MirLand

Development Corporation Plc

Annual Report and Accounts 2013

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Certain information contained in this Announcement constitutes "**forward-looking statements**" which can be identified by the use of forward-looking terminology such as "**may**", "**will**", "**should**", "**expect**", "**anticipate**", "**target**", "**project**", "**estimate**", "**intend**", "**continue**" or "**believe**", or the negatives therefore or other variations thereof or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Company may differ materially from those reflected or contemplated in such forward-looking statements.

page 02
MirLand has a comprehensive approach towards real estate development; the Company is involved in the full life cycle of a project from initiation to successful completion and maximising return.

page 04
Total revenues up 147.1% to US$103.8m (31 December 2012: US$42.0m) due to the first time partial recognition of revenues from the Triumph Park residential project, 99% occupancy across the investment portfolio and the positive impact of rental indexation.

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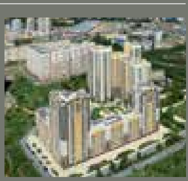
Triumph Park, St Petersburg sales rate remains high, with prices of later phases increasing ahead of inflation. Both regional shopping centres remain 100% occupied and continue to report high levels of footfall. 96% average occupancy rate at the MirLand office projects.



page 06
2013 was a landmark year for MirLand as the Company returned to strong profitability. This was driven by the first recognition of profits from our flagship residential development scheme, Triumph Park in St Petersburg, where we have achieved excellent sales levels and a strong performance of our commercial investment portfolio.

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Triumph Park development in St Petersburg has become the first residential project in Russia to be awarded a BREEAM certificate. Triumph Park is a winner of Green Awards 2012 and 2013, the Russian Federal competition on sustainable development and energy efficiency.

Triumph Park
Sustainable Residential Complex

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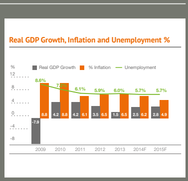
The real estate sector continued to perform well in 2013, supported by record construction levels and a strong consumer market. Investment into commercial real estate in 2013 made up US$7.45bn, similar to the 2012 level, and Moscow was the third-rated investment market in Europe by transaction volumes.



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

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.

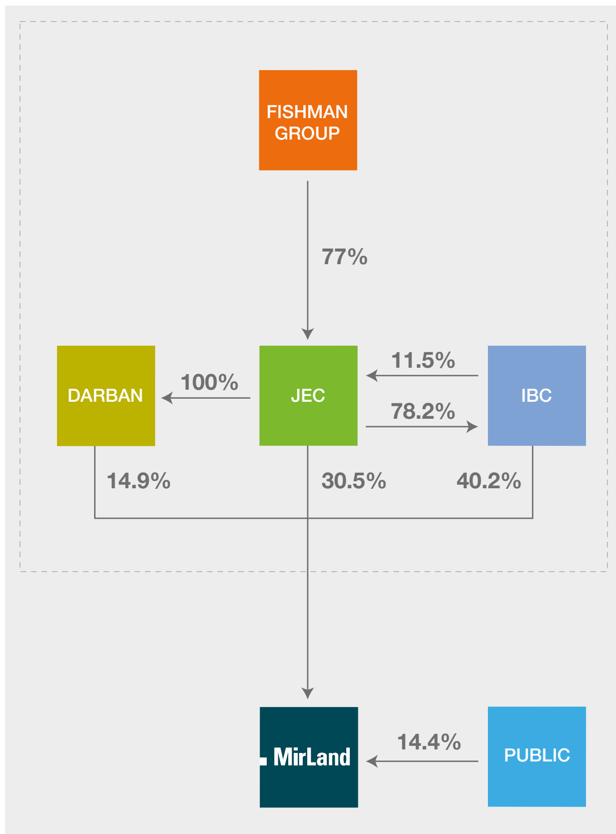
In December 2006, the Company successfully raised net US$293m through its IPO on the AIM market of the London Stock Exchange.

To date, the Company has successfully raised additional public debt of approximately US$327m 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 enjoys modest net leverage of 41.9% of its total assets.

The Company currently owns 13 residential and commercial projects across Russia, with a total rentable/saleable area of approximately 1.3 million sqm upon completion. Of these, six commercial projects are already yielding, and the two residential projects are generating income.

Our Corporate Structure*



* As at 12 March 2014

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Our Business

Our Business Model

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.

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;

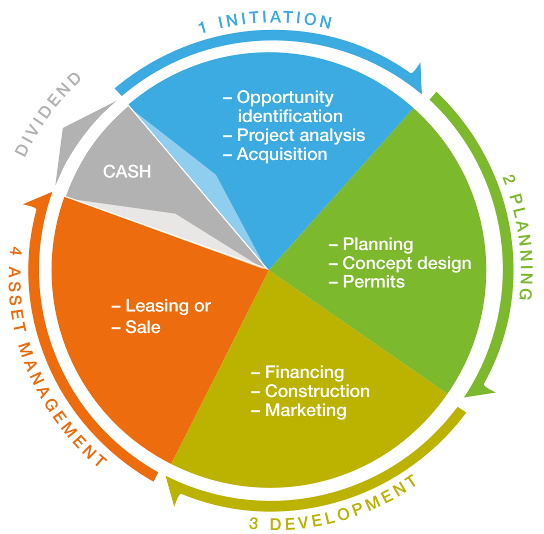
4 Asset Management

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 Business Model

Each project comprises key common stages:

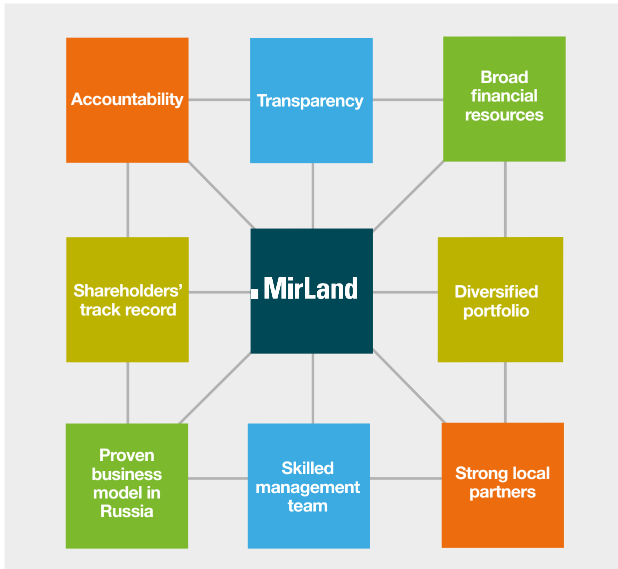


Our Strategy

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

- 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

Our Competitive Strengths



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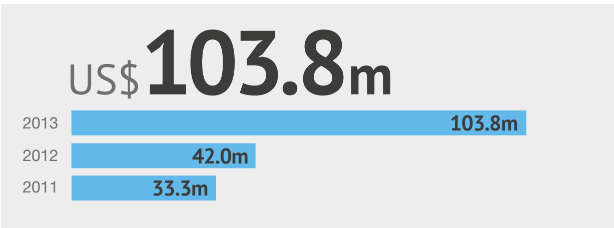
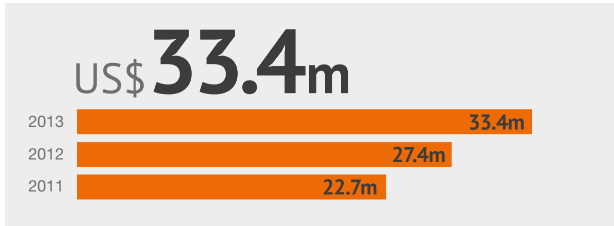
How We Performed in 2013

Financial Highlights

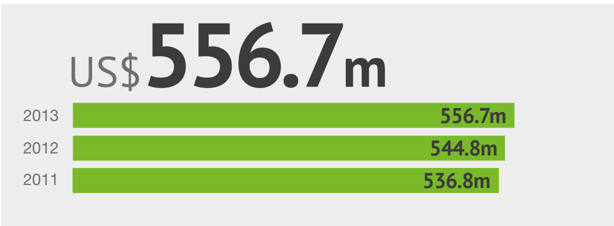
Revenues for the Year US$



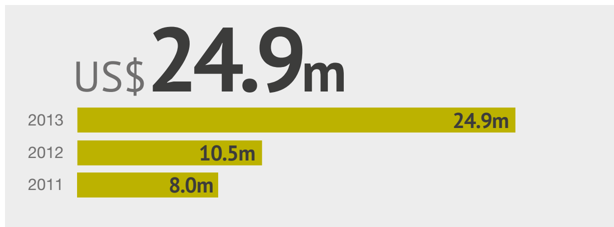
Net Operational Income for the Year US$



Adjusted Net Asset Value (NAV) US$*



EBITDA for the Year US$



- **Total revenues up 147.1% to US$103.8m** (31 December 2012: US$42.0m) due to the first time partial recognition of revenues from the Triumph Park residential project, 99% occupancy across the investment portfolio and the positive impact of rental indexation;
- Adjusted NAV, based on Cushman & Wakefield valuation was US$556.7m (31 December 2012 US$544.8m), an increase of 2.2%;
- **Net operating income ("NOI") from investment properties (Company's share) up 21.9%** to US$33.4m (31 December 2012: US$27.4m);
- **Gross profit up 542%** to US$39.8m (31 December 2012: US$6.2m);
- **EBITDA increased 137.1**% to US$24.9m (31 December 2012: US$10.5m);
- **Net profit of US$6.2m** (2012: loss of US$42.3m) due to increased operational profitability, decrease in general and administrative expenses, recognition of revenues in residential projects and fair value adjustments of investment properties;
- **Total assets of US$853.1m up by 14.7%** (31 December 2012: US$743.7m), of which 90% are property and land assets;
- **Total equity increased by 4.5%** to US$331.7m (31 December 2012: US$317.3m), equating to 39% of total assets;
- **Net leverage remained low at 41.9% of total assets** (31 December 2012: 40.9%).

* Adjusted NAV, based on Cushman & Wakefield valuation.

Operational Highlights

Triumph Park

Vernissage Mall

Triumph Mall

Triumph Park, St Petersburg sales rate remains high, with prices of later phases increasing ahead of inflation:

- Phase I: 506 out of 510 apartments pre-sold, representing income of approximately US$69m, of which US$51m was recognised during H2 2013, in accordance with IFRS standards, with the remainder of US$15m to be recognised in Q1 2014; an occupancy permit was received from the governmental authorities and delivery of apartments to owners has now been completed;

- Phase II: Launched in Q3 2012, 522 out of a total of 630 apartments (circa 83%) pre-sold by 12 March 2014. This represents sales of approximately US$67m. Completion is expected by Q4 2014;

- Phase III: Strong sales launch in Q4 2013, with 303 out of 1,346 apartments pre-sold by 12 March 2014 (circa 23%), representing sales of approximately US$32m;

- Western Residence, Perkhushkovo, Moscow: Eight more houses were sold during the year, taking the total number of units sold to 30 of the 77 houses in the scheme.

Retail:

- Both regional shopping centres, Vernissage Mall in Yaroslavl and Triumph Mall in Saratov, are 100% occupied and continue to report high levels of footfall. Annual NOI was up 16% to US$19.7m (2012: US$17.0m), the strongest performance from the retail portfolio till now;

- On 23 December 2013 the Company signed an agreement to acquire the outstanding 49.5% of the shares in Vernissage Mall, which it did not previously own;

- An extension of the Vernissage Mall by 30,000 sqm is in advanced planning.

Offices:

- 96% average occupancy rate at the MirLand Business Center.
  Annual like-for-like NOI up 32% to US$13.7m.

Chairman's Statement

Nigel Wright
Chairman

2013 was a landmark year for MirLand as the Company returned to strong profitability.

MirLand has continued to deliver solid progress during the 2013 financial year with further operational and financial milestones achieved across the business, in accordance with our strategy:

- To maximise returns from our existing assets;
- Successfully complete projects currently under construction; and
- Activate pipeline projects and selectively seek new projects subject to availability of appropriate funding and market demand.

As liquidity in the Russian lending market has improved, MirLand has been able to secure new bank financing and refinancing for existing facilities.

Financing

During the period, net leverage slightly increased to 41.9% of total assets (31 December 2012: 40.9%) but still remains relatively low. Total net borrowings amounted to US$357.7m (31 December 2012: US$304.2m).

On 19 May 2013, Mashinostroenie & Hydravlika OJSC ("the Subsidiary") entered into a loan agreement with Sberbank of Russia ("the Bank") under which the Bank will grant the Subsidiary a credit line in an aggregate amount of up to US$19m. The loan is for a period of approximately 6.5 years and bears fixed dollar interest at the rate of 8.75% per annum, payable quarterly, in addition to other commissions as set out in the loan agreement.

In July 2013, following the publication of an amendment to the Company's shelf prospectus and shelf offering report, the Company issued new debentures (Series E) in the total amount of NIS 240m (approximately US$67.2m).

On December 2013, the Company issued an additional NIS 142.4m par value of series E bonds, in total consideration of NIS 149.7m (approximately US$42.5m). The debentures (Series E) bear annual fixed interest of 7.21% and have been rated by Midroog at "ilBaa1/Stable". The debentures are repayable in five unequal annual payments, the first payment is 10% of the principal and each of the second to the fifth payments is 22.5% of the principal, payable on 31 May of each year from 2016 to 2020 (inclusive).

In August 2013, a wholly owned subsidiary of the Company, Limited liability Company Investicionno-Ipotechnaya Kompaniya ("IIK"), entered into a US$95m loan agreement with Sberbank for a seven-year term, at a fixed interest rate of 7%, payable quarterly. The loan refinances IIK's existing debt of US$36m and allows the business to release additional funds. The loan is secured by various mortgages, charges, pledges and other customary security interests for the benefit of the Bank which have been entered into by both IIK and the Company. The loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 53% of the loan principal at the end of the term.

In August and October 2013, the Company partly repaid a number of short-term loans from banks which are secured by non-cancellable bank guarantees of the controlling shareholders for US$50m.

On 30 October 2013, the Company successfully financed Phase III of 1,346 apartments at Triumph Park. Petra 8 LLC ("Petra"), a wholly owned subsidiary, entered into a loan agreement with Sberbank, which had also financed the previous two phases. The loan agreement comprises a non-revolving credit line of up to US$96m, which will provide approximately 70% of the expected third phase construction costs, with the balance financed from sale proceeds. It fulfils the outstanding funding requirement for this latest phase of the project and will be provided to Petra in three 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 two facilities previously granted by the Bank to Petra. The outstanding balance, to date, is approximately US$4m.

The net proceeds of the Bonds D and E issuances, as well as loans obtained by subsidiaries, will be applied for general working capital purposes and repayment of certain financial liabilities including, inter alia, bank loans guaranteed by parent companies, bonds and loans provided to subsidiaries in Russia.

The recent capital raisings from the bonds support the Company's strategy to diversify funding sources while keeping long-term leverage at a relatively low level, with net leverage currently at 41.9%.

Operational Update

The Company has made good progress in the pre-sale, build and delivery of its BREEAM-certified Green residential project, Triumph Park in St Petersburg. The government authorities issued the required occupancy permit for Phase I of the scheme, and handovers to owners that began in September 2013 are now completed. Construction and sales of Phase III started in October with a strong sales launch resulting in 303 apartments being pre-sold in the first five months since launch. The prices that the Company are achieving on the pre-sales of these later phases of the project are ahead of the rate of inflation as the scheme has progressed, underpinning good levels of profitability for the project.

The Western Residence residential development scheme at Perkhushkovo, Moscow, has also maintained momentum with the sale of a further eight houses, taking the total now sold to 30 of the 77 houses in the scheme.

Vernissage Mall in Yaroslavl and the Triumph Mall in Saratov are fully let and continue to generate high footfall. Occupancy rates in the MirLand Business Center office buildings remain at circa 96%. Our retail portfolio delivered its highest ever level of net operational income, remaining fully occupied and with rental indexation delivering increased revenues. In light of the success of our retail portfolio, we are looking at potential opportunities to grow our holdings in the sector through the extension of our Vernissage Mall by an additional 30,000 sqm, to include a cinema and new anchor home and clothing stores. MirLand is also seeking new opportunities in this segment.

