# MirLand Development Corporation Plc.

**A Company Incorporated Under the Laws of Cyprus**

# Periodic Report for 2017

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# MirLand Development Corporation Plc.

- **Chapter A - Description of the Corporation's Business Affairs**
- **Chapter B - Report of the Board of Director on the State of the Corporation's Business Affairs**
- **Chapter C - Financial Statements, as of December 31, 2017**
- **Chapter D - Additional Details of the Corporation**
- **Chapter E - Report of Effectiveness of Internal Control on Financial Reporting and Disclosure**
- **Valuations**

# Chapter A - Description of the Corporation's Business

## Table of Contents

## Part One –
## Description of the General Development of the Company's Business Affairs

This chapter presents a description of Mirland Development Corporation Plc. (the "**Company**") and the development of its business affairs, as occurred in 2017, in accordance with the First Supplement to the Securities Regulations (Particulars of the Prospectus and Draft of Prospectus – Structure and Form), 1969 (the "**Regulations**").

Unless explicitly stated otherwise, the financial data specified in this Periodic Report are correct, as of December 31, 2017 (the "**Date of the Report**").

The Report was prepared in accordance with the provisions of Regulation 8a of the Securities Regulations (Periodic and Immediate Reports) 1970. The data appearing in this Report are correct as of the Date of the Report. However, in certain cases, the Report includes details that review events in the life of the corporation, taking place after the Date of the Report, close to March 12, 2018, which is the date of approval thereof by the Company's board of directors (the "**Publication Date of the Report**"). In such cases, it is explicitly noted that the information is provided as of the Publication Date of the Report.

### 1. Description of the Company's Business Affairs

#### 1.1 Operations of the Corporation and Development of its Business Affairs

##### 1.1.1. General

a. The Company was incorporated in Cyprus on November 10, 2004 under the name of Bastwick Investments Limited, as a private company in accordance with the law of Cyprus. On December 11, 2006, the Company changed its name to its current name and decided to be registered as a public company, in accordance with the law of Cyprus, pertaining to companies that are offering securities to the public outside of Cyprus.

b. From December 2006 until December 22, 2016 (the "**Effective Date**"), the shares of the Company were listed for trade on the AIM Stock Exchange of London, England. In addition, up until the Effective Date, 6 debenture series (Series A-F) of the Company, which were offered to the public in Israel, were listed for trade on the Tel Aviv Stock Exchange Ltd. (the "**Stock Exchange**").

c. On the Effective Date the Company completed a settlement plan with its debenture holders (the "**Settlement Plan**")[1]. On this date, as a result of the Settlement Plan, the aforementioned 6 debenture series were stricken out from trade and were totally revoked in exchange for the addition of a new debenture series (Series G), and the trade in the Company's shares on the Stock Exchange commenced, while cancelling the registration for trade on the AIM. As a result of completion of the Settlement Plan, according to the Company's best knowledge, from said date until the Date of this Report and the Publication Date of this Report, the Company has no core of control.

d. Concurrently with completion of the Settlement Plan, the Company completed arrangements, pursuant to the re-organization of loans with the vast majority of its funding banks, in order to allow companies of the Group to serve the debts, pertaining to their actual revenues, out of income-generating real-estate assets.[2]

e. As of the Date of this Report, the Company engages, by itself and through its consolidated companies (hereinafter jointly: the "**Group**") in two primary fields of operation in areas within the Russian Federation ("**Russia**"): (a) the field of commercial real estate, and (b) the field of residential real estate. The activity of the Company in the aforementioned fields of operation include the development, construction, lease and management from the stage of purchase of an available land area, completion of planning and approval procedures through construction of projects and sale thereof or alternatively its management and leasing.

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[1] For details, see immediate report, dated December 25, 2016 (Reference No. 2016-01-142840). For details regarding the Arrangement Plan with the Company's debenture holders, its conditions and actions pursuant to its completion, see Section 1.1.5 in Chapter A of the Company's Report for 2016, as reported on March 15, 2017 (Reference No. 2017-01-024333) (the "**2016 Report**").

[2] For details, see the debt settlement, *inter alia* with VTB Bank, SberBank of Russia, as broadly specified in Section 1.1.3 in Chapter A of the 2016 Report. In this regard, see the Company's immediate report, dated December 24, 2017 (Reference No. 2017-01-115441) and also Section 1.1.8 below regarding the extension of the exemption granted by SberBank of Russia for the purpose of examining the current financial stipulations toward it (according to the arrangement concluded with it) which was fixed to December 31, 2017, by 12 additional months until December 31, 2018.

1.1.2 **Adoption of New Articles of Association and Appointment of External Directors and an Independent Director**

On April 6, 2017, the general meeting of shareholders of the Company approved the appointment of two external directors and according to its obligation to the debenture holders under the Settlement Plan, the current Articles of Association of the Company were replaced with new Articles of Association, reflecting the provisions of parts A and B of the Fourth Supplement to the Securities Law, 1968 (the "**Securities Law**"), as required in accordance with Section 39a of the Securities Law, as well as the appointment of an independent director (in addition to the appointment of the two external directors).[3] For details regarding the particulars of the appointed external directors and the independent director, see Section 26 in Chapter D of this periodic report. For details regarding the adoption of the Company's Articles of Association as aforesaid and its approved amendments since then, see Section 28 in Chapter D of this periodic report. For details regarding the summoning of a shareholders' meeting, as aforesaid, see immediate Date of the Report, February 19, 2017 (Reference No. 2017-01-017415), as amended in immediate report, dated March 15, 2017 (2017-01-024702), and as amended in immediate report, dated March 19, 2017 (Reference No. 2017-01-025680). For details regarding the results of the meeting, see immediate report, dated April 12, 2017 (Reference No. 2017-01-039975).

1.1.3 **Commitment with the Funding Bank, Pursuant to Receipt of Credit for the Construction of Stage 5 in the St. Petersburg Project**

On June 2, 2017, the Company received a loan agreement (Non-Revolving Facility Loan), signed by the funding bank in Russia, SberBank of Russia (the "**Bank**"), bearing the date of May 30, 2017, in accordance with which the subsidiary under full control and proprietorship of the Company – Petra 8 LLC (the "**Subsidiary**" or "**Petra 8**") committed in an agreement with the Bank, whereby the Bank will place in favor of the Subsidiary, the holder of the rights in the project, a credit line for the

[3] For details, see immediate Date of the Report April 19, 2017 (Reference No. 2017-01-040794) and the clarification in it regarding the independence of the director who was appointed and a supplementary report, dated April 26, 2017 (Reference No. 2017-01-043221).

funding of the cost of construction of Stage 5 in the residential project of the Company in St. Petersburg, Russia (the "**Project**"), according to a total of up to 3.7 billion rubles (approx. $64 million according to the relevant rate of exchange) (the "**Credit**" and the "**Credit Framework Agreement**", respectively). Said Credit constitutes approx. 60% of the cost of construction of Stage 5 (including costs related to this stage, which were incurred by the Subsidiary up until receipt of the Credit).

The principal provisions of the Credit Framework Agreement are as follows: (a) the Credit will be available for use of the Subsidiary in parts, over a period of 40 months, according to amounts, fulfilled milestones and the dates stated in the Credit Framework Agreement; (b) the amounts, which will be drawn from the Credit line will bear an 11.5% fixed annual ruble interest, not including additional commissions, stated in the agreement, according to insignificant amounts in relation to the scope of the Credit. In the event of an entitling event, according to the meaning of this term in the Credit Framework Agreement, the Bank will be entitled to raise the rate of the annual interest by additional 2%; (c) the Credit will be reimbursed through receipts from the sale of mortgaged residential units in Stage 5 (as specified hereunder). The balance of the Credit, if any remains upon completion of construction of the stage, will be paid in quarterly installments, according to the rates stated in the Agreement, starting from December 2020 until completion of a 60 months period from the date of the commitment in the Credit Framework Agreement; (d) in order to secure payment of the Credit and compliance with all the obligations of the Subsidiary, as per the Credit Framework Agreement, both the Company and the Subsidiary have placed the following securities in favor of the bank: (1) mortgaging the total holdings of the Company in the Subsidiary; (2) mortgaging the rights of the Company in the land, subject of Stage 5 of the project; (3) mortgaging approx. 82% of the total residential units at Stage 5; (4) a guarantee of the Company for the payment of the debt and fulfillment of all the obligations of the Subsidiary, according to the Credit Framework Agreement; (5) 60% of the cash flow emerging from the following (whose conditions are accumulative): (a) sale of residential units and commercial areas; (b) situated under construction at Stage 5; (c) in whose respect a populating form was received; and (d) which were not sold as

yet (the "**Mortgaged Cash Flow**"). The Mortgaged Cash Flow shall serve primarily for the full payment of the loans, placed with respect to the project (and any stage concerning the loan placed for it). Thereafter, to the extent that the loans were fully paid, said securities will serve for the payment of the principal of the loans of the remaining subsidiaries toward the bank. For further details, see immediate Date of the Report June 4, 2017 (Ref. No. 2017-01-056502).

1.1.4 **Sale of a Land Division in the St. Petersburg Residential Project**

On June 21, 2017[4], Petra 8 committed in an agreement with a third party, not related to the Company (the "**Purchaser**") pursuant to the sale of a land division on an area of approx. 11 dunam in a project with total area for construction (gross) of approx. 20,000 Sq. meter and a total area for sale (net) of approx. 12,500 Sq. meter (according to the preliminary planning of the Subsidiary), constituting approx. 5.6% of the total remaining areas for sale in the project (the "**Land Division**") in consideration of a total amount of approx. 300 million ruble (approx. $5.2 million according to the rate of exchange upon the date of the transaction) (the "**Purchase Transaction**" and the "**Consideration**", respectively). The Land Division was mortgaged in favor of a funding bank in Russia, as part the securities that were given to it by the Subsidiary within the framework of the financing, taken from it in favor of the project (the "**Funding Bank**"). At the same time, the Funding Bank gave its principle approval to remove the mortgage on the Land Division.

According to the terms of the Purchase Transaction, it was determined that the Consideration will be paid in 13 installments, as follows: (a) 5% of the Consideration upon the date of the commitment against the furnishing of an approval of the Registrar of Pledges in Russia, pursuant to the removal of the mortgage on the Land Division (the "**First Payment**"). In this context, it was determined, that not later than two days from the date of execution of the First Payment, the rights in the Land Division will be transferred in favor of the Purchaser and a mortgage on the Land Division in favor of the Subsidiary will be registered concurrently; (b) the remaining consideration at a rate of 95% will be paid according to 12 equal monthly installments, from January 2018 until the end of 2018 (the "**Balance of the Consideration**"). In this context, the Purchaser will be

[4] The Agreement bears the date of June 19, 2017.

entitled to replace the mortgage in favor of the Subsidiary, pursuant to the payment of the Balance of the Consideration, with the delivery of an irrevocable autonomous banking guarantee in favor of the Subsidiary, securing the payment of the Balance of the Consideration, according to the payment dates, as specified above, as well as a guarantee of the corporation, having full control of the Purchaser.

For further details, see immediate report, dated June 21, 2017 (Ref. No. 2017-01-063705). As of the date of approval of the Report, the Company received the First Payment, as well as payments on account of the Balance of the Consideration, which were executed according to the schedules. In addition, the mortgage was registered on the Land Division in favor of the Subsidiary. It was subsequently released upon the placing of the banking guarantee in favor of the Subsidiary on behalf of the Purchaser, as stated above.

1.1.5 **The Issuing of Shares and Option Warrants (Negotiable) to the Public, According to A Shelf Offering Report**

On June 3, 2017, the Company published a shelf offering report for the offering to the public of shares and two series of option warrants (negotiable) – Series 1 and Series 2 – which can be realized into shares of the Company (the "**Shelf Offering Report**")[5]. For details with respect to the Shelf Offering Report and the conditions of the securities offered to the public within its framework (including their conditions) see immediate report, dated July 3, 2017 (Ref. No. 2017-01-068982). The share offering report is according to the prospectus of the shelf offering of the Company, bearing the date of August 27, 2015, whose validity was extended up until August 27, 2017 (the "**Shelf Prospectus**")[6].

According to the results of the public offering, as published on July 4, 2017, 19,352,000 ordinary shares of the Company of $0.2 each were issued by the Company together with 7,740,800 Option Warrants (Series 1) and 5,805,600 Option

[5] The aforementioned is further to the approval of a meeting of shareholders of the Company, dated June 7, 2017, inter alia, given pursuant to increment of the issued and paid up share capital of the Company, authorizing the Company to allot and issue shares of the Company up to the registered capital of the Company, according to the conditions stated there, and authorizing the board of the Company to disapply the pre-emptive right, available to the shareholders of the Company in connection therewith. For details with respect to the summoning of the shareholder meeting of the Company, see immediate report, dated April 27, 2017 (Ref. No. 2017-01-043461), for details with respect to the results of the shareholder meeting, as stated, see immediate report, dated June 7, 2017 (Ref. No. 2017-01-058272).

[6] The draft of the Shelf Prospectus, as published on the distribution website of the Securities Authority (Magna) on August 26, 2015 (Ref. No. 2015-01-105459). In connection with the extension of the validity of the Shelf Prospectus for an additional 12 months, see immediate Date of the Report June 5, 2017 (Ref. No. 2017-01-057438).

Warrants (Series 2). The Option Warrants (Series 1) and the Option Warrants (Series 2) can be realized for a realization price of NIS 3.8 and NIS 4.2 (unlinked and subject to adjustments, as specified in the shares offering report), up until July 4, 2019 and July 4, 2020, respectively.

The immediate yield (gross) received by the Company from orders, that were positively complied with in the tender, amounts to a total of approx. NIS 51,321 thousand. For further details with respect to the results of the public offering, see immediate Date of the Report July 4, 2017 (Ref. No. 2017-01-069435).

1.1.6 **Private Offering of Debentures (Series G) By Way of Series Expansion**

a. On December 4, 2017, the Company received a proposal on the part of several investors, pursuant to the purchasing of debentures (Series G) of the Company within the framework of a private offer, by way of expanding an existing series, registered for trade (the "**Private Offer**") in consideration of 72.6 agorot (1/100 of 1 NIS) per any NIS 1.00 par value.

b. Within the framework of acceptance of the obligations of the investors by the Company, as stated, it was agreed that to the extent that the offered debentures will actually be issued to the investors subsequent to the determining date for the payment of the interest, which is fixed for payment, according to the conditions of the Debentures (Series G) on December 31, 2017 (the "**Ex Date**") the price of the debentures according to the Private Offer will be adjusted in a manner, which will reflect non-payment of this interest ("Ex Interest") to the investors.

c. The issuing of the additional debentures was stipulated in the fulfillment of the following conditions (all the conditions shall be hereinafter referred to jointly: the "**Suspending Condition**"): (1) approval of the board of directors of the Company; (2) adding an explicit determination with respect to the restriction on distribution of dividends by the Company, according to the deed of trust for the Debentures (Series G) including its amendments, dated December 19, 2016 (the "**Deed of Trust**")[7], as specified in the Private Offer (the "**Amendment to the Deed of Trust**"); (3) commitment in an agreement toward recycling of the existing debt, as it includes an obligation of the

[7] See immediate report, dated December 21, 2016 (Ref. No. 2016-01-141616).

funding party to act pursuant to the releasing of the asset, which is mortgaged in its favor, subject to completion of the Debt Recycling Transaction, according to its conditions; and also (4) the necessary approval according to the provisions of the deed of trust, including approval of the Tax Authority to the issuing of the additional debentures at a discount (the "**Tax Ruling**") and approval of the Stock Exchange to the registration of the additional debentures for trade on the Stock Exchange (the "**Stock Exchange Approval**"). In the event that the Suspending Condition is not met up until February 28, 2018, the offer of the investors according to it shall be null and void, the Private Offer will be cancelled and no issuing of additional Debentures will be executed.

d. The Company conveyed to the investors, within the framework of the Private Offer, as follows: (1) the Private Offer (if completed) will serve the Company for the purpose of recycling an existing debt, while the balance thereof will serve for the current operations of the Company only, according to its exclusive discretion; (2) if and to the extent that in consequence of recycling the debt, as stated in Subsection (1) above, the asset of the Company, which served as a security to same debt only, will be released (the "**Released Asset**"), the Company will approach the trustee for the debentures – Mishmeret Trust Services Company Ltd., and will act according to its best ability, in order to mortgage the Released Asset and register it as a security for the holders of the Debentures (Series G), and it will also execute the necessary amendment of the deed of trust, to the satisfaction of the Company, within eight (8) months from the Date of the Report; i.e. from December 2017. Up until the mortgaging date of the asset in favor of the holders of the Debentures (Series G), the Company is obligated not to take any mortgage on the Released Asset, according to whatever priority, in favor of any third party whatsoever. In order to remove any doubt, it was clarified that that stated in Subsection (2) above in connection with the possibility of placing the Released Asset as a security in favor of the debenture holders subsequent to the recycling of the debt, as stated, may not present whatever condition (preliminary and/or suspending, etc.) to the execution of the debt

recycling itself, which will take place unconditionally and without any need to obtain the approval and/or consent of the dentures holders; the Company will act, as stated in Subsection (2), opposite the trustee and in its consent, pursuant to the mortgaging of the Released Assets and the necessary amendment in the dead of trust in this context. For further details, see immediate report, dated December 5, 2017 (Ref. No. 2017-01-108802). As of the Date of the Report, the draft for the Amendment of the Deed of Trust was concluded with the trustee and the Tax Ruling was received from the Tax Authority. In addition, the Company approached the Stock Exchange, pursuant to receipt of its approval to the registration for trade of the additional debentures. The Company acts pursuant to the application of the remaining conditions, stated within the framework of the Suspending Condition. For details, see immediate report, dated December 5, 2017 (Ref. No. 2017-1-108802).

e. On February 14, 2018, the Company published an immediate report in connection with the Private Offer, whereby the Company complied positively with the offer from investors, pursuant to the purchasing of additional debentures in total amount of NIS 14,051,000, n.v.[8] In consequence thereof, the total Debentures (Series G), which would be issued within the framework of the Private Offer, will amount to a total of NIS 109,051,000 n.v. (the "**Additional Debentures**"), and in total, subsequent to the execution of the Private Offer according to its conditions and subject thereto, the scope of debentures will amount to a total of NIS 280,816,200 n.v.

As the Private Offer was not completed prior to the Ex Interest date, the price of the Additional Debentures within the framework of the Private Offer was updated to 71.5 agorot per NIS 1.00 n.v. and the Consideration (gross) for the issuing of the Additional Debentures, as per the Private Offer, increased to NIS 78 million.

[8] See supplementary report, dated February 19, 2018 (Ref. No. 2018-01-016852) whereby the par value was amended to NIS 14,051,000 n.v. (technical typo error).

In addition, it was agreed to change the outline of the private offering, as opposed to that specified within the framework of the offering report, as follows: (1) commitment in an agreement toward recycling of the current debt toward the funding party (the "**Debt Recycling Transaction**") will not constitute a suspending condition to the completion of the private offering; (2) upon fulfillment of the suspending conditions remaining for completion of the Private Offer – (1) approx. NIS 52.6 million[9] out of the yield of the issuing, net, will be deposited with the bank account of the attorneys for the Company, held in trust for both the Company and the debentures, and would be released to the Company upon the earliest from among the following: (2) the commitment in a Debt Recycling Transaction; (b) April 30, 2019. Upon the execution of the debt recycling, as stated, the Company will act according to its best ability in order to the mortgage the Released Asset, as stated above, as the date for the mortgaging of the Released Asset in favor of the debenture holders will be eight (8) months from the date of release of the Released Asset, according to the terms of the Debt Recycling Transaction; (b) the balance of funds of the offering yield, net, will be released to the Company for its current operations, according to the absolute discretion of the Company.

f. On February 20, 2018, all the suspending conditions, required for the entrance into validity of the Private Offer, as per its conditions, were fulfilled. See immediate report, dated February 20, 2018 (Ref. No. 2018-01-017311). In consequence thereof, the additional debentures were issued to the classified investors, the deed of trust was amended and the yield of the offering was transferred to the Company and to the trust (NIS 53 million) according to its conditions. For details, see immediate reports, dated February 20, 2018 (Ref. No. 2018-01-017311 and Ref. No. 2018-01-017317) and dated February 21, 2018 (Ref. No. 2018-01-017557).

1.1.7 **Receipt of a Populating Form for Stage 4 in the St. Petersburg Residential Real Estate Project**

[9] It should be clarified – this is merely an evaluation. The amount is liable to change in consequence of the commitment in the Debt Recycling Transaction or payment of the debt, according to its conditions.

On December 22, 2017, the Subsidiary, Petra 8, the holder of the rights in the residential project of the Company in St. Petersburg, Russia – the Triumph Park (the "**Project**") received a populating permit for Stage 4 of the Project. For details with respect to the phase of marketing and populating the residential units in the Project, see Section 0 hereunder.

1.1.8 **Extension of the Release Period, Pursuant to the Examination of Compliance with the Financial Stipulations Toward the Funding Bank in Russia**

In December 2017, the Funding Bank of the Company in Russia – SberBank of Russia, extended the release that was given to it, pursuant to the examination of the current financial stipulation toward it, which was fixed to December 31, 2017, by additional 12 months - up until December 31, 2018. For details, see immediate report, dated December 24, 2017 (Ref. No. 2017-01-115441).

1.1.9 **Adopting A Remuneration Policy for Office Holders**

On October 26, 2017, the Company adopted a remuneration policy for office holders for a three year period, commencing thereupon and ending on October 25, 2020 (the "**Remuneration Policy**"). The Company, as stated, is incorporated according to the laws of the Republic of Cyprus. At the same time, due to application of the provision of Section 39a of the Securities Law on the Company, the Company, inter alia, is under the obligation to adopt a remuneration policy for office holders in the Company, according to the meaning of this term in Section 267a of the Companies Law, 1999 (the "**Companies Law**"). For details with respect to the remuneration Policy of the Company, see immediate report with respect to the summoning of a shareholder meeting of the Company, dated September 18, 2017 (Ref. No. 2017-01-082693) as amended on September 19, 2017 (Ref. No. 2017-01-083146). In the matter of approval of the Remuneration Policy by the shareholder meeting of the Company, see immediate report, dated October 29, 2017 (Ref. No. 2017-01-094492).

