fully paid shares of $ 0.01 par value each	1,035,580	1,035,580

b. Accompanying rights to shares

The shares are traded on the AIM London stock exchange.

Voting rights – each shareholder has one vote for each share owned in general assembly.

Dividend rights – dividend will be calculated pro rata to the quantity of shares.

c. Dividend distribution policy:

Since its establishment, the Company has not distributed a dividend to its shareholders.

The distribution of dividends by the Company is dependent on the financial performance and position of the Company, its equity and its working capital requirements. On November 27, 2006, the Company's Board of Directors adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Following is data about the ratio of net debt to adjusted capital in 2014 which the Company required to comply under the issuance of debenture F during 2014, see also Note 13b.:

Ratio of net debt to adjusted capital:

	31 December 2014 US$000
Total debt reported in the financial statements	615,159
Less – cash and cash equivalents	(40,646)
Net debt	574,513
Total equity reported in the financial statements	117,971
Add – owners' loans	–
Less – foreign currency translation reserve	174,197
Adjusted capital	292,168
Ratio of net debt to adjusted capital	1.97

As mentioned in Note 1b and following the crisis in Russia and the devaluation of the Russian Rouble in comparison to the US Dollar, the total equity attributable to equity holders of the parent reduced during 2014, and mostly in the fourth quarter of the year by US$183.8m.

As a result, the Company is incompliance in the above financial covenant.

d. Reserve from transaction with controlling shareholder:

Assets and liabilities involved in a transaction between the Company and the controlling shareholder or between companies under common control are recognised at fair value at the date of the transaction. The difference between the fair value and the consideration determined in the transaction is taken to equity. A positive difference arises relating to deposits and guarantees from a controlling shareholder that were given to the Company to secure short and long-term credit from banks and relating to a beneficiary loan from a controlling shareholder with off-market conditions. A negative difference represents, in substance, a dividend and, therefore, reduces the retained earnings. A positive difference represents, in substance, owners' investment and is therefore presented in a separate item in equity "reserve from transaction with a controlling shareholder".

Note 17: Equity continued

e. Group's capital management:
The Group's capital management objectives are:

1. To maintain healthy capital ratios in order to support its business activity and maximise shareholder's value.

2. To achieve return on capital to shareholders by pricing rent levels correctly and sale prices according to the business risk levels.

3. To monitor loans and capital levels to support the business activity and to produce, maximum value to its shareholders.

The Group acts to achieve a return on capital at a level that is customary in the industry and markets in which the Group operates. This return is subject to changes depending on market conditions in the Group's industry and business environment.

The Group monitors its capital level using the ratio of net debt to adjusted capital. Net debt is calculated as the total debt less cash and cash equivalents. Adjusted capital includes the equity components: share capital, share premium, retained earnings, capital reserves and shareholders' loans and excludes currency translation adjustment reserves.

Note 18: Earnings (Loss) Per Share

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	**103,558**	103,558	103,558
Income (loss) used for computing basic and diluted earnings per share (in thousands of US Dollars) (attributable to parent company)	**(71,313)**	3,339	(42,302)

Note 19: Share-Based Payments

a. The Company adopted a share option plan on 19 November 2006.

The options can be exercised by way of a cashless exercise according to a mechanism determined by the Company's Board. The options were meant to be exercised within five years from the grant date, otherwise they expire.

b. On November 2009 the Company's Board has approved the update of the exercise price of 1,946,524 Share Options granted to certain officers of the Company and its subsidiary to 2.5 GBP per option, pursuant to an ESOP adopted by the Board on November 2006.

c. On 2 December 2010, the Company granted Mr Rozental, who was appointed, at that time, as the Company's CEO, additional Share Options for 673,797 Ordinary shares of the Company. The exercise price is 2.30 GBP per share and the options are exercisable until 1 December 2015.

d. On March 12, 2012, the Company's RemCo approved the extension of the exercise period of 1,122,995 options, previously granted by the Company, to 19 March 2014, and updated the exercise price of those options from 4.8 GBP per share to exercise price of 3.5 GBP per share. As of the reporting date, the options expired.