In December 2013, the Company signed an agreement (the "Agreement") to acquire the outstanding 49.5% of shares in Vernissage Mall that it did not previously own. Under the Agreement, the Company made an advance payment to the seller of US$3m. The remaining consideration for the Acquired Shares shall be paid within seven business days after fulfilment of all conditions precedent to the transaction under the Agreement, including the receipt of certain regulatory approvals and obtaining bank financing by the Company to purchase the Acquired Shares. The total consideration for the Acquired Shares will be calculated according to a value of US$85.5m, offset by a number of loans (the balance of which is approximately US$27m) as of December 2013. Calculation of the consideration will be performed at the closing of the transaction. Such value shall be subject to certain adjustments that may occur as a result of the fluctuations of the US Dollar – Russian Ruble exchange rate.

On 4 March 2014, the condition precedent requiring approval by the Antitrust Commissioner in Russia was received and it was confirmed that the Company was entitled to proceed with the transaction. On 7 March 2014, as a result of this approval, the Company entered into an Amendment to the Purchase Agreement. Based on the terms of the Amendment, the Company assigned its rights and obligations under the Purchase Agreement to a subsidiary. This subsidiary paid the seller, on the same day, a purchase price of approximately US$25m and fixed the exchange rate of the Ruble against the US Dollar. Completion of the transaction and the transfer of the shares are still subject to receipt of bank financing, which would trigger the seller's obligation to return the Company's down payment of US$3m, as mentioned above.

Results

Total assets as at 31 December 2013 increased by 14.7% to US$853.1m as compared to US$743.7m as of 31 December 2012. Equity as at 31 December 2013 was US$331.7m compared to US$317.3m the preceding year.

Net income for the year was US$6.2m (31 December 2012: loss of US$42.3m), following the profit recognition from the first phase of the Triumph Park project, the increase in the value of yielding office and retail investment properties as a result of improved market conditions and improved operational results.

Over the period, net operating income ("NOI") from investment properties increased by 22% to US$33.4m (31 December 2012: US$27.4m) due to high occupancy, reduced operating expenses and increased income from rent indexation.

MirLand's assets are externally valued semi-annually on 30 June and 31 December. The valuation is conducted by Cushman & Wakefield. As a result of market improvement and improved operational results during this period, the value of MirLand's portfolio (Company's share) increased by approximately 1.5% to US$880.7m at 31 December 2013 (31 December 2012: US $868.0m). Adjusted NAV, based on Cushman & Wakefield's valuation, was US$556.7m (31 December 2011: US$544.8m), an increase of 2.2%. The growth can be largely attributed to an increase in the valuation of the St Petersburg's project due to the significant progress made during the year in terms of sales, construction and financing, as well as a net increase in the value of the Company's commercial portfolio helped by improved market conditions and record operational results.

These results underpin our belief that the Company's portfolio will deliver an attractive yield to our investors over the long term.

Chairman's Statement
continued

Portfolio Development
In an improving business environment, MirLand's focus for 2013 was on delivery of its flagship residential project already under construction, careful management of its income-producing investment properties in order to decrease operational expenses, and the delivery of a high-quality pipeline of development projects which are benefiting from strong occupier demand in the shortest time to market, as demonstrated by the progress we have made on Phase II of Vernissage Mall and the Kazan retail scheme.

Residential
MirLand has continued to make significant progress at its flagship residential led development, Triumph Park in St Petersburg. In October 2013, MirLand launched its sales campaign for Phase III of the scheme and has already pre-sold 303 out of 1,346 units, representing approximately 23% of the phase. The total net sellable area of Phase III of the project is approximately 61,700 sqm and there will be 2,950 sqm of retail space and two levels of underground parking. Completion of Phase III is planned for H1 2016. Following the launch of the sales campaign, the Company entered into a new loan agreement with Sberbank, which will provide a line of credit of approximately US$96m to finance the construction of Phase III.

In addition, Phase II has continued to receive strong interest with 522 apartments sold to date out of a total of 630. This represents a projected income of approximately US$67m which will be recognised in 2014, in accordance with IFRS standards.

All of the 510 Phase I apartments have now been sold, representing an income of approximately US$69m, of which US$51m was recognised during the second half of 2013 in accordance with IFRS standards. The remainder will be recognised in the first quarter of 2014.

The project offers high-quality and competitively priced housing in St Petersburg's strengthening residential market. Situated on a 41 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 handed over to the buyers. To date, a total of 30 houses have been sold.

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

As part of our strategy to grow the retail segment of the portfolio, we are in the advanced planning stage of the construction of Phase II of the Vernissage Mall in Yaroslavl, and are currently in negotiation with an anchor tenant for the development. Separately, we are in advanced negotiation 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. Most of the leasing agreements for the yielding assets are for long tenures and denominated in US Dollars and have annual indexation. During the year, occupancy rates increased in all of our income-producing investment properties resulting in MirLand achieving an overall average occupancy rate of approximately 96% for our office properties.

We have completed the renovation works of the fire-damaged MAG building #26, and the renovated space has been leased to a single tenant for five years, starting at US$531 per sqm, including VAT, with an indexation of 5.75% annually.

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.

Despite the improvements in the Russian economy, and the Company's results, the Board believes that it is appropriate to retain maximum flexibility to invest in the opportunities available to it and therefore the Board has determined that it is inappropriate to declare a dividend for the financial year ended 31 December 2013.

The Board will continue to review the Company's dividend policy on an ongoing basis taking into consideration the Company's earnings and cash flows, including those anticipated to be generated during the current year ending 31 December 2014.

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 operating 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 and Accounts.

Update to Remuneration Policy

During 2013, MirLand adopted a new remuneration policy, approved by the Remuneration Committee. As per this policy, the Company announced the re-issue to Chief Executive Officer, Mr Roman Rozental, of 449,198 options (in lieu of the same number) at the original exercise price of £2.50 on a fully vested basis and extended until 30 May 2017. In addition, the Chief Financial Officer, Mr Yevgeny Steklov, received 258,750 new options at an exercise price of £2.60 vesting in equal tranches at the end of years one, two and three and expiring on the fifth anniversary of the date of grant.

Outlook

2013 was a landmark year for MirLand as the Company returned to strong profitability. This was driven by the first recognition of profits from our flagship residential development scheme, Triumph Park in St Petersburg, where we have achieved excellent sales levels and in the autumn delivered the first finished units from Phase I. Sales have continued at a good rate, and we expect the next phases of the scheme to generate high levels of income over the coming years.

Our commercial investment portfolio, under the management of our specialist in-house team, has also continued to perform strongly, with very high occupancy rates and good income growth during the year.

MirLand is now strongly positioned financially and operationally to capitalise on an excellent set of results, and, with a high-quality portfolio of assets and a pipeline of development projects in place, I am confident that we will continue to generate value on behalf of our shareholders as we move forward.

Nigel Wright
Chairman

12 March 2014

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 2013

- Triumph Park in St Petersburg, the flagship residential project Phases I-III sales campaign successfully launched while under construction. Resulting in over 99% of Phase I sold (out of 510 apartments), approximately 83% of Phase II, comprising 630 apartments, and approximately 23% of Phase III, comprising 1,346 apartments, pre-sold to date.

Financing

Strategic Principles

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

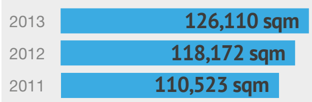
Achievements in 2013

- Refinancing loan facilities totalling approximately US$114m with a leading Russian bank.
- Obtaining a construction credit line for Phase III of Triumph Park project in St Petersburg of approximately US$96m.
- Credit line obtained for MirLand office project of approximately US$19m.

Key Performance Indicators

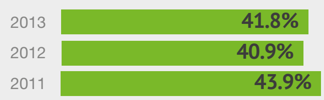
Yielding Areas, sqm

126,110 sqm

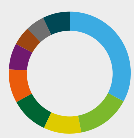


Net Leverage of Total Assets, %

41.8%



Assets by Value, %



- 33% Triumph Park Residential
- 14% Triumph Mall
- 10% Vernissage Mall
- 10% Century
- 9% MAG
- 7% Hydro
- 5% Western Residence
- 5% Tamiz
- 7% Other

977.2m US$ total value

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 2013

- Focus on generating income from residential projects along with maintaining high occupancy rates in yielding projects resulted in a pre-sale of 1,225 apartments in the Triumph Park project for total consideration of more than US$156m.
- Advanced planning for construction of retail projects:
  – Phase II of Vernissage Mall in Yaroslavl
  – Triumph House in Kazan.

Preserving a Balanced Portfolio

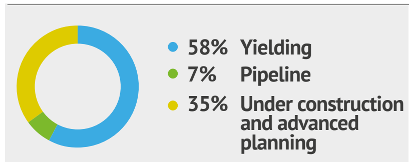
- The Company's portfolio includes two residential projects, and 11 commercial projects including offices, retail and logistics.
- The Company's portfolio assets are spread across Russia: in Moscow, St Petersburg and a variety of large regional cities.

Key Performance Indicators

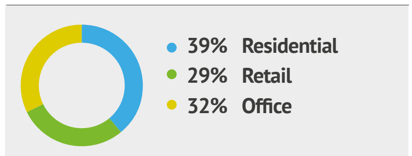
Portfolio

977.2m US$ total value

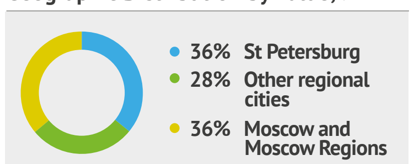
Development Stage Distribution by Value, %



Segment Distribution by Value, %



Geographic Distribution by Value, %



Our Investment Strategy and Key Performance Indicators
continued

Grow and Improve Core Base of Yielding Properties

Strategic Principles

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

Achievements in 2013

- 100% occupancy rate at Triumph Mall in Saratov
- 100% occupancy rate at Vernissage Mall in Yaroslavl
- Average occupancy rate of approximately 96% for all office projects in MirLand Business Center: Hydro, MAG, Century Buildings and Tamiz.

Generate Value Through Active Management

Strategic Principles

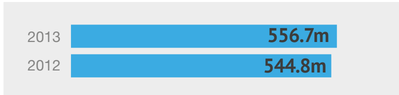
- Actively market assets before completion
- Identify market opportunities to increase yields.
- Sell properties at the optimal time.
- Take advantage of diverse financing opportunities.

Achievements in 2013

- The value of MirLand's portfolio (Company's share) increased by approximately 1.5% to US$880.7m at 31 December 2013 (31 December 2012: US$868.0m).
- Adjusted NAV, based on Cushman & Wakefield's valuation, was US$556.7m (31 December 2012: US$544.8m), an increase of 2.2%.
- Significant progress made during the year in terms of sales, construction and financing, as well as a net increase in the value of the Company's commercial portfolio supported by improved market conditions.

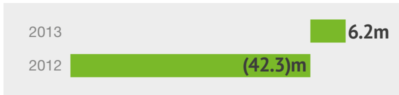
Key Performance Indicators

Adjusted Net Value, US$m

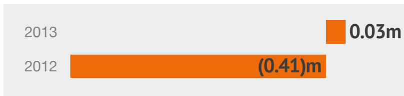


Adjusted Net Asset Value Per Share, US$

Net Income / Loss, US$m



Net Income / Loss Per Share, US$



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 2014

- 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

Key

- Retail
- Residential
- Offices
- 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
Completed
20,400 sqm*

In planning
36,480 sqm

*(excluding sold houses)

St Petersburg

Triumph Park
Under construction
100,000 sqm

Saleable area in planning
460,000 sqm

Leasable area in planning
117,770 sqm

Yaroslavl

Vernissage Mall
Yielding
34,100 sqm

Vernissage Mall Phase II
In planning
55,250 sqm

Saratov

Triumph Mall
Yielding
27,300 sqm

Saratov Logistics
In planning
104,000 sqm

Kazan

Triumph House
In planning
16,780 sqm

Novosibirsk

Novosibirsk Logistics Centre
In planning
180,000 sqm

Portfolio Focus Triumph Park

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.

The total net sellable area of the first phase of the project is approximately 26,200 sqm plus approximately 1,200 sqm of retail space and two levels of underground parking comprising 194 spaces. The first phase construction was completed in Q2 2013 and it is fully delivered to the buyers.

The second phase comprises 630 apartments with a total net sellable area of approximately 32,600 sqm. With almost 83% of apartments sold by March 2014, the construction completion is planned for Q4 2014.

In October 2013 the third phase was launched and 303 apartments were sold by March 2014. The development of 1,346 apartments with a total net sellable area of approximately 61,700 sqm is planned for completion in Q1 2016. The project shows high demand on the market.

On completion of the entire development, expected by 2020, 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.

Portfolio Focus Triumph Park continued

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.
- Triumph Park is a winner of Green Awards 2012 and 2013, the Russian Federal competition on sustainable development and energy efficiency.
- 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 five million 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 one million 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

Our four sectors

Retail Logistics Residential Offices

Sales Initiation Development Planning

Phase I

99% sold

Number of apartments	510
Sellable area	26,200 sqm
Commercial area	1,200 sqm
Completion	Q2 2013
Project Status	
Sales commencement	Q4 2011
Credit line signed for	US$41m
Construction works	Completed
Sales	Completed

Phase II

83% sold

Number of apartments	630
Sellable area	32,600 sqm
Commercial area	1,500 sqm
Expected completion	Q4 2014
Project Status	
Sales commencement	Q3 2012
Credit line signed for	US$47.5m
Construction works	In progress
Sales	83% pre-sold

Phase III

23% sold

Number of apartments	1,346
Sellable area	61,700 sqm
Commercial area	2,950 sqm
Expected completion	Q1 2016
Project Status	
Sales commencement	Q4 2013
Credit line signed for	US$96m
Construction works	In progress
Sales	23% pre-sold

Phase IV

In planning

Number of apartments	1,350
Sellable area	64,000 sqm
Commercial area	2,950 sqm
Expected completion	Q2 2017
Project Status	
Sales commencement	Q4 2014
Construction works	Q4 2014

Phases V-VIII

In planning

Number of apartments	~5,500
Sellable area	375,500 sqm

Portfolio

Triumph Park

9,000 apartments

Location	**St Petersburg**
Land area	**41 ha**
Total saleable area	**560,000 sqm**
Leasable area	**117,770 sqm**
Sales commencement	**Q4 2011**
Planned completion	**Q4 2020**
Freehold rights	**100%**

Planning
Development
Sales

Triumph Mall

100% occupied

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

Yielding

Vernissage Mall

100% occupied

Location	**Yaroslavl**
Land area	**12 ha**
Leasable area	**34,100 sqm**
Completed	**Q2 2007**
Freehold rights	**50.5%***

* On 23 December 2013 an agreement signed to acquire the outstanding 49.5%

Yielding

Our four sectors

Retail | Logistics | Residential | Offices

Sales/Yielding | Initiation | Development | Planning

Hydromashservice

96% occupied

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

Yielding

MAG

98% occupied

Location	**Moscow**
Land area	**2.3 ha**
Leasable area	**18,500 sqm**
Completed	**Q4 2007**
Freehold rights	**100%**

Yielding

Century Buildings

97% occupied

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

* The project is comprised of two buildings

Yielding

Portfolio Continued

Tamiz

91% occupied

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

Yielding

Western Residence

163 houses

Location	**Perkhushkovo**
Land area	**22.5 ha**
Saleable area*	**56,870 sqm**
Phase I completed	**Q4 2011**
Freehold rights	**100%**

* Excluding sold houses.

Sales: 30 out of 77 houses were sold as of the date of this report.

Planning
Sales

Vernissage Mall Phase II

55,250 sqm leasable area

Location	**Yaroslavl**
Land area	**18 ha**
Leasable area	**55,250 sqm**
Planned commencement*	**Q2 2014**
Planned completion*	**Q3 2015**
Freehold rights**	**50.5%**

* Sub-phase I.