1.1.10 **The Economic Condition in Russia and its Effect on the Company**

a. During the fourth quarter of 2014, an extreme deterioration occurred in the condition of the Russian market, due to various macro-economical factors, *inter alia*, originating in the international arena, mainly due to a set pressures applied by the Western countries on the background of the deterioration of the political relations between Russia and Ukraine. In consequence thereof, various sanctions were imposed on the Russian economy on the part of western countries, concurrently with an acute drop in prices of oil in the world. These developments, *inter alia*, caused an accelerated depreciation in

the rate of the ruble opposite the US dollar (the "**Dollar**") and high fluctuations of this rate. As of December 31, 2017, the ruble/dollar rate amounted to approx. 57.6 ruble to dollar. In 2017, the rate of the GDP of Russia increased by approx. 1.7% accumulatively, and the expectation for 2018 is for an additional increase of up to 2.0%. Stabilization of the Russian economy began in the second half of 2016 in consequence of a significant increase in the prices of commodities, mainly oil, as well as stabilization actions assumed by the Government of Russia. As of the Date of Publication of the Report, no essential change took place in the rate of the ruble opposite the Dollar.

b. In the meanwhile, in consequence of the macro-economical events specified above, the rate of the basic interest in Russia increased sharply from 5.5% in January 2014 to 17% by the end of December 2014. At the same time, the ruble/dollar rate decreased from 32.7 in January 2014 to a rate of 56.26 in December 2014. Since then, the central bank of Russia acted in order to a gradually decrease the interest rate, which amounts to 7.5% as of the Date of Publication of the Report, as the recent decrease occurred in February 2018. Furthermore, in 2017 an improvement occurred in the credit rating of Russia, through the international banking agencies. As of the Date of Publication of the Report, the ranking of "investment" was reinstated by the agencies of Fitch and S&P according to Ba1/Positive ,BBB-/Positive and BBB-/Stable, respectively.

c. As part of the Company's handling of the economic condition in Russia, the Company continues to hold, through its consolidated companies, current contacts on a particular basis with lessees of its income-generating real estate assets, in order to preserve them. This is executed, among others, through the giving of particular discounts for fixed periods, in order to assure that the lessees will meet their payments and obligations toward companies of the Group, while taking into account the extreme changes that the Russian economy is undergoing[10], on the one hand, and in order to maintain high occupancy rates in the income-generating real estate assets of the Company, on the other hand.

d. The economic condition in Russia has a direct effects on the business affairs of the Company, its income and profitability. At the same time, the Company continues its current operations, in order to increase its income and improve it performances. Thus, as

[10] The aforementioned assumptions are expressed in several planes – (a) mostly by way of fixing a cap to the ruble - dollar rate of exchange for a fixed period; and also (b) in some of the cases, by changing the lease agreement into values in local currency (ruble) and linking it to the consumer price index in Russia.

of the Date of the Report, the income-generating real estate assets of the Company recorded an average occupancy of approx. 86%. In addition, the sale of residential units continue in the flag project of the Company in St. Petersburg – the Triumph Park. For details, see Section 0 hereunder.

1.1.11 **The St. Petersburg Residential Project**

The St. Petersburg Project – Triumph Park – is the flag project and the largest project of the Group. The following are details with respect to changes occurring in this project during the reported period. For details with respect to the St. Petersburg Project, see Section 3.10 hereunder.

**Stages 1 and 2**

The erection and population of these stages, consisting of 1,140 residential units, approx. 2,146 Sq. meter of commercial areas and 300 parking places, was completed during periods that preceded the period of the report. All the apartments were sold and delivered to the purchasers

**Stage 3**

During the reported period, 32 residential units were marketed, constituting the remaining residential units that were not sold at this stage, as yet, whereby up until December 31, 2017, all the residential units of this stage were marketed and populated – a total of 1,346 residential units on a total net area for sale of approx. 61,786 Sq. meter and approx. 1,538 Sq. meter of commercial areas and also 302 parking places (out of which 218 were marketed so far).

**Stage 4**

During the reported period, 340 residential units were marketed, whereby up until December 31, 2017, 1,211 residential units were marketed out of 1,244 residential units, representing approx. 97% of the total residential units at this stage, according to a total net area for sale of approx. 60,634 Sq. meter, approx. 3,151 meters of commercial areas and 301 parking places (out of which 81 were marketed so far). As stated in Section 1.1.7, on December 22, 2017, the Company received a populating form for Stage 4 and delivery of residential units to purchasers commenced in January 2018. Until shortly before the Publication Date of the Report, approx. 580 residential units were delivered to the customers.

**Stage 5**

In 2017, the construction of the stage of the Project, consisting of approx. 1,510 residential units on a total area for sale (net) of approx. 66,084 Sq. meter, was commenced. During the reported period until December 31, 2017, 293 residential units were marketed out of 1,510 residential

units, representing approx. 19% of the total residential units at this stage. In addition, this stage includes 3,532 sq. metereter of commercial areas and 295 parking places.

**Green Tower**

As of the Date of the Report, the Group is executing the construction of this stage, which is funded out of the Group's own recourses. During the reported period, 55 residential units were marketed, whereby up until December 31, 2017 a total of 65 residential units were sold out of 132 residential units, representing approx. 49% of the total residential units at this stage, according to a total net area for sale of approx. 7,425 Sq. meter, 371 Sq. meter of commercial areas and 44 parking places.

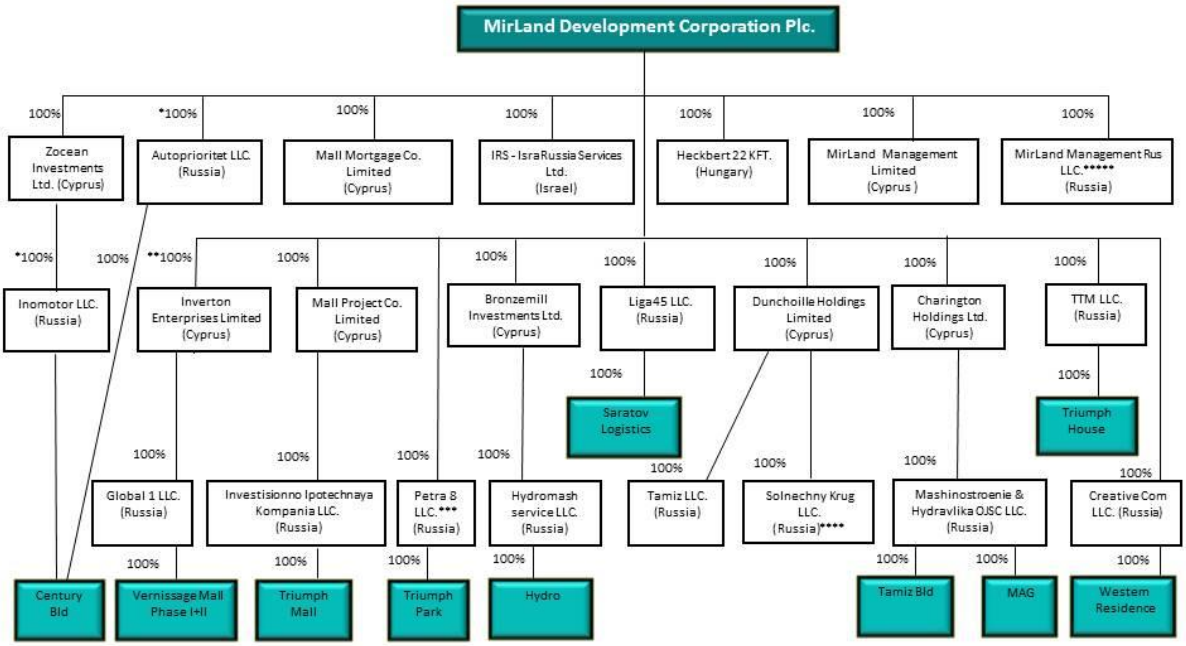
The total income produced by the Company from the residential units and the parking places, which were marketed so far from Stages 3, 4, 5 and the Green Tower, is expected to amount to a total of approx. $247.7 million, out of which during the reported period income in the amount of approx. 110.7 was acknowledged and an amount of approx. $116.2 million was received by way of advances.

The following table summarizes the sale during said four stages:

| Stages | Total apartments | Number of apartments marketed by December 31, 2017 | Number of apartments marketed up until the publication of the Report | Rate of apartments marketed up until the publication of the Report from the total apartments in the stage | Total income yield from the apartments marketed, including sale of stores (in US$ million)* |
|---|---|---|---|---|---|
| **3** | 1,346 | 1346 | 1,346 | 100% | 108.7 |
| **4** | 1,244 | 1,211 | 1,222 | 98% | 104.2 |
| **5** | 1,510 | 293 | 380 | 25% | 27.5 |
| Green Tower | 132 | 65 | 70 | 53% | 7.3 |

* Based on a rate of exchange of 57.6 Russian rubles to Dollar as of December 31, 2017.

1.1.12 **Chart of Structure of the Group's Holdings, as of the Date of the Report**




* Held by the Company (98.3%) and the remainder (1.7%) through IIK.

** During the reported period and as part of the procedures to streamline the Group's activity, merging the Company into Dunchille Holdings Limited was commenced.

*** Operating the children's activity in the commercial area of Vernissage project in Yaroslavl. For details see Section 2.1 below.

**** During the reported period and as part of the procedures to streamline the Group's activity, the Company began a (voluntary) liquidation procedure in which all of the employees, employed through it, were transferred to the various project companies in Russia. On March 1, 2017, a notice was received on behalf of the State Registrar of Legal Entities in Russia with respect to completion of liquidation of MirLand Management RUS LLC on March 9, 2017.

The chart does not include dormant companies. As of the Date of the Report, the activity in each of the projects in which the Group is involved takes place through a designated company, which was incorporated in Russia and holds rights in the project. The Company holds and finances these project companies, directly and/or indirectly, through corporations that the Company controls, which were incorporated in Cyprus and/or Hungary, as the case may be. In addition, the Company also has three companies incorporated in Cyprus, Israel and Russia,

which provide services to companies of the Group. For details concerning the subsidiaries of the Company, see Articles 11-13 of Part D (Additional Details about the Corporation) of this Report.

1.2 **Fields of Operation**

As of the Date of the Report, the Company operates in the real estate market in Russia, by itself and through companies under its control, in two main fields of operation:

1.2.1 **Commercial Real Estate** -In this field of operation, the Group is involved in the promotion and development of commercial real estate projects (commercial centers, offices and logistics centers), starting with the purchase of available land, completion of planning and approval, through completion of construction of the projects, pursuant to their sale or management and leasing. As of the Date of the Report, the Group has ten commercial real estate projects, covering a total area of about 397,705 sq. meter (including the commercial areas in the St. Petersburg Project), and the occupancy rate of the constructed areas, consisting of 129,206 sq. meter, (not including the commercial areas in the St. Petersburg project), is about 86%.

1.2.2 **Residential Real Estate** - In this field of operation, the Group is involved in the promotion and development of residential real estate projects, from the purchase of available land, completion of planning processes and approval, through completion of construction and sale of the project. As of the Date of the Report, the Group has two projects in the field of residential real estate with a total area of 228,476 sq. meter, which was not sold, as yet.

1.3 **Investments in the Equity of the Corporation and Transactions in its Shares**

Over the last two years, no material investments were made in the Company's equity and no material transactions were carried out in shares of the Company by interested parties outside the Stock Exchange, excluding the offering to the public of the shares and 2 new series of debentures (non-negotiable), in accordance with a shelf offering, as specified in Section 1.1.5 above.

1.4 **Distribution of Dividends**

As of the Date of the Report, the Company has no accrued distributable profits.

For details with respect to the restriction that the Company consented to include according to the amendment to the deed of trust, published on April 20, 2018, within the framework of completion of the Private Offer, see Section 1.1.6 above.

## Part Two - Other Information

### 1.5 Financial Information of the Company's Fields of Operation (US$ 000's)

| | Commercial Real Estate | | | Residential Real Estate | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Revenues from external sources | 35,347 | 30,882 | 35,079 | 42,090 | 73,956 | 51,206 | 77,437 | 104,838 | 86,285 |
| Total fixed costs attributable to field of operation | (7,625) | (6,762) | (7,126) | (24,638) | (46,304) | (30,788) | (32,263) | (53,066) | (37,913) |
| Total variable costs attributable to field of operation | (4,478) | (3,971) | (4,185) | (14,470) | (27,195) | (18,081) | (18,948) | (21,166) | (22,266) |
| Total costs attributed to field of operation | (12,103) | (10,733) | (11,311) | (39,108) | (73,499) | (48,869) | (51,211) | (84,232) | (60,179) |
| Gross profit (loss) | 23,244 | 20,150 | 23,768 | 2,982 | 457 | 2,337 | 26,226 | 20,607 | 26,106 |
| Increase (decrease) in fair value of investment real estate and inventory | (6,921) | (72,267) | (56,152) | 10,938 | (25,726) | (4,300) | 4,017 | (97,993) | (60,452) |
| Unallocated income (expenses) | - | - | - | - | - | - | (4,724) | (18,497) | (10,448) |
| Operating profit (loss) | 12,052 | )55,639( | (36,035) | 8,918 | (32,004) | (8,256) | 16,246 | (95,883) | (57,002) |
| **Total assets*** | 281,446 | **268,350** | **291,377** | 265,014 | **226,281** | **248,494** | **546,460** | **494,631** | **539,871** |
| * Unallocated assets | - | - | - | - | - | - | 28,566 | 22,613 | 37,970 |
| **Total assets*** | 281,446 | **268,350** | **291,377** | 265,014 | **248,494** | **269,861** | 575,026 | **517,244** | **577,841** |

*As of the final day of the relevant period. For explanations regarding the changes that occurred in the financial data, see the Company's Board's Report for the period ending December 31, 2017.

## 1.6 **The General Environment and the Effect of External Factors on the Company's Operations**[11]

### 1.6.1 **General Review of the Economic Conditions in Russia**

a. As stated above, from 2014 Russia's economy experienced radical changes due to political developments, whose direct impacts are expressed in accelerated depreciation of the ruble-dollar exchange rate, decreased GNP and a significant slowdown in additional economic indicators.

b. From January 2014, the base interest rate in Russia increased from a rate of 5.5% to a rate of 17% by the end of December 2014. Since then, the Central Bank of Russia gradually decreased the interest rate. In 2017, the Central Bank of Russia decreased the inter banking interest six times to a rate of 7.75% (as of December 31, 2017). As of the Date of Publication of the Report, the base interest rate amounted to 7.5% after an additional reduction of 0.25% in February 2018.

c. According to the Russian Central Bureau of Statistics (RosStat), the GDP of Russia in 2016 was negative with a decrease of 0.6%. 2017 ended in a positive trend with 1.7%, and according to all the factors reviewing the Russian economy, *inter alia*, the Russian Ministry of Economics, this trend is expected to continue in 2018, as well. The inflation rate decreased to an hostoric low level of 3.7%, as opposed to 5.4% in 2016. The improved growth emerged from local and external demands and strengthening of the ruble in relation to the dollar. The growth pace of retail sales became positive in 2017 with 1.2% as opposed to a negative pace of 4.6% in 2016. The unemployment rate in Russia remained relatively low (5.2%) during the year. Employment and local production were supported by the decline in imports, due to the sanctions imposed by the Russian government on products imported from the United States and the European Union, as well as the relatively weak currency which encouraged export.

11 This review includes information published by the following entities: RosStat - Russia's Federal State Statistical Service ("**RosStat**"); Ministry of Economy & Development of Russia, Organization for Economic Cooperation and Development ("**OECD**"); Standard & Poor's credit rating agency; the International Monetary Fund ("**IMF**"); Jones Lang LaSalle, a real-estate information service company (JLL); Cushman & Wakefield Stiles & Riabokobylko – Real Estate Consultants, Central Bank of Russia ("**CBR**"), CEEMEA Business Group

d. The capital that flowed outside of Russia in 2017 amounted to about $31 billion, as opposed to approx. $16 billion in 2016.

e. The federal budget deficit in 2017 constituted 2.2% of the GDP (approx. $34 billion) and 3% in 2016.

f. It should be noted, that Russia still has relatively high foreign currency reserves, which amounted to a total of $432 billion at the end of 2017, an increase of approx. 15%, compared to 2016. In accordance with the aforesaid publications, it appears that the Russian government will continue (inasmuch as possible) to use these reserves, in order to support the balance of payments and stabilize the currency and economy.

g. **Main Macro-Economic Characteristics in the Russian Economy**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| The rate of growth of GDP* | 1.7% | -0.6% | -3.8% |
| Inflation rate ** | 3.7% | 5.4% | 15.5% |
| Interest rate of the Central Bank of Russia ***** | 7.75% | 10% | 11% |
| The yield on the long term domestic government debt *** | 7.7% | 8.4% | 10.2% |
| Ranking of long-term government debt **** | BB+ positive | BB+ stable | BB+ negative |
| Local currency exchange rate in relation to the dollar on the final day of the year ***** | 58.3 | 66.06 | 72.9 |
| Unemployment rate ** | 5.2% | 5.4% | 5.8% |

* Published by World Bank as of January 2018;

** Published by RosStat as of January 2018;

*** The website of OECD, which refers to the average of the government bonds for a period of 10 years, in December of each year; commercial data for December – https://www.investing.com/rates-bonds/russia-10-year-bond-yield-streaming-chart .

**** S&P, referring to the foreign currency rating, as of December 2017; in February 2018, the grading was redcued to BBB.

***** The Central Bank of Russia, CBR, as of December 2017. In February 2018, CBR reduced the interst to 7.5%.

h. **Characteristics of the Real Estate Market in Russia**

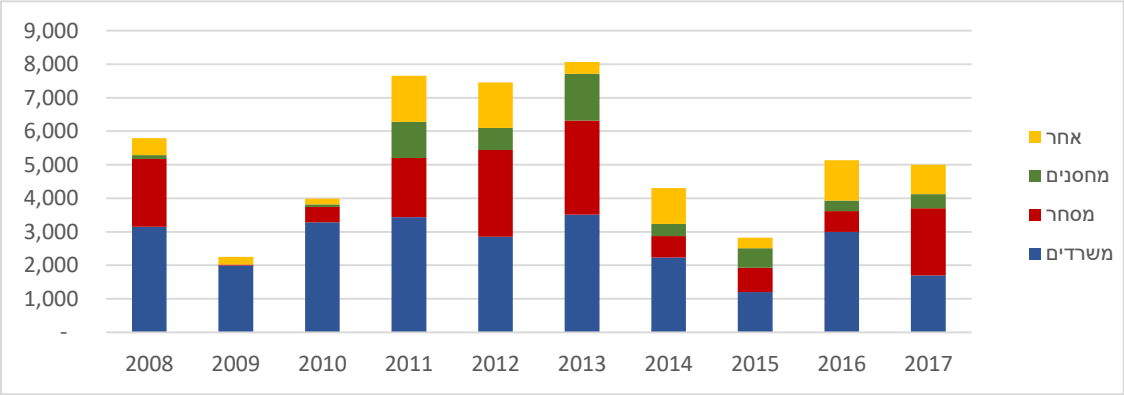
The scope of investments in commercial real estate in Russia during 2017 amounted to a total of approx. $5 billion, presenting a slight increase in relation

to 2016. The increase in the scope of investments commenced in 2016, and is attributed to the improvement that occurred in the global macro-economical environment and the macro-economical environment in Russia. According to the forecast, the scope of investment in 2018 is expected to be similar. The segment of foreign investment in commercial real estate in Russia was approx. 14%, a significant increase subsequent to the low point of 2016 with approx. 6% of the total investments in commercial real estate. As occurred previously, most of the investments are concentrated in Moscow (approx. 80%).

In 2015 and 2016, no significant changes occurred in the capitalization rates in all the real estate sectors in Russia. As of the end 2017, a decrease of 0.25% occurred in all the sectors, and in this light the rate yields in the office sector deceased to 10.25%, the commercial center sector – 10.75% and in the logistic sector - 12.5%. According to the evaluaiton of C&W, an additional yield decrease of approx. 0.75%-1% is expected in 2018.

In previous years, the office sector led the scope of investments in the commercial real estate field in Russia, but in 2017 the trend changed and the sector of commercial centers led the investment market, as 25% of the total investment pertain to a single purchase transaction of an asset portfolio, consisting of five commercial centers. The total investment in assets in the commercial center sector amounted to approx. $2 billion (as opposed to 0.6 billion in 2016), 1.7 billion was invested in offices and approx. $0.42 billion in assets in the logistic sector (as opposed to approx. 0.3 billion in 2016).

i. **Real estate Investments by Sectors, in US$ millions**[12]




[12] Source: Cushman & Wakefield.

Out of about 140 million residents, approx. 73% of the citizens of Russia live in cities (about half in cities above 100 thousand residents) and constituting approx. 85% of the purchasing power in Russia. The real estate marked in Russia, which derives its strength from the strength of the middle class, was harmed as a result of geopolitical and economic instability in the region. After three consecutive years of diminished private consumption, a trend of recovery commenced in 2017.

Russia remains the largest retail market in Europe, with a sale turnover of about 30.8 trillion rubles (approx. US$ 528 billion) an increase of approx. 9% in the sale turnover in local currency terms (ruble), as compared to 2016 (28.2 trillion rubles)

Russia has shopping centers with a total area of about 19.2 million sq. meter, constituting approx. 130 sq. meter per 1,000 residents. This figure is substantially under the European average, reaching 260 sq. meter per 1,000 residents. The vast majority of commercial centers are located in large cities; however, in recent years, developers have started to develop commercial centers in cities with under 500 thousand residents, as well.