Note 19: Share-Based Payments continued

e. On 11 November, 2013 the Board of Directors of the Company resolved numerous resolutions in connection with un-registered options ("options") which are exercisable into Company's shares that are traded on the AIM in London, as follows:

1. To re-issue 449,198 options exercisable into 449,198 shares at an exercise price of 2.50 GBP per option, to Mr Roman Rozental, CEO of the Company, in lieu of 449,198 options which were previously issued to Mr Rozental.

   The above mentioned 449,198 options will be granted on a fully-vested basis from the date of issuance, where the last date on which the options may be exercised is 30 May, 2017.

2. To issue 258,750 new options to Mr Yevgeny Steklov, CFO of the Company, exercisable into 258,750 shares at an exercise price of 2.60 GBP for each option.

   The above mentioned 258,750 options will be exercisable in three equal parts: the first will be exercisable at the end of the first year from the date of issuance of such options; the second will be exercisable at the end of the second year from the date of issuance of such options; the third will be exercisable at the end of the third year from the date of issuance of such options. The options will expire at the end of the fifth year after the date of issuance.

f. On 10 November 2014 the Company's Board of Directors resolved, by way of a new issuance, the extension of the expiration date of 374,332 options by an additional two years until December 19, 2016 which the Company issued in the past to its service provider, and as such, the exercise price of such options from 3.5 GBP per share to an exercise price of 2.85 GBP per share. According to IFRS 2, the value of granted options was measured by independent appraiser and amounted to US$11 thousands.

g. The total expense that was recognised in the income statements for the share based payment is presented in the following table:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
	134	210	845

h. Movement during the year:
The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year:

	2014		2013	
	Number	**WAEP**	Number	WAEP
Outstanding at 1 January	**2,879,071**	**4.7**	3,743,316	4.4
Granted during the year	**–**		258,750	4.2
Expired during the year	**1,122,995**	**5.5**	1,122,995	4.1
Outstanding 31 December	**1,756,077**	**3.8**	2,879,071	4.7
Exercisable at 31 December	**1,583,577**	**3.8**	2,620,321	4.8

i. The weighted average remaining contractual life for the share options outstanding as at 31 December 2014 is one and a half years.

j. Measurement of the fair value of equity-settled share options:

The Company uses the binomial model when estimating the grant date fair value of equity-settled share options. The measurement was made at the grant date of equity-settled share options since the options were granted to employees.

Note 20: Additional Details Regarding Profit and Loss

a. Cost of maintenance and management:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Maintenance of property	**10,642**	10,858	9,762
Land lease payments	**809**	909	673
Management fees	**1,422**	1,243	815
Property tax on investment property	**5,355**	4,360	3,624
	18,228	17,370	14,874

b. General and administrative expenses:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Salaries (1)	**6,860**	7,591	7,376
Office maintenance	**2,099**	1,494	1,677
Professional fees	**2,545**	2,772	3,413
Travelling expenses	**544**	554	589
Depreciation	**200**	230	491
Other costs (2)	**795**	641	1,061
	13,043	13,282	14,607
(1) Includes cost of share-based payment	**134**	210	290
(2) Includes cost of share-based payment	**–**	–	555

c. Finance costs and income:

Finance income:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Interest income from cash and cash equivalents and restricted deposits	**323**	51	9
Interest income from loans provided	**1,198**	1,029	1,115
Effect of discounting of long-term receivables	**–**	–	258
	1,521	1,080	1,382

Finance expenses:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Interest expenses – loans from banks	**(20,864)**	(15,677)	(13,156)
Interest expenses– loans from shareholders	**–**	–	(117)
Interest expenses – debentures	**(16,716)**	(14,486)	(11,876)
Net capitalised interest expenses	**2,782**	1,415	2,201
Bank charges and others	**(1,900)**	(3,301)	(1,993)
Effect of discounting of long-term receivables	**(244)**	(396)	–
	(36,942)	(32,445)	(24,941)

Note 20: Additional Details Regarding Profit and Loss continued

d. Other income (expenses):