** On 23 December 2013 an agreement signed to acquire the outstanding 49.5%

Planning

Triumph House

16,780 sqm leasable area

Location	**Kazan**
Land area	**2.2 ha**
Leasable area	**16,780 sqm**
Planned commencement	**Q2 2014**
Planned completion	**Q4 2015**
Freehold rights	**100%**

Planning

Saratov Logistics

104,000 sqm leasable area

Location	**Saratov**
Land area	**26 ha**
Leasable area	**104,000 sqm**
Planned commencement	**Q2 2015**
Planned completion	**Q4 2017**
Freehold rights	**100%**

Planning

Novosibirsk Logistics

180,000 sqm leasable area

Location	**Novosibirsk**
Land area	**40.6 ha**
Leasable area	**180,000 sqm**
Planned commencement	**Q4 2015**
Planned completion	**Q3 2018**
Leasehold rights	**100%**

Planning

Our Markets

Russian Business Environment

Key economic indicators	2011	2012	**2013**
Population (millions)	142.9	143.0	**143.3**
GDP per capita (PPP, US$)	16,594	17,518	**18,033**
GDP growth rate (%)	4.2	3.5	**1.5**
Inflation (%)	6.1	6.5	**6.5**
Unemployment rate	6.1	5.9	**6.0**
RUB/USD exchange rate	32.2	30.4	**32.7**
Sovereign credit rating	BBB	BBB	**BBB**

2013 started with a positive outlook across most macroeconomic indicators in our markets, mainly due to the high price of oil and gas and the preparations for the Winter Olympic Games in Sochi. However, during the year the economic performance was affected by ongoing challenges in the European market, which led to decreasing demand for energy resources, and the easing of monetary policy in the United States, which had an impact on developing countries' exports. GDP growth in Russia in 2013 was 1.5%, while inflation remained moderate at 6.5% during the year.

There was more positive news from the retail trade and consumer markets, which performed much better than expected, and Russia remains the strongest retail market in Europe. Retail trade grew approximately 4% and disposable income grew approximately 3.5% during the year, mainly due to increases in the salaries in real terms of government officials and workers in the mining and extraction sectors.

About 73% of the population in Russia is based in urban areas and represents circa 85% of overall purchasing power. By 2015 it is expected that 82% of all households in Russia will be defined as middle class, as the income per household continue to rise. Consumer confidence in Russia is the third highest in Europe, after only Germany and Sweden. Although export prices for crude oil remained high during the year, industrial production in 2013 was similar to the previous year and fixed investment grew by only 0.2%. However, unemployment remained stable during the year at only 6%.

In spite of some economic challenges, Russia's government is well positioned to introduce steps to push the economy forward. Following the Sochi Winter Olympic Games, it is expected that it will introduce a stimulus package to support future growth. Russia has high reserves of foreign exchange and gold of US$538bn. In addition, the level of government debt as a percentage of GDP is 14%, much lower than many OECD and other European countries.

It is not yet clear what impact the ongoing uncertainty involving Russia and the Ukraine will have on Russian markets and the wider European economy, but we are closely monitoring the situation and will keep this under review.

Russian Real Estate Market

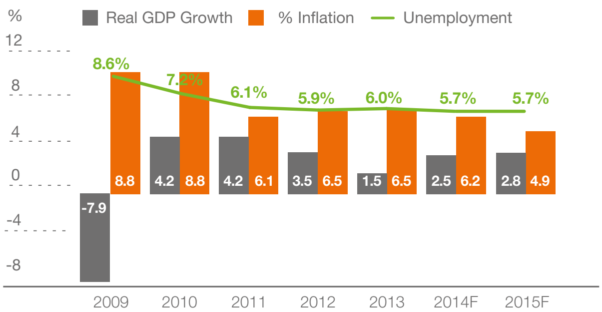
The real estate sector continued to perform well in 2013, supported by record construction levels and a strong consumer market. Investment into commercial real estate in 2013 made up US$7.45bn, similar to the 2012 level, and Moscow was the third-rated investment market in Europe by transaction volumes. Many transactions were in the process of finalisation at the end of 2013, and similar levels of investment are anticipated in 2014.

As in previous years, investors were attracted to a range of segments across the commercial real estate sector. The volume of investment in the office sector grew by 7% and amounted to 41% of total investments. 2013 was a record year for investments in the retail sector, which grew by 25%, and its share was 35% of total investments. The main increase in investment volume during the year was in the industrial and warehouse sector, which achieved a record year, and more than doubled volumes in comparison to 2012.

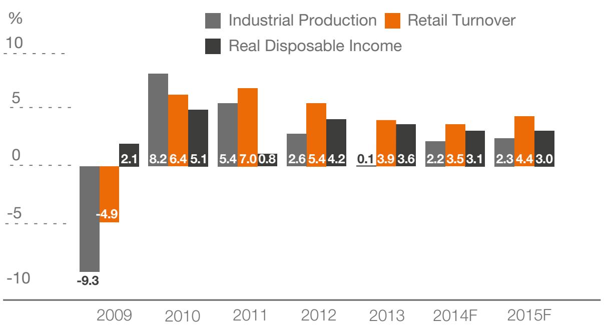
Moscow remained the leading market for transactions with 72% of total investments. St Petersburg's share was 6% and the remaining 22% was spread across other cities. The share of foreign investments during the year was 31%.

The positive trend in the real estate market led to a slight compression in capitalisation rates during the year. Capitalisation rates reduced by 0.25% to 8.5% in the office sector, by 0.5% to 9% in the retail sector and by 0.5% to 9% in the industrial and warehouse sector.

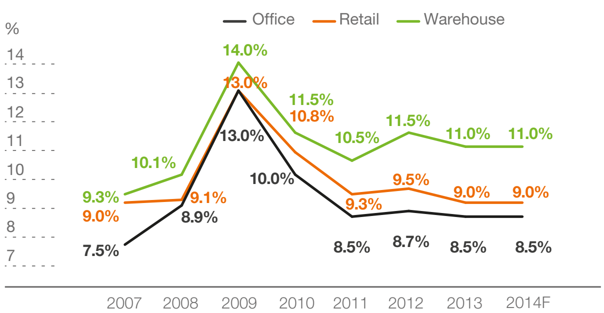
Real GDP Growth, Inflation and Unemployment, %



Industrial Production, Retail Turnover and Real Disposable Income, %



Prime Yields in Moscow, %



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

The Office Sector

During 2013, the volume of supply in Moscow continued its steady increase and by the end of the year quality office stock totalled 13.85 million sqm, while 892,000 sqm entered the market. However, of the new office space, only 25% was Class A and the rest was Class B. New construction was mainly located outside the historical centre due to lack of available land plots and, reflecting the change in Moscow government policy, approximately half of the new supply was located outside the third transport ring.

The Class B vacancy rate has been relatively stable during recent years and has increased by only 1% since 2011, reaching 10.3% by the end of 2013. However, in Class A offices the vacancy rate has increased by 5% to 21.2%. As tenants preferred to stay in their existing offices and to prolong their leasing agreements, there was a noticeable 20% drop in the volume of deals in 2013.

At the end of 2012 and at the beginning of 2013, market players expected positive dynamics and, as a result, rental rates saw 15% growth. However, in the second half of 2013 rental rates adjusted to the economic slowdown and, as a result, rental rates slowed, increasing by 7% to 12% during the year, depending on the class and location of buildings. Average Class B asking rental rates grew from US$460 to US$530 per sqm on a weighted average basis, but peaked at US$570 per sqm in the last quarter of the year.

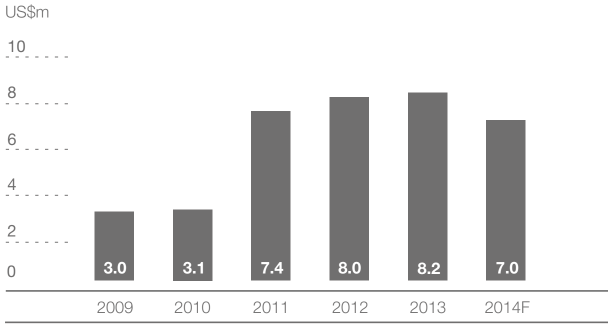
The Retail Sector

Russia is the largest market in Europe with the largest retail turnover in EMEA of US$611.8bn in 2013. While modern retail space only started being developed about 10 years ago, shopping has become a cultural pastime for many. As a result, footfall in retail centres remains solid even during an economic downturn. The total existing good-quality shopping centre stock in Russia is over 16.4 million sqm, which represents only 115 sqm per 1,000 inhabitants, well below the European average of 260 sqm. Most successful shopping malls have 100% occupancy, with waiting lists from retailers. The majority of good-quality projects are located in large cities, though during recent years developers have also increased their activity in cities with less than 500,000 people.

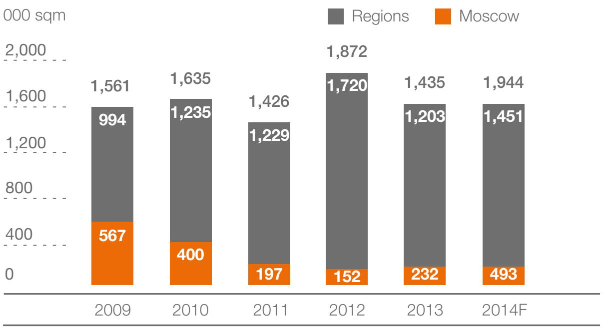
Retail sales in Russia grew by 4% during 2013, in line with rising real disposable income and with Russian consumers' confidence indicators, which are among the highest in Europe. In light of the good performance of the retail sector, retailer demand remained relatively strong during the year and they are actively looking to expand their activity and lease new space, both in Moscow and the regions. As of 2013, Russia has 58% of the key international brands.

Our Markets
continued

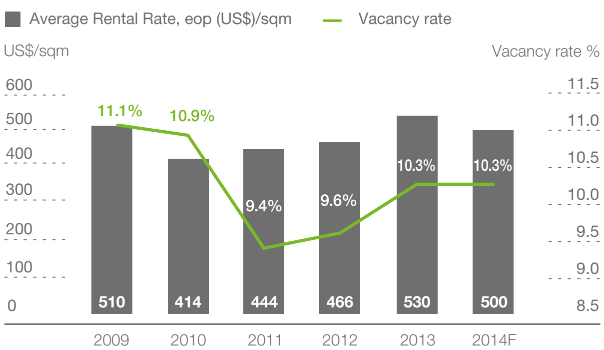
Accumulated Investment Volume in Commercial Real Estate, US$m



New Construction of Quality Retail Space, '000 sqm



Class B Vacancies and Rental Rates, Moscow



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

In 2013, 63 new retail centres were delivered in Russia with a total area of more than 1.6 million sqm, out of which 83% are outside Moscow. Cities with a population of less than one million are actively developing, with 32 retail centres opening during the year.

Moscow retail gallery rental rates are in the range of US$500 to US$4,000 per sqm annually, while, outside of Moscow, rental rates are typically 30% to 60% lower. Rental rates were stable during the year in spite of growing demand and low vacancy rates. During the year the vacancy rate at quality shopping malls was in the range of 1% to 1.5%.

In Saratov, the market is young and not yet stabilised. The area of quality retail space is only 140 sqm per 1,000 inhabitants and rental rate is in the range of US$400 to US$800 per sqm annually.

In Yaroslavl, the retail sector has developed rapidly since 2004 but there is still a lack of good quality retail space, with just 300 sqm per 1,000 inhabitants. Almost all the large retailers in Russia, both local and international, are active in the city. Rental rates range from US$400 to US$800 per sqm annually.

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 a slowly developing mortgage market.
The average area per capita is circa 23 sqm and the mortgage market amounts to only 3% of GDP, significantly lower than in western countries.

The residential sector in the Moscow region in 2013 benefited from the increased wealth of the population, resulting from an increase in real wages and positive consumer confidence, leading to growing market demand. In light of these trends, construction volume have risen during the year with 90 new projects in the Moscow region compared to 52 last year, which is a record high since 2008. However, as in 2012, no new projects of a "prime" standard entered the market during the year.

During the year, construction costs remained stable for the Moscow region, with costs per 1 sqm of constructed space of US$4,800 for Elite Class, US$3,400 for Business Class and US$1,650 for Economy Class.

Demand in St Petersburg is characterised by growing demand for apartments outside the old city centre. Due to the improving standard of living in the city, demand continued to grow, leading to an increase in prices. Total demand for apartments in St Petersburg and its suburbs during 2013 amounted to 3.9 million sqm, an increase of 21% on the previous year. Supply of new apartments also increased in line with current levels of demand.

Price increases in 2013 were lower than 2012 and ranged from 4% to 9% in Mass Market standard accommodation and 11% to 16% in Business standard. In addition, the mortgage market in the city continued its growth, seeing a 25% increase during the year, supported by a growing number of apartments in the Economy segment of the market being sold together with a mortgage.

The Logistics Sector

Increasing retail sales and consumer confidence positively influenced the logistics sector. New construction in 2013 reached 850,000 sqm, which was 16% higher than 2012 and at the highest level since 2008. Outside of the Moscow region, 40% of new space was delivered in St Petersburg, 25% in the Krasnodar area, the rest in Novosibirsk, Samara and Yekaterinburg.

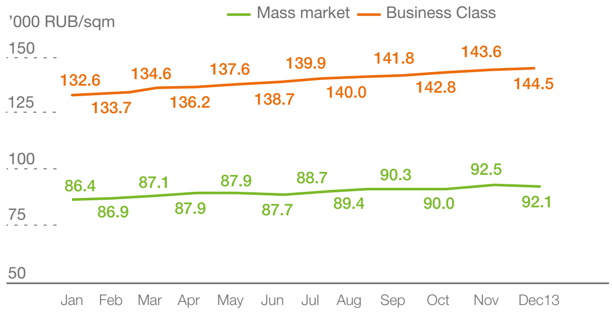
Total stock in Russia reached 6.3 million sqm of Class A and 2.4 million sqm of Class B. However, there is still a lack of good quality supply in the market. Therefore, vacancy rate was less than 1.5% during the year, which is the same as the prior year.

The number of projects under development continued to increase as developers announced 1.8 million sqm to be completed in 2014. Taking into account that one of the distinctive features of the logistic sector is that construction is generally started once the preliminary lease or a forward sale has been achieved, most of the announced developments will be delivered to the market. It is expected that volume of new construction will increase but will not keep up with the growth in demand.

The yearly take-up volume is growing every year. In 2013, the volume of take-up in the Moscow region amounted to more than 1.3 million sqm which is a record high. Outside of the Moscow region, take-up during the year was 410,000 sqm, representing a 62% increase compared to 2012, and a record high since 2008. This growth was mostly driven by retailers and logistics companies, with 30% and 25% of the market share respectively.

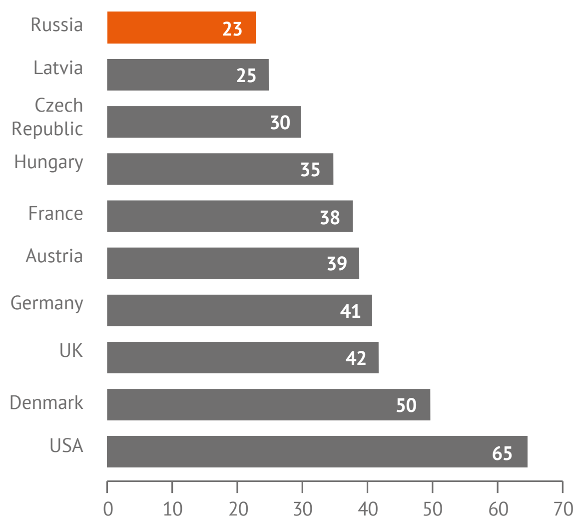
In 2013, rental rates were stable in the Moscow region. However, other cities saw growth in rental rates during the year, and in some cities rental rates almost reached Moscow's levels of around US$120 to US$125 per sqm annually.

Primary Housing Prices in St Petersburg ’000 RUB/sqm



Source: Rosstat, AHML, Peterburgskaya Nedvizhimost

Average Living Space Comparison, sqm/capita



Chief Executive's Statement

Roman Rozental

CEO

MirLand's principal activities are focused on the acquisition, development, construction, reconstruction, lease and sale of residential and commercial real estate in Russia.