1.6.2 **Various Aspects of Real Estate Laws in Russia and the Customary Practice**

According to the best knowledge and understanding of the Company, the following are the main relevant provisions of the federal and regional law of Russia with respect to real estate, including the areas of the Company's business operations, such as construction. In order to remove any doubt, it is clarified that the above does not exhaust all of the provisions of the law in Russia in this context and/or income all of their provisions on the matter.

1.6.2.1 **The General Provisions of the Russian law** - For several decades, there was almost no formal regulation of private ownership of real estate in Russia. As a result, many aspects of land laws in Russia are inappropriate and/or irrelevant to current needs.

Current land laws in Russia are based mainly on a collection of laws, principally the Civil Code of Russia (the "**Civil Code**"), Land Code of Russia (the "**Land Code**"), and other federal laws (Russian Federal Town Planning Legislation) that regulate the planning, development,

construction, use and transfer of land rights ("**Land Laws**"), the Russian federal law, pertaining to registration of rights, real estate and land transactions ("**Land Registration Laws**"), the Federal Mortgages Law and the Federal Rezoning Law. There are also various provisions in regional legislation and various federal codes (the Water Code, Forest Code, Environmental Protection Law, National Heritage Sites Protection Law) and other laws that affect different aspects related to land.

Moreover, regional authorities in Russia may regulate affairs pertaining to real estate in areas under their jurisdictions. While regional legislation is not supposed to contradict the federal legislation, in reality, some aspects of regional legislation indeed contradict the provisions of federal laws and/or add restrictions and requirements to it.

1.6.2.2 **Ownership of Land** - Although the Russian law recognizes the right to own, use and transfer land, for as long as it does not breach statutory provisions or injures the rights of others, the law makes an important legal distinction between land and buildings, which are considered the subject of separate legal rights.

Both the Civil Code and the Land Code permit private ownership and transfer of land. According to the Land Code, foreign entities may own land under the same terms as Russian citizens, with certain exceptions. The most prominent exception is the prohibition against foreign ownership of land near Russia's borders, according to a decree of the President of the Russian Federation from January 2011, as well as certain other areas defined in federal statutes, and also restrictions that apply to foreign entities with respect to ownership of agricultural land under a category with a similar name (as opposed to land used for agricultural purposes in towns, where there are no such restrictions).

The Land Code prescribes regulations for privatizing land owned by the state or by a municipality. The land laws and regulations also prescribe lease fees for leasing state and/or municipal land parcels, which could be necessary for legal entities and private persons, including owners of buildings on lands of this kind.

Under the Land Laws, legal entities usually have one of three types of rights in respect of the land: 1) full ownership; 2) lease; 3) right for permanent use (generally for parcels of land received under land laws that were effective prior to the land reform in Russia (according to its previous name, the USSR) during the 90s'.

Although private ownership of land is a growing phenomenon in Russia, in most cases the land is leased from the state or municipalities. Ownership by private entities of the right of lease in most of the land areas, zoned for development, is currently owned by investors that lease the land from the state or municipalities. In general, the lease periods differ from one area to another, according to the different utilities of the land. Notwithstanding the legal distinction between the legal rights to the land and legal rights to buildings on the land, nothing prevents a tenant and/or lessee of a parcel from owning the rights to a building on the land, notwithstanding that they do not own the land.

On June 23, 2014, a new federal law was legislated – the New Land Code, which entered validity as of March 1, 2015, and substantially changed Russia's land laws (the "**New Land Code**"). According to the New Land Code, it is possible to allocate land parcels under local or state ownership ("**Land Parcels**") for construction purposes, based merely on lease, subsequent to the execution of a public auction.

The rule, set forth in the New Land Code, has several exclusions, as follows:

a. It is possible within the framework of commercial projects to purchase Land Parcels arising from the division of land allocated to "a complex development" in favor of an entity that has previously engaged in an agreement for the complex development of the area, following a public auction.
b. The New Land Code specifies a list of scenarios, in which a lease agreement can be concluded with respect to a land for construction purposes without a tender, e.g. according to an order or a decision of the president of Russia, with respect to owners of an unfinished

building, pursuant to completion of its construction, and to realize actions granted under a concession agreement.

According to the New Land Code, until March 1, 2018, land areas can be allotted for construction according to the procedure of the "initial approval" (i.e. without a tender) provided that the resolution regarding the initial approval of the location was adopted by the competent authority prior to March 1, 2015, but not more than three (3) years prior to allotment of the Land Parcel.

Lease period - within the framework of the amendment to the Land Code, it was proposed that a federal governmental authority will determine what statutory conditions are required for the execution of engineering reviews for purposes of planning and construction of various facilities (these conditions have not been legislated, as yet). As a Land Parcel is allocated for construction through a public auction, the lease agreement enters a time range that is double the length of the statutory period designated for planning and construction engineering reviews. In the event that Land Parcels are allocated for construction without a tender or if they are allocated for re-construction, the lease period will be between three and ten years. The lease period after completion of the construction is up to 49 years. Generally, according to the usual practice in Moscow, land is subject to proprietorship of the land by the city of Moscow and the federal authorities, and therefore the developer becomes the owner of the buildings or the structures or the facilities that are erected on the land in Moscow, but does not become the owner of the land on which the structure or facilities are situated.

Owners of a building are usually entitled to sell or rent the building without obtaining the consent of the state, except in rare cases where the sale of the building requires approval of the Federal Antitrust Authority.

Acquisition of Land Parcels by Building Owners - In accordance with the New Land Code, owners of several structures, situated on a single land parcel, may purchase the land parcel under joint proprietorship or joint leasing, provided that the land parcel is regarded as a "parcel that cannot

be divided.” In order to acquire joint title over a land parcel, all the owners of the constructions/parcels must jointly approach the competent municipal authority, however, in order to lease the land, it is sufficient that one of the land owners will apply to the appropriate authority. The lease period of the aforesaid lease agreement shall not exceed 49 years.

According to the Russian Law, land or structures can be expropriated due to “needs of the state or local authority" and courts have customarily interpreted the expression “needs of the state or local authority" in a restrictive manner that limits the expropriation of land to cases of clear need only. In this manner, the courts limit attempts of public authorities to apply their expropriation right extensively. The owners of expropriated land were entitled in the past to a prior notice of one year and payment of the full market value, which included compensation for all the investments made thereby in the land, as well as any other direct loss incurred thereby. The lessee of an expropriated land was also entitled to prior notice of one year and to compensation for all the investments made in the land, as well as any other direct losses caused to him, including profits that were not received.

The binding period fixed for the construction given to land owners, is restricted and in any event that the construction does not commence within the period fixed by the authorities, the land owner is liable to lose the holding thereof. The early notice period prior to expropriation of the land in such an event was narrowed down to 90 days. After it was decided that the land area is to be expropriated, the authorities offer the land owner a compensation against expropriation of the land, and the land owner is obligated to accept the compensation proposed to him, or that he may file an appeal in this respect with the judicial authorities, but he is unable to hold negotiations with them in connection with the rate of the compensation. The rate of the compensation offered to land owners is according to the valuation of the land that was expropriated, against its value the land owner is offered another land parcel of an equivalent value or a land parcel of a lower value, as then compensation will also be given

with respect to the balance between the values of the land that was expropriated and the land that was given in its stead.

In addition, within the framework of New Land Code, rules were stated in order to reduce the quantity of unfinished building by compelling developers to complete these buildings. In the event that a lessee of a land parcel, that purchased the lease rights of the land through a public auction, fails to complete the construction by the effective date, the municipal or the governmental authority that allotted the land parcel for construction has the right to apply to the court for its expropriation through its sale in a public tender. A purchaser of unfinished construction through a public auction or its original owner has the right to purchase the lease rights for the land parcel, in order to complete the construction without an auction. This right could be exercised only once.

1.6.2.3 **Utility Categories** - The lands in Russia are divided into specific categories according to the following designations: (a) agricultural land; (b) land for settlement; (c) industrial projects (power plants, transportation, communication, radio and television, space activities, defense, security and other special purposes); (d) protected areas, such as nature reserves, national parks, buildings or sites of historic or cultural value; (e) forests; (f) ground water line; and (g) land reserves.

The Land Code necessitates that the use of land will be according to any of these categories, as per the permit granted for it. Land in each of the categories is also subject to specific requirements prescribed in federal, regional or local laws and in regulations, pertaining to the use of land of this type. Russian law prescribes the establishment of a unified land registry (Cadastre) in which the details of the land parcels and structures are recorded, including their dimensions and borders (the technical section of the registration). By January 2018, most of the land parcels in the Russian Federation have not yet been registered (consolidated) on the state land registry, such that in addition to the registration of the land parcels, there is also legal registration of the rights in the land. Until January 31, 1998, there was no obligation by law to register, as stated.

However, land parcels that are not registered in the consolidated state registry of land rights (the "**Land Registry of Rights**") cannot be used as a basis for a transaction with the land prior to the registration thereof. As of the Date of the Report, all of the land assets of the Group are registered on the Land's Registry of Rights. As of January 2017, the two registers were unified (at least formally). In addition, as of July 2016, a change was also made to the issuance of certificates testifying to land rights. As of the aforesaid date, instead of formal certificates (which are no longer issued), an excerpt from the registry is issued that testifies as to the rights in the land.

As of September 1, 2014, according to a directive of the Russian Minister of Economics, classification of the use of lands became broader, thereby creating ambiguity as to what is regarded as worthy and appropriate usage of the land in respect for which construction approval could be obtained. Despite the enactment of this provision, it has not yet been implemented in practice. As of the Date of the Report, the Company is unable to assess the legal risks and the legal outcome that will result from the aforementioned regulatory change.

1.6.2.4 **Acquisition of Title in Land Parcels** - The Land Code distinguishes between land for construction and other permitted land utilities.

Russian residents and foreign entities may purchase land owned by the state or local authorities for development and construction of buildings in two ways: through participation in an auction (a mandatory process in all matters relating to construction of residential buildings and in other cases) if the land is already been registered, or by way of prior approval regarding the boundaries of the land parcel allocated for construction of buildings.

The title or lease rights in a land zoned for construction can be purchased in accordance with the method for allocating land as set out above, through the purchase, sale or a lease agreement, based on its terms.

An application to purchase a parcel of land for construction must include details of the use intended for the building or facility, its intended location

and the estimated size of the parcel. The application is usually supported by a feasibility study for the project and other calculations. The decision to sell land to the applicant is determined by federal, district or local regulations. This regulation is stipulated by the passing of a preliminary resolution confirming the boundaries of the land parcel and the intended use of the land. As a rule, said resolutions are passed by federal, district or local authorities, responsible for the allocation of the land, as the case may be. According to the current Civil Code and the Land Registration Law, all rights in land and property are subject to registration by the state on the Land Registry of Rights.

This procedure is currently regulated by the Land Registration Law, which came into effect in January 1998 and established a unified state registry - the Land Registry of Rights. The Land Registry of Rights is a public register, open for review of registered rights. However, it does not reflect all land rights, as yet.

In December 2012, a new law was enacted concerning the amendments in the Russian Civil Code by the Russian Parliament, amending the provisions of the Civil Code with regard to registration of rights in real estate. The law entered validity on March 1, 2013, and consequently, as of that date, there was no obligation to register lease rights for a period exceeding one year (and such rights were valid even if not registered). On March 4, 2013, the Russian Government approved an amendment of the New Code, according to which the requirement to register leasehold rights in land for a period exceeding one year was reinstated (and such rights will not be valid unless they are registered).

In the matter of buildings, registration is usually performed for complete buildings, areas in buildings, apartments and residential units. Although a building may be registered during the construction stage, in practice this is a complex procedure that is rarely implemented, *inter alia*, since even if it is registered, the building must still be registered once it has been completed. The building may only be transferred, mortgaged or leased after completion of its registration.

Any transfer of title must be registered in order to be valid. Under normal circumstances, the authorities are required to complete the registration within ten (10) business days from receipt of an application, supported by all the required documents. However, in practice, this often takes longer, at times up to two months.

A buyer that purchases a building on land, owned by a third party, has the right to use the land under the building. Generally, when land is owned at the federal, state or municipal level, the right therein grants the owner of the building a priority (an exclusive right) to purchase or lease the land below and around the building. It should be noted that in the event that the third party is a private party, there is solely a privilege and preemptive right to purchase the land, not an exclusive right, as mentioned above. According to the New Land Code, the right is no longer exclusive and it applies to existing projects only.

The New Land Code states that based upon the consent of the municipal or governmental authority, it is possible in certain cases to use land parcels without formal agreements, *inter alia*, as it pertains to engineering surveys, underground geological reviews and the like.

Furthermore, the New Land Code states that as the land parcel is given on lease (or use at no payment) for a period exceeding one year or for permanent usage (unrestricted) or for permanent holding in succession, the easements agreement will be made with the lessee of the land parcel or with another individual, who has said rights in the land. For the time being, the consent of the land owner to commit in an easement agreement is not required. The payment for the easement will be determined by the government of Russia, the local or municipal authority, according to the owner of the land parcel. In general, in the event that the commitment in an easement agreement is with another party, that is not the owner of the land parcel, payment will be provided to the entity or to the individuals with whom the agreement was made.

1.6.2.5 **Planning**

On July 1, 2017, the Urban Planning Code of Russia (UPC) was amended and entered validity. According to the code, all the provisions pertaining to the preparation, coordination and approval of the documents required for planning, such as – nationalization of areas for construction purposes of municipal, regional or federal construction or areas for public utilities (roads, streets and the like) (red lines). In addition, kinds of documents that are necessary for various planning purposes were specified, narrowed down into two kinds of documents – (a) planning of the area of the project; and (b) outlining the area of the project. In consequence thereof, that stated in the GPZU (according to its meaning hereunder) lost its importance at the planning stage.

1.6.2.6 **Construction and Development** - Construction and development of lands in Russia are subject mainly to the Civil Code, urban construction plan for a city or settlement (in the event that the land is located outside of Moscow or St. Petersburg), and to the provisions of the local master plan. Construction and development are multistage processes that involve compliance with detailed regulatory requirements and coordination among several experts, as well as obtaining the approval of a considerable number of federal, regional and local authorities.

According to the Russian law, the right to develop land belongs merely to those holding the title, lease or usage right of the land.

A construction permit from the competent authority and duly approved planning documents are required in order to carry out construction works. The contractor, performing the construction works, must be a member of an independent organization of contractors with internal regulations and therefore the Company is obligated to supervise the contractor's architectural, engineering, and construction works.

1.6.2.7 **Obtaining Construction Permits** – an application for a construction permit is submitted by the owners or lessee of the land. Obtaining a construction permit is a multi-stage process that includes receipt of approvals and registration of the project documents with several

governmental entities, including engineering and urban development authorities, environmental management and protection authorities, fire prevention authorities and government authorities overseeing public health. In general, a construction permit is granted for up to three years and may be extended. A construction permit can be amended after construction begins if there is a change in the scope or nature of the project. A construction permit can be cancelled prior to the expiry date, especially in the event of a fundamental breach of the project documents and/or planning and construction regulations, as well as other reasons.

In addition, from January 2017, changes occurred in the Town Planning Federal Code, whereby it is possible to refuse to give construction permits for projects, due to any restriction and other legislation prevention. According to the opinion received from the legal consultants of the Company in Russia, the aforementioned is not suficiently detailed and the interpretation could be very broad, whereby a legal prevention in any field whatsoever may prevent acceptance of the construction permit to a project subsequent to January 2017.

1.6.2.8 **Post Construction Acceptance and Approval Procedures** - Upon completion of the construction, the structure must be approved, *inter alia*, by a special acceptance committee, consisting of representatives of the investor, developer, executing authority, contractors, construction planners, and government agencies, that oversee public health, fire control, planning and construction, environmental management, as well as other state agencies responsible for supervising construction. Approval is validated as a permit to use the building and is a condition to registering the title to the completed building, including rights of the investors that financed construction.

1.6.2.9 On July 29, 2017, an amendment to Federal Law No. FZ-214 was legislated in Russia (the "**Federal Law**" or "**FZ-214**"). The new amendment to the Federal Law - whose purpose is to provide the legislative foundation for the arrangement, which will apply to construction companies (developers) in all matters pertaining to receipt of

new construction permits (from January 1, 2017) for the purpose of the construction of multistoried buildings and/or residential buildings, as well as provisions with respect to the management of funds of apartment purchasers - introduces additional conditions and restrictions which will apply to construction developers, the main conditions among them are as follows: (1) the developer is obligated to establish a distinct legal entity for each project, whose parent company or sister company has three years of experience in the construction of multistoried buildings and/or residential buildings with a total of 10 Sq. meter at least of construction; (2) the developing company ought to have a title of a "Specialized Developer" attached to its legal name; (3) any developer may receive one construction permit for one residential building; (4) special requirements with respect to the identity of the CEO, the chief financial officer and the owner of the developer company; (5) securities – the developer is required to make payments at a rate of 1.2% of the sales in favor of a governmental fund (federal) whose purpose is to compensate purchasers in the event of insolvency during the construction (an increase of 0.2% as opposed to the previous amendment to the Federal Law, that was promulgated on July 1, 2017); (6) for the purpose of the Project, the developer, the client, and the chief constructor are required to open a bank account with any bank on the list of banks, approved by the authorities; (7) restrictions with respect to the quantity of bank accounts that the developer may open; (8) prohibiting the developer to give loans; (9) restriction on the expenses of the developer, not pertaining to the construction of the project, such as the quantity of workers, taxes, advertising, office lease expenses etc. up to a rate of 10% of the construction costs; (10) financial restriction imposed on the contractor, including prohibition to commit in loan agreements, with the exception of credit agreements with the bank pursuant to the construction of the project; (11) restrictions on receipt of loans and giving of mortgages; (12) the developing company ought to maintain 10% of the construction costs of the project in the bank account prior to commencement of the construction.

Generally, the amendment to the aforementioned federal law will apply to developers, who received a construction permit subsequent to July 1, 2018. At the same time, provisions which were passed within the framework of the previous legislation amendment will apply to construction developers prior to the entrance of the new amendment into validity, including – (1) the requirement to transfer payments to a governmental compensation fund (a requirement that applies to a developer, that received construction permits from the end of October 2017); (2) compliance with the restrictions and requirements in the matter of the identity of the CEO, the chief financial officer and the owner of a developing company (a requirement which will apply to construction developers from January 1, 2018); (3) meeting the requirements of a minimum equity capital on the part of the developer and the like (a requirement which will apply to construction developers from January 1, 2018) – see hereunder.

The Company studies the change in said Federal Law and its implications on the Subsidiary of the Company, which own a project for residential construction in St. Petersburg, if any. It could be that the change in the Federal Law will bear implications upon the Subsidiary, which the latter will be obligated to implement during the subsequent construction stages in the Project (Stages 6-8).

In addition, to the extent known to the Company, discussions are held, based upon an instruction of the president of Russia, pursuant to the adoption of a federal law, whose meaning is an improvement in the set of securities, given to the purchasers of residential apartments, which may result with the cancellation of the FZ-214 within a three year period from December 2017. The Company is unable to anticipate the accurate implications of the change at hand.

For details with respect to the implications of these legislation amendments on the project of the Company in St. Petersburg, see Section 3.6 hereunder.

1.6.2.10 **Leases**: Land throughout Russia is leased under terms regulated by the Russian law through Law No. FZ-171.Usually, lease agreements include the right to renew the lease term upon its expiration. There is no restriction by law to the amount of lease fees for the lease of private land – i.e. with respect to private land, the parties to the lease agreement may determine lease fees, according to their discretion. The lease fees for land owned by the state or a local authority is determined generally and unilaterally each year, based on the rules applicable to the region where the land is located. Therefore, lease agreements are usually renewed through the filing of a request to extend the date. The aforementioned Law No. FZ-171 does not contain sections, relating to the extension of a lease date through the filing of a request. However, the Law interprets the possibility of the lessee to commit in a new lease agreement with the lessor. In certain cases, a new lease agreement can be signed without a preliminary auction, i.e. where the land is offered from the start in accordance with an agreement without a preliminary auction and on the date of the new agreement, there is justification for entering into an agreement without a preliminary tender based on the Russian law.

1.6.2.11 **Mortgages** - Under the Russian law, a mortgage agreement must be registered with the Land Register and is effective from the registration date. The creditor of the mortgage may apply to the court in Russia to order the sale of the mortgaged asset and payment of the debtor's debt out of the consideration of said sale. The rights of the bank as the mortgagee have been expanded significantly, especially where the loan is granted for construction or purchase of land, particularly in view of the economic crisis of 2008.

According to amendments to the (Federal) Mortgage Law (hereinafter: the "**Mortgage Law**"), as of 2009, mortgaged property can be sold through an ex-judicial procedure, provided that the following conditions are met: (1) the property owner and the mortgagee agree in writing that the mortgaged property may be sold in accordance with ex-judicial procedure, stated in the mortgage agreement or in a separate agreement, and (2) the mortgagee

signed such document before a licensed notary. Mortgages of this kind are quite common in the Russian banking system.

In the event of liquidation or bankruptcy, the mortgagee has priority over commercial unsecured creditors (although some creditor groups will have priority, e.g. unpaid employees and certain tax authorities). If the mortgage is duly registered on the Land Registry of Rights, the mortgage will bind any future buyer or owner. A mortgage on a lease agreement usually requires notice to the tenant only (without the need for consent). Unless the provisions in the mortgage prescribe otherwise, a mortgage on land automatically applies to the buildings constructed on the land. If the land or buildings are acquired, but are not paid in full, the acquired land or buildings are considered to be mortgaged by law in favor of said seller. On November 25, 2017, the Mortgage Law was amended (the "**Amendment to the Mortgage Law**"). According to the Amendment to the Mortgage Law, parties to a sale transaction of real estate may draft in writing the terms of the mortgage, applying to the transaction on the strength of the law. Until that date, any real estate transaction, wherein the full consideration was not paid, created a mortgage on the asset in favor of the vendor until payment of the consideration thereof. The innovation of said amendment is in the possibility of the parties to draft the mortgage conditions (applicable automatically on the strength of the law, as stated) which was lacking any legal status so far.