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Change in provision regarding service providers (see Note 23a and b)	(3,485)	(1,390)	(1,881)
Update of liability to Yaroslavl municipality	1,493	–	–
Gain from sale of investment property under construction	–	548	–
Other	–	(244)	49
	(1,992)	(1,086)	(1,832)

Note 21: Related Parties

a. Transactions with related parties:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Interest income from related parties	1,198	701	1,115
Interest paid to shareholders (1) (2)	518	756	2,714
Private jet expenses	–	42	17

(1) Regarding loans from shareholders, see Note 12.
(2) Includes interest expenses of debenture which are held by the shareholders of the Company.

b. Balances with related parties:

	31 December 2014 US$000	31 December 2013 US$000
Debentures held by shareholders	12,297	14,707
Guarantees provided and benefits received regarding loans from majority shareholders (Note 12)	–	165

c. For more details regarding agreements with related parties, see also Note 22.

d. Compensation of key management personnel of the Group and employees of the Company:

	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Salaries	1,090	1,003	904
Share-based payments	134	210	290
	1,224	1,213	1,194

e. The Company provided guarantees in favour of its subsidiaries' financing banks in the amount of US$235.2m.

Note 22: Agreements with Related Parties

a. Global 1 LLC ("Global 1"), a fully owned subsidiary of the Company, which owns a commercial centre in Yaroslavl, has entered into a lease agreement with Home Centers LLC ("Home Center"), a company controlled by the Fishman family, the ultimate controlling shareholders of the Company.

The area leased to Home Center covers 6,703 sqm; the minimal lease payments are US$138 per sqm and the lease period, assuming the exercise of all of the option periods contained therein, is 25 years. The terms of the agreements are in accordance with market conditions.

In May 2014, Global 1 entered into an agreement with Home Center under which Global 1 has the right to early termination (on not less than two weeks' notice) of the lease agreement without compensation, except for limited fixed investments made by Home Center in the property.

As of September 2014 the lease agreement provides for a maximum Dollar-Rouble rate similar to the agreed agreements with other tenants.

As of 1 January 2015 a new short-term lease agreement was signed whereby Home Center will pay to Global 1 a monthly rent on the basis of 4% of its turnover, plus holding costs until the entry of a new tenant.

b. Hydro leases offices to Home Centre with an overall area of approximately 652 sqm used for office purposes. The monthly lease fee is approximately US$20 thousands. The lease period terminated on 30 June 2014. The engagement is in accordance with market conditions.

c. During September 2008, the Company's controlling shareholders placed without consideration guarantees (which were renewed from time to time), for loans taken by the Company from banks. During the month of May 2014, the Company repaid outstanding credit from banks, guaranteed by irrevocable guarantees by the controlling shareholders in the sum of US$20m such that as of 31 December 2014, the balance of these loans is zero.

Note 23: Commitments and Contingencies

a. On 4 January 2013 subsidiaries that hold the offices project of the Company, entered into a new management service agreement which replaces the previous agreement between two parties, with TMJK HOLDINGS LTD, a Cypriot company owned by Mr Michael Krichevsky and FADIDA HOLDINGS LTD., a Cypriot company owned by Mr Ofer Fadida ("Service Providers") according to which they will provide management services to Hydro such as management of rental agreements, marketing of the empty spaces, office maintenance and etc.

b. In return for the management services pursuant to the above agreement, Service Providers will be entitled to receive: a) 10% of the current income net of any expenses including investments and financial expenses ("Projects Commission"); b) 2% of the lease fees actually received by the subsidiaries from its tenants.

In accordance with description in section a and b above, the balance of the provision for Service Providers as of 31 December 2014, is at the amount of US$5m (as of 31 December, 2015 is at the amount of US$4.9m). The Company paid until 31 December 2014 on advances for those liabilities at the amount of US$8.6m (2013: US$7.4m).

c. A subsidiary of the Company, Petra 8 LLC ("Petra"), entered into an agreement with a third party, which is not related to the Company, pursuant to which it will provide various professional services to Petra in connection with the receipt of the approvals and permits that are required for the project. Pursuant to the provisions of the agreement, as revised from time-to-time in the supplementary agreements, in consideration of the aforesaid services, Petra 8 will pay an amount that is equal to 2.5% of Petra 8's profit (net) stemming from the project's realisation. The consideration will be paid on dates and at rates detailed in the agreement, pursuant to which advances were paid on account of the aforesaid consideration in the amount of approximately US$4m (according to a mechanism for the settling of accounts that was determined in the agreements), until the financial statements date.