Strategy

Our 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 good 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 global financial turmoil, which had a significant impact on the Russian real estate market, 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 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, provided favourable market conditions and an increase in availability of financing sources in Russia, when good opportunities arise the Company might consider increasing its portfolio 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), one project is under construction (Phase II and Phase III of the Triumph Park project in St Petersburg), two are completed residential projects (Phase I in Western Residence in Perkhushkovo and Triumph Park Phase I) and four projects are at various stages of planning and in the process of obtaining permits (in addition to the Western Residence project in Perkhushkovo and Phases IV to VIII of the Triumph Park project in St Petersburg).

The Company's portfolio has been valued by Cushman & Wakefield at US$880.7m (MirLand's share) as at 31 December 2013, based on the Company's freehold/leasehold rights. This value represents an increase of approximately 1.5% since 31 December 2012 and is mainly attributed to significant progress in the St Petersburg project in terms of sales, construction and financing and improvement in operational results of yielding properties.

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: 96%
- Financing: US$20m financed by Sberbank in September 2012 (principal balance as of 31 December 2013: US$19m)

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: 98%
- Financing: US$40m financed by Sberbank in September 2012 and June 2013 (principal balance as of 31 December 2013: US$38m)

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: 97%
- Financing: US$14m financed by Sberbank in February 2011 (principal balance as of 31 December 2013: US$10.8m)

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: 91%

Chief Executive's Statement
continued

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: 50.5%*
- Occupancy rate: 100%
- Financing: US$29m financed by Gazprom Bank in February 2011 (principal balance as of 31 December 2013: US$21.2m).

* On 23 December 2013 an agreement signed to acquire the outstanding 49.5%

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 2013: US$70.7m)

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): 20,400 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 30 houses have been sold. Completion: Phase I (77 townhouses and cottages) was completed in Q4 2011.
- Financing: US$25m was financed by Sberbank in December 2011 (principal balance as of 31 December 2013: US$5.7m).

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 2020
- Freehold rights: 100%
- Marketing:
  - Phase I, which consists of approximately 26,200 sqm representing 510 apartments.
  - 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 61,700 sqm representing 1,346 apartments, was launched in November 2013.
  - Launch of sales and construction of Phase IV, which will consist approximately 64,000 sqm representing 1,350 apartments, is planned for Q4 2013
- Sales:
  - Phase I: sold out;
  - Phase II: to date, 515 sales contracts have been executed and 7 reserved;
  - Phase III: to date, 283 sales contracts have been executed and 20 reserved;
- 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 (principal balance as of 31 December 2012: US$0.1m)
  - credit line of US$96m for Phase III construction was obtained from Sberbank in September 2013 (principal balance as of 31 December 2012: US$3.9m)

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: 55,250 sqm
- Planned construction commencement: Q2 2014 (Phase IIa)/ Q1 2015 (Phase IIb)
- Planned completion: Q3 2015 (Phase IIa)/Q3 2016 (Phase IIb)
- Freehold rights: 50.5%*

* On 23 December 2013 an agreement signed to acquire the outstanding 49.5%

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 2014
- Planned completion: Q4 2015
- 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: Q2 2015
- Planned completion: Q4 2017
- 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
- Planned construction commencement: Q4 2015
- Planned completion: Q3 2018
- Leasehold rights: 100%

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: 36,477 sqm
- Planned construction commencement: Q1 2015
- Planned completion: Q3 2016
- Freehold rights: 100%

Outlook

We strongly believe in the quality of our portfolio projects and that our prudent and selective approach to their 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

12 March 2014

Overview of Portfolio Market Values
as at 31 December 2013

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	US$71,700,000	100%	US$71,700,000
Moscow	MAG, 2-Khutorskaya str., 38A	US$83,300,000	100%	US$83,300,000
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	US$53,600,000	100%	US$53,600,000
Saratov	Triumph Mall, 167 Zarubina street	US$135,300,000	100%	US$135,300,000
Moscow	Skyscraper, Dmitrovskoe schosse, 1	US$0	100%	US$0
St Petersburg	Triumph Park, Residential	US$323,200,000	100%	US$323,200,000
St Petersburg	Triumph Park, Trade Centre	US$31,600,000	100%	US$31,600,000
Yaroslavl	Vernissage Mall, Kalinina str.	US$100,600,000	50.5%	US$50,800,000
Yaroslavl	Phase II	US$9,200,000	50.5%	US$4,600,000
Moscow	Tamiz Building	US$46,100,000	100%	US$46,100,000
Moscow	Century Buildings	US$95,100,000	51%/61%	US$53,000,000
Kazan	Triumph House	US$11,200,000	100%	US$11,200,000
Saratov	Logistics Complex	US$7,400,000	100%	US$7,400,000
Novosibirsk	Logistics Complex	US$8,900,000	100%	US$8,900,000
Total		US$977,200,000		US$880,700,000

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 2013, the Company's adjusted NAV increased to US$556.7m (31 December 2012: US$544.8m), an increase of 2.2%. As a result, the NAV per share as at 31 December 2012 was US$5.4 in comparison to US$5.3 as at 31 December 2012.

Financial Review

Yevgeny Steklov

Chief Financial Officer

Revenues for 2013 were US$103.8m and net profit was US$6.2m.

Revenues for 2013 were US$103.8m and net profit was US$6.2m. Total Assets at 31 December 2013 amounted to US$853.1m and Equity amounted to US$331.7m. The Company's adjusted net asset value was US$556.7m. The Company's real estate assets were valued on 31 December 2013 at US$977.2m (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US$880.7m.

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$47.8m from US$33.9m, which is a 41% increase. This growth is attributed to increased occupancy in all yielding assets that reached an average figure of approximately 96% and to management's constant efforts to decrease the operational expenses of the Company. The Company's recognised income of US$56.1m from the sale of inventory was due to the handover to buyers of residential units in Triumph Park Phase I and houses in the Western Residence project. The gross profit attributed to Triumph Park Phase I sales reached US$11.4m, representing a profitability margin of approximately 22%.

The cost of maintenance and management of the Company increased from US$14.9m in 2012 to US$17.4m in 2013, which was largely attributed to the full consolidation of the Century project (presented on equity basis in 2012). Like-for-like assets recorded a slight decrease of approximately 2% due to efficiency measures performed by the management, despite an increase in the size of let areas.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2013 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 profit of US$45.1m was based on the net effect of the valuations of the Company's investment properties and investment properties under construction prepared by an independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards and was mainly driven by an increase in value of yielding assets and devaluation of the Russian Ruble against the US Dollar.

The Company's general administrative expenses for the period were US$13.3m in comparison to US$14.6m in 2012. The decrease of 8.9% is mainly attributed to a reduction in professional and other services purchased by the Company.

Marketing expenses for the period were US$5.4m in comparison to US$2.1m in 2012, largely attributed to the recognition of the brokerage fees relating to Phase I of the Triumph Park project.

Net financing costs for the period amounted to US$31.4m compared to US$23.6m in 2012. The increase is explained by additional financing raised by the Company to expand its development activities and deliver further growth through its activities.

Tax expense in 2013 amounted to US$1.1m, similar to 2012. The tax expense recorded in 2013 was mainly attributed to the decrease of a deferred tax asset in the Company's balance sheet, due to recognition of profits 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 net profit for 2013 amounted to US$6.2m in comparison to loss of US$42.3m in 2012. The profit is mainly attributed to the recognition of profit from Phase I of the Triumph Park project and increased net operating income from the yielding assets.

Financial Review
continued

New Bank Loans Obtained During 2013

Project	Bank	Loan type	Original amount (US$m)	Amount obtained as of 31 December 2013 (US$m)	Balance as of 31 December 2013 (US$m)
Triumph Mall, Saratov*	Sberbank	Refinance	95.0	74.4	**70.7**
MAG	Sberbank	Refinance	19.0	10.0	**9.6**
Triumph Park, Phase III	Sberbank	Construction	**96.0	6.8	**4.0**
			210.0	91.2	**84.3**

* Refinance of remaining balance of existing loan with lower interest and debt service.
** Maximal availability.

Balance Sheet
Total assets as at 31 December 2013 amounted to US$853.1m in comparison with US$743.7m in 2012, an increase of 14.7%. The main reasons for the overall increase were the increase in cash and cash equivalents balance, increase in fair value of investment properties, and continuing development of the Company's residential projects that were financed through bank financing on the project level and apartment sales.

The Company's real estate portfolio amounted to US$767.3m at the year end, and comprised 90% of the total assets, in comparison to US$695.0m as at 31 December 2012, which comprised 93% of the total balance sheet, the increase of 10.4% coming mainly from the increase of fair value of investment properties and investments made during the year.

Equity and Liabilities
Equity as at 31 December 2013 increased to US$331.7m from US$317.3m as at 31 December 2012. The increase in equity from 2012 ascribed mainly to the full consolidation of the Century project and the net income recorded during the year, which was offset partially by the devaluation of the Russian Ruble versus the US Dollar, leading to a decreased foreign currency translation reserve. MirLand's equity comprises 39% of its total assets.

Net financial liabilities as at 31 December 2013 amounted to approximately 357.7m compared to US$304.2m as at 31 December 2012.

The Company's series A to D bonds are rated ilBBB+/stable by Ma'alot Standard & Poor's. The Company's series A, B, D and E bonds are rated ilBaa1/ stable by Midrug (Moody's Israel affiliate rating agency), following a credit rating upgrade in 2013.

During 2013, further emphasis was made on diversifying the Company's funding sources by obtaining bank financing on the project level. In 2013, 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 2013 at US$977.2m (for 100% rights from freehold/leasehold), of which MirLand's share is US$880.7 million. The increase in value mainly attributed to the improvement in operational results of MirLand's yielding assets, significant progress made in sales, construction and financing of the Triumph Park residential project in St Petersburg and investments made during 2013.

Cash Flow
During 2013, the Company used US$28.6m for investment in real estate properties (including change in buildings for sale) in comparison to US$46.1m in 2012. Cash flow used in operating activities amounted to US$16.8m. Cash flow provided by financing activities amounted to US$64.3m.

Financial Strategy
In 2013, MirLand's activities were primarily financed by project bank loans 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. The Company continues to have modest net leverage at 41.9% of its assets.

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 Phases I to III of its flagship project, Triumph Park in St Petersburg.

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 Ruble, 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 Dollars. Although most transactions are settled in Rubles, the price for real estate property is tightly linked to the US Dollar. However, the current trend in Russia is to move toward Ruble-linked transactions and therefore, the Company will consider in the future hedging its transactions for currency risks.

Interest Rate Risks: While 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 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, and which may be applicable to the Company, including appointment of a majority of independent directors.

The Company is evaluating the implications of the Concentration Law and whether it will apply to it. The Company is in discussions with the Ministry of Justice and the Israeli Securities Authority to clarify and negotiate certain exemptions if it becomes clear that the Concentration Law will apply to the Company.

In case the Law applies to the Company, it intends, in conjunction with its group of controlling companies, to take all necessary action in order to comply with the Concentration Law, including regarding the instructions provided for the Intermediate Period, as mentioned above.

Yevgeny Steklov
Chief Financial Officer

12 March 2014

Board of Directors

Nigel Wright

Non-executive Director and Chairman, age 59

Nigel Wright has approximately 30 years' experience in the property, corporate finance and banking sectors. He was managing director of London & Henley Property Holdings Limited, a property investment and development company with a portfolio of retail and office property, and of First Residential Investment Limited, which developed around 1,800 residential properties throughout the UK. Nigel spent the first half of his career in banking and corporate finance with Grindlays Bank (now ANZ Group), Bank of America and UBS Phillips & Drew, before joining the board of Mountleigh Group, a UK real estate company, where he was responsible for corporate acquisitions and disposals, substantial property acquisitions and disposals, as well as general management and funding throughout the UK and Western Europe and investor relations. He was also managing director of E & F Securities, a private real estate and leisure investment vehicle with interests in the UK, France and USA.

Eyal Fishman

Non-executive Director and Chairman of the Investment Committee, age 44

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 46

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 and Chairman of the Nomination Committee, age 66

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 35

Yevgeny Steklov has worked for the last six 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 70

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 51

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.

Steven Irwin Holm

Non-executive Director and Chairman of the Remuneration Committee, age 61

Steven Holm is a partner and chairman of real estate department at Levy Holm Pellegrino & Drath LLP, a law firm specialising in all aspects of commercial real estate and corporate law, including acquisition and sale of office buildings, hotels, apartment buildings, shopping centres and development sites. He is a member of the American, New York, District of Columbia and Georgia Bar Associations, and a member of the real estate finance committee in the New York State Bar Association.

Saydam Salaheddin

Independent Non-executive Director, Lawyer, age 43

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 2013.

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 2014.

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 26 to 29.

Results for the Year

The results of the Group are set out in the Consolidated Income Statement on page 53 which shows a net income/(loss) for the financial year of US$6.2m (2012: US$(42.3)m). The Consolidated Statement of Financial Position on pages 50 to 52 shows net assets of US$331.7m (2012: US$317.3m).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2013.

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 34 and 35.

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

Directors' Report
continued

Directors' and Other Interests

The interests of the Directors in the shares of the Company at 31 December 2013, with comparative figures as at 31 December 2012, are as follows:

Director	**Number of shares as at 31 December 2013**	Number of shares as at 31 December 2012
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*	**350,000**	350,000
Elias Eliades	**0**	0
Saydam Salaheddin	**0**	0

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

Details of Directors' share options are set out on page 48.

In addition to the disclosures above, as at 12 March 2014, 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	41,659,188	40.23
Darban Investments Ltd	15,453,852	14.92

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.

Directors' Interests in Significant Contracts

The Company's investment property in Moscow, Hydromashservice, has a lease in place with Home Centers, a private company controlled by Eliezer Fishman and certain members of his family, including Eyal Fishman. In addition, a lease is in place with Home Centers in relation to the Company's property in Yaroslavl. These leases are on standard commercial terms and were concluded on an arm's-length basis.

No other contracts of significance have been entered into in 2013 in which the Directors were materially interested.

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 2013.

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 made donations in the amount of US$40,000.

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

12 March 2014

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 2013, the Company made donations in the amount of US$40,000. As market conditions continue to 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

* 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 (eight years). The Board will take this into account when assessing their independence next year.

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

Corporate Governance Report
continued

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 2013 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	Roman Rozental	Eliezer Fishman	Eyal Fishman	Elias Eliades	Yevgeny Steklov	Saydam Salaheddin
22 January 2013*	✓	✓	✓	✓	✗	✗	✗	✓	✓
30 January 2013*	✓	✓	✓	✓	✗	✓	✓	✓	✗
11 March 2013†	✓	✓	✓	✓	✗	✓	✓	✓	✓
20 March 2013*	✓	✓	✓	✓	✗	✗	✗	✓	✓
18 April 2013*	✓	✗	✓	✓	✗	✗	✓	✓	✓
2 May 2013*	✓	✗	✓	✓	✗	✗	✗	✓	✗
13 May 2013†	✓	✓	✓	✓	✗	✓	✓	✓	✓
28 June 2013*	✓	✗	✓	✓	✗	✗	✗	✓	✓
18 July 2013*	✓	✗	✓	✓	✗	✗	✗	✓	✓
23 July 2013*	✓	✓	✓	✓	✗	✓	✓	✓	✗
05 August 2013*	✓	✓	✓	✓	✗	✗	✗	✓	✗
09 August 2013**	✓	✓	✓	✓	✓	✓	✓	✓	✓
13 August 2013*	✓	✓	✓	✓	✗	✗	✗	✓	✗
18 October 2013*	✓	✓	✓	✓	✗	✗	✓	✓	✗
11 November 2013†	✓	✓	✓	✓	✗	✓	✓	✓	✓
2 December 2013*	✓	✓	✓	✓	✗	✓	✓	✓	✓
4 December 2013*	✓	✗	✓	✓	✗	✓	✓	✓	✗
20 December 2013*	✓	✓	✓	✓	✗	✗	✓	✓	✓

* Board meeting held by telephone
** Board meeting held in London
† Board meeting held in Cyprus

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, Caroline Brown, Steven Holm and Roman Rozental 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.

Biographical details of the Directors are given on pages 34 and 35.

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. All Directors will 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.

Investment Committee

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

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.

Corporate Governance Report
continued

During the year, there were three meetings of the Investment Committee which were attended by all of the members. These meetings were also attended by Yevgeny Steklov and Roman Rozental.