Same amendment, *inter alia*, determines as follows: (a) the mortgagee has the right to require - in the event of a breach, without derogating from any other relief available to him by law - the receivings emerging from same use of the asset (relevant mainly in the case of a lease); (b) the mortgagee may insure the mortgaged asset in his favor (in the event that it is not insured by the mortgagor) and to require the aforementioned insurance expenses from the mortgagor; (c) the mortgagor is under an obligation to report to all the mortgagees (first, second priority etc.) in the event of a realization procedures of the mortgage by any of the mortgagees.

In the meanwhile, on December 30, 2017, federal regulations were installed, whereby Russian families with two children or more will be entitled to receive a mortgage for the purchasing of a new residential apartment only according to an annual rate of 6% only. In addition, such families will be entitled to recycle the current mortgage (if any) according to the subsidized mortgage conditions (at an annual rate of 6%) as specified above. The aforementioned will apply to the period from January 1, 2018 until January 1, 2022.

1.6.2.12 **Duties and Obligations of Owners of Land Areas and Buildings** - Owners of land and buildings are required to comply with the provisions of federal, district and local laws, including regulations and provisions pertaining to environmental protection, public health, fire control and town planning. The owner of a building usually bears all the liabilities that may arise in respect of the building. Owners and lessees are required to use the land in accordance with their permitted uses (in other words, planning requirements), to avoid environmental damage, be responsible for funding the costs involved in compliance with certain standards for use of land and to prevent pollution, dirt or damage to the land. In the past, there were historic agreements, based upon district law, local law or an the lease agreement with the regional or local authority, where the financial liabilities were imposed on the owners, such as sharing certain parts of the building with the local or regional authority, financing engineering services of the local authority, financing transportation infrastructure and social infrastructure and reimbursement of some expenses to the previous occupants. The courts in Russia criticized arrangements and commitments of this kind.

1.6.2.13 **Changes in the Civil Code (Federal); Enhancement of the Supervision of the Central Bank of Russia Over Transactions with Related Parties**

On July 26, 2017, amendments were made in the Russian Civil Code in connection with the possibility of using an escrow method in transactions with third parties (as opposed to the conditions so far, that did not allow at all the existence of such a mechanism, other than the holding of accounts

in trust with banks). Said amendment will enter validity from June 1, 2018.

In addition, supervision over transactions with related parties in amounts and conditions, as specified in the provisions of the central bank, were enhanced.

1.6.2.14 **Adoption of Outline Regulations (Urban Construction Plans) in the Area of Moscow (Land Use Regulation)**

On March 28, 2017, new (regional) regulations were adopted in Moscow with respect to the planning and construction in Moscow (zoning), arranging the issue of planning and construction (at the regional level) in the area of Moscow. According to the best undertsanding of the Company, the aforementioned will bear no effect upon the Company.

1.6.2.15 **Changes in Land Laws in St. Petersburg**

a. From January 2017, changes in relevant laws in the field of construction and development of real estate in St. Petersburg were executed. The main change is the addition of a requirement, whereby a real estate construction permit will accord with the approval of the site development plan (GPZU) which is issued not later than three years prior to receipt of the real estate construction permit, presenting a condition to the receipt of the construction permit, as stated ("**GPZU**"). GPZU is actually the identity certificate of the plot on which the project is intended to be constructed, and it includes information and documents pertaining to the relevant plot, including the development plan – PPT ("**PPT**"), the site survey plan - PMT ("**PMT**") of the relevant parcel, as well as additional information. According to Regulation No. 207 of the St. Petersburg Municipality, a GPZU that was received prior to January 1, 2017 may serve for active projects and also in order to obtain construction permits during the period of three years, from January 1, 2017 until December 31, 2019.

b. Furthermore, on June 30, 2016, Law No. 524 of the St. Petersburg Municipality entered validity, promulgated on June 21, 2016,

pertaining to laws of utility and development of real estate in St. Petersburg (PZZ – Land Use and Development Rules) ("**PZZ**"; and after adoption of said Resolution 524- the "**New PZZ**"). The principles of the provisions of Law 524 introduced many restrictions on the manner of use and development of land in the municipal area of St. Petersburg, as opposed to the conditions prevailing until that date. the following table presents the main differences between the PZZ before and after the legislation of Law 524.

| **Parameter** | **PZZ Current Condition** | **The New PZZ** |
|---|---|---|
| Maximum permitted height | a. 75 meter to all the residential land plots;<br>b. Up to 30% above the average height in built up territories;[13] | 40 meter (in the entire area of the city) subject to exceptions in the law, whereby it is possible to reach a height of 45 meter or a height of 55 meter. |
| The number of parking places within the area of the plot in multistoried (towers) residential and multi-dwelling residential houses on a given plot. | At least one parking place per each 80 Sq. meter, as not less than 50% of the parking places are situated on the same plot. The remaining – not further than 500 meter from the boundaries of the plot on which the residential buildings are constructed. | For multistoried and residential buildings – one parking place per each 80 Sq. meter, and not less than 50% of the parking places are situated on the same plot and not less than 12.5% of the parking places must be open parking on the same plot. If the parking places are situated outside of the plot, their location is required to be no further than 400 meter from the boundaries on which the residential buildings are constructed. |
| Construction crowdedness parameter for plots that are planned to accommodate multistoried and residential buildings (above nine stories)*<br>* A necessary parameter for the calculation of the total area of the residential units. | 3.2% | 2.0% |
| Green areas within the area of the plot in the | 23 Sq. meter per each 100 Sq. meter of the area of the | 23 Sq. meter per each 100 Sq. meter of the area of the |

[13] The aforementioned is irrelevant to constructions, which received concrete approval to increase the maximum height allowed, according to sketches of approved boundaries or according to a re-construction of current buildings and/or a construction in built areas, subject to specific law.

| | | |
|---|---|---|
| areas of multistoried and residential buildings. | residential units. | residential units. Artificial water constructions (such as fountains) will not exceed 5% of the green areas necessary in the relevant plot; 70% of the green areas could be situated on stages and/or designated facilities, as at least 50% of them are situated underground where the thickness is not under 1.5 meter and not less than 20% in a ground whose thickness is under 1.5 meter, as the remaining 30% are situated on the ground of the parcel itself. |
| Places for bicycles in the plot within the areas of the multistoried and residential buildings. | There is no restriction. | One place per 280 sq. meter. calculated out of the total area of the residential units. |
| Commercial areas in the project within the area of the plot, in the areas of multistoried and residential buildings. | The total area of commercial areas will not exceed 30% of the total area of all the buildings situated on the plot. | The total area of commercial areas will not exceed 30% of the total area of all the buildings situated on the plot (including underground stories). |

It was determined within the framework of Section 4.6 of the New PZZ that as a rule, PTT and PMT that were approved prior to the entrance into validity of the New PZZ (subsequent to the adoption of Resolution 524) ought to be adjusted thereto up until December 31, 2018. At the same time, in the event of a discrepancy and/or discordance between the PMT/PTT and the New PZZ, the provisions of the PPT/PMT (including in connection with the construction's permitted height) will supersede until the aforementioned adoption, as stated. In other words, the adoption of the New PZZ is relatively friendly to investors and/or contractors, that commenced the execution of projects prior to its amendment, while taking into account the construction permit that was granted prior to the adoption thereof. On the other hand, according to the opinion of the attorneys for the Company in Russia, the provision of Section 4.6 of the New PZZ may contradict the federal legislation, which does not allow the

issuing of GPZU on the basis of an outdated construction permit, which is liable to contradict it in light of the parameters stated therein. Furthermore, according to the opinion of the attorneys for the Company in Russia, there is a ruling of the Supreme Arbitration Court of the Russian Federation whereby a contractor should at all time maintain a GPZU that was issued to him according to the legislation and standardization, which were valid upon the date of filing of the application for the permit. At the same time, there could be a reverse ruling of the court and/or a different interpretation in this context. For further details in connection with the implications of the aforementioned changes of legislation on the residential real estate project of the Company in St. Petersburg, see Section 3.6 hereunder.

1.6.2.16 **Land and Real Estate Taxation**

a. **Property tax** - The Tax Code of the Russian Federation establishes the obligation to pay property tax, which is regional tax of the Russian Federation (Part 30 of the Tax Code). Residents or non-residents, managing business activities through a permanent enterprise in Russia or through ownership of land in Russia, are subject to tax. The tax rate is determined by the regional authorities. The tax base for most of the real estate properties and movable assets is the average annual value of the property (usually calculated as cost according to the financial statements, less depreciation by law), or the estimated fair value of the property. In such an event, the tax rate shall not exceed 2.2%. In general, the aforesaid tax base includes most of the fixed assets, including some real estate property. Property tax also applies to movable assets of legal entities, although real estate properties purchased and operated after January 1, 2013, are not taxable, subject to certain deviations. The Tax Code (Second Part) was amended by the federal law dated November 2, 2013, concerning the tax base for certain real estate properties. Purchase tax also applies to movables in areas where the authorities did not cancel it. Accordingly, as of January 2, 2014, the tax applicable will be

based on the valuation of the land registry of the following assets: (a) business administrative centers, shopping centers and auxiliary areas in buildings, as stated; (b) areas that are not for residential use, serving as offices, stores, restaurants and other enterprises, serving the public or providing services to consumers or intended for use, as stated; (c) any asset owned by foreign companies that are not active through a permanent institute in Russia or that has not allocated by the foreign company to a permanent institute; (d) residential buildings and residential areas that are not registered as fixed assets. It should be indicated that this method of determining the tax base will apply on condition that the local legislation will adopt it in specific areas. The tax rate for kinds of land areas, specified above, is subject to several deviations, according to the local legislation, in the event that they are in the city of Moscow in 2017 - 1.4% (and in 2018 – 1.45%). In other areas of the Russian Federation, the maximum tax rate will be 2% in 2017. In the Saratov area, the tax rate amounted in 2017 to 1.5% (from 2018 – 2%). In St. Petersburg the tax rate in 2017 – 1% (up until 2019) and it will increase (gradually) from 2019 until 2023 to 2%.

b. The Tax Code of the Russian Federation also imposes mandatory payment of land tax, which is generally the local (municipal) tax and regional tax in Moscow and St. Petersburg. The taxpayers hold are assessed, having ownership rights and rights for permanent use of land in the Russian Federation. The tax rate is determined by the local and regional authorities in Moscow and St. Petersburg. The tax base of the land tax is defined as the registered value of the land applicable to the land parcels. The tax rate must range between 0.3% and 1.5% according to the zoning thereof.

1.6.2.17 During the last quarter of 2016, changes came into effect in the Russian Civil Code, which adopted principles of the English law, including the option of making representations, indemnification and waivers, and the definition of interested party transactions and the approvals, required in

order to execute them, including within a group of companies. According to the best of the knowledge of the Company, the above does not have an impact on its activities, with exception of the manner of forming its agreements.

1.6.2.18 Furthermore, in the beginning of 2017, the provisions of the Central Bank of Russia were amended, whereby stricter supervision provisions of the Central Bank were applied upon the local banking system, with respect to the manner of providing securities for loans by the banks and compliance with criterion and conditions in the relationships between them and the borrowers.

## 1.7 Description of the Group's Operating Method

This section below describes the Company's operating method in commercial and residential real estate:

1.7.1 The Group, either by itself or together with partners, purchases, plans, develops and builds commercial property for rent and/or sale and also residential units for sale. As of the Date of the Report, the Group operates merely in Russia.

1.7.2 Upon the Date of the Report, the Group has 12 projects (10 in the commercial real estate field and 2 in residential real estate field) at various stages of development. The operations in each of the projects in which the Group operates is executed through a designated company, which holds (directly or through a subsidiary) rights in the project and serves (in most cases) as the main developer of projects in which the Company is involved. Each designated company coordinates various activities in the project, either by itself or through a management company, acting on its behalf: planning (including rezoning), obtaining building permits, agreements with external entities, contractors, accounting, marketing and sales, purchasing and project management.

1.7.3 The Group's projects are in various stages of development, as follows:

| Residential/ Commercial Residential | Name of the Project St. Petersburg* | Stages as of the Date of the Report Stages 1-2 | Development stages | | | | Development stages | Development stages |
|---|---|---|---|---|---|---|---|---|
| | | | Preliminary planning (concept) | Preliminary planning (concept) | Preliminary planning (concept)[14] | Preliminary planning (concept)[15] | | |
| | St. Petersburg* | Stages 1-2 | - | - | - | - | - | 58,807 |
| | | Stage 3 | - | - | - | - | - | 61,786 |
| | | Stage 4 | - | - | - | 60,694 | 60,694 | - |
| | | Green tower | - | - | 7,425 | - | 7,425 | - |
| | | Stage 5 | - | - | 66,084 | - | 66,084 | - |
| | | Stage 6a | - | - | - | - | - | [16]12,500 |
| | | Stages 6-8 | - | 129,796 | - | - | 129,796 | - |
| | Western Residence | Stage 1 | - | - | - | 4,121 | 4,121 | 24,089 |
| | | Stage 2 | 34,607 | - | - | - | 34,607 | - |
| **Total Residential** | **-** | **-** | **34,607** | **129,796** | **73,509** | **64,815** | **302,727** | **157,182** |

[14] This stage usually starts with receipt of the necessary construction permit (permanent or for temporary jobs) and is valid until completion of the construction of the building and registration thereof.

[15] The final stage, the construction or the renovation completed, the asset was registered and generates income (in the field of residential real estate – the residential units, whose income was not acknowledged in the financial statements, as yet.

16 Emerging from the sale of the land division. For details, see section 1.1.4 above.

| Residential/ Commercial Residential | Name of the Project St. Petersburg* | Stages as of the Date of the Report Stages 1-2 | Development stages | | | | Development stages | Development stages |
|---|---|---|---|---|---|---|---|---|
| | | | Preliminary planning (concept) | Preliminary planning (concept) | Preliminary planning (concept)[14] | Preliminary planning (concept)[15] | | |
| | | | | | | | | |
| **Office center in Moscow** | Tamiz and Mag | - | - | - | - | 30,272 | 30,272 | - |
| | Hidro | - | - | - | - | 16,696 | 16,696 | - |
| | Century | - | - | - | - | 20,903 | 20,903 | - |
| **Total commercial centers in Moscow** | - | - | - | - | - | **67,871** | **67,871** | - |
| **Commercial centers** | Saratov | Commercial center | - | - | - | 27,243 | 27,243 | - |
| | Yaroslavel | Commercial center Stage 1 | - | - | - | 34,092 | 34,092 | - |
| **Total commercial centers** | | | - | - | - | **61,335** | **61,335** | - |
| **Construction** | St. Petersburg | The commercial | - | **9,262** | 3,903 | 6,835 | 20,000 | - |

| Residential/ Commercial Residential | Name of the Project St. Petersburg* | Stages as of the Date of the Report Stages 1-2 | Development stages | | | | Development stages | Development stages |
|---|---|---|---|---|---|---|---|---|
| | | | Preliminary planning (concept) | Preliminary planning (concept) | Preliminary planning (concept)[14] | Preliminary planning (concept)[15] | | |
| **land areas** | | area | | | | | | |
| | St. Petersburg | The commercial area, Stage 2 | 86,000 | - | - | - | 86,000 | - |
| | Yaroslavel | Stage 2 | 40,000 | - | - | - | 40,000 | - |
| | Kazan | - | 18,500 | - | - | - | 18,500 | - |
| | Saratov logistics | - | 104,000 | - | - | - | 104,000 | - |
| **Total land for construction** | - | - | **248,500** | **9,262** | **3,903** | **6,835** | **268,500** | **-** |
| **Total areas** | **-** | **-** | **283,107** | **139,058** | **77,411** | **200,856** | **700,432** | **157,182** |

a. In certain cases, the Group purchases existing buildings for their renovation and expansion. The Company's renovation and expansion projects include renovation of existing buildings, usually when limited permits or approvals are required or when no permits or approvals are required. The Company may also purchase income-generating assets.

b. The Company's basic development costs include the cost of purchasing the development rights and/or leasing rights to the land, costs involved in planning and obtaining permits (sometimes also the cost of providing services by the seller of the property to receive the permits), construction and management fees paid to the project administration and financing costs. In general, costs associated with extending lease agreements are not material, unless rezoning and/or a change in the use of land is required.

c. In addition, in certain projects, the Group is required to bear additional costs to upgrade infrastructures and construct certain public infrastructure services. These costs apply initially to the Group, however, eventually the Group will act to offset these amounts in accordance with contractual arrangements with relevant government authorities, to the extent possible.

However, due to many and frequent changes in the legislation and regulation in Russia, there is no certainty that the Group will succeed in doing so and even in some of the Group's projects, which were established on privatized land and/or on land for which rights were received from local and/or district authorities, the Group is required to involve the local or regional authority or another statutory entity in certain parts of the buildings, that will be constructed on the project area (city share). This is carried out according to tender documents and/or obtaining the consent of such authorities, to privatize the land or receive property rights or for building permits and the execution of the project.

The Group’s revenue from operations is mainly from rental and/or sale of commercial property, whose development has been completed and from the sale of residential units, by itself or together with joint venture partners.

1.7.4 The following is a general description of the process that the Company undergoes, from identifying the investment property up to completion of project development:

1.7.4.1 **Locating the project** - Investment opportunities of Group's companies emerge from various sources, including contacts with local developers and retailers, partners and managers, financial institutions, real estate investors,

real estate consulting companies, and also professional consultants, and direct approaches to the Company by third party property owners and through the Company's website.

1.7.4.2 **The Process of investment -** Potential projects identified by the Group, after checking their adjustment to the corporate strategy, receiving a business feasibility study (including an review of return on investment and/or gross profit, with reference to the project characteristics, its purpose and risk levels derived from other characteristics), and legal due diligence, are presented to the Company's investment committee, pursuant to its approval or recommendation to the Board of Directors.

1.7.4.3 **Project planning and establishment -** After resolving to invest in a project, the Group hires the services of external architects to prepare the detailed design concept and detailed plan. The Group usually hires an external general contractor, which will actually execute the construction work. The project's management team and the project's management department of the Group supervise the planning and construction process. The Group's agreements with material service providers are usually made through a tender. Upon completion of the construction, the relevant regulatory authorities involved in the development process are required to review the finished project and ensure that the Group and the general contractor have complied with the conditions and stipulations in accordance with all the federal approvals and regulations, as well as municipal approvals and regulations of the city in which the project is located.

The duration of time from the stage of identifying a potential asset for investment and completion of the asset’s acquisition, can take, on average, about six months. The Company’s costs in connection with the assessment of the projects (primarily due diligence expenses) are not material.

## Part Three - Description of the Businesses Affairs of the Corporation, According to Fields of Operation

### 1.8 Description of the Commercial Real Estate Field of Operation

#### 1.8.1 General Information on the Field of Operation

##### 1.8.1.1 General

As of the Date of the Report, most of the Group's commercial real estate operations involve the promotion, development, construction, renovation, operation, management and sale of real estate for office, commercial and logistical utilities.

##### 1.8.1.2 Geographic Regions Where the Company Operates in the Field of Operation

As of the Date of the Report, the Group's projects in this field of operation are located in larger cities i.e. Moscow, St. Petersburg, Saratov, Yaroslavl, and Kazan.[17]

It should be noted, that in different cities where the Company operates, its management does not identify separate economic characteristics, in terms of risks and yields. The Company operates in a signel geographic region (Russia). Since the Company's operations in different areas in which it operates in Russia are not of the same nature, for instance: in Moscow – offices; in St. Petersburg – residential; in Yaroslavl and Saratov – commercial - there is no point of comparing between these geographic areas.

For details with respect to the macro-economic parameters of Russia, see Section 1.2.1 above.

Generally, the real estate market in Moscow is divided into levels, as follows:

The Office Market

Class A or "A"- new assets that are located within the third ring of Moscow with a very high level of finishing;

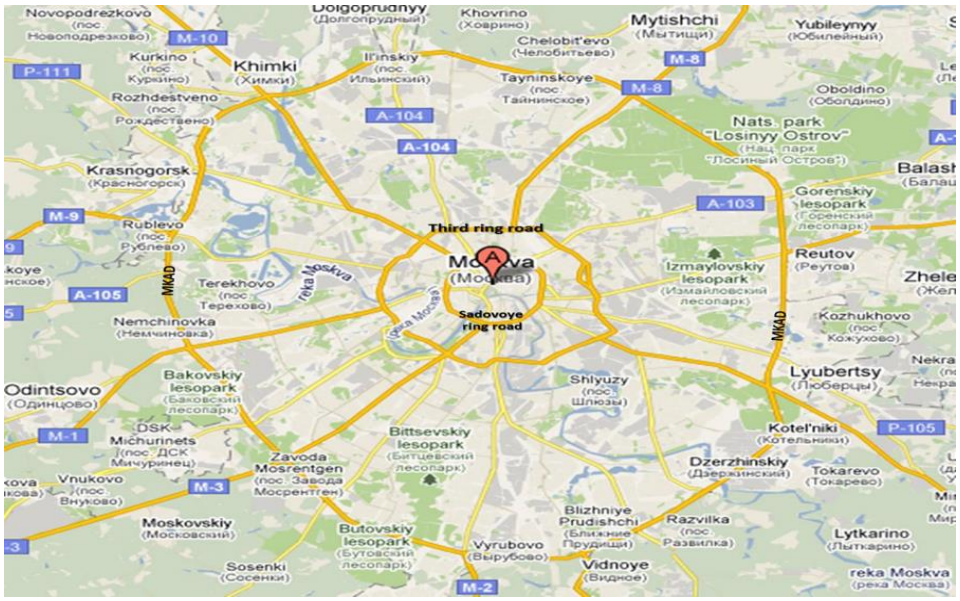
Class B or "B" - buildings generally located in the surroundings of the third ring of Moscow and outside of it, with a medium finish level, built or that underwent renovation / conversion during the last 20 years;

17 In Kazan, the Group holds land, which is insignificant to its operations.

Class C or "C" - primarily industrial buildings not defined as Class A or Class B.