Note 23: Commitments and Contingencies continued

d. In addition Petra entered into an agreement with another third party according to which such third party provides services which include supervision and preparation for tenders, assistance in projects planning, assistance in selection of providers, technical supervision, budget control etc. As of the reporting date Petra pays such third party monthly management fees in an amount of approximately US$70 thousands.

Petra has entered on September 2012 into an agreement with another management company for the purpose of developing the third phase of the Project for a monthly consideration of US$41 thousands.

e. The Group entered into commercial lease agreements for certain land plots. These leases are irrevocable and have a term of 14–41 years with a renewal option.

Future minimum lease payments as of 31 December 2014 are as follows:

	US$000
First year	600
After one year but no more than five years	2,395
More than five years	7,523
Total	10,518

f. Expected rental income:

The lease agreements of the Company's investees are for periods of up to 10 years.

The minimum rental income is as follows:

	31 December 2014 US$000
First year	33,840
Second year until five years	64,417
More than five years	5,912
	104,179

g. A subsidiary of the company, which owns a plot of land in Yaroslavl, has entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the built area on said land. The Group has recorded a provision regarding this agreement (See Note 3).

i. Petra – 8 is engaged with a local marketing company for the marketing of the project for commissions at the amount of 4–5%, in respect of specific goals achievement and in accordance with the terms specified in the agreement.

j. Petra – 8 has engaged with a local contractor for the construction of the third phase of the Petra project, for 800 Dollars per sqm.

k. Charges:

1. In order to secure the Group's liabilities, real estate properties were mortgaged and fixed charges were recorded on property, plant and equipment, insurance rights, goodwill, bank and other deposits and receipts from customers. Floating charges have been recorded on the Group's assets, including a charge on certain shares in subsidiaries.

Note 24: Segment Information

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM"). That information is used in order to assess performance and allocation of resources. For management purposes, the Group is organised according to operating segments based on products and services.

Commercial segment – real estate for commercial purposes.
Residential segment – residential real estate for sale.

Segment performance (segment income (loss)) is evaluated based on operating income (loss) in the financial statements.

The segment results reported to the CODM include items that are allocated directly to the segments and items that can be allocated on a reasonable basis.

Items that were not allocated, mainly the Group's headquarter assets, general and administrative costs, finance (consisting of finance expense and finance income) and taxes on income are managed on a Group basis.

The CODM reviews segment assets apart from deferred taxes and loans to companies accounted for by the equity method, as these assets are managed on a Group basis.

The CODM reviews segment liabilities apart from deferred taxes, current tax liability and loans as these liabilities are managed on a Group basis.

The following tables present revenue and profit and certain assets and liability information regarding the Group's operating segments.

	Commercial US$000	Residential US$000	Total US$000
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 24: Segment Information continued

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2013:			
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)
Income before taxes on income			17,474

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2012:			
Segment revenues	33,872	8,079	41,951
Segment results	(11,493)	(16,789)	(28,282)
Unallocated expenses			(10,353)
Finance expenses, net			(3,667)
Loss before taxes on income			(42,302)

	Year ended 31 December 2014		
	Commercial US$000	**Residential US$000**	**Total US$000**
Assets:			
Segments assets	**440,526**	**269,861**	**710,387**
Unallocated assets			**46,219**
Total assets			**756,606**
Liabilities:			
Segments liabilities	**(250,272)**	**(98,994)**	**(349,266)**
Unallocated liabilities			**(265,893)**
Total liabilities			**(615,159)**

	Year ended 31 December 2013		
	Commercial US$000	Residential US$000	Total US$000
Assets:			
Segments assets	548,488	299,775	848,263
Unallocated assets			44,907
Total assets			893,170
Liabilities:			
Segments liabilities	192,238	92,867	285,105
Unallocated liabilities			276,348
Total liabilities			561,453