	11 March 2013	19 April 2013	11 November 2013
Eyal Fishman	✓	✓	✓
Nigel Wright	✓	✓	✓
Steven Holm	✓	✓	✓

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.

Following the appointment of Mr Steklov and Mr Salaheddin in 2012, the Nomination Committee has not been tasked with filling any specific position but 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.

The Nomination Committee held one meeting in 2013 on 11 November 2013 to consider the extension of Mr Eliades' appointment as Director. The meeting was attended by Eyal Fishman and Nigel Wright. Mr Eliades did not attend the meeting.

	11 December 2013
Eyal Fishman	✓
Nigel Wright	✓
Elias Eliades*	✗*

* Mr Eliades did not attend this meeting as it concerned the extension of his appointment

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.

	6/11 March 2013	9/13 May 2013	9 August 2013	6/11 November 2013
Caroline Brown (member)	✓	✓	✓	✓
Steven Holm (member)	✓	✓	✓	✓
Saydam Salaheddin (member)	✓	✓	✓	✓
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 2013 in the months of March, May, August and November 2013.

Going Concern

After making enquiries, including the review of future anticipated cash flows and banking covenants, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

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; however, only one meeting was held in 2013 at which all relevant matters were considered. The Remuneration Committee is chaired by Steven Holm; 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. The Remuneration Committee meeting was held on 11 November 2013 and was attended by all three members.

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
Steven Holm	17 November 2008	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

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 bi-annual basis by the entire Board.

Pensions

Directors are not entitled to pension plans.

Performance Related Remuneration

MirLand does not grant performance related remuneration.

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

Chairman and Executive Directors	Nigel Wright	Roman Rozental	Yevgeny Steklov	Total
Non-performance related remuneration, US$				
Salary and fees	150,048	413,325	196,816	760,189
Other taxable benefits	–	127,672	75,874	203,546
Share incentive plan	–	193,321	16,609	209,930
Total remuneration for the year ended 31 December 2013	**150,048**	**734,318**	**289,299**	**1,173,665**
Total remuneration for the year ended 31 December 2012	152,167	799,383	202,417	1,330,772

Non-executive Directors	Caroline Brown	Eliezer Fishman	Eyal Fishman	Elias Eliades	Steven Holm	Saydam Salaheddin	Total
Non-performance related remuneration, US$							
Salary and fees	81,276	62,520	81,276	68,772	93,780	75,024	462,648
Other taxable benefits	–	–	–	–	–	–	–
Share incentive plan	–	–	–	–	–	–	–
Total remuneration for the year ended 31 December 2013	**81,276**	**62,520**	**81,276**	**68,772**	**93,780**	**75,024**	**462,648**
Total remuneration for the year ended 31 December 2012	82,424	–	82,424	69,743	95,104	22,763	352,458

* In March 2014, following the recommendation of the Remuneration Committee, the Board of Directors approved the annual bonus, in the amount of US$212,000 to Mr Roman Rozental and in the amount of US$127,000 to Mr Yevgeny Steklov.

Remuneration Committee and Directors' Remuneration Report
continued

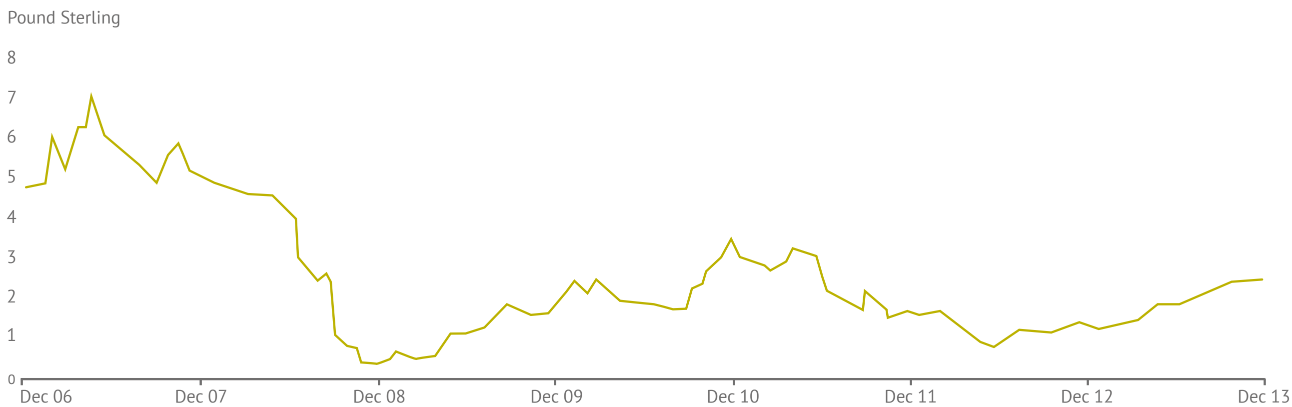
Details of share awards and options are included below.

Directors' Share Options

Director	Number of options	Number vested as at 31 December 2013	Exercise price of options (GBP)
Nigel Wright	0	N/A	N/A
Roman Rozental	1,122,995	1,122,995	2.5/2.3
Emil Budilovsky	0	N/A	N/A
Yevgeny Steklov	258,750	None	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

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

Steven Holm
Chairman of the Remuneration Committee

12 March 2014

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 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 Company's 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 judgment, 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 2013, 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.

Report on Other Legal Requirements

Pursuant to the additional 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 these 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
12 March 2014

Consolidated Statement of Financial Position

	Note	**31 December 2013 US$000**	31 December 2012* US$000
Assets			
Current assets:			
Cash and cash equivalents	15c	**66,154**	25,669
Restricted bank deposits		**–**	1,119
Trade receivables		**1,472**	2,476
Other receivables	5	**7,277**	7,627
VAT receivable	2i	**4,147**	4,801
Inventories of buildings for sale	6	**180,157**	190,821
Loans granted to companies accounted for at equity method		**3,274**	9,070
		262,481	241,583
Non-current assets:			
Investment properties	7	**397,683**	302,789
Investment properties under construction	8	**52,814**	51,552
Inventories of buildings for sale	6	**99,564**	79,100
VAT receivable		**415**	226
Fixed assets, net		**966**	825
Other long term receivables	23a,b	**2,496**	3,038
Prepaid expenses		**615**	541
Deferred taxes	16	**2,244**	2,350
Investment in companies accounted for at equity method	4c	**33,789**	61,650
		590,586	502,071
Total assets		**853,067**	743,654

* Restated. See Note 2z.

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

	Note	**31 December 2013 US$000**	31 December 2012* US$000
Equity and liabilities			
Current liabilities:			
Short-term credit from banks	10	**19,635**	68,523
Current maturities of long-term credit from banks and debentures	11,13	**58,797**	36,280
Credit from banks for financing of inventory of buildings for sale	11	**9,730**	29,501
Government authorities		**2,962**	2,679
Trade payables		**7,629**	7,294
Deposits from tenants	14	**4,090**	2,663
Advances from buyers	6c,d	**75,684**	77,321
Other accounts payable		**1,282**	2,211
		179,809	226,472
Non-current liabilities:			
Long-term credit from banks	11	**129,123**	81,385
Debentures	13	**206,606**	114,169
Other non-current liabilities	14	**5,113**	4,281
Deferred taxes	16	**699**	–
		341,541	199,835
Total liabilities		**521,350**	426,307

* Restated. See Note 2z.

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

Consolidated Statement of Financial Position
continued

	Note	**31 December 2013 US$000**	31 December 2012* US$000
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	**12,396**	12,186
Capital reserve for transactions with controlling shareholders	12	**8,556**	8,391
Foreign currency translation reserve		**(61,523)**	(42,286)
Accumulated deficit		**(18,444)**	(21,783)
Total equity attributable to equity holders of the parent		**301,824**	317,347
Non-controlling interest		**29,893**	–
Total equity		**331,717**	317,347
Total equity and liabilities		**853,067**	743,654

* Restated. See Note 2z.

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

Consolidated Income Statement

	Note	**31 December 2013 US$000**	31 December 2012* US$000	31 December 2011 US$000
		(except for share and per share data)		
Rental income from investment properties		**46,255**	32,231	39,679
Revenues from sale of residential units		**56,050**	8,079	3,932
Revenues from management fees		**1,505**	1,641	3,922
Total revenues		**103,810**	41,951	47,533
Cost of sales and maintenance of residential units		**46,680**	12,833	6,279
Cost of maintenance and management	20a	**17,370**	14,874	20,915
Gross profit before provision for impairment		**39,760**	14,244	20,339
Impairment of inventory	6	**–**	8,041	–
Gross profit		**39,760**	6,203	20,339
General and administrative expenses	20b	**13,282**	14,607	16,583
Marketing expenses		**5,389**	2,102	2,593
Fair value adjustments of investment properties and investment properties under construction	7,8	**45,085**	(31,554)	33,485
Other income (expense), net	20d	**(1,086)**	(1,832)	3,849
Group's share in earnings of companies accounted for using the equity method	4c	**7,591**	6,340	–
Operating income (loss)		**72,679**	(37,552)	38,497
Finance income	20c	**1,080**	1,382	2,141
Finance expenses	20c	**(32,445)**	(24,941)	(18,031)
Net foreign exchange differences		**(33,967)**	19,892	(6,349)
Profit (loss) before taxes on income		**7,347**	(41,219)	16,258
Taxes on income (tax benefit)	16	**1,141**	1,083	(12,267)
Net income (loss)		**6,206**	(42,302)	28,525
Attributable to:				
Equity holders of the parent		**3,339**	(42,302)	28,525
Non-controlling interests		**2,867**	–	–
		6,206	(42,302)	28,525
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	18	**0.03**	(0.41)	0.28

* Restated. See Note 2z.

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

Consolidated Statement of Comprehensive Income

	31 December 2013 US$000	31 December 2012* US$000	31 December 2011 US$000
Net income (loss)	6,206	6,206	28,525
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Reclassification of currency translation reserve to income statement due to step acquisition	244	244	–
Exchange differences on translation of foreign operations	(19,450)	(19,450)	(26,530)
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	(2,562)	(2,562)	–
Total other comprehensive income (loss)	(21,769)	(21,769)	(26,530)
Total comprehensive income (loss)	(15,563)	(15,563)	1,995
Attributable to:			
Equity holders of the parent	(15,898)	(15,898)	1,995
Non-controlling interests	335	335	–
	(15,563)	(15,563)	1,995

* 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 Capital 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.

Consolidated Statement of Changes in Equity
continued

	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 Capital 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

	Share capital US$000	Share premium US$000	Capital reserve for share-based payments US$000	Capital reserve for transactions with controlling shareholders US$000	Currency translation reserve US$000	Retained earnings (accumulated deficit) US$000	Total equity US$000
At 1 January 2011	1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023
Net income	–	–	–	–	–	28,525	28,525
Other comprehensive loss	–	–	–	–	(26,530)	–	(26,530)
Total comprehensive income (loss)	–	–	–	–	(26,530)	28,525	1,995
Equity component of transaction with controlling shareholders	–	–	–	3,358	–	–	3,358
Share-based payments	–	–	762	–	–	–	762
At 31 December 2011	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138

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

Consolidated Statement of Cash Flows

	Year ended 31 December 2013 US$000	Year ended 31 December 2012* US$000	Year ended 31 December 2011 US$000
Cash flows from operating activities:			
Net income (loss)	6,206	(42,302)	28,525
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	652	705	(13,482)
Depreciation and amortisation	230	491	467
Finance expenses, net	65,332	3,667	22,239
Share-based payment	210	845	762
Fair value adjustment of investment properties and investment properties under construction, net	(45,085)	31,554	(33,485)
Loss due to obtaining control in company previously accounted for using the equity method	244	–	–
Group's share in earnings of companies accounted for using the equity method	(7,591)	(6,340)	–
Gain from sale of investment property under construction	(548)	–	–
	13,444	30,922	(23,499)
Working capital adjustments:			
Decrease (increase) in trade receivables	2,491	(4,095)	(5,547)
Decrease (increase) in VAT receivable and others	(36)	2,991	23,708
Increase in inventories of buildings for sale	(16,767)	(32,544)	(21,759)
Increase (decrease) in trade payables	450	(59)	165
Increase in other accounts payable	5,558	70,319	6,612
	(8,304)	36,612	3,179
Interest paid	(28,247)	(23,851)	(23,370)
Interest received	430	4,291	20
Taxes paid	(344)	(629)	(948)
Taxes received	–	–	22
	(28,161)	(20,189)	(24,276)
Net cash flows generated from (used in) operating activities	(16,815)	5,043	(16,071)

* Restated. See Note 2z.

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

Consolidated Statement of Cash Flows
continued

	Year ended 31 December 2013 US$000	Year ended 31 December 2012* US$000	Year ended 31 December 2011 US$000
Cash flows from investing activities:			
Acquisition of additional interest in jointly controlled entity	–	(1,500)	–
Additions to investment properties	(6,466)	(7,881)	(6,365)
Additions to investment properties under construction	(1,125)	(2,277)	(8,742)
Purchase of fixed assets	(389)	(279)	(349)
Settlement of restricted deposit, net	1,119	620	(1,739)
Repayment of loans granted to related parties	–	250	9,408
Loans granted to related parties	(890)	(1,630)	(980)
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)	86	–	–
Proceeds from sale of investment property under construction	3,973	–	–
Advance paid for the acquisition of subsidiary	(3,000)	–	–
Net cash flows used in investing activities	(6,692)	(609)	(8,767)
Cash flows from financing activities:			
Issuance of debenture, net	125,267	–	54,104
Repayment of debentures	(28,685)	(26,456)	(10,768)
Receipt of loans from banks and others, net	124,456	91,118	47,696
Repayment of loans from banks and others	(156,768)	(69,268)	(6,206)
Receipt of loans from shareholders	–	12,422	–
Repayment of loans from shareholders	–	(18,306)	(36,843)
Net cash flows generated from (used in) financing activities	64,270	(10,490)	47,983
Exchange differences on balances of cash and cash equivalents	(278)	249	(1,786)
Increase (decrease) in cash and cash equivalents	40,485	(5,807)	21,359
Cash and cash equivalents at the beginning of the year	25,669	32,333	10,974
Adjustment due to IFRS 11 implementation	–	(857)	–
Cash and cash equivalents at the end of the year	66,154	25,669	32,333

* Restated. See Note 2z.

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

	Year ended 31 December 2013 Unaudited US$000	Year ended 31 December 2012* Audited US$000	Year ended 31 December 2011 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)	2,793	–	–
Investment properties	(85,760)	–	–
Other receivables	(71)	–	–
Deferred taxes	(119)	–	–
Loans from banks	10,849	–	–
Other non-current liabilities	866	–	-
Loans from related party	5,973	–	–
Foreign currency translation reserve	244	–	–
Non-controlling interests	29,558	–	–
Loss from obtaining control in companies previously accounted for using the equity method	(244)	–	–
Investment in companies previously accounted for using the equity method	35,997	–	–
	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	4,747

* Restated. See Note 2z.

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

Notes to the 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 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. 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. 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 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, and which may be applicable to the Company, including appointment of a majority of independent directors

The Company is evaluating the implications of the Concentration Law and whether it will apply to it. To this date, the Company has reached out to the Ministry of Justice and the Israeli Securities Authority with a request to receive clarification and certain exemptions if it becomes clear that the Concentration Law will apply to the Company.

In case the Law applies to the Company, it intends, in conjunction with the group of controlling companies, to take all necessary action in order to comply with the Concentration Law, including regarding the instructions provided for the Intermediate Period, as mentioned above.

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

a. Basis of presentation of the financial statements:

The accounting policies adopted are consistent with those of the previous financial years, except as described below:

1. Measurement basis:

The Group's financial statements have been prepared on a cost basis, except for the following that have been measured at fair value: investment property, investment property under construction and shareholders guarantees.

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.

b. The operating cycle:

The Group's normal operating cycle exceeds one year and may generally last four years. Accordingly, the current assets and liabilities include items that are held and are expected to be realised by the end of the Group's normal operating cycle.

c. Consolidated financial statements:

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.

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

Specifically, the Company controls an investee if and only if the Company has:

1. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
2. Exposure, or rights, to variable returns from its involvement with the investee, and
3. The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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 date of acquisition 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 date of acquisition or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the income statement as incurred.