It should be noted in this respect that the entire road system of Moscow includes four rings. The third ring of Moscow is a road located between the ring of the central park in the city and the peripheral ring road of Moscow, as most of the business activity in the city takes place within the area of the third ring.

<u>The following illustration depicts the ring in Moscow:</u>




Below is a brief summary of the cities where the Company operates, according to its fields of operation, including information about the specific economic parameters of each city.

1.8.1.3 **<u>Real Estate Market in Moscow - General</u>** [18]

a. The capital of Moscow is the industrial and business center of Russia, with a population of more than 15 million residents (including the outskirts of Moscow). Moscow is considered to be Russia's most affluent city in terms of average income per capita, and it has the highest number of offices per capita compared to other cities in the country.

b. In 2017, the yield rates on commercial real estate in Moscow amounted to approx. 10.25% in office buildings, and a rate of 10.75% in commercial centers. In the logistics and warehouse sector, the yield rates were approx. 12.5% in 2017, a decrease of 0.25%, compared to 2016.

[18] Source: Cushman & Wakefield, VTB Capital.

c. **The Office Real Estate Market in Moscow**[19] - Up until the economic crisis at the end of 2014, the office real estate market in Moscow developed rapidly in terms of magnitude and overall quality.

The main forces behind this expansion are the increase in office jobs, entrance of foreign investors and a general increase in the profits of corporations, allowing them to upgrade their offices to finish levels A and B. By the end of 2017, the market supply amounted to about 16.8 million sq. meter, out of which about 4 million sq. meter accomodates offices with a Class A finish and the rest with a Class B finish.

In 2017, approx. $1.7 billion was invested in the office market in Moscow, presenting approx. 34% of the total investments in commercial assets in Russia.

In 2017, the qualitative office market in the city (Class A and B) were added with 400 thousand sq. meter, similarly to 2016. The average lease fees in A Class offices decreased by 5% (in dollar terms) to $434 Sq. meter per annum (Triple Net) and offices in Class B decreased by approx. 2% (in dollar terms) to $234 per Sq. meter per annum (Triple Net). In consequence of the addition of new areas and moderate demands, the rates of available areas of offices in Class A amounts to approx. 16.5% by the end of 2017, a decrease in comparison with the datum of 25% in 2016. In Class B offices, there was a decrease in the rate of available areas during the year from 15.9% to 13.5% by the end of 2017.

d. **Main Characteristics of the Office Market in Moscow**[20]

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Total supply (millions of sq. meter) | 16.8 | 16.3 | 15.9 |
| Supply of Class A offices (millions of sq. meter) | 4.0 | 3.9 | 3.8 |
| Supply of Class B offices (millions of sq. meter) | 12.8 | 12.4 | 12.1 |
| Average rent (Class A) US$/sq. meter/year | 434 | 459 | 549 |
| Average rent (Class B) US$/sq. meter/year | 234 | 240 | 282 |
| The rate of available land areas (Class A) | 16.5% | 25% | 32.4% |
| The rate of available land areas (Class B) | 13.5% | 15.9% | 15.7% |
| Average annual yield (Class A), prime locations | 10.25% | 10.5% | 10.5% |

e. **The Real Estate Market in St. Petersburg - General**

[19] Source: Cushman & Wakefield.
[20] Source: Cushman & Wakefield.

St. Petersburg's has the second largest economy in Russia (after Moscow) in terms of population, consisting of about 5 million people, as well as in terms of income per capita, retail turnover and other economic parameters.

St. Petersburg is in an ideal location, at the crossroads between Central Europe, Scandinavia and Russia, with a port on the Baltic Sea, which is the main port of Russia in that sea. As the city was planned during the 17th century in a centralized manner, according to a comprehensive design by Europe's leading architects, St. Petersburg is considered to be the cultural center of Russia and a popular tourist destination (the city was announced a world heritage site by UNESCO) presenting a developed industry and a relatively high standards of living. Accordingly, the city attracts local and foreign businessmen, causing an increase in demand for commercial and residential properties, mainly because several large Russian and international companies started to transfer their headquarters to the city.

f. **The Office Real Estate Market in St. Petersburg**[21]

The office real estate market in St. Petersburg reached approx. 3.1 million sq. meter by the end of 2017. Approx. 29% of the scope of these areas are office spaces with Class A finishing.

In 2017, the rate of available areas decreased by 1.9 points as opposed to 2016 to 7.75%.

g. **The Retail Real Estate Market in St. Petersburg** [22]

By the end of 2017, the modern commercial center market in St. Petersburg remained unchanged, as opposed to 2016, with approx. 2.2 million Sq. meter of commercial areas in 58 commercial areas. The commercial areas in shopping malls per capita in St. Petersburg is of the highest in Russia, reaching approx 500 Sq. meter per thousand people. The rate of available areas decreased from 6% to 3.8%, bearing in mind that new areas were not added during 2017.

The trend of giving discounts to lessees and updates of lease agreements in commercial centers continued in 2017, as well. Rental fees in

[21] Source: Colliers International.

commercial centers ranged from $150 to $450 per sq. meter per annum for anchor tenants in shopping malls, and up to $1,200 per annum for other tenants.

Notwithstanding the sanctions imposed on Russia, there is an interest in the Russian market, and new networks are interested to extend their activity, particularly those appealing to middle and higher classes. Several new international brands were added to the market, such as Miniso, Under Armor and Disney.

h. **The Commercial Real Estate Market in Saratov** [23]

Saratov is situated in south-eastern Russia, about 840 km. from Moscow. The city includes approx. 800,000 residents and is a regional center. Together with the nearby population centers, Saratov has about 1.2 million residents. According to Forbes,[24] Saratov is in the 10th place on a list of the 30 cities, having the largest business potential in Russia. The income level of the city's residents increased during the recent years, along with a continuous decline in unemployment rates.

The retail market in the city is relatively new and began to develop only in 2007. Most of the commercial centers in the city are situated in the historic center of the city. However, the supply of available land areas in the center of the city is limited. Therefore, the main potential for the continued growth of commercial areas is in the industrial parts at the outskirts of the city.

The total current supply of commercial areas in the city is approx. 280 thousand sq. meter. The city has high presence of international nationwide chains together with local chains.

Rental fees in commercial centers at the heart of the city range between $200-$400 per sq. meter, annually. In consequence of the market conditions in Russia, together with the fact that the market in Saratov has not reached saturation, rental fees are expected to remain relatively stable within the middle range.

i. **The Logistics Market in Saratov**[25]

[23] Source: Cushman & Wakefield.
[24] Source: Cushman & Wakefield.
[25] Source: Cushman & Wakefield, Alfa

From the midpoint of the previous century, Saratov developed as an industrial city, and is currently an important center of the Volga region. In the 2000's, however, industrial production significantly decreased, many factories terminated their operations and empty factory spaces were turned into storage spaces. The logistics market in Saratov is characterized mainly by C and D Class storage spaces. The rental fees are in local currency and usually include operative costs.

Only approx. 13% of the total supply can be characterized, as storage space, which does not require renovation and which is connected to all essential infrastructures. Most of the demand is for small spaces of up to 500 sq. meter.

The demand for storage areas is stable. It can be observed that most of it (approx. 50%) is on the part of commercial companies and approx. 30% intended for storage of food.

j. **The Commercial Real Estate Market in Yaroslavl** [26]

Yaroslavl is approximately 250 km. north-east of Moscow, with a population of 600,000 residents. The city is situated on the banks of the Volga and is considered a well-developed important transportation center in the European part of Russia. It is also a popular touristic site, being one of Russia's Golden Ring cities. Due to its relative proximity to Moscow, the income level of its residents is relatively high.

The city's economy is mostly based on industrial and retail sectors. High quality commercial centers in the city started to develop from 2004, as the city constitutes a distribution center for several large federal networks in Russia, such as Metro Cash & Carry and Real. Commercial real estate in Yaroslavl developed rapidly prior to the economic crisis. Due to the dense construction in the city center, construction of large commercial centers is not possible, therefore most modern commercial centers are not in the city center.

Almost all the main retail players, both international and local, are present in Yaroslavl. As of the Date of the Report, the retail market in Yaroslavl is well developed, as compared to other Russian cities with similar population, with a little less than 320 sq. meter high quality

[26] Source: Cushman & Wakefield.

commercial areas per 1,000 residents. The city is close to the point of saturation in this field, as the rate of available areas amount to approx. 6%-7%, as well as several projects in the city, which are under renovations or are planned to undergo renovation.

Rental fees in commercial centers in the city are in the range of $120-$400 per sq. meter, annually, depending on the location, lessee and the size of the store. In consequence of the high fluctuation in the exchange rate, the trend for contracts in ruble or in order to fixed rate of exchange intensified.

k. **The Commercial Real Estate Market in Kazan** [27]

Kazan is the capital of the Republic of Tatarstan, one of the highly economically developed republics in Russia, situated at the junction between the Volga and Kazanka Rivers, 830 kilometers east of Moscow. Kazan is one of the largest cities in Russia with a population of 1.1 million residents. The city is an important cultural, economic, commercial and political center in Russia. The long history of the city contributes to the fact that it is one of the most toured cities in Russia.

Kazan's economy is mostly based on oil industry, which constitutes approx. 40% of its overall income from taxes. It has a developed retail market with over 900,000 sq. m of commercial areas and with above 50 commercial centers in different formats, accommodating many international and local players, such as IKEA, Metro Cash&Carry, Spar etc. In addition, the city is considered as a logistics center, having a high development potential.

As of the Date of the Report, rental fees in commercial centers in the city are in the range of $120-$400 per sq. meter, annually.

1.8.1.4 **Legislative Restrictions, Standardization and Special Circumstances Applicable to the Field of Activity**

The Group's activity in the field of operation is subject to statutory requirements, applicable in Russia, with respect to various issues, including issues relating to planning, construction and the environmental protection (e.g. hazards, underground and air pollution and waste), and the Group must bear the costs involved in compliance with these requirements. As part of due

[27] Source: Cushman & Wakefield.

diligence tests prior to purchasing land, the Company assesses the significance and expected costs of environmental issues, mainly due to the location of the land, facilities above and below ground and previous uses of the land.

For details of various land rights in accordance with the law in Russia and environmental protection, see Section 1.6.2. above. For details about geopolitical changes and their effect on the Company, see Section 1.1.1 above.

1.8.1.5 **Critical Success Factors in the Field of Operation**

The Company is of the opinion, that the critical success factors in commercial real estate operations are as follows:

(a) Know-how and expertise in commercial real estate, both in terms of construction and development and in terms of management and marketing, allowing to the Company to maintain its level of income and clientele;

(b) Professional engineering planning, attractive architectural design and high level construction standards;

(c) Ensuring occupancy levels in assets of the Company;

(d) Financial strength, allowing maximum exploitation of opportunities and a proper response to varying market conditions;

(e) Creation of goodwill, based on reliability, compliance with schedules and abidance by agreements;

(f) Know-how and experience, allowing to the Company to handle its relationship with lessees in an optimum manner, both at the level of the lessees and at the level of the Company.

1.8.1.6 **Main Entrance and Exit Barriers of the Field of Operation**

**Entry Barriers** - Entities engaging in commercial real estate are mainly required to maintain high equity capital and financial robustness, providing them with the available capital to purchase property and land, without requiring external financing, or alternatively available capital at relatively low financing costs. Know-how, experience, positive reputation in the industry, along with buildings in areas of high demand for rental spaces, are of considerable importance. In light of the financial crisis that occurred from 2014 in the economic condition of Russia, a flood of supply evovled in the

Russian real estate market, but there are not many lessees, who are interested to purchase real estate assets or to finance such assets.

**Exit barriers** - The main exit barriers in commercial real estate are mainly due to the fact that such projects are large and long-term, involving long-term contractual obligations. Under certain market conditions, pending completion of construction, registration and leasing of properties, disposal of assets might take a long time or might be under conditions that are different from the conditions, which the Company believes that reflect the full value of the asset. In light of the changes in 2014 and the economic crisis in Russia, the number of transactions executed in the real estate field significantly decreased and the realization of real estate assets may take longer than that expected.

1.8.1.7 **The Structure of Competition in the Field of Operation and Changes Therein**

The Group is exposed to competition from a large number of local and international commercial real estate developers. Competition is focused on identifying real estate for promotion, development, construction, sale and leasing purposes. The financial crisis of 2014 in Russia had several effects on the structure of competition. On the one hand, competition in the commercial real estate market increased in light of the evolvement of surplus supply compared to the demand, which led to abandonment of lessees and a reduction of prices. On the other hand, as the Company has many clients defined as lessees of Class A+ real estate assets, offers of competitors, who are offering assets of a lower class, are not sufficiently attractive in order to cause them to leave the Company, and they remain its clients.

In addition, because the Company has accumulated good reputation over the years, along with its successful handling of previous crises in the Russian economy, placing it as a company that meets its liabilities, toward both lessees and financial institutes - lessees prefer to engage in agreement with the Company and not with competing real estate companies. It should be noted that with respect to lessees in commercial centers of the Group's companies in Russia, the Company amended the lease agreements following the devaluation of the ruble, allowing such lessees to meet their payments to

the Company. For details regarding the Company's purchase policy and business strategic goals, see Section 4.11 in Chapter A hereunder.

1.8.2 **Summary of Results (US$ 000's)**

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income of the Field of Operations (Consolidated) | 35,347 | 30,882 | 35,079 |
| Revaluation Profits (Losses) (Consolidated) | (6,921) | (72,267) | (56,152) |
| Profits (Losses) of the Field of Operations (Consolidated) | 12,052 | (55,639) | (36,035) |
| Same property NOI (for the last two reporting periods) (consolidated) | 23,217 | 20,086 | 19,047 |
| Same property NOI (for the last two reporting periods) (Corporation's share) | 23,217 | 20,086 | 17,268 |
| Total consolidated NOI | 23,217 | 20,149 | 23,769 |
| Total share of the Corporation | 23,217 | 20,149 | 21,990 |

1.8.3 **Segmentation of Income-Generating Real Estate Areas in the Field of Operation According to Utilities (sq. meter)**

1.8.3.1 As of December 31, 2017 (Company's share in sq. meter)

| | Offices | Commercial | Total |
|---|---|---|---|
| **Utilities** | 67,871 | 61,335 | 129,206 |
| **Percentage of total property area in the field of operation** | 53% | 47% | 100% |

1.8.3.2 As of December 31, 2016 (Company's share in sq. meter)

| | Offices | Commercial | Total |
|---|---|---|---|
| **Utilities** | 67,871 | 61,335 | 129,206 |
| **Percentage of total property area in the field of operation** | 53% | 47% | 100% |

1.8.4 **Segmentation of Fair Value of Income-Generating Real Estate in the Field of Operation by According to Utilities (Company's share in US$ 000's)**

1.8.4.1 As of December 31, 2017

| | Offices | Commercial | Total |
|---|---|---|---|
| **Utilities** | 112,800 | 137,700 | 250,500 |
| **Percentage of total value of assets of field of operation** | 45% | 55% | 100% |

1.8.4.2 As of December 31, 2016

| | Offices | Commercial | Total |
|---|---|---|---|
| **Utilities** | 121,500 | 122,400 | 243,900 |
| **Percentage of total value of assets of field of operation** | 50% | 50% | 100% |

1.8.5 **Segmentation of NOI in the Field of Operation According to Utilities (Company's share in US$ 000's)**

1.8.5.1 As of December 31, 2017

| | Offices | Commercial | Total |
|---|---|---|---|
| **Utilities** | 7,174 | 16,071 | 23,245 |
| Percentage of total NOI of assets in the field of operation | 31% | 69% | 100% |

1.8.5.2 As of December 31, 2016

| | Offices | Commercial | Total |
|---|---|---|---|
| **Utilities** | 7,102 | 13,047 | 20,149 |
| Percentage of total NOI of assets in the field of operation | 35% | 65% | 100% |

1.8.5.3 As of December 31, 2015

| | Offices | Commercial | Total |
|---|---|---|---|
| **Utilities** | 8,531 | 13,459 | 21,990 |
| Percentage of total NOI of assets in the field of operation | 39% | 61% | 100% |

1.8.6 **Segmentation of Revaluated Profit (Loss) in the Field of Operation According to Utilities (Company's Share)**

1.8.6.1 As of December 31, 2017

| | Offices | Commercial | Logistics | Total |
|---|---|---|---|---|
| Utilities | (14,915) | 8,391 | (206) | (6,730) |
| Percentage of total revaluation gains of field of operation | 99% | - | 1% | 100% |

1.4.6.2 As of December 31, 2016

| | Offices | Commercial | Logistics | Total |
|---|---|---|---|---|
| Utilities | (42,441) | (26,792) | (3,034) | (72,267) |
| Percentage of total revaluation gains of field of operation | 58% | 38% | 4% | 100% |

1.4.6.3 As of December 31, 2015

| | Offices | Commercial | Logistics | Total |
|---|---|---|---|---|
| Utilities | (21,547) | (25,226) | (2,459) | (49,232) |
| Percentage of total revaluation gains of field of operation | 44% | 51% | 5% | 100% |

1.8.7 **Segmentation of Actual Average Lease Fees per sq. meter Annually According to Utilities (in dollars)**

| Offices | | Commercial | |
|---|---|---|---|
| 2017 | 2016 | 2017 | 2016 |
| 243 | 225 | 233 | 196 |

1.8.7.1 Minimum and Maximum Lease Fees for 2017

Offices
The minimum lease fees per square meter are $48 per year.
The maximum lease fees per square meter are $498 per year.
Commercial
The minimum lease fees per square meter are $37 per year.
The maximum lease fees per square meter are $1,029 per year.

1.8.7.2 Minimum and Maximum Lease Fees for 2016

Offices
The minimum lease fees per square meter are $50 per year.
The maximum lease fees per square meter are $473 per year.
Commercial
The minimum lease fees per square meter are $34 per year.
The maximum lease fees per square meter are $9 66 per year.
For the most part, the difference between the minimum and the maximum rental fees is due to differences in the size of the space rented and also location of the asset, whereby as a leased area is smaller and its location is more attractive - it will yield higher lease fees, and vice versa.

1.8.8 **Segmentation of Average Occupancy Rates in Assets in the Field of Operation (%)**

| Offices | | | Commercial | | |
|---|---|---|---|---|---|
| As of December 31, 2017 | 2017 | 2016 | As of December 31, 2016 | for 2016 | for 2015 |
| 76% | 75% | 73% | 98% | 98% | 98% |

1.8.9 **Income-generating assets of the field of operation by use**

| Offices | | Commercial | |
|---|---|---|---|
| **December 31, 2017** | **December 31, 2016** | **December 31, 2017** | **December 31, 2016** |
| 4 | 4 | 2 | 2 |

1. 8.10 **Segmentation of average actual yield rates (by value at year-end) of assets in the field of operation**

| Offices | | Commercial | |
|---|---|---|---|
| **December 31, 2017** | **December 31, 2016** | **December 31, 2017** | **December 31, 2016** |
| 6.6% | 5.8% | 11.7% | 10.7% |

1.8.11 Expected Income from Signed Lease Agreements

| Income recognition period | | Assuming non-exercise of the lessee option periods * | | |
|---|---|---|---|---|
| | | Income (US$ 000's) | No. of contracts expiring | Area subject of expired leases (thousands of sq. meter) |
| **2018** | **Q I** | 7,016 | 26 | 4 |
| | **Q II** | 6,868 | 28 | 4 |
| | **Q III** | 6,790 | 31 | 5 |
| | **Q IV** | 6,557 | 27 | 5 |
| **Total 2018** | | 27,231 | 112 | 18 |
| **2019** | | 22,889 | 69 | 19 |
| **2020** | | 19,523 | 68 | 13 |
| **2021** | | 15,285 | 52 | 15 |
| **2022 and after** | | 39,790 | 104 | 50 |
| **Total** | | **124,718** | **405** | **115** |

* In light of the economical condtion of Russia, exercise of the option period is not feasible and therefore was not taken into account.

Pursuant to the presentation of the data on the table above, the following assumptions were made:

(a) Discounts and restrictring the exchange rate for various customers over fixed periods were taken into account, in accordance with the data used by the external appraisers of the Company.

(b) Fines for early exit, if any, are not taken into account.

(c) Amounts in ruble were converted into US$ according to the known rate on December 31, 2016, or according to the conversion rate stated in the rental agreement (if any).

(d) The addition to the lease fees for rates out of revenue was not taken into account upon calculation of the lease fees.

The management of the corporation does not have information with respect to the income expected from variable components, while distinguishing from the other income.