Note 25: Subsequent Events

1. On 1 January 2015, the results of a meeting between the holders of bonds A and B regarding the deferral of payments were published. For details, see Company’s reports dated 1 January 2015.
2. On 7 January 2015, the results of meetings between the holders of bonds C–F regarding the trustee certification for negotiations with the Company were published. For details, see the Company’s reports dated 7 January 2015.
3. On 8 January 2015, the Company reported that the amount of the deposit (US$11m) was deposited in trust. For details see immediate report dated 8 January 2015.
4. On 22 January 2015, the Company signed a letter of commitment for an interim period (stand-still) as a result of the bondholders meetings. For details, see the Company’s immediate report dated 26 January 2015.
5. On 2 February 2015, S & P lowered the rating of the Company and Bonds A–D of the Company to rate D due to non-payment of its obligations in a timely manner. For details, see immediate report dated 2 February 2015.
6. On 10 February 2015, the Company announced the suspension of all payments to any Bond Series of the Company before talking with the bondholders. For details see immediate report dated 10 February 2015.
7. On 11 February 2015, the Trustees of bonds C to F reported that a meetings were held on 22 December, 2014 as required by the provisions of Section 8.2 of the Deed of Trust Bonds (Series C) and (Series D) and as required by the provisions of Article 7.2 of the Deed of Trust Bonds (Series E) and (Series F) of the Company. For details see immediate report dated 1 February 2015.
8. On 15 February 2015, the results of a meeting of the bondholders of Series C regarding the decline of payment on 11 February 2015 were published. For details see immediate report dated 15 February 2015.
9. On 9 and 10 of March 2015 the bondholders of Series A were summoned to meetings 12 March 2015 regarding the deferment of payment. For details, see reports of 9 and 10 March 2015.
10. On 10 March 2015, the bondholders of Series A were invited to a meeting on Friday 19 March 2015 regarding, among other things, to discuss the progress and the reduction in the settlement although no meeting will be convened for the purpose of immediate repayment. For details see immediate report dated 10 March 2015.
11. On 12 March 2015, a meeting of the bondholder of Series F was set for 17 March 2015 in order to discuss the situation. For details see immediate report dated 12 March 2015.

Note 26: Date Of Approval Of The Financial Statements

The Board of Directors approved these consolidated financial statements for issue on 16 March 2015.

Shareholders' Information

Financial Calendar

Annual General Meeting	11 May 2015
Announcement of 2015 first quarter results	May 2015
Announcement of 2015 interim results	August 2015
Announcement of 2015 third quarter results	November 2015

Share Price
The range of the closing mid-market prices of the Company's ordinary shares during the year were:

Price at 31 December 2014	75.5p
Lowest price during the year	73p
Highest price during the year	270p
Average	218.4p

Daily information on the Company's share price can be obtained on the London Stock Exchange website (Company's ticker MLD.L).

Website
www.mirland-development.com

Shareholders' Enquiries
All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the Company's registrar at:

Computershare
The Pavilions, Bridgwater Road, Bristol
BS13 8AE, United Kingdom

Secretary and Registered Office
Asoted Secretarial Limited
Office 606, 6th floor, Nicolaou Pentadromos Centre,
Thessalonikis Street, 3025 Limassol, Cyprus
Tel: +357 25 871 785
Fax: +357 25 342 403
office@mirland-development.com
Company registration number 153919

Advisers
Nominated Adviser
Investec Bank Plc, London

PR Agency
FTI Consulting, London

Legal Advisers
Berwin Leighton Paisner LLP, London
King & Spalding, Moscow
Chrysses Demetriades & Co, Limassol
Steinmetz, Haring Gurman & Co, Tel Aviv

Real Estate Consultants
Cushman & Wakefield, Moscow
Jones Lang LaSalle, Moscow
CB Richard Ellis, Moscow

Notes

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www.emperordesign.co.uk +44 (0)20 7729 9090

Triumph Park
Sustainable Residential Complex

www.mirland-development.com