Upon the acquisition of a business, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date, including separation of embedded derivatives from the host contract of the acquiree.

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.

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.

Note 2: Significant Accounting Policies continued

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

e. Investments in joint venture and associates:

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as "Share of profit of an associate and a joint venture" in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

f. Functional and foreign currencies:

1. Functional currency and presentation currency:

The financial statements are presented in thousands of.

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.

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

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.

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 acquisition.

h. Short-term deposits:

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

Note 2: Significant Accounting Policies continued

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.

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:
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be reliably measured. The revenue is measured at fair value of the amount of the transaction, net of discount. The following specific recognition criteria must also be met before revenue is recognised:

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.

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.

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.

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

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.

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

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.

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

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.

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.

Note 2: Significant Accounting Policies continued

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 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 utilized. 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.

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

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.

The Group did not record deferred taxes in respect of temporary differences arising from changes in the fair value of investment properties in view of management's intention to sell the companies holding these assets rather than the assets themselves (see also Note 16).

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.

Note 2: Significant Accounting Policies continued

w. Fair value measurement:

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 9.

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 categorized 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.

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.

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

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.

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.

Deferred taxes in respect of asset entities:
In cases where the Group holds single asset entities and the Group's intention is to realise the shares of single asset entities and not the asset itself, the Group does not record deferred taxes in respect of the temporary differences relating to the asset. Nonetheless, the Group measures the fair value of the single asset entities' shares taking into account said tax implications.

Note 2: Significant Accounting Policies continued

Transactions with controlling shareholder:
The Company received a long-term loan with non-market conditions from a controlling shareholder and a guarantee on a bank loan without charging a fee from a controlling shareholder. The Company accounts for these transactions as contribution from shareholders and recognises them immediately pursuant to IAS 39 and, accordingly, the amount of contribution is recognised directly in equity. In determining the compensation, the Company is required to evaluate the market conditions that existed when the transaction was made, including the market terms of a similar guarantee had it been given by an unrelated third party. Further details are given in Note 12.

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

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing housed to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

Amendments to IAS 36- Impairment of Assets
On May 2013, the IASB modified some of the disclosure requirements in IAS 36 regarding measurement of the recoverable amount of impaired assets. The amendments require additional disclosure about the measurement of impaired assets with a recoverable amount based on fair value less costs of disposal.

The amendment shall apply for annual periods beginning on or after 1 January 2014.

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

The Company restated its financial statements as of 31 December 2012 and for the year then ended in order to reflect retroactively the effect of changes in accounting policies.

The Company implements standards IFRS10 – Consolidated Financial Statements, IFRS 11- Joint Arrangement, IFRS12 – Disclosure of Interests in Other Entities, IAS 27R – Separate Financial Statements and IAS 28R – Investments in Associates and Joint Ventures retroactively starting 1 January 2012. As permitted by IFRS 11, the results for the year ended 31 December 2011 are presented using proportional consolidation method based on provisions of IAS 31.

The main effect of IFRS 11 implementation caused by joint venture arrangements of the Company with respect to Inomotor and Autoprioritet ("Century Companies") and Invetron, which previously accounted for according to IAS31 based on proportional consolidation method. During January 2013, the Company obtained control in Century Companies and, as a result, started to consolidate them. See also Note 3.

The Company did not present a third statement of financial position as of December 1, 2012 because the application of IFRS 11 are considered to be immaterial.

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

Below is the effect of the change in accounting policies as a result of the initial adoption of IFRS 11 on the Company's financial statements:

As of 31 December 2012	As reported in the past US$000	Influence of IFRS 11 US$000	As presented in these financial statements US$000
Current assets			
Cash and cash equivalents	26,685	(1,016)	25,669
Restricted bank deposits	1,119	–	1,119
Trade receivables	2,713	(237)	2,476
Other receivables	7,746	(119)	7,627
VAT receivables	5,111	(310)	4,801
Loans granted to related parties	3,665	(3,665)	–
Inventories of building for sale	190,821	–	190,821
Loans granted to associates	–	9,070	9,070
	237,860	3,723	241,583
Non-current assets			
Investments properties	396,865	(94,076)	302,789
Investments properties under construction	51,552	–	51,552
Inventories of buildings for sale	79,100	–	79,100
VAT receivables	226	–	226
Fixed assets, net	1,015	(190)	825
Other long-term receivables	3,038	–	3,038
Prepaid expenses	541	–	541
Deferred taxes	2,437	(87)	2,350
Investments in associates	–	61,650	61,650
	534,774	(32,703)	502,071
	772,634	(28,980)	743,654

Note 2: Significant Accounting Policies continued

	As reported in the past US$000	Influence of IFRS 11 US$000	As presented in these financial statements US$000
Current liabilities			
Credit from banks	68,523	–	68,523
Current maturities of long-term loans from banks and debentures	53,493	(17,213)	36,280
Credit from banks for financing of inventory of buildings for sale	15,421	14,080	29,501
Government authorities	3,677	(998)	2,679
Trade payables	7,463	(169)	7,294
Deposits from tenants	3,636	(973)	2,663
Advances from buyers	77,321	–	77,321
Other accounts payable	2,346	(135)	2,211
	231,880	(5,408)	226,472
Non-current liabilities			
Loans from banks	98,700	(17,315)	81,385
Debentures	114,169	–	114,169
Other non-current liabilities	10,538	(6,257)	4,281
	223,407	(23,572)	199,835
	455,287	(28,980)	426,307
Equity attributable to equity holders of the parent			
Issued capital	1,036	–	1,036
Share premium	359,803	–	359,803
Capital reserve for share based payment transactions	12,186	–	12,186
Capital reserve for transactions with controlling shareholders	8,391	–	8,391
Foreign currency translation reserve	(42,286)	–	(42,286)
Accumulated deficit	(21,783)	–	(21,783)
Total equity	317,347	–	317,347
Total equity and liabilities	772,634	(28,980)	743,654

Notes to the Consolidated Financial Statements
continued

Note 2: Significant Accounting Policies continued

For the year ended 31 December 2012	As reported in the past US$000	Influence of IFRS 11 US$000	As presented in these financial statements US$000
Rental income from investment properties	47,267	(15,036)	32,231
Revenue from sale of residential units	8,079	–	8,079
Revenue from management fees	3,689	(2,048)	1,641
Total revenues	59,035	(17,084)	41,951
Cost of sales and maintenance of residential units	(12,833)	–	(12,833)
Cost of maintenance and management	(18,396)	3,522	(14,874)
Gross profit before provision for impairment	27,806	(13,562)	14,244
Impairment of inventory	(8,041)	–	(8,041)
Gross profit	19,765	(13,562)	6,203
General and administrative expenses	(14,898)	291	(14,607)
Marketing expenses	(2,291)	189	(2,102)
Fair value adjustments of investments properties and investment properties under construction	(37,258)	5,704	(31,554)
Other expenses, net	(1,664)	(168)	(1,832)
Group's share in earnings of companies accounted for using equity method	–	6,340	6,340
Operating loss	(36,346)	(1,206)	(37,552)
Finance income	1,007	375	1,382
Finance expenses	(26,760)	1,819	(24,941)
Net foreign exchange differences	21,675	(1,783)	19,892
Loss before taxes on income	(40,424)	(795)	(41,219)
Taxes on income	1,878	(795)	1,083
Loss	(42,302)	–	(42,302)
Basic and diluted loss per share attributable to equity holders of the parent	(0.41)	–	(0.41)

Note 2: Significant Accounting Policies continued

In the consolidated statement of changes in equity

As of 1 January 2012	As reported in the past US$000	Influence of IFRS 11 US$000	As presented in these financial statements US$000
Retained earnings	20,519		20,519

In the consolidated statement of cash flows

For the year ended 31 December 2012	As reported in the past US$000	Influence of IFRS 11 US$000	As presented in these financial statements US$000
From operating activities	15,213	(10,170)	5,043
From investing activities	(8,671)	8,062	(609)
From financing activities	(12,488)	1,998	(10,490)

Note 3: Business Combinations

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$600,000. The parties agreed that such amount will be set off against the balance of the loan previously granted to one of the partners. In addition, the original repayment date of the loan was extended by six months.

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.

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. Accordingly, the Company recognised a loss from the reclassification of exchange differences previously recorded in other comprehensive income in the amount of US$244,000.

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.

Notes to the Consolidated Financial Statements
continued

Note 3: Business Combinations 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

The total acquisition cost was US$36,597,000 including waiver of an option previously granted to the partner in the amount of US$600,000, which reflected the fair value of the existing investment in the Century Companies upon obtaining control.

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

Note 3: Business Combinations continued

	Fair value US$000
Cost of acquisition	
Cash and cash equivalents in the Century Companies on acquisition date	86
Cash paid	–
Net cash	86

From the date of acquisition, the Century Companies have contributed US$6,342,000 to the consolidated net income and US$9,545,000 to the consolidated revenues.

Note 4: Interest in Investees

a. The following is a list of the fully consolidated subsidiaries:

Name of company	Country of incorporation*	**% equity holding 2013**	% equity holding 2012
Hydromash Service LLC	Russia	100	100
Mashinostroenie & Hydravlika OJSC	Russia	100	100
Creative LLC	Russia	100	100
Petra 8 LLC	Russia	100	100
Mall Project Co. Limited	Cyprus	100	100
Gasconade Holding Ltd	Cyprus	100	100
Laykapark Trading Ltd	Cyprus	100	100
Dunchoille Holdings Limited	Cyprus	100	100
MirLand Management Cyprus Limited	Cyprus	100	100
MirLand Management Russia LLC	Russia	100	100
Heckbert 22 Ltd	Hungary	100	100
Israrussia Services Ltd	Israel	100	100
Ttm Llc	Russia	100	100
Liga 45 Llc	Russia	100	100
MirLand Novosibirsk Llc	Russia	100	100
Inomotor Llc (1)	Russia	61	–
Avtoprioritet Llc (1)	Russia	51	–

Notes to the Consolidated Financial Statements
continued

Note 4: Interest in Investees continued

List of entities accounted at equity method:

Name of company	Country of incorporation*	% equity holding 2013	% equity holding 2012
Inomotor Llc (1)	Russia	–	61
Avtoprioritet Llc (1)	Russia	–	51
Inverton Enterprises Limited (2)	Cyprus	50.5	50.5
Iww Limited	Cyprus	50	50

* The place of main activity is the same to country of incorporation.

(1) See Note 3.
(2) The Company is in negotiations to obtain control in Inverton, see Note 25.

b. Summarised data for jointly controlled entity accounted for using the equity method of accounting, for all reported periods:

1. Summarised data of the financial statements of Inverton Enterprises Limited:

Summarised financial information of financial position of Inverton Enterprises Limited:

	31 December 2013 US$000	31 December 2012 US$000
Current assets	7,533	2,789
Non-current assets	94,578	92,279
Current liabilities	5,145	5,932
Non-current liabilities	36,065	38,263
Total equity	60,901	50,873
Equity interest rate	50.5%	50.5%
Group's share in equity of Inverton	30,755	25,691

Summarised financial information of comprehensive income of Inverton Enterprises Limited:

	31 December 2013 US$000	31 December 2012 US$000
Total revenues	15,962	15,195
Gross profit	11,984	11,009
Operating profit	20,380	6,308
Net profit	15,032	3,703
Equity interest rate	50.5%	50.5%
Group's share in net profit of Inverton	7,591	1,870

Note 4: Interest in Investees continued

2. Summarised data of the financial statements of Inomotor LLC:

	31 December 2012 US$000
Current assets	233
Non-current assets	41,205
Current liabilities	2,005
Non-current liabilities	14,552
Equity attributable to equity holders of the parent	24,881
Equity interest rate	61%
Total investment in associate	15,177

	Year ended 31 December 2012 US$000
Revenues	4,368
Gross profit	3,230
Operating profit	9,706
Net profit	9,369
Other comprehensive income	9,369
Equity interest rate	61%
Group's share in earnings of associate	5,519

For information regarding achieving control in Inomotor, see Note 3.

Notes to the Consolidated Financial Statements
continued

Note 4: Interest in Investees continued

c. Investment in companies accounted at equity method:

	2013 US$000	2012 US$000
Balance as of 1 January	61,650	50,291
Changes during the year:		
Investments (1)	–	1,500
Obtaining control in companies previously accounted for using the equity method (2)	(35,997)	–
Groups share in earnings of companies accounted for using the equity method	7,591	6,340
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	(2,455)	3,519
Balance for 31 December	30,789	61,650
Advance paid for acquisition of subsidiary (3)	3,000	–

(1) On 30 March 2012 the Company acquired additional 10% from the shares of Inomotor LLC, in a consideration of US$1.5m without changing the Joint Venture agreement between the parties.
(2) See Note 3.
(3) See also Note 25.

Note 5: Trade and Other Receivables

	31 December 2013 US$000	31 December 2012 US$000
Deferred sales commission	3,138	4,237
Advances to suppliers	2,905	2,316
Authorities	468	520
Other trade receivables	766	554
	7,277	7,627

Note 6: Inventories of Buildings for Sale

a. Composition:

Current assets:

	31 December 2013 US$000	31 December 2012 US$000
Land	29,273	29,035
Construction costs	150,884	169,827
Impairment of inventory	–	(8,041)
	180,157	190,821

Non-current assets:

	31 December 2013 US$000	31 December 2012 US$000
Land	21,773	24,138
Construction costs	77,791	54,962
	99,564	79,100

b. This includes capitalised borrowing costs of approximately US$1,415,000 for the year ended 31 December 2013 (in 2012 – US$2,929,000).

c. During the year, a wholly owned subsidiary entered into agreements regarding the sale of six units of townhouses and two cottages in a residential project located near Moscow for the total consideration of US$6m.

The total number of town houses and cottages sold since the beginning of the marketing is 14 and 16 units, respectively, and the total consideration received for town houses and cottages sold amounted to US$22.7m.

During 2013, eight units were transferred to the buyers. As a result, revenues in the total amount of US$5m recorded in the income statement.

d. During the year, a wholly owned subsidiary entered into agreements regarding the sale of 19 residential units and parking spaces of phase 1 in a project located in St Petersburg, 216 residential units of phase 2 and 220 residential units of phase 3. The Group received advances from buyers from these sales in a total amount of US$56m. During 2013, 388 residential units were transferred to buyers, for which revenue was recognised in the income statement.

Notes to the Consolidated Financial Statements
continued

Note 7: Investment Properties

a. Composition:

	31 December 2013 US$000	31 December 2012 US$000
Balance at 1 January	302,789	272,292
Obtaining control [(1)]	85,760	–
Additions	1,267	8,256
Fair value adjustments, net	37,610	5,872
Exchange rate differences	(29,743)	16,369
Balance at 31 December	397,683	302,789

(1) See also Note 3.

b. Fair value measurement of investment property:

Investment property is measured at fair value which has been determined based on valuations performed by an external independent valuation expert who holds a recognised and relevant professional qualification 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 the same location 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.

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

Investment property	Valuation technique	Significant unobservable Inputs	Range (weighed average)
Office properties	DCF method	Rental value per sqm per month	455
		Vacancy rate	4%
		Discount rate	12.5%
Retail property	DCF method	Rental value per sqm per month	531
		Vacancy rate	0%
		Discount rate	12.5%

Note 7: Investment Properties continued

d. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes have not been recorded, but were taken into consideration while determining the fair value of the investment property. The management is of the opinion that the actual amount of the reduction may be significantly lower due to the economic benefits to which the buyer is entitled upon the sale of shares. See also Note 16b(2).

e. Reconciliation of fair value:

	Office properties US$000	Retail property US$000
Balance at 1 January 2013	189,798	112,991
Fair value adjustments, net	18,890	18,720
Obtaining control in companies previously accounted for using the equity method	85,760	–
Additions	805	462
Exchange rate differences	(20,968)	(8,775)
Balance at 31 December 2013	**274,285**	**123,398**

Note 8: Investment Properties under Construction

a. Composition:

	2013 US$000	2012 US$000
At 1 January	51,552	82,703
Additions for the year	1,120	2,277
Disposal (1)	(3,529)	–
Fair value adjustments, net	7,475	(37,426)
Exchange rate differences	(3,804)	3,998
At 31 December	52,814	51,552

(1) On 22 April 2013, Tamiz, a wholly owned subsidiary of the Company, completed the sale of land designated for the development of a commercial centre in the city of Penza, Russia, in consideration of approximately US$4m which the Company received in full. As a result, the Company recognised a gain in amount of approximately US$548,000.