1.8.12 **Assets Under Construction in the Field of Operation (Aggregate)**

| | Parameter | Period (For year ending) | | |
|---|---|---|---|---|
| | | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| **Commercial** | Number of properties under construction at the end of the period | 3 | 3 | 3 |
| | Total areas under construction (planned) at the end of the period (in sq. meter) | 157,665 | 162,428 | 176,275 |
| | Total costs invested in the current period (US$ 000's) | 2,150 | 980 | 3,683 |
| | Amount by which assets are presented in the reports at the end of the period (US$ 000's) | 14,900 | 13,900 | 15,000 |
| | Construction budget in subsequent period (estimate) (US$ 000's) | 14,900 | 12,300 | 3,523 |
| | Total balance of estimated construction budget pursuant to completion of the construction works (estimate for end of period) (US$ 000's) | 122,322 | 118,115 | 107,680 |
| | Rate of the constructed area for which lease agreements are signed (%) | - | - | - |
| | Forecasted annual income from projects to be completed in the corresponding period (consolidated) (estimate) (US$ 000's) | - | - | - |
| **Offices** | Number of properties under construction at the end of the period | - | - | - |
| | Total area under construction (planned) at the end of the period ( in sq. meter) | - | - | - |
| | Total costs invested in the current period (consolidated) (US$ 000's) | - | - | - |
| | Amount at which assets are presented in the reports at the end of the period (consolidated) | - | - | - |

| | | | | |
|---|---|---|---|---|
| | (US$ 000's) | | | |
| | Construction budget in subsequent period (estimate) (consolidated) (in US$ 000's) | - | - | - |
| | Total balance of estimated construction budget to complete construction works (consolidated) (estimate for end of period) (US$ 000's) | - | - | - |
| | Rate of the constructed area for which lease agreements are signed (%) | - | - | - |
| | Forecasted annual income from projects to be completed in the corresponding period and for which contracts are signed regarding five or more percent of the area (consolidated) (estimate) (US$ 000's) | - | - | - |
| **Logistics** | Number of properties under construction at the end of the period | 1 | 1 | 1 |
| | Total areas under construction (planned) at the end of the period (thousands of sq. meter) | 104,000 | 104,000 | 104,000 |
| | Total costs invested in the current period (US$ 000's) | 27 | 19 | 19 |
| | Amount at which assets are presented in the reports at the end of the period (US$ 000's) | 1,500 | 1,600 | 4,000 |
| | Construction budget in subsequent period (estimate) (US$ 000's) | 125 | 119 | - |
| | Total estimated construction budget to complete construction works (estimate for end of period) | 52,611 | 45,950 | 38,300 |
| | Rate of the constructed area for which lease agreements are signed (%) | - | - | - |
| | Forecasted annual income from projects to be completed in the corresponding period (estimate) (US$ 000's) | - | - | - |

1.8.13 **Acquisition and Sale of Assets**

| | **Parameter** | **Period (For year ending)** | | |
|---|---|---|---|---|
| | | **December 31, 2017** | **December 31, 2016** | **December 31, 2015** |
| **Assets sold** | Number of assets sold in the period | - | - | *1 |
| | Net consideration from the exercise of assets sold in the period (US$ 000's) (Company's share) | - | - | 5,229 |
| | Area of the assets sold in the period (in sq. meter) | - | - | N/A |
| | NOI of properties sold (US$ 000's) | - | - | N/A |

| | | | | |
|---|---|---|---|---|
| | Profit (loss) recorded for the exercise of the assets sold (US$ 000's) | - | - | (1,000) |
| **Assets purchased** | Number of assets purchased in the period | - | **1 | - |
| | Cost of assets purchased in the period (US$ 000's) | - | 8,000 | - |
| | NOI of properties acquired (US$ 000's) | - | 487 | - |
| | Area of the assets purchased in the period (in sq. meter) (Company's share) | - | 9,261 | - |

* The sold asset is part of the land in the Yaroslavl Stage 2 project, which was sold to the DIY Chain.

** The purchased assets are the partners' shares (39% and 49%) in the Century project. For details regarding the acquisition of rights of the partners, see Section 2.4 in Chapter A of the 2016 Report.

## 1.9 List of Substantial Assets

### 1.9.1 Income-Generating Asset - Tamiz Project

The Tamiz project is situated nearby the Hydro and MAG projects, consisting of one building, which after renovation and expansion includes offices (Class B), on a total leasable area of 11,737 sq. m (the "**Tamiz Project**," "**Project's Site**" and "**Project's Structure**", respectively). As of the Date of the Report, MAG holds all of the rights in the Tamiz project. The area of the project was purchased by the Company in 2007 through a subsidiary, according to a total consideration of approx. US$ 6.7 million. As of the Date of the Report, the Project Structure, as stated, includes leasable office areas on a total area of approx. 11,737 sq. meter. In connection with the Project, there are arrangements with parties, who have directed the project up until September 21, 2016. For details in their respect, see Sections 2.2 and 2.3 respectively.

| Name of the asset and characteristics | | | Year | Information item | | | | | | | | | | | Additional data required under Article 8b(i) (as applicable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Book value at the end of the period (consolidated) (in US$ 000's) | Fair value at end of period (US$ 000's) | Income from lease fees for the period (consolidated) (activity in US$ 000's) | Actual NOI for the period (consolidated) (in US$ 000's) | Rate of return (%) | Adjusted rate of return (%) | Rate of return on cost | Debt to asset value ratio (LTV)[28] | Revaluation gains (consolidated) (in US$ 000's) | Occupancy rate at the end of the period (%) | Average rent per sq. meter (US$ 000's) | Identity of assessor (name and experience) | Valuation model that the appraiser used | Additional assumptions at the basis of the valuation |
| **Tamiz Project** | **Operative currency** | **Dollar** | 2017 | 19,400 | 19,400 | 2,312 | 1,432 | 7.4% | 7.4% | 3% | N/A | (2,249) | 68% | 227 | C&W | DCF | |
| | **Primary usage** | **Offices** | 2016 | 20,600 | 20,600 | 2,009 | 1,266 | 6.1% | 6.1% | 2.8% | N/A | (8.169) | 68% | 208 | C&W | DCF | |
| | **Original cost / original construction (in US$ 000's)** | **45,600**[29] | 2015 | 24,700 | 24,700 | 2,357 | 1,473 | 6% | 6% | 3.2% | N/A | (1,623) | 81% | 217 | C&W | DCF | |
| | **Corporation's share (%)** | **100%** | | | | | | | | | | | | | | | |
| | **Area (sq. meter)** | **11,737** | | | | | | | | | | | | | | | |

[28] It should be noted that the loan given with respect to the Tamiz asset was provided to a subsidiary that holds the asset, as the Tamiz asset serves as a security for all of the liabilities of the subsidiary as stated vis-a-vis the bank. For details regarding the loan provided to the subsidiary, see Section 0 below.

[29] It should be noted that the aforesaid data includes both the cost of the land and the cost of the asset's construction.

1.9.2 **Income-Generating Project Under Construction - St. Petersburg Commercial Project**

The St. Petersburg commercial project constitutes part of the Company's residential project in St. Petersburg, in a total net leasable area of about 103,928 sq. meter. For details regarding the project see Section 3.10.2 below.

| Name of the asset and characteristics | | | Year | Information item | | | | | | | | | | | Additional data required under Article 8b(i) (as applicable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Book value at the end of the period (consolidated) (in US$ 000's) | Fair value at end of period (US$ 000's) | Income from lease fees for the period (consolidated) (activity in US$ 000's) | Actual NOI for the period (consolidated) (in US$ 000's) | Book value at the end of the period (consolidated) (in US$ 000's) | Fair value at end of period (US$ 000's) | Rate of return on cost | Debt to asset value ratio (LTV) | Revaluation gains (consolidated) (in US$ 000's) | Occupancy rate at the end of the period (%) | Average rent per sq. meter (US$ 000's) | Identity of assessor (name and experience) | Book value at the end of the period (consolidated) (in US$ 000's) | Fair value at end of period (US$ 000's) |
| | Operative currency | Dollar | 2017 | 11,200 | 11,200 | N/A | N/A | N/A | N/A | N/A | N/A | 1,609 | N/A | N/A | C&W | Comparison method + DCF | - |
| St. Petersburg commercial project | Primary usage | Commercial | 2016 | 8,300 | 8,300 | N/A | N/A | N/A | N/A | N/A | N/A | (2,140) | N/A | N/A | C&W | Comparison method | - |
| | Original cost / original construction (in US$ 000's) | 10,000 | 2015 | 8,200 | 8,200 | N/A | N/A | N/A | N/A | N/A | N/A | (6,654) | N/A | N/A | C&W | Comparison method | - |
| | Corporation's share (%) | 100 % | | | | | | | | | | | | | | | |
| | Area (sq. meter) | N/A | | | | | | | | | | | | | | | |

### 1.9.3 **Logistical Structures- Saratov Logistics Project**

The Saratov logistic project, located in the city of Saratov, is a project for the construction of logistic structures of about 104,000 square meters. The land was purchased in February 2009.

| Name of the asset and characteristics | | | | Information item | | | | | | | | | | | Additional data required under Article 8b(i) (as applicable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Book value at the end of the period (consolidated) (in US$ 000's) | Fair value at end of period (US$ 000's) | Income from lease fees for the period (consolidated) (activity in US$ 000's) | Actual NOI for the period (consolidated) (in US$ 000's) | Rate of return (%) | Adjusted rate of return (%) | Rate of return on cost | Debt to asset value ratio (LTV) | Revaluation gains (consolidated) (in US$ 000's) | Occupancy rate at the end of the period (%) | Average rent per sq. meter (US$ 000's) | Identity of assessor (name and experience) | Valuation model that the appraiser used | Additional assumptions at the basis of the valuation |
| Saratov Project | ve currency | Dollar | 2017 | 1,500 | 1,500 | N/A | N/A | N/A | N/A | N/A | N/A | (206) | N/A | N/A | C&W | Comparison method | - |
| | Primary usage | Storage rooms | 2016 | 1,600 | 1,600 | N/A | N/A | N/A | N/A | N/A | N/A | (3,034) | N/A | N/A | C&W | Comparison method | - |
| | Original cost / original construction (in US$ 000's) | 5,769 | 2015 | 4,000 | 4,000 | N/A | N/A | N/A | N/A | N/A | N/A | (322) | N/A | N/A | C&W | Comparison method | - |
| | Corporation's share (%) | 100 % | | | | | | | | | | | | | | | |
| | Area (sq. meter) | N/A | | | | | | | | | | | | | | | |

## 1.10 Adjustment to FFO profits*

| | FFO* for the year ending on In US$ 000's (unaudited) | | |
|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Net profit (loss) for the period | 1,645 | 127,785 | (157,477) |
| Changes in the value of investment real estate assets, investment real estate under construction, land and additional investment assets | 6,921 | 72,267 | 55,152 |
| Profit or loss from the sale of investment real estate under construction and other investment assets | - | - | 1,000 |
| Deferred taxes for adjustments | (3,223) | 4,890 | (20,367) |
| Equity profit | - | - | - |
| Adjustment for the conversion of debentures to capital based on a debt arrangement | - | (222,471) | - |
| Revaluation of assets and liabilities | (10,938) | 25,726 | 4,330 |
| Exchange rate differences | (8,785) | (47,768) | 84,716 |
| Index linkage differences for debentures | - | 740 | (671) |
| Total | (14,380) | (38,831) | (42,270) |

***Funds From Operations (FFO)**

## 1.11 Adjustment of Fair Value to Values in the Statement of Financial Position

| | | As of (in US$ 000's) | | |
|---|---|---|---|---|
| | | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Presentation in Chapter of Description of Corporation's Business | Total value of investment real estate assets whose construction was completed in the field of operation | 250,500 | 243,900 | 260,200 |
| | Total value of investment real estate assets under construction in the field of operation | 16,400 | 13,900 | 19,000 |
| | Total value of land classified as investment real estate in the field of operation | - | - | - |

| | | | | |
|---|---|---|---|---|
| | **Total** | **267,200** | **257,800** | **279,200** |
| **Adjustments** | Assets included in "non-current assets held for sale" in the Statement of Financial Position | - | - | - |
| | Adjustments to value arising from accounts receivable | - | - | - |
| | Adjustments arising from presentation of assets by cost | - | - | - |
| | Assets held in companies presented with equity method | - | - | - |
| | Other adjustments | - | - | - |
| | Total adjustments | - | - | - |
| | **Total, after adjustments** | **266,900** | **257,800** | **279,200** |
| **Presentation in the statement of financial position** | Section of investment real estate in the statement of financial position | 250,500 | 243,900 | 260,200 |
| | Section of investment real estate under construction in the Statement of Financial Position | 16,700 | 13,900 | 19,000 |
| | **Total** | **267,200** | **257,800** | **279,200** |

## 2. Details of Most Significant Income-Generating Real Estate Assets of the Company

The following are details with respect to the Company's most significant investment properties within the context of its field of operation.

### 2.1 Vernissage Mall Project

General

As of the Date of the Report, the Yaroslavl project is a commercial complex on a total area of 278 dunam (the "**Project Area**"). The project is located approximately six kilometers from the city center, nearby a residential quarter and close to a junction that connects the ring road, encircling Yaroslavl, to the Moscow freeway ("**Vernissage Project**"). As of the Date of the Report, the Company holds 100% of the project through the subsidiaries, Inverton Enterprises Limited ("**Inverton**") – 98.3% and Investisionno Ipotechnaya Kompania LLC ("**IIK**") – 1.7%.

**Stages of the Project**

The Company is developing the Yaroslavl project in two stages. In 2007, the first stage was completed, whereby a commercial center on a total area of about 120 dunam was constructed, with total leasable area of approx. 34,092 sq. meter, and approx. 1,450 parking places, part of which was designated to stage 2 of the project (the "**Commercial Center**").

**Rights of the Yaroslavl Region Local Authority in the Project**

The project's area, as part of a total land area of 1,000 dunam ("**Total Area**"), was privatized by way of a tender issued by the Yaroslavl regional local authorities, which owned the land. Within the tender for the privatization of the Total Area and its sale to the previous owners of the project's area ("**the Previous Owners**") the Previous Owners undertook, with respect to the Total Area, to grant the local authorities 8% of the rights in any built-up area that will be established in the Total Area. The Previous Owners showed the Company a contract and amendments thereto, under which the Previous Owners committed with the local authorities following the tender, defining the Previous Owners' undertaking with regard to transfer of 8% to the local authorities. It was agreed between Global 1 (hereinafter: the "**Grandchild Company**" or " **Global 1**") and the Previous Owners that Global 1 would not be required to transfer any assets to the local authorities and if such liability arises, the Previous Owners would take it upon themselves. Global 1 undertook that in any event of further construction on the land owned by it (300 dunam), it would engage with the Previous Owners and/or the local authorities in an appropriate agreement.

As of the Date of the Report, the legal entity of the Previous Owners was dismantled, after sale of the land in a total area of 700 dunam to third parties, which are not related to the Company.

Notwithstanding, the Company included in its financial statements a provision in the amount of approx. $2.2 million (net) – $4.2 million together with an obligation to offset an indemnification asset amounting to approx. $2 million from by Goodrock Real Estate Commercial Fund Limited ("**Goodrock**").[30]

In May 2016, Global 1 received a notice from the local authority, whereby the latter requests from Global 1 to participate in a discussion to clarify, which areas from the project would be transferred to the local authority. Global 1 responded to the local authority that it does not recognize the aforesaid obligation, which was not assumed by it, but which was made by the Previous Owners. On February 10, 2017, Global 1

[30] According to the best knowedge of the Company, the controlling holder of Goodrock is Gazprombank Invest Ltd. (Open Joint Stock Company) (**"Gazprombank Invest").** Gazprombank Invest was founded by Gazprom OJSC, a public company traded both in Russia and on London's stock exchange, which is under control of the Russian Fedewration.

received another notice from the local authority, based on which it was requested to transfer the aforesaid areas to the latter. As of the Date of Publication of the Report, other than exchange of letters, as stated, there are no legal proceedings between the local authority and Global 1. If and to the extent that such an exchange of letters will mature into legal proceedings, the Company will examine them on their merit together with its legal consultants and will respond accordingly.

In addition, on March 1, 2017, Global 1 received a notice from the Federal Service of Intellectual Property (Registrar of Intellectual Property) that a third party filed protestation with respect to the registration of the rights of Global 1 in the trademark of 'Yaroslavskiy Vernisage', which is the name of the commercial center from its opening date in 2007. The hearing in this matter was scheduled to March 24, 2017. In January 18, 2018, said protestation was dismissed by the Federal Registrar of Intellectual Property.

**Partners and Participation Agreements**

As of the Date of the Report, the Company holds, by itself and through a fully held subsidiary, 100% of the shares of Inverton, after completion of the acquisition of Inverton's shares in March 2014, as set forth below. Until the closing of the above transaction as aforesaid, the shareholders of Inverton shares were the Company and Goodrock.

On December 23, 2013 an agreement was committed between the Company and Goodrock, in accordance with which Goodrock will sell to the Company the shares of Inverton held by it, i.e. 49.5% of Inverton's share capital (the "**Purchased Shares**"), in consideration of a total of US$ 31.1 million. The joint control agreement that prevailed between the Company and Goodrock was terminated, thereby from that date the Company owns by itself and through its fully held subsidiary all of the issued share capital of Inverton and consolidates its financial statements.

Goodrock undertook to compensate and indemnify the Company for 49.5% of any claim, loss, damage and expense in connection with a demand to transfer 8% of the areas during a 4 year period from the transaction's closing date, subject to certain exceptions and exclusions, which were set forth in the Agreement. In June 2016, the Company approached Goodrock within the time fixed in a notice concerning the possibility of an indemnity event, as set forth in Section 2.1 above. Furthermore, two

additional notices were conveyed on this matter in 2017. As of the Date of Publication of the Report, the response of Goodrock to said notice was not received, as yet.

**Management of the Commercial Center**

As of 2015, the Group manages the commercial center on its own. Within this framework, a grandchild subsidiary of the Company holds activity for children in the area of the commercial center (a scope of about 2,000 sq. meter). The lease fees are paid on behalf of a grandchild company in the Group, as customary with respect to activity of this kind in the region. The receipts from this activity are not material to the Company and are usually used for branding and marketing of the commercial center.

**The information stated in the foregoing section is future anticipating information, as this term is defined in the Securities Law, 1968, *inter alia*, based upon the Company's estimates, forecasts and work plans, as of the Date of the Report (including the Company's decision to execute the second stage of the project). It is possible that part of the Company's assessments could actually materialize differently, due to factors beyond the Company's control, such as increase in construction and marketing costs, receipt of appropriate permits for plans, and also macro-economic factors, such as the economic policy, condition of the Russian economy in general and in the real estate sector in particular, etc.**

2.1.1 **General**

| | **As of December 31, 2016** |
|---|---|
| Asset name | Yaroslavl |
| Location of the property | Yaroslavl |
| Asset area | 120 dunam (of which about 34,092 sq. meter net is for lease) |
| Company’s share in the asset | 100% |
| Asset holdings structure | Through Inverton and IIK |
| Partners in the asset | None |
| Property purchase date | February 2005 |
| List the legal rights in the asset | Freehold |
| State of registration of legal rights | Registered rights |
| Substantial unused building rights | About 40,000 sq. meter for lease |
| Special matters (substantial building violations, land contamination, etc.): | - |
| Method of presentation in financial statements (consolidated / relative consolidation / equity method): | Consolidation |

2.1.2 **Main Data**

| Data regarding the Company's share of the asset (100%)** | 2017 | 2016 | 2015 | Original purchase/construction Cost (US$ 000's) | Property purchase date |
|---|---|---|---|---|---|
| Fair value at end of period (US$ 000's) | 52,800 | 47,200 | 48,400 | | 55,317 |
| Book value at year-end (in presentation currency)** | 52,800 | 47,200 | 48,400 | **Purchase date** | February 2005 ** |
| Impairment recognized during the period (if the property is measured at cost) | N/A | N/A | N/A | **Occupancy rate (%)** | - |
| Average occupancy rates (%) | 97% | 96% | 89% | NOI | - |
| Leased area (sq. meter) | 33,096 | 32,946 | 30,474 | | |
| Total revenue (US$ 000's) | 8,118 | 6,545 | 6,496 | | |
| Average annual lease fees per sq. meter (dollars) | 159 | 129 | 144 | | |
| Average lease fees per sq. meter in contracts signed during the period | 182 | 151 | 116 | | |
| NOI (US$ 000's) | 5,871 | 4,760 | 4,722 | | |
| Adjusted NOI (US$ 000's) | 5,871 | 4,760 | 4,722 | | |
| Actual rate of return (%) | 11.1% | 10.4% | 9.8% | | |
| Adjusted rate of return (%) | 11.1% | 10.4% | 9.8% | | |
| Number of lessees at end of reporting year | 140 | 132 | 122 | | |
| Regarding an income-generating commercial center - the ratio of lease fees of the total proceeds or average proceeds per sq. meter | N/A | N/A | N/A | | |
| Exchange rate (end of period) | 57.6 | 60.7 | 72.9 | | |

2.1.3 **Segmentation of the Structure of Revenues and Costs (US$ 000's)**

| Data by Company's share in the asset (100%) | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Income** | | | |
| From lease fees - fixed | 5,559 | 4,520 | 4,605 |
| From lease fees - variable | 448 | 323 | 202 |
| From management fees | 2,111 | 1,702 | 1,689 |
| Other | - | - | - |
| **Total revenue** | 8,118 | **6,545** | **6,496** |
| **Expenses** | | | |
| Management, maintenance, and operation | (1,659) | (1,386) | (1,309) |
| Depreciation (if recorded) | - | - | - |
| Other expenses | (589) | (398) | (465) |
| **Total costs** | (2,247) | (1,784) | **(1,774)** |
| **NOI** | 5,871 | 4,761 | **4,722** |

### 2.1.4 **Main Lessees in the Asset**

| Data by Company's share in the asset | Rate of the area in the property associated with the lessee (%) in 2017 | Is it an anchor tenant? | Is it responsible for 20% of more of the income from the asset? | Lessee's sector affiliation | Original engagement period and remaining period | Options to extend (years) | Updating or linkage mechanism of lease fees* | Detail of guarantees (if any) | State any special dependence |
|---|---|---|---|---|---|---|---|---|---|
| Lessee A | 33% | Yes | Yes | Food | Signed on December 23, 2009 and ending April 27, 2032 | None | Lease fees in 2017 amount to $139 per sq. meter or 2.5% of the turnover, whichever is higher. The lease fees (permanent) increase by 2.9% per year during the lease period | Guarantee of the parent company of the lessee and the security deposit of Lessee A in total of $141,775 and in addition of the parent company according to an identical amount. | No |
| Lessee B | 10% | Yes | No | Sports | Signed on September 30, 2015 and ending December 31, 2041 | None | Lease fees in the amount of 5,350 ruble per sq. meter or 4% of the turnover per annum whichever is higher. up until December 26, 2018, or 2.5% of the turnover, whichever is higher. | 2 lease month bank guarantee | No |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | In 2019 5,000 ruble per sq. meter or 2.5% of the turnover, whichever is higher. The lease fees (permanent) increase each year, linked to the CPI (Russia) from the 5th year of the lease (2020) | | |
| Lessee C | 7% | Yes | No | Electric Appliances | Signed on June 1, 2011 and ending June 1, 2027. | None | Lease fees in the amount of $230 per sq. meter in the current year, or 4% of the turnover per annum whichever is higher. The lease fees increase at a rate of 5% each year during the lease term until its conclusion. | 1.5 lease month bank | No |
| Lessee D[31] | 6% | Yes | No | Children | Signed on May 21, 2015 and ending December 19, 2016 with an | None | Lease fees in the amount of $30 per sq. meter in the current year, increasing each | A security deposit of Lessee D in total of two lease | No |

[31] A grandchild company that operates the children activity in the commercial center, see section 2.1 above.

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | annual automatic extension each time up to a maximum period of seven years from this date. | | year, linked to the CPI (Russia) not under 5% until completion of the lease period . | months. | |

* The maximum ruble/dollar rate in accordance with which the lease fees will be paid (payable in $) is determined each period with the lessees. With respect to Lessee A – in 2017, the ruble/dollar rate amounted to 48.5 (January–June) and 49 ruble/dollar rate (July-December). In all matters pertaining to Lessee C – a discount in the annual lease fees was given during the period of January-November 2017, during which an amount of $190 per Sq. meter was paid according to a rate of 38 rubles/dollar, and from December 2017 at a rate of 38.5 rubles/dollar. In all matters pertaining to Lessee D – 37 ruble/dollar.

### 2.1.5 Expected income for signed lease agreements (US$ 000's)

| Data by Company's share in the asset (100%) | 2017 | 2018 | 2019 | 2020 | 2021 and after |
|---|---|---|---|---|---|
| **Fixed components** | 5,749 | 5,458 | 4,735 | 4,315 | 30,089 |
| **Variable components (estimate)** | - | - | - | - | - |
| **Total** | 5,749 | 5,458 | 4,735 | 4,315 | 30,089 |

For the purpose of the data on the table above, the following assumptions were made:

(a) Discounts were given and the exchange rate was restricted toward various lessees for fixed periods, in accordance with the data used by the external appraisers of the Company.

(b) Fines for early exit, if any, are not taken into account.

(c) Amounts in ruble were converted into dollar according to the known rate on December 31, 2017, or according to the conversion rate stated in the rental agreement (if any).

(d) The addition to the lease fees of the rate of yield was not taken into account upon calculation of the lease fees.

The Company's management has no information with respect to the income expected from variable components, while distinguishing from other revenues.

### 2.1.6 Planned Improvements and Changes in the Asset

As of the date of this Report, no improvements and/or changes are planned in the asset.

### 2.1.7 Specific Financing

| Specific financing (Company's share in the asset - 100%) | | | Loan (formerly: VTB: Bank of Moscow) |
|---|---|---|---|
| Balances according to the statement of financial position (US$ 000's) | 31.12.2017 | Presented as a short-term loan | 114 |
| | | Presented as long-term loan | 46,100 |
| | 31.12.2016 | Presented as a short-term loan | 138 |
| | | Presented as long-term loan | 42,140 |
| Fair value as of December 31, 2017 (in US$ 000's): | | | 46,345 |
| Original loan date | | | In September 2016, the loan was restructured, whereby the old loan was repaid through a new loan from VTB. |
| Original loan amount (US$ 000's) | | | 40,000 (about 2.6 million rubles) |

| | |
|---|---|
| Effective interest rate as of December 31, 2017 (%) | 11.75%* |
| Repayment date of principal and interest | The loan balance as of the Date of the Report will be repaid over a period of five quarterly installments, as the last payment at the end of the loan term equaling approx. 96%. |
| Main financial stipulations | Loan to asset value ratio – not exceeding 100% over 24 months from the commitment in the Agreement. Release from meeting this condition during the first year. 24 months from the commitment in the Agreement (September 2019 henceforth), it will not exceed 70%. Meeting debt coverage ratio – not under 1.1 annual EBITDA (of the company that holds the real estate asset) – above 260 million ruble (in 2018 – 280 million ruble, in 2019 – 294 million ruble and in 2020 henceforth – 310 million ruble). Annual income from the asset – above 65% million ruble during a quarter (gradually increasing quarterly up to an amount of 80.5 million ruble from 2020 henceforth). |
| Other financial stipulations | Maintaining occupancy rate in the project of not under 90% |
| Were central conditions or financial criteria breached as of the end of the reporting year | No |
| Is it non-recourse? | No |

* The nominal interest is the interest of the Central Bank of Russia + 4%. As of December 31, 2017, this interest amounted to an annual rate of 11.75%. In accordance with the restructuring agreement of the loan as set forth in Section 1.1.3 in Chapter A of the 2016 Report, the Company was obligated to execute interest payment at a rate of up to 8% annually, as the balance of interest payments are added to the final payment upon completion of the lease period.

### 2.1.8 **Material Liens and Legal Restrictions on the Asset**

| Type | Details | Amount secured by the lien |
|---|---|---|
| **Liens** | a. The rights of Global 1 in the Land Area on which the commercial center is built, including the rights arising wherefrom;<br>b. Shares of Global 1 held by Inverton;<br>c. A guarantee by the Company, Inverton and | The principal and interest balance on the loan in the amount of US$ 46.3 million as of December 31, 2017 (excluding |

| | | |
|---|---|---|
| | another grandchild subsidiary for payment of the debt and fulfillment of all of Global 1's undertakings. | other expenses and payments secured under the lien). |

2.1.9 **Details of the Valuation**

| **Data (100%)** | **2017** | **2016** | **2015** |
|---|---|---|---|
| Determined value (in US$ 000's) | 52,800 | 47,200 | 48,400 |
| Identity of appraiser | C&W | C&W | C&W |
| Is the appraiser independent? | Yes | Yes | Yes |
| Is there an indemnification agreement? | Yes | Yes | Yes |
| Effective date of the valuation | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Valuation model | DCF | DCF | DCF |
| Main parameters used for the valuation | | | |
| Gross leasable area used for the calculation (sq. meter) | 34,092 | 34,092 | 34,092 |
| Occupancy rate in year + 1(%) | 97% | 97% | 89% |
| Occupancy rate in year + 2(%) | 100% | 100% | 95% |
| Occupancy rate in year + 3(%) | 100% | 100% | 100% |
| Occupancy rate in year + 4(%) | 100% | 100% | 100% |
| Representative occupancy rate from leasable area for valuation (%) | 100% | 100% | 100% |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 1 | 175 | 152 | 129 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 2 | 179 | 161 | 150 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 3 | 187 | 164 | 181 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 4 | 193 | 172 | 185 |

| | | | | |
|---|---|---|---|---|
| Average representative lease fees (monthly / annual) per leased sq. meter for valuation | | 203 | 187 | 201 |
| Representative NOI for valuation | | 6,817,362 | 6,287,707 | 6,732,705 |
| Average periodic expenses for maintaining the status quo | | 65,598 | 61,321 | 67,563 |
| Discount rate used for the valuation | | 14% | 14% | 14% |
| Time to conceptual exercise (years) | | 5 | 5 | 5 |
| Rate of return upon conceptual exercise | | 11.5% | 11.5% | 11.5% |
| Sensitivity analyses (based on the valuation method) | Change (in US$ 000's) | | | |
| Occupancy rates | Increase of 5% | 200 | 300 | 200 |
| | Decrease of 5% | -700 | -1000 | -200 |
| Capitalization rate | Increase of 1% | -4,000 | -3,700 | -4,000 |
| | Decrease of 1% | -4,900 | 4,300 | 4,700 |
| Lease fees per sq. meter | Increase of 5% | -1,200 | 1,000 | 1,000 |
| | Decrease of 5% | -1,100 | -1,100 | -1,000 |

## 2.2 Hydro Project

The Hydro Project, held by a fully held subsidiary, Hydromashservice LLC ("**Hydro**" and the "**Hydro Project**," respectively) is located on Hutorskaya Street at the heart of the Novoslobodsky business district in the northern part of Moscow on a total area of 12 dunam ("**the Project Area**"). The project consists of two buildings that include medium level offices (Class B) with a total leasable area of 16,696 sq. meter ("**the Project Buildings**").

The project has convenient transportation access to the main roads and a variety of means of transportation. The project is within walking distance from the Dmitrovskaya metro station and has direct access to Ring Road 3, which encircles the city.

As of the Date of the Report, Hydro holds the leasehold rights in the Project's Area. The lease period ends in 2029 and the area is designated for business and commercial purposes.

On January 4, 2013, Hydro committed in an agreement for the rendering of management services, replacing the previous agreement between the parties, with TMJK Holdings Ltd., a Cypriot company owned by Mr. Michael Krichevsky, an officer of the Company at the time and Fadida Holdings Ltd., a Cypriot company controlled by Mr. Ofer Fadida Lupin (together hereinafter: "**Service Providers**") under which the Service Providers would provide Hydro with management services for the Project, *inter alia*, including management of lease contracts, marketing of vacant leasable spaces, providing ongoing maintenance services, etc. (the "**Management Services**").

In accordance with the Agreement, the Service Providers are entitled to 10% of the net profit received from the sale, as stated. On January 1, 2016, the period of the agreement was completed, based on its terms. In reality, the parties acted in accordance with this agreement until completion of the purchase transaction on September 21, 2016, and from that date, receipt of management services by Hydro from the Service Providers was terminated, excluding the entitlement of the Service Providers to a payment of 10% of the net profit received (if any) in the event of sale of the Project, as specified above. As of the Date of the Report, based upon a valuation received by an external appraiser, there is no payment entitlement on the part of the Service Providers, based upon said method.

The valuation of each project is executed in accordance with the DCF method, taking into account 100% of the cash flows, that the Company is expected to generate from the lease of the assets, subject of the valuation, without reference to the commitment between the Company and Service Providers for payment of the management fees, calculated as a percentage of the income and profit. The Company holds 100% of the companies that own the aforementioned projects, therefore the Company has the legal right to the economic benefits generated from the aforementioned assets.

### 2.2.1 **General**

| | As of December 31, 2017 |
|---|---|
| Asset name | Hydro |
| Location of the property | Moscow |
| Asset area | 12 dunam (of which about 16,696 sq. meter is for lease) |
| Company's share in the asset | 100% |
| Asset holdings structure | Through Hydro |
| Partners in the asset | None |
| Property purchase date | 2005 |
| List the legal rights in the asset | Lease rights in the land and ownership rights to the buildings |
| State of registration of legal rights | Registered |
| Substantial unused building rights | - |
| Special matters (substantial building violations, land contamination, etc.): | - |
| Method of presentation in financial statements (consolidated / relative consolidation / equity method): | Consolidation |
| Details of sold asset | N/A |

### 2.2.2 **Main Data**

| **Data by Company's share in the asset (100%)** | **2017** | **2016** | **2015** | | **Property purchase date** |
|---|---|---|---|---|---|
| Fair value at end of period (US$ 000's) | 25,700 | 28,000 | 32,200 | **Cost Purchase/construction (in US$ 000's)** | 48,091 |
| Book value at year-end (in presentation currency) | 25,700 | 28,000 | 32,200 | **Purchase date** | June 2005 |
| Impairment recognized during the period (if the property is measured at cost) | N/A | N/A | N/A | **Occupancy rate (%)** | - |
| Average occupancy rates | 78% | 80% | 85% | NOI | - |
| Leased area (sq. meter) | 13,321 | 13,135 | 14,180 | | |
| Total revenue (US$ 000's) | 3,309 | 3,132 | 3,565 | | |
| Average rent per sq. meter | 231 | 218 | 263 | | |
| Average lease fees per sq. meter in contracts signed during the period | 203 | 182 | 255 | | |
| NOI (in US$ 000's) | 1,472 | 1,520 | 1,766 | | |
| Adjusted NOI (US$ 000's) | 1,472 | 1,520 | 1,766 | | |

| | | | | | |
|---|---|---|---|---|---|
| Actual rate of return | 5.7% | 5.4% | 5.5% | | |
| Adjusted rate of return | 5.7% | 5.4% | 5.5% | | |
| Number of lessees at end of reporting year | 71 | 70 | 63 | | |
| Exchange rate (end of period) | 57.6 | 60.7 | 72.9 | | |

### 2.2.3 Segmentation of the structure of revenue and costs

| Data by Company's share in the asset (100%) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Income** | | | |
| From lease fees – fixed | 3,192 | 3,019 | 3,436 |
| From lease fees – variable | - | - | - |
| From management fees | 117 | 113 | 129 |
| Other | - | - | - |
| **Total revenue** | 3,309 | 3,132 | **3,565** |
| **Expenses** | | | |
| Management, maintenance, and operation | (1,217) | (1,098) | (1,126) |
| Depreciation (if recorded) | - | - | - |
| Other expenses | (620) | (514) | (673) |
| **Total costs** | (1,837) | (1,612) | **(1,799)** |
| **NOI** | 1,472 | **1,520** | **1,766** |

### 2.2.4 Expected Income from Signed Lease Agreements (US$ 000's)

| Data by Company's share in the asset (100%) | 2018 | 2019 | 2020 | 2021 | 2022 henceforth |
|---|---|---|---|---|---|
| **Fixed components** | 2,777 | 1,820 | 1,099 | 814 | 739 |
| **Variable components (estimate)** | - | - | - | - | - |
| **Total** | 2,777 | 1,820 | 1,099 | 814 | 739 |

For the purpose of the data included on the table above, the following assumptions were made:

(a) Discounts were given and the exchange rate was restricted toward various lessees for fixed periods, in accordance with the data used by the external appraisers of the Company.

(b) Fines for early exit, if any, are not taken into account.

(c) Amounts in ruble were converted into dollar according to the known rate on December 31, 2017, or according to the conversion rate, stated in the rental agreement (if any).
The management of the Company has no information with respect to the income expected from variable components, while distinguishing from the other income.

### 2.2.5 **Planned Improvements and Changes in the Asset**

As of the date of this Report, no improvements and/or changes are planned in the asset.

### 2.2.6 **Specific financing**

| **Specific financing (Company's share in the asset - 100%)** | | | SberBank LLC. |
|---|---|---|---|
| Balances in the statement of financial position (US$ 000's) | December 31, 2017 | Presented as a short-term loan | 138 |
| | | Presented as long-term loan | 16,333 |
| | December 31, 2016 | Presented as a short-term loan | 152 |
| | | Presented as long-term loan | 16,938 |
| Fair value as of December 31, 2017 (in US$ 000's): | | | September 2012 |
| Original loan date | | | 20,000 |
| Original loan amount (US$ 000's) | | | 7% |
| Effective interest rate as of December 31, 2016 (%) | | | |
| Repayment date of the principal and interest | | | The loan balance as of the Date of the Report will be repaid over a period of ten years in quarterly principal and interest payments, and 86% balloon at the end of the period. |
| Main financial stipulations | | | Loan to asset value ratio not above 70%*. Ratio of income from net lease to principal and interest payments of less than 1.1*. |
| Other financial stipulations | | | Cash sweep and cross-guarantee for debts - Imotoru, MAG and Saratov against the bank. |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | No |
| Is it non-recourse? | | | No |

* According to the terms of the arrangement with the bank, there is an exemption from compliance with the above until December 31, 2017, which was extended up until December 31, 2018. For details, see Section 1.1.71.1.8 above. If not extended, non-compliance with these standards will involve fines that are immaterial to the Company and in any case do not constitute a cause for immediate repayment of the loan.

2.2.7 **Material Liens and Legal Restrictions on the Asset**

| Type | Details | Total amount |
|---|---|---|
| **Liens** | a. Pledge of rights of Hydro in the project;<br>b. Pledge of shares of Hydro held by Bronzemill Investments Ltd. Shares of Bronzemill Investments Ltd. held by the Company;<br>c. Cross pledges on behalf of IIK, MAG and Inomotor on their assets for payment of the debt and fulfillment of all of the obligations of Hydro;<br>d. Undertaking to pledge cash flow (stages 4+5) and shareholder loans converted to promissory notes;<br>e. Guarantee by the Company for the fulfillment of the aforesaid undertakings. | The principal and interest balance on the loan as of December 31, 2017, is in the amount of US$ 17 million (excluding other expenses and payments secured under the lien). |

2.2.8 **Details of the Valuation**

| **Data (Company's share)** | **2017** | **2016** | **2015** |
|---|---|---|---|
| Determined value (in US$ 000's) | 25,700 | 28,000 | 32,200 |
| Identity of appraiser | C&W | C&W | C&W |
| Is the appraiser independent? | Yes | Yes | Yes |
| Is there an indemnification agreement? | Yes | Yes | Yes |
| Effective date of the valuation | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Valuation model | DCF | DCF | DCF |
| Main parameters used for the valuation | | | |
| Gross leasable area used for the calculation (sq. meter) | 16,696 | 16,696 | 16,696 |
| Occupancy rate in year + 1(%) | 84% | 84% | 85% |
| Occupancy rate in year + 2(%) | 94% | 97% | 96% |
| Occupancy rate in year + 3(%) | 100% | 100% | 100% |

| | | | | |
|---|---|---|---|---|
| Occupancy rate in year + 4(%) | | 97% | 100% | 100% |
| Representative occupancy rate from leasable area for valuation (%) | | 100% | 100% | 100% |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 1 | | 216 | 226 | 255 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 2 | | 228 | 217 | 235 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 3 | | 220 | 226 | 245 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 4 | | 231 | 230 | 267 |
| Average representative lease fees (monthly / annual) per leased sq. meter for valuation | | 253 | 266 | 291 |
| Representative NOI for valuation | | 3,301,491 | 3,588,393 | 4,069,482 |
| Average periodic expenses for maintaining the status quo | | 45,207 | 47,267 | 51,823 |
| Discount/yield/multiplier rate used for the valuation | | 14% | 14% | 14% |
| Time to conceptual exercise (years) | | 5 | 5 | 5 |
| Rate of return upon conceptual exercise | | 10% | 10% | 10% |
| Sensitivity analyses (based on valuation method) | | Change (in US$ 000's) | | |
| Occupancy rates | 200 | 200 | 200 | 500 |
| | -200 | -200 | -200 | -200 |
| Capitalization rate | -2,400 | -2,600 | -2,900 | 4,200- |
| | 2,900 | 3,200 | 5,000 | 5,200 |
| Lease fees for meter | 1,500 | 1,300 | 1,900 | 2,400 |
| | -1,500 | -1,500 | -1,800 | -4,700 |

## 2.3 MAG Project

The MAG project is adjacent to the Hydro project (see Section 2.2 of the Report). It is held by a wholly owned subsidiary, Mashinostroenie & Hydravlika OJSC ("**MAG**"). The project covers a total area of about 22 dunam[32] (the "**Project Area**"). As of the Date of the Report, the Project consists of three buildings, including medium level office spaces (Class B) with a total leasable area of approx. 18,535 sq. meter (the "**MAG Complex**" and the "**Complex Buildings**," respectively).

Similar to the Hydro Project, this project also has convenient transportation access to the main roads and a variety of transportation means.

As of the Date of the Report, MAG owns leasehold rights in the Project Area, consisting of two plots with separate lease agreement for each plot.

The lease agreement for a 10 dunam plot, which is currently zoned for office and commercial purposes, serves as a parking lot, is registered with the City of Moscow for a period of 25 years until November 30, 2032. The other lease agreement for the additional plot (12 dunam), in order to the same zoning purpose, is registered with the City of Moscow for a period of 49 years until September 1, 2055.

MAG signed a management service agreement with Fadida Holdings Ltd. and TMJK Holdings Ltd. (the "**Service Providers**") according to which the Service Providers will manage the MAG Complex. The provisions of the aforesaid management agreement are similar to those of the Management Agreement with Hydro, *mutatis mutandis* (see Section 2.2 of the Report). On January 1, 2016, the period of the agreement ended, based upon its terms. In reality, the parties acted in accordance with this Agreement until completion of the purchase transaction on September 21, 2016, as set forth in Section 2.2above, and upon that date receipt of the Management Services by MAG from the Service Providers was terminated, excluding the entitlement of the Services Providers to payment of 10% of the net profit received (if any) in the event that the project is sold, as set forth above.

The valuation of each project is executed in accordance with the DCF method, taking into account 100% of the cash flows that the Company is expected to generate from

[32] The aforementioned also includes the area of Tamiz Project, which is held by MAG (as specified in Section 1.9.1 above).

the lease of the assets, subject of the valuation, without reference to the commitment between the Company and Service Providers for payment of the management fees calculated as a percentage of the income and profit. The Company holds 100% of the companies that own the aforementioned projects and therefore the Company has the legal right to the economic benefits generated from the aforementioned assets.