Notes to the Consolidated Financial Statements
continued

Note 8: Investment Properties under Construction continued

b. 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.

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 per month	331
		Estimated costs per sqm	1,201
		Discount rate	16%-25%
Logistic centres	Comparable method	n/a	n/a

d. Regarding the management's intention to sell the investment property in a "share deal", refer to Note 7d.

e. Reconciliation of fair value:

	Retail properties US$000	Logistic centres US$000
Balance at 1 January 2013	36,687	14,865
Fair value adjustments, net	6,018	1,457
Disposal	(3,529)	–
Additions	1,109	11
Exchange rate differences	(2,678)	(1,126)
Balance at 31 December 2013	**37,607**	**15,207**

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.

Note 8: Investment Properties under Construction continued

The objection of the Subsidiary was denied by the Moscow Government, based mainly on procedural arguments. Following the Subsidiary's rejection of the above objection as aforesaid, the Subsidiary of the Company filed a law suit against the Moscow Government to cancel the above mentioned decision. During the legal proceedings between the Parties, the Moscow government filed its position that the claim should be dismissed because of a defect in the cancellation of the lease agreement by the city.

On 28 September 2013, during the legal procedure mentioned, the Subsidiary received a letter dated 23 September 2013, from the assets department of the government of Moscow which notified the Subsidiary about confirmation of lease agreement's cancellation which was first stated in the letter dated 9 January 2013.

On 3 December 2013, Moscow Arbitration Court after court hearings 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, claiming Moscow arbitration Court's award as legally baseless and unlawful.

On 4 March 2014, the second level Court considered the resolution of the Moscow Arbitration Court as based on law and left it unchanged.

The Company has the right to file one more claim to Federal Arbitration Court of Moscow Region within two months.

The Company has fully impaired the project value as of 31 December 2012.

Notes to the Consolidated Financial Statements
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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 2013:

		Fair value measurement using			
	Date of valuation	Total US$000	Quoted prices in active markets (Level 1) US$000	Significant observable inputs (Level 2) US$000	Significant unobservable inputs (Level 3) US$000
Assets measured at fair value:					
Investment property (Note 7)		274,285	–	–	274,285
Office properties		123,398	–	–	123,398
Retail properties		–	–	–	–
Investment properties under construction (Note 8):					
Logistics Complex		37,607	–	–	37,607
Retail properties		15,207	–	–	15,207
Liabilities for which fair values are disclosed (Note 15):					
Long and short-term credit from banks		145,264	–	–	145,264
Debentures		265,768	265,768	–	–

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

Note 10: Short-Term Credit from Banks

The bank loans bear annual interest rates of LIBOR plus 2% to 4.9%. During September 2008, the Company's main shareholders (companies that are part of the Fishman Group) reinstated guarantees in favour of certain bank institutions that granted the Group lines of credit. See also Note 12.

During August – October 2013, the Company has partly repaid the short-term loans from banks in total amount of US$50.5m. The remaining balance of the loan, at the amount of US$19.6m, is secured by non-cancellable bank guarantees of the controlling shareholders.

Note 11: Long-Term Credits from Banks

a. Composition:

	Weighted interest rate %	31 December 2013 US$000	31 December 2012 US$000
Loans from banks in with fixed interest rate	8%	132,299	57,801
Loans from banks in Ruble with fixed interest rate	11%	3,969	7,686
Loans from banks in with variable interest rate	Libor + 7.5%	17,337	59,235
		149,636	117,036
Current maturities		(10,783)	(6,150)
Credit from banks for financing inventory of buildings for sale		(9,730)	(29,501)
		129,123	81,385

(1) On 19 May 2013, Mashinostroenie & Hydravlika OJSC ("the subsidiary") entered into a loan agreement with SberBank of Russia ("the Bank") under which the Bank will grant the subsidiary a credit line in an aggregate amount of up to US$19m. Out of the aforementioned credit line, an amount of US$10m had been obtained by the Company and the balance of US$9m will be made available within a period of 11 months.

The Loan is for a period of approximately 6.5 years payable quarterly starting from the fifth quarter from the date of obtaining the loan, and bears fixed dollar interest at the rate of 8.75% per annum, payable quarterly.

To secure the repayment of the Loan, the Company and the subsidiary gave the Bank the following securities: a pledge over the entire holdings in the Mag project; the Company's guarantee for the repayment of the debt and the full and complete fulfilment of the entire undertakings of the subsidiary, and a pledge over the loans between the Company and the subsidiary.

In addition, the Company undertook that the loan to value ratio of the project will not exceed 70%.

As of 31 December 2013 the Company is in compliance with the above financial covenant.

(2) On August 7, 2013, a wholly owned subsidiary of the Company, Limited liability Company Investicionno-Ipotechnaya Kompaniya ("IIK") has entered into a US$95m loan agreement, at fixed interest of 7%, payable quarterly. The loan refinances IIK existing debt of US$36m. As of the balance sheet date, IIK has received US$74.4m out of the US$95m. As of the reporting date, the Company received the entire amount of US$95m.

The loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 53% at the end of the term.

Notes to the Consolidated Financial Statements
continued

Note 11: Long-Term Credits from Banks continued

The loan is secured by various mortgages, charges, pledges and other customary security interests for the benefit of the bank, provided by both IIK and the Company.

IIK required to meet LTV of 70% and Debt Service Coverage Ratio (DSCR) of at least 1.2.

As of 31 December 2013 the Company is in compliance with the above financial covenants.

(3) On 30 October, 2013, a wholly owned subsidiary, Petra 8 LLC ("Petra") has entered into a new loan agreement with SberBank of Russia ("Bank"). The Bank will provide a non-revolving credit line of up to Russian Rubles equivalent to US$96m (the "Loan") to finance the construction of third phase of 1,346 apartments at MirLand's "Triumph Park" major residential development in St Petersburg.

The Loan bears annual interest rate of 11% and matures in four years. The Loan will be partly repaid from the Petra's sale of residential units, commercial space, and parking spaces. Starting November 2016 (inclusive) it will be repaid in monthly instalments in accordance with the terms of the Loan, and through to the end of the four year term.

The Loan will be secured by way of mortgage, charge, pledge and other appropriate security interests for the benefit of the Bank which will be provided by Petra and the Company.

During 2003, the Company used credit at the amount of approximately US$7m. As of 31 December 2013, the balance of the loan is US$3.9m net from origination costs.

(4) During 2013, a wholly owned subsidiary of the Company entered into an agreement with an investment house which is an unrelated party ("the investment house") for the provision of a short-term credit line in the amount of NIS 37m (approximately US$10m). The Company received NIS 32m out of the credit line (approximately US$8.8m).

At the beginning of August 2013 the Company had repaid the loan.

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 31 December 2013, the Group's subsidiaries complied with all of the financial covenants that were determined.

Note 11: Long-Term Credits from Banks continued

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 2013 is amounted to approximately US$660m. Furthermore, in some cases the Group pledged its shares in the subsidiaries which own the projects in favour of the banks, as aforesaid.

In addition, the Company provided guarantees in favour of its subsidiaries' financing banks at the amount of US$119m.

d. The maturity dates of long-term loans:

	31 December 2013 US$000	31 December 2012 US$000
First year – current liabilities	**23,465**	20,391
Second year	**10,517**	21,826
Third year	**12,223**	7,126
Fourth year and after	**110,693**	69,305
	156,898	118,648
Origination costs	**(7,262)**	(1,612)
	149,636	117,036

Note 12: Loans and Guarantees from Shareholders

a. 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 in the aggregate amount of approximately US$19.6m that were granted to the Company from banks (see also Note 10). The aforementioned guarantees are renewed annually.

The Group measured the fair value of benefits received from shareholders and recorded as capital reserve and expense in the total amount of US$1,826,000 for the year ended 31 December 2013 (2012 – US$3,358,000).

On 31 December 2013 the Group measured the guarantees value based on the yield of the Group's bonds with the required amendments. As a result, the Group recorded an additional capital reserve in a total amount of US$165,000.

Notes to the Consolidated Financial Statements
continued

Note 13: Debentures

a. Composition

							31 December 2013		31 December 2012	
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	**Amount of debentures in thousands**	**Balance US$000**	Amount of debentures US$000	Balance US$000
A	December 2007	6.5%	6 equal annual payments beginning 31 December 2010	10,085	Israel CPI	6.19%	**13,087**	**4,483**	19,630	6,152
B	December 2007	LIBOR +2.75%	6 equal annual payments beginning 31 December 2010	52,626	US Dollar exchange rate	5.15%	**68,292**	**17,611**	102,437	26,449
C	August 2010 February 2011	8.5%	5 equal annual payments beginning August 31, 2012	79,803	Israel CPI	5.59%-8.88%	**178,835**	**57,860**	238,447	70,512
D (1)	August 2010 February 2011/ May 2013	6%	4 equal annual payments beginning November 30, 2014	56,586	Israel CPI	6.16%-7.86%	**207,051**	**62,921**	147,051	41,185
E (2)	July 2013/ December 2013	7.21%	5 annual payments beginning 31 May 2016	107,429	Not linked	6.29% -7.59%	**382,400**	**111,745**	–	–

(1) In May 2013, the Company received commitments from several investors to purchase debentures (Series D) of the Company in private placements with par value of NIS 60,000,000 ("the new debentures").

The issuance of the new debentures was carried out by way of a series expansion at a price of NIS 104.08 per NIS 100 par value, which reflects a discount on the debenture value on the issuance date.

The total proceeds that the Company received from the issuance of the new debentures amount to approximately NIS 62,448,000 (US$17,563,000) (approximately NIS 61,930,000 (US$17,419,000), net.

Note 13: Debentures continued

After the consummation of the aforementioned private placements, the par value of the debentures (Series D) is NIS 272,089,500.

The effective interest rate of the new debentures is 7.86%.

(2) On 25 July 2013, the Company issued new debentures (Series E) in the total amount of NIS 240m (approximately US$67.2m). The debentures (Series E) bear annual interest of 7.21% and were rated by Midroog Moody's at "ilBaa1/Stable".

The debentures are repayable in five unequal annual payments, the first payment is 10% of the principal and each of the second to the fifth payments is 22.5% of the principal, payable on 31 May of each of the years 2016 through 2020 (inclusive).

The effective interest rate of the new debentures is 7.59%.

On December 2013, the Company issued an additional NIS 142,400,000 par value of series E bonds, in total consideration of NIS 149,662,400 (approximately US$42.5m).

The effective interest rate of the new debentures is 6.29%.

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

a) the Company's equity shall be higher than US$125m 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 2013, the Company is in compliance with the above financial covenants.

Notes to the Consolidated Financial Statements
continued

Note 13: Debentures continued

b. The expected maturities after the reporting date for the year ended 31 December 2013:

	Less than one 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	2,229	2,229	–	–	–	–	4,458
Series B	8,771	8,771	–	–	–	–	17,542
Series C	18,518	18,518	18,518	–	–	–	55,554
Series D	15,885	15,885	15,885	15,885	–	–	68,540
Series E	–	–	11,017	24,788	24,788	49,576	110,169
	45,403	45,403	45,420	40,673	24,788	49,576	256,263
Discount							(4,258)
Total							252,005

Not including interest accrued, in the amount of US$2,615 as of 31 December 2013 which is part of current maturities of long-term loans from banks and debentures.

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

Note 14: Other Non-Current Liabilities

	31 December 2013 US$000	31 December 2012 US$000
Deposits from tenants (1)	9,203	5,994
Less short-term deposits from tenants	(4,090)	(2,663)
Other	–	950
	5,113	4,281

(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.

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 Ruble, New Israeli Shekels ("NIS") and Hungarian Forint ("HUF") and main revenues in Ruble. 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.

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

	2013 Effect on profit (loss) before tax US$000	2012 Effect on profit (loss) before tax US$000
Increase of 5% in US Dollar/Ruble	**(7,161)**	(4,056)
Decrease of 5% in US Dollar/Ruble	**7,161**	4,056

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

	2013 Effect on profit (loss) before tax US$000	2012 Effect on profit (loss) before tax US$000
Increase 5% in US Dollar/NIS	**(14,038)**	(5,892)
Decrease 5% in US Dollar/NIS	**14,038**	5,892

Notes to the Consolidated Financial Statements
continued

Note 15: Financial Instruments continued

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.

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 reasonable possible change in interest:

	2013 Effect on profit (loss) before tax US$000	2012 Effect on profit (loss) before tax US$000
Increase 1% in interest	**(533)**	(1,562)
Decrease 1% in interest	**533**	1,562

4. Liquidity risk exposure:
The Group monitors the risk to 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.

Approximately 21% of the Group's debt will mature in less than one year at 31 December 2013 (2012: 37%) based on the carrying value of borrowings reflected in the financial statements.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

Note 15: Financial Instruments continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	31 December 2013					
	Less than one year US$000	**One to two years US$000**	**Two to three years US$000**	**Three to four years US$000**	**> five years US$000**	**Total US$000**
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

	31 December 2012					
	Less than one year US$000	One to two years US$000	Two to three years US$000	Three to four years US$000	> five years US$000	Total US$000
Loans from banks and others	28,854	28,492	12,388	12,868	71,440	154,042
Debentures	37,036	45,500	43,036	29,765	10,928	166,265
Credits from banks	73,041	–	–	–	–	73,041
Accounts payable	10,459	–	–	–	–	10,459
	149,390	73,992	55,424	42,633	82,368	403,807

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 2013 and 2012 is the carrying amounts as illustrated in the trade and other receivables note.

Notes to the Consolidated Financial Statements
continued

Note 15: Financial Instruments continued

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$125,264,000 and US$117,849,000 as of 31 December 2013 and 31 December 2012, respectively.

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

	2013 Effect on profit (loss) before tax US$000	2012 Effect on profit (loss) before tax US$000
Increase 0.2% in CPI	**(1,253)**	(1,178)
Decrease 0. 2% in CPI	**1,253**	1,178

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 2013		31 December 2012	
	Carrying amount US$000	**Fair value US$000**	Carrying amount US$000	Fair value US$000
Financial liabilities				
Long and short-term loans (1)	**139,318**	**145,264**	57,801	57,677
Debentures (series A) (2)	**4,483**	**4,666**	6,152	6,070
Debentures (series B) (2)	**17,611**	**18,180**	26,449	25,795
Debentures (series C) (2)	**57,860**	**62,296**	70,512	70,065
Debentures (series D) (2)	**62,921**	**62,114**	41,185	38,612
Debentures (series E) (2)	**111,745**	**114,808**	–	–

(1) Level 3 according to fair value hierarchy.

(2) Level 1 according to fair value hierarchy.

Note 15: Financial Instruments continued

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 balances of cash short-term deposit, trade receivables, trade creditors and other current liabilities are approximately their fair value, because of their close maturity day.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2013, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

- Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

- 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. The own non-performance risk as at 31 December 2013 was assessed to be insignificant.

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Bank loans	**DCF**	**Discount rate**	**6.6%**

Notes to the Consolidated Financial Statements
continued

Note 15: Financial Instruments continued

c. Linkage terms of financial instruments:

Linkage terms of financial assets:

	31 December 2013			
	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Cash and cash equivalents	8,760	16,812	40,582	66,154
Loans and receivables	6,054	1,733	–	7,787
	14,814	18,545	40,582	73,941

	31 December 2012			
	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Cash and cash equivalents	1,890	23,779	–	25,669
Restricted deposits	1,119	–	–	1,119
Trade receivables	1,343	1,133	–	2,476
Other receivables	554	–	–	554
Other long term receivables	3,038	–	–	3,038
Loans granted to companies accounted for using the equity method	9,070	–	–	9,070
	17,014	24,912	–	41,926

Note 15: Financial Instruments continued

Linkage terms of financial liabilities:

	31 December 2013			
	US Dollar US$000	**Ruble US$000**	**Other linkage basis US$000**	**Total US$000**
Trade and other payables	**187,573**	**6,736**	**237,009**	**431,318**
Loans from banks and debentures	**189,664**	**12,274**	**237,009**	**438,947**

	31 December 2012			
	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Trade and other payables	207,503	7,942	117,849	333,294
Loans from banks and debentures	214,797	7,942	117,849	340,588

d. 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 maximize shareholder's value.

2. To achieve return on capital to shareholders by pricing correctly rents level 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.

Notes to the Consolidated Financial Statements
continued

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 – 25%.
Hungary – corporate tax rate – 19%.

b. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December 2013 US$000	31 December 2012 US$000	**31 December 2013 US$000**	31 December 2012 US$000	31 December 2011 US$000
Deferred tax liabilities:					
Inventory of buildings	**(15,452)**	(16,918)	**618**	399	(4,265)
Deferred tax assets:					
Carry forward tax losses	**16,997**	19,268	**34**	(935)	17,747
Deferred tax (expenses) income			**652**	(536)	13,482
Deferred tax, net	**1,545**	2,350			

The deferred taxes are presented in the statement of financial position as follows:

	31 December 2013 US$000	31 December 2012 US$000
Non-current assets	**2,244**	2,350
Non-current liabilities	**(699)**	–
	1,545	2,350

Note 16: Income Tax continued

1. The deferred taxes are calculated at the average tax rate of 20% (2012 – 20%) based on the tax rates that are expected to apply at the time they are realised.

   There was no recognised deferred tax liability for temporary differences at the amount of 7,993,000 associated with investments in investees, and they may not be used in the near future (2012 – amount of US$2,497,000).

2. The adjustments of the value of the assets to their fair value result in a temporary difference between the carrying value of the asset in the financial statements and its tax basis. Since management intends to realise assets by share transaction, and not via the sale of the assets themselves, deferred taxes were not recognised in respect to the above differences and other differences related to the assets, but were taken into account in the calculation of the fair value of the assets.

3. 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.

c. Tax expense (tax benefit):

	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000
Current income tax	**487**	547	1,215
Deferred taxes	**654**	536	(13,482)
Tax expense (tax benefit) in income statement	**1,141**	1,083	(12,267)

Notes to the Consolidated Financial Statements
continued

Note 16: Income Tax continued

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 2013 US$000	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000
Income (loss) before tax expense	**7,347**	(41,219)	16,258
Tax at the statutory tax rate in Russia (20%)	**1,469**	(8,244)	3,252
Increase (decrease) in respect of:			
Effect of different tax rate in Cyprus (12.5%) and Hungary (19%)	**3,010**	2,924	(1,448)
Temporary differences due to "share deal" *	**(9,442)**	1,896	(10,517)
Earnings of companies accounted for at equity method for which deferred tax were not recorded	**(1,518)**	(1,268)	–
Previous years losses for which deferred tax assets were recorded during the year	**–**	–	(9,623)
Inter-company expenses for which deferred tax liabilities were recorded	**641**	531	3,312
Losses for which deferred tax assets were not recorded	**6,862**	5,319	2,804
Others	**119**	(75)	(47)
Income tax expense (tax benefit)	**1,141**	1,083	(12,267)

*See Note 16b2.

e. Losses carried forward:

The tax losses carried forward by the Group companies' amount to approximately US$116.2m. Deferred tax assets amounting to US$16.9m have been recognised.

Deferred tax assets in the total amount of US$6.8m, on tax losses carried forward in the amount approximately US$31.7m, were not recorded.

Note 17: Equity

a. Composition of issued capital:

	31 December 2013 US$000	31 December 2012 US$000
Authorized shares of US$0.01 par value each	1,350,000	1,350,000
Issued and fully paid shares of US$0.01 par value each	1,035,580	1,035,580

b. Accompanying rights to shares

The shares are traded in the AIM London stock exchange.

Voting rights – each shareholder own one voice to each share, in general assembly.

Dividend rights – dividend will be calculated pro rata to the quantity 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 27 November 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.

Note 18: Earnings (Loss) per Share

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	103,558	103,558	103,558
Weighted average number of Ordinary shares used for computing diluted earnings per share (in thousands) (see Note 20)	106,437	107,301	105,953
Income (loss) used for computing basic and diluted earnings per share (in thousands of) (attributable to parent company)	3,339	(42,302)	28,525

Notes to the Consolidated Financial Statements
continued

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. As to the extension of the exercise term, see sub sections d and e below.

b. In November 2009, the Company's board has approved the update of the exercise price of 1,946,524 Share Option 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, and vest in three equal annual instalments, such that the first instalment vested at the grant date and second and third instalments will be vested on the second and third anniversary starting the date of grant, respectively. The fair value of granted options is US$1,615,000.

d. On 12 March 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. According to IFRS 2, the additional value of those options was measured by independent appraiser and amounted to US$494,000. The Company recognised this amount as expenses in the income statement. As of the reporting date, the options are fully vested.

e. On 12 November 2012, the Company's RemCo approved the extensions of the exercise period of 823,530 Share Options, previously granted by the Company described in Sub Section b (2) and (3) above, to 19 December 2014 and the extensions of the exercise period of 1,122,995 Share Options, previously granted by the Company described in Sub Section b (1) above, to 19 December 2013. According to IFRS 2, the additional value of those options was measured by independent appraiser and amounted to US$105,000. The Company recognised this amount as expenses in the income statement. As of the reporting date, the options are fully vested.

f. On 11 November 2013, the Board of Directors of the Company resolved numerous resolutions in connection with unregistered 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 449,148 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.

In addition, it was resolved to extend the Mr Rozental's term by additional three years to 30 November 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Note 19: Share-Based Payments continued

According to IFRS 2, the additional value of those options was measured by independent appraiser and amounted to US$193,000 . The Company recognised this amount as expenses in the income statement. As of the reporting date, the options are fully vested.

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.

The issuance of the above-mentioned options is in accordance with the Company's option plan of November 2006 and issued in accordance with Section 102 of the Income Tax Ordinance, as capital gains route, and held in trust.

According to IFRS 2, the value of granted options was measured by independent appraiser and amounted to US$217,000. During 2013, the Company recognised in the income statement as expense amount of US$17,000 according to vesting conditions.

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 2013	Year ended 31 December 2012	Year ended 31 December 2011
	210	845	762

Notes to the Consolidated Financial Statements
continued

Note 19: Share-Based Payments continued

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:

	2013 Number	2013 WAEP	2012 Number	2011 WAEP
Outstanding at 1 January	3,743,316	4.4	3,743,316	3.8
Granted during the year	258,750	4.2	–	–
Expired during the year	1,122,995	4.1	–	–
Outstanding 31 December	2,879,071	4.7	3,743,316	4.4
Exercisable at 31 December	2,620,321	4.8	3,743,316	4.4

i. The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 is one and a half years.

Note 20: Additional Details Regarding Profit and Loss

a. Cost of maintenance and management:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Maintenance of property	10,858	9,762	14,524
Land lease payments	909	673	304
Management fees	1,243	815	1,276
Property tax on investment property	4,360	3,624	4,811
	17,370	14,874	20,915

Note 20: Additional Details Regarding Profit and Loss continued

b. General and administrative expenses:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Salaries (1)	7,591	7,376	7,737
Office maintenance	1,494	1,677	1,190
Professional fees	2,772	3,413	4,380
Traveling expenses	554	589	767
Depreciation	230	491	467
Other costs (2)	641	1,061	2,042
	13,282	14,607	16,583
(1) Includes cost of share-based payment (see Note 19)	210	290	762
(2) Includes cost of share-based payment (see Note 19)	–	555	–

c. Finance costs and income:

Finance income:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Interest income from cash and cash equivalents and restricted deposits	51	9	22
Interest income from loans provided	1,029	1,115	1,445
Effect of discounting of long-term receivables	–	258	674
	1,080	1,382	2,141

Notes to the Consolidated Financial Statements
continued

Note 20: Additional Details Regarding Profit and Loss continued

Finance expenses:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Interest expenses – loans from banks	**(15,677)**	(13,156)	(8,999)
Interest expenses – loans from shareholders	**–**	(117)	(2,108)
Interest expenses – debentures	**(14,486)**	(11,876)	(15,998)
Net capitalised interest expenses	**1,415**	2,201	9,990
Bank charges and others	**(3,301)**	(1,993)	(916)
Effect of discounting of long-term receivables	**(396)**	–	–
	(32,445)	(24,941)	(18,031)

d. Other income (expenses):

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Change in provision regarding service providers (see Note 23a and b)	**(1,390)**	(1,881)	(2,397)
Compensation from insurance company in respect of fire damage	**–**	–	6,246
Gain from sale of investment property under construction	**548**	–	–
Other	**(244)**	49	–
	(1,086)	(1,832)	3,849

Note 21: Related Parties

a. Transactions with related parties:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Interest income from related parties	**701**	1,115	1,445
Interest paid to shareholders (1) (2)	**756**	2,714	5,785
Private jet expenses	**42**	17	249

(1) Regarding loans from shareholders, see Note 11.
(2) Includes interest expenses of debenture which are held by the shareholders of the Company.

Note 21: Related Parties continued

b. Balances with related parties:

	Year ended 31 December 2013	Year ended 31 December 2012
Debentures held by shareholders	14,707	30,259
Guarantees provided and benefits received regarding loans from majority shareholders (Note 12)	165	1,826

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 2013	Year ended 31 December 2012	Year ended 31 December 2011
Salaries	1,003	904	1,104
Share-based payments	210	290	762
	1,213	1,194	1,866

e. The Company provided guarantees in favour of its subsidiaries' financing banks at the amount of US$119m.

Note 22: Agreements with Related Parties

a. Global, a company accounted for at equity method, 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 controlling shareholders of the Company. The area leased to Home Center covers 6,703 sqm the minimal lease fees 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.

b. Hydro leases offices to Home Center with an overall area of approximately 652 sqm used for office purposes. The monthly lease fee is approximately US$20,000. The lease period terminated on 30 October 2014. The engagement is in accordance with market conditions.

Notes to the Consolidated Financial Statements
continued

Note 23: Commitments and Contingencies

a. On 1 July 2005, Hydro (subsidiaries of the Company) and FIN, entered into a management service agreement for an indefinite period. FIN is a Russian company whose controlling shareholder also serves as the CEO of Hydro.

In return for the management services provided by FIN pursuant to the above agreement, FIN will be entitled to receive: a) 10% of the projects income net of any expenses including investments and financial expenses ("Projects Commission") as well as 10% of the net profits from sale of the project after completion; b) 2% of the lease fees actually received by Hydro from its tenants.

On 4 January 2013 the Company entered into a new management service agreement with two Cypriot companies owned by the previous affiliates of FIN ("Service Providers") substituting the above mentioned management service agreement. The new management service agreement is entered into for a term of 2 years with an option to extend its term by additional one year term. Each of the parties has the right to terminate the agreement with one year advance termination notice without derogating from the Service Providers right to the Project Commission. According to the new management service agreement, the Company has the discretion to extend to any of the Service Providers companies, on account of the above-mentioned consideration a monthly advance payment in the amount of US$70,000 with regard to both Hydro and MAG Projects. See also sub section b below. The advance amount will bear annual interest at the rate of 11%. It was further agreed that the direct expenses of hiring additional employees for providing the said management services will be paid by the Company.

b. In February 2006, MAG and FIN entered into a management service agreement. The terms of the agreement are identical to Hydro's engagement with FIN, see "a" above. On January 2013 this management service agreement has been substituted with the management service agreement detailed in sub section a above.

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 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.

d. In addition Petra entered into an agreement with another third party according to which such third party provides services which include 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$110,000.

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$65,000.

e. The Group entered into commercial lease agreements for certain land plots. These leases are irrevocable and have a term of 19 to 45 years with a renewal option.

Note 23: Commitments and Contingencies continued

Future minimum lease payments as of 31 December 2013 are as follows:

	US$000
First year	909
After one year but no more than five years	4,052
More than five years	16,812
Total	21,773

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 2013 US$000
First year	43,160
Second year until five years	87,376
More than five years	14,236
	144,772

g. A jointly controlled company 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.

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 organized according to operating segments based on products and services.

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

Notes to the Consolidated Financial Statements
continued

Note 24: Segment Information continued

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 headquarters 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 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.

	Year ended 31 December 2013		
	Commercial US$000	**Residential US$000**	**Total US$000**
Segment revenues	**47,760**	**56,050**	**103,810**
Segment results	**78,561**	**2,925**	**81,486**
Unallocated expenses			**(8,807)**
Finance expenses, net			**(65,332)**
Income before taxes on income			**7,347**

	Year ended 31 December 2012		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	33,872	8,079	41,951
Segment results	(10,589)	(16,789)	(27,378)
Unallocated expenses			(10,174)
Finance expenses, net			(3,667)
Loss before taxes on income			(41,219)

Note 24: Segment Information continued

	Year ended 31 December 2011		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	43,601	3,932	47,533
Segment results	50,840	(4,661)	46,179
Unallocated expenses			(7,682)
Finance cost, net			(22,239)
Profit before taxes on income			16,258

	Year ended 31 December 2013		
	Commercial US$000	**Residential US$000**	**Total US$000**
Assets:			
Segment assets	**508,385**	**299,775**	**808,160**
Unallocated assets			**44,907**
Total assets			**853,067**
Liabilities:			
Segment liabilities	**152,134**	**92,867**	**245,001**
Unallocated liabilities			**276,348**
Total liabilities			**521,349**

	Year ended 31 December 2012		
	Commercial US$000	Residential US$000	Total US$000
Assets:			
Segment assets	436,724	301,623	738,347
Unallocated assets			5,307
Total assets			743,654
Liabilities:			
Segment liabilities	103,684	108,219	211,903
Unallocated liabilities			214,404
Total liabilities			426,307

Notes to the Consolidated Financial Statements
continued

Note 25: Subsequent Events

a. On December 23, 2013 the Company signed an agreement (the "Agreement") to acquire 49.5% of the shares in Inverton Enterprises Limited (hereinafter "Inverton" and – "Acquired Shares", respectively) – in which the Company already held 50.5% which hold Global LLC ("the Sub-subsidiary") – from its partner in Inverton, Goodrock Real Estate Commercial Fund Limited (the "Seller").

Under the Agreement, the Company made an advance payment to the Seller in the amount of 3m US Dollars on 24 December 2013. The remaining consideration for the Acquired Shares shall be paid within 7 business days after fulfilment of all condition precedents to the transaction under the Agreement, including the receipt of certain regulatory approvals and obtaining bank financing by the Company to purchase the Acquired Shares. The total consideration for the Acquired Shares will be calculated according to a value of US$85.5m, offset by a number of loans (whose balance is approximately US$27m) as of December 2013. Calculation of the consideration will be performed at the closing of the transaction. Such value shall be subject to certain adjustments that may occur as a result of the fluctuations of the US Dollar – Russian Ruble exchange rate.

On 4 March 2014 the condition precedent requiring approval by the Antitrust Commissioner in Russia was received and confirmed that the Company was entitled to proceed with the transaction. On 7 March 2014, as a result of such approval, the Company entered into an Amendment to the Purchase Agreement. Based on the terms of the Amendment, the Company assigned its rights and obligations under the Purchase Agreement to a subsidiary. Such subsidiary paid the Seller, on the same day, a purchase price of approximately US$25m and fixed the exchange rate of the Ruble against the US Dollar. Completion of the transaction and the transfer of the shares are still subject to receipt of bank financing, which would trigger the Seller's obligation to return the Company's down payment of US$3m, as mentioned above.

b. The recent instability and uncertainty involving Russia and Ukraine may significantly effect the Russian economy and, at this stage, cannot be predicted.

In addition, the Russian Ruble devalued by approximately 10% against US Dollar since the beginning of 2014. The devaluation mentioned above could negatively effect the equity of the Company.

Note 26: Date of Approval of the Financial Statements

The Board of Directors approved these consolidated financial statements for issue on 10 March 2014.

Shareholders' Information

Financial Calendar

Annual General Meeting	12 May 2014
Announcement of 2014 first quarter results	May 2014
Announcement of 2014 interim results	August 2014
Announcement of 2014 third quarter results	November 2014

Share Price

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

Price at 31 December 2013	239p
Lowest price during the year	115p
Highest price during the year	247p
Average	164p

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:

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