### 2.3.1 **General**

| | **As of December 31, 2016** |
|---|---|
| Asset name | MAG |
| Location of the property | Moscow |
| Asset area | 22 dunam (of which about 18,535 sq. meter net is for lease) |
| Company's share in the asset | 100% |
| Asset holdings structure | Through MAG |
| Partners in the asset | None |
| Property purchase date | 2006 (within the merger agreement) |
| List the legal rights in the asset | Lease rights in the land (leasehold) and ownership rights of the buildings |
| State of registration of legal rights | Registered lease agreements |
| Substantial unused building rights | - |
| Special matters (substantial building violations, land contamination, etc.): | - |
| Method of presentation in financial statements (consolidated / relative consolidation / equity method): | Consolidation |
| Details of sold asset | N/A |

### 2.3.2 **Main Data**

| **Data by Company's share in the asset (100%)** | **2017** | **2016** | **2015** | **Purchase/construction Cost (in US$ 000's)** | **Property purchase date** |
|---|---|---|---|---|---|
| **Fair value at end of period (US$ 000's)** | 31,900 | 32,000 | 37,300 | | 46,334 |
| Book value at year-end (in presentation currency) | 31,900 | 32,000 | 37,300 | **Purchase date** | February 2006 |
| Impairment recognized during the period (if the property is measured at cost) | N/A | N/A | N/A | **Occupancy rate (%)** | - |
| Average occupancy rates | 88% | 81% | 75% | NOI | - |

| | | | | | |
|---|---|---|---|---|---|
| Leased area (sq. meter) | 16,298 | 14,959 | 13,850 | | |
| Total revenue (US$ 000's) | 4,803 | 4,173 | 4,894 | | |
| Average rent per sq. meter | 260 | 237 | 265 | | |
| Average lease fees per sq. meter in contracts signed during the period | 228 | 199 | 296 | | |
| NOI (US$ 000's) | 2,974 | 2,629 | 3,059 | | |
| Adjusted NOI (US$ 000's) | 2,974 | 2,629 | 3,059 | | |
| Actual rate of return | 9.3% | 8.2% | 8.2% | | |
| Adjusted rate of return | 9.3% | 8.2% | 8.2% | | |
| Number of lessees at end of reporting year | 22 | 22 | 19 | | |
| Exchange rate (end of period) | 57.6 | 60.7 | 72.9 | | |

### 2.3.3 **Segmentation of the Structure of Revenues and Costs**

| **Data by Company's share in the asset (100%)** | **2017** | **2016** | **2015** |
|---|---|---|---|
| **Income** | | | |
| From lease fees - fixed | 4,113 | 3,570 | 4,226 |
| From lease fees - variable | - | - | - |
| From management fees | 690 | 603 | 668 |
| Other | - | - | - |
| **Total revenue** | 4,803 | 4,173 | 4,894 |
| **Expenses** | | | |
| Management, maintenance, and operation | (964) | (858) | (961) |
| Depreciation (if recorded) | - | - | - |
| Other expenses | (865) | (686) | (875) |
| Total costs | (1,829) | (1,544) | (1,835) |
| NOI | 2,974 | 2,629 | 3,059 |

### 2.3.4 **Main tenants in the property**

| Data by Company's share in the asset (100%) | Rate of the area in the property associated with the lessee (%) in 2016 | Is it an anchor tenant? | Is it responsible for 20% of more of the income from the asset? | Lessee's sector affiliation | Original contract period and remaining period (in years) | Options to extend (years) | Updating or linkage mechanism of lease fees* | Detail of guarantees (if any) | State any special dependence |
|---|---|---|---|---|---|---|---|---|---|

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Lessee A | 45% | No | Yes | Bank | Signed on January 14, 2013 and ending February 28, 2023 (after the lease was extended) | None | As of the Date of the Report, the rental fee is approx. $628 (until March 2018). From March 2018 – 18,000 ruble per Sq. meter. The lease fees will increase each and every year, linked to the consumer price index in Russia) not under 3% and not above 7.5% until completion of the lease period. | Security deposit of Lessee A in total of three lease months. | No |

* The rate of the ruble - dollar that will be paid by lessee throughout the term of the agreement is 33.5 rubles to the dollar.

2.3.5 **Expected Income from Signed Lease Agreements (US$ 000's)**

| Data according to Company's share in the asset (100%) | 2018 | 2019 | 2020 | 2021 | 2022 and after |
|---|---|---|---|---|---|
| **Fixed components** | 4,657 | 2,370 | 1,134 | 674 | 42 |
| **Variable components (estimate)** | - | - | - | - | - |
| **Total** | 4,657 | 2,370 | 1,134 | 674 | 42 |

For the purpose of the data included on the table above, the following assumptions were made:

(a) Discounts were given and the exchange rate was restricted toward various lessees for fixed periods, in accordance with the data used by the external appraisers of the Company.

(b) Fines for early exit, if any, are not taken into account.

(c) Amounts in ruble were converted into dollar according to the known rate on December 31, 2017, or according to the conversion rate, stated in the rental agreement (if any).

The management of the Company obtains no information with respect to the income expected from variable components, while distinguishing from the other income.

2.3.6 **Planned Improvements and Changes in the Asset**

As of the date of this Report, no renovations and/or changes are planned in the asset.

2.3.7 **Specific Financing**

The first loan

| Details | | | SberBank LLC. |
|---|---|---|---|
| Balances in the statement of financial position (US$ 000's) | 31.12.2016 | Presented as a short-term loan | 531 |
| | | Presented as long-term loan | 23,834 |
| | 31.12.2015 | Presented as a short-term loan | 513 |
| | | Presented as long-term loan | 25,056 |
| Fair value as of December 31, 2017 (in US$ 000's): | | | 25,296 |
| Original loan date | | | 6/2012 |
| Original loan amount (US$ 000's) | | | 30,000 |
| Effective interest rate as of December 31, 2016 (%) | | | 7% |
| Repayment date of the principal and interest | | | The loan balance as of the Date of the Report will be repaid over a period of ten years in quarterly principal and interest payments. Balloon payment of 74% at the end of the period. |
| Main financial stipulations | | | Loan to asset value ratio of no above 70%*. Ratio of income from lease to principal and interest payments at least 1.2*. |
| Other financial stipulations | | | Cash sweep and cross-guarantee for debts - Imotoru, Hydro and Saratov against the bank. |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | No |
| Is it non-recourse? | | | No |

* According to the terms of the arrangement with the bank, there is an exemption from compliance with the above until December 31, 2017, subject to possible extension. For details, see Section 1.1.8. If not extended, non-compliance with these covenants will involve fines that are not material to the Company and in any case do not constitute grounds for immediate repayment of the loan.

Second loan

| Details | | | SberBank LLC |
|---|---|---|---|
| Balances in the statement of financial position (US$ 000's) | 31.12.2016 | Presented as a short-term loan | 359 |
| | | Presented as long-term loan | 15,972 |
| | 31.12.2015 | Presented as a short-term loan | 350 |
| | | Presented as long-term loan | 16,488 |
| Fair value as of December 31, 2016 (in US$ 000's): | | | 16,780 |
| Original loan date | | | 5/2013 |
| Original loan amount (US$ 000's) | | | 19,000 |
| Effective interest rate as of December 31, 2016 (%) | | | 7% |
| Repayment date of the principal and interest | | | Over a period of ten years in quarterly principal and interest payments, and a balloon of 73% at the end of the period. |
| Main financial stipulations | | | Loan to asset value ratio of no more than 70%*. Ratio of income from lease to principal and interest payments of less than 1.2* |
| Other financial stipulations | | | Cash sweep and cross-guarantee for debts - Imotoru, Hydro and Saratov against the bank. |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | No |
| Is it non-recourse? | | | No |

* According to the terms of the arrangement with the bank, there is an exemption from compliance with the above until December 31, 2017. It was extended up until December 31, 2018. For details, see Section 1.1.8 above. In the event that it is not extended, failure to meet these financial standards will entail insignificant fines to the Company and in any event will not present a cause for the placing of the loan for immediate payment.

2.3.8 **Material Liens and Legal Restrictions on the Asset**

| Type | Details | Secured amount |
|---|---|---|
| **Liens** | a. Pledge of rights of MAG in the project and in the Tamiz project in favor of the bank;<br>b. Pledge of shares of MAG held by Charington Holdings Ltd. and shares of Charington Holdings Ltd. Held by the Company;<br>c. Cross pledges on behalf of IIK, Hydro and Inomotor on their assets for payment of the debt and fulfillment of all of the obligations of MAG;<br>d. Undertaking to pledge cash flow (stages 4+5) and shareholder loans converted to promissory notes;<br>e. Guarantee by the Company for the fulfillment of the aforesaid undertakings. | The principal and interest balance on the loan as of December 31/12/2016, is in the amount of US$ 42 million (excluding other expenses and payments secured under the lien). |

2.3.9 **Details of the Valuation**

| **Data (100%)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Determined value (in US$ 000's) | 31,900 | 32,200 | 37,300 |
| Identity of appraiser | C&W | C&W | C&W |
| Is the appraiser independent? | Yes | Yes | Yes |
| Is there an indemnification agreement? | Yes | Yes | Yes |
| Effective date of the valuation | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Valuation model | DCF | DCF | DCF |
| Main parameters used for the valuation | | | |
| Gross leasable area used for the calculation (sq. meter) | 18,535 | 18,535 | 18,535 |
| Occupancy rate in year + 1(%) | 88% | 83% | 77% |
| Occupancy rate in year + 2(%) | 82% | 82% | 91% |
| Occupancy rate in year + 3(%) | 100% | 100% | 92% |
| Occupancy rate in year + 4(%) | 99% | 100% | 100% |
| Representative occupancy rate from leasable area for valuation (%) | 100% | 98% | 98% |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 1 | 274 | 258 | 237 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 2 | 211 | 216 | 243 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 3 | 219 | 225 | 247 |

| | | | | |
|---|---|---|---|---|
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 4 | | 239 | 231 | 266 |
| Average representative lease fees (monthly / annual) per leased sq. meter for valuation | | 259 | 268 | 304 |
| Representative NOI for valuation | | 4,030,118 | 4,089,275 | 4,779,248 |
| Average periodic expenses for maintaining the status quo | | 50,850 | 51,467 | 56,658 |
| Discount rate taken for the valuation | | 14% | 14% | 14% |
| Time to conceptual exercise (years) | | 5 | 5 | 5% |
| Rate of return upon conceptual exercise | | 10% | 10% | 10% |
| Sensitivity analyses (based on valuation method) | | Change (in US$ 000's) | | |
| **Occupancy rates** | Increase of 5% | 300 | 200 | 100 |
| | Decrease of 5% | -300 | -200 | -300 |
| **Capitalization rate** | Increase of 1% | -3,600 | -3,000 | -3,500 |
| | Decrease of 1% | -2,900 | -3,600 | 4,200 |
| **Lease fees per meter** | Increase of 5% | 1,700 | 1,500 | 1,900 |
| | Decrease of 5% | -1,600 | -1,700 | -2,000 |

## 2.4 Century Project

The Century project is located adjacent to the Hydro and MAG projects, consisting of two buildings. One building is owned by Inomotor LLC ("**Inomotor**") and the other is owned by Avtoprioritet LLC ("**Avtoprioritet**"). These buildings include medium level offices (Class B) with a total leasable area of approx. 20,903 sq. meter (the "**Project Site** " and "**Project Buildings,**" respectively).

The building owned by Inomotor is located on land with a total area of 2,605 sq. meter and leased from the City of Moscow through a lease agreement for a period of 25 years, valid until September 29, 2031. The building owned by Avtoprioritet is located on land with a total area of 3,329 sq. meter, and is leased for 25 years until March 31, 2031.

The designation of the lease agreements is for offices and commercial use.

On June 22, 2016, an agreement was signed for the sale of all of the holdings of the Service Providers in the Project Companies. This transaction was completed on

September 21, 2016. After completion of the transaction, the Company holds all of the Project Companies.

The valuation of each project is executed in accordance with the DCF method, taking into account 100% of the cash flows that the Company is expected to generate from the lease of the assets, subject of the valuation, without reference to the commitment between the Company and Service Providers for payment of the management fees, calculated as a percentage of the income and profit. The Company holds 100% of the companies that own the aforementioned projects and therefore the Company is lawfully entittled to the the economic benefits generated from the aforementioned assets.

### 2.4.1 **General**

| | **As of December 31, 2017** | **As of December 31, 2016** |
|---|---|---|
| Asset name | Century - Inomotor | Century - Avtoprioritet |
| Location of the property | Moscow | Moscow |
| Asset area | 9,816 sq. meter net for lease | 11,086 sq. meter net for lease |
| Company's share in the asset | 100%* | 100%* |
| Asset holdings structure | The asset is held by Inomotor | The asset is held by Avtoprioritet |
| Partners in the asset | None | None |
| Property purchase date | December 2009 | December 2009 |
| List the legal rights in the asset | Leasing rights to the land (leasehold) and ownership rights to the buildings | Leasing rights to the land (leasehold) and ownership rights to the buildings |
| State of registration of legal rights | Registered | Registered |
| Substantial unused building rights | - | - |
| Special matters (substantial building violations, land contamination, etc.): | - | - |
| Method of presentation in financial statements (consolidated / relative consolidation / equity method): | Consolidation | Consolidation |
| Details of sold asset | N/A | N/A |

2.4.2 **Main data**

| Data based on 100% (Company's share) in the asset* | 2017 | 2016 | 2015 | Purchase/construction Cost (in US$ 000's) | Property purchase date |
|---|---|---|---|---|---|
| Fair value at end of period (US$ 000's) | 35,800 | 40,700 | 45,600 | | 56,869 |
| Book value at year-end (in presentation currency) | 35,800 | 40,700 | 45,600 | **Purchase date** | 31.12.2009 |
| Impairment recognized during the period (if the property is measured at cost) | N/A | N/A | N/A | **Occupancy rate (%)** | 33% |
| Average occupancy rates | 61% | 53% | 76% | NOI | - |
| Leased area (sq. meter) | 13,466 | 11,169 | 15,930 | | |
| Total revenue (US$ 000's) | 2,816 | 3,441 | 5,489 | | |
| Average rent per sq. meter | 243 | 228 | 279 | | |
| Average lease fees per sq. meter in contracts signed during the period | 220 | 240 | 258 | | |
| NOI (in US$ 000's) | 1,299 | 1,688 | 4,011 | | |
| Adjusted NOI (US$ 000's) | 1,299 | 1,688 | 4,011 | | |
| Actual rate of return | 3.6% | 4.1% | 8.8% | | |
| Adjusted rate of return | 3.6% | 4.1% | 8.8% | | |
| Number of lessees at end of reporting year | 30 | 21 | 21 | | |
| The ratio of lease fees of the total proceeds or average proceeds per sq. meter | N/A | N/A | N/A | | |
| Exchange rate (end of period) | 57.6 | 60.7 | 72.9 | | |

### 2.4.3 Segmentation of the Structure of Revenue and Costs

| Data by Company's share in the asset (100%)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Income** | | | |
| From lease fees - fixed | 2,816 | 3,441 | 5,489 |
| From lease fees - variable | - | - | - |
| From management fees | - | - | - |
| Other | - | - | - |
| **Total revenue** | 2,816 | **3,441** | **5,489** |
| **Expenses** | | | |
| Management, maintenance, and operation | (936) | (995) | (907) |
| Depreciation (if recorded) | - | - | - |
| Other expenses | (581) | (758) | (571) |
| **Total costs** | (1,517) | (1,753) | **(1,478)** |
| **NOI** | 1,299 | **1,688** | **4,011** |

* The Project is under the control of two companies, which are under control of the Company.
* As of As December 31, 2017, the Company holds 100% of the aforesaid companies. The information presented on the table above is based on 100% holding in the asset.

### 2.4.4 Main tenants in the property

| Data based on 100%* | Rate of the area in the property associated with the lessee (%) in 2016 | Is it an anchor tenant? | Is it responsible for 20% of more of the income from the asset? | Lessee's sector affiliation | Original contract period and remaining period (in years) | Options to extend (years) | Updating or linkage mechanism of lease fees | Detail of guarantees (if any) | State any special dependence |
|---|---|---|---|---|---|---|---|---|---|
| Lessee A | 21% | No | Yes | Banking | From November 10, 2017 until October 31 2022. | None | 15,000 ruble per Sq. meter linked to the consumer price index (in Russia) up until completion of the lease period. | A deposit in the amount of 2 lease months. | No |

### 2.4.5 Expected Income from Signed Lease Agreements (US$ 000's)

| Data based on 100%* | 2017 | 2018 | 2019 | 2020 | 2021 and after |
|---|---|---|---|---|---|
| **Fixed components** | 2,711 | 2,184 | 1,549 | 1,389 | 1,005 |
| **Variable components (estimate)** | - | - | - | - | - |
| **Total** | 2,711 | 2,184 | 1,549 | 1,389 | 1,005 |

For the purpose of the data included on the table above, the following assumptions were made:

(a) Discounts were given and the exchange rate was restricted toward various lessees for fixed periods, in accordance with the data used by the external appraisers of the Company.

(b) Fines for early exit, if any, are not taken into account.

(c) Amounts in ruble were converted into dollar according to the known rate on December 31, 2017, or according into the conversion rate, stated in the rental agreement (if any).

The management of the Company obtains no information with respect to the income expected from variable components while distinguishing from the other income.

### 2.4.6 Planned Improvements and Changes in the Asset

As of the date of this Report, no renovations and/or changes are planned in the asset.

### 2.4.7 Specific financing

| Inomotor | | | |
|---|---|---|---|
| **Details** | | | **SberBank** |
| **Balance in the statement of financial position** | December 31, 2017 | Presented as a short-term loan | 280 |
| | | Presented as long-term loan | 15,054 |
| | December 31, 2016 | Presented as a short-term loan | 280 |
| | | Presented as long-term loan | 15,496 |
| Fair value as of December 31, 2016 | | | 15,815 |
| Before signing the loan agreement | | | February 2011 |
| Original loan amount (US$ 000's) | | | 18,000 |
| Effective interest rate as of December 31, 2017 (%) | | | 7% |
| Repayment date of the principal and interest | | | The loan balance as of the Date of the Report will be repaid over a period of ten years, in quarterly payments, with the last payment at the end of the loan term equaling about 78% of the total loan amount. |
| Main financial stipulations | | | Compliance with a debt coverage ratio that is not under 1.1. The ratio of loan to property value will not exceed |

| | | | |
|---|---|---|---|
| | | | 60%*. |
| Other financial stipulations | | | Cash sweep and cross-guarantee for debts - MAG, Hydro and Saratov against the bank. |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | No |
| Is it non-recourse? | | | No |
| **Avtoprioritet** | | | |
| **Details** | | | **Nordea Bank** |
| **Balances in the statement of financial position** | December 31, 2017 | Presented as a short-term loan | 17,220 |
| | | Presented as long-term loan | - |
| | December 31, 2016 | Presented as a short-term loan | 18,033 |
| | | Presented as long-term loan | - |
| Fair value as of December 31, 2017 | | | 17,513 |
| Before signing the loan agreement | | | May 2014 |
| Original loan amount (US$ 000's) | | | 21,000 |
| Effective interest rate as of December 31, 2015 (%) | | | $Libor_{3m}$ + 6.85% |
| Repayment date of the principal and interest | | | The loan date will be repaid over a period of five years, in quarterly payments, with the last payment at the end of the loan term equaling about 73% of the total loan amount. |
| Main financial stipulations | | | Compliance with a debt coverage ratio that is not under 1.2. The ratio of loan to property value will not exceed 65%*.<br>Result of the division of the balance of the loan by EBITDA is under 6.5.<br>Equity capital out of total assets not under 25%. |
| Other financial stipulations | | | None |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | Yes |
| Is it non-recourse? | | | No |

* According to the terms of the arrangement with the bank, there is an exemption from compliance with the above until December 31, 2017. It was extended up until December 31, 2018. For details, see Section 1.1.8 above. In the event that it is not extended, failure to

meet these financial standards will entail insignificant fines to the Company and in any event will not present a cause for the placing of the loan for immediate payment.

### 2.4.8 **Material liens and Legal Restrictions on the asset**

| Type | Details | Secured amount |
|---|---|---|
| **Liens** | Inomotor-<br>a. A lien on the rights of Inomotor in a building in Century Project;<br>b. A lien on the shares of Inomotor held by Zocean Investments Ltd. and share of Zocean Investments Ltd. held by the Company<br>c. Cross pledges on behalf of MAG, Hydro and IIK on their assets for payment of the debt and fulfillment of all of the obligations of Inomotor;<br>d. Undertaking to pledge cash flow (stages 4+5 of the St. Petersburg project);<br>e. The Company has provided a guarantee for payment of the debt and fulfillment of all of the aforesaid liabilities. | The principal and interest balance on the loan as of December 31, 2017, is in the amount of US$ 15.5 million (excluding other expenses and payments secured under the lien). |
| | Avtoprioritet -<br>a. A lien on the rights of Avtoprioritet in a building in the Century Project;<br>b. A lien on the Company's shares in Avtoprioritet;<br>c. The Company has provided a guarantee for payment of the debt and fulfillment of all of the liabilities of Avtoprioritet. | The principal and interest balance on the loan as of December 31, 2017, is in the amount of US$ 17.5 million (excluding other expenses and payments secured under the lien). |

### 2.4.9 **Details of the valuation**

| **Data (100%)** | **2017** | **2016** | **2015** |
|---|---|---|---|
| Determined value (in US$ 000's) | 35,800 | 40,700 | 45,600 |
| Identity of appraiser | C&W | C&W | C&W |
| Is the appraiser independent? | Yes | Yes | Yes |
| Is there an indemnification agreement? | Yes | Yes | Yes |
| Effective date of the valuation | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Valuation model | DCF | DCF | DCF |
| Main parameters used for the valuation | | | |
| Gross leasable area used for the calculation | 20,903 | 20,903 | 20,903 |

| | | | | |
|---|---|---|---|---|
| (sq. meter) | | | | |
| Occupancy rate in year + 1(%) | | 63% | 53% | 77% |
| Occupancy rate in year + 2(%) | | 78% | 87% | 91% |
| Occupancy rate in year + 3(%) | | 97% | 100% | 100% |
| Occupancy rate in year + 4(%) | | 98% | 95% | 100% |
| Representative occupancy rate from leasable area for valuation (%) | | 100% | 100% | 100% |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 1 | | 230 | 237 | 246 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 2 | | 231 | 221 | 265 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 3 | | 222 | 214 | 260 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 4 | | 223 | 234 | 281 |
| Average representative lease fees (monthly / annual) per leased sq. meter for valuation* | | 254 | 288 | 317 |
| Representative NOI for valuation | | 4,671,239 | 5,495,591 | 5,842,026 |
| Average periodic expenses for maintaining the status quo | | 54,477 | 61,602 | 67,919 |
| Discount rate taken for the valuation | | 14% | 14% | 14% |
| Time to conceptual exercise (years) | | 5 | 5 | 5 |
| Rate of return upon conceptual exercise | | 10% | 10% | 10% |
| Sensitivity analyses (based on valuation method) | | Change (in US$ 000's) | | |
| Occupancy rates | Increase of 5% | 300 | 300 | 300 |
| | Decrease of 5% | -500 | -300 | -300 |
| Capitalization rate | Increase of 1% | -3,600 | -4,100 | -4,300 |
| | Decrease of 1% | 4,400 | 4,800 | 5,100 |
| Lease fees for meter | Increase of 5% | 1,800 | 1,800 | 2,300 |
| | Decrease of 5% | -1,900 | -2,000 | -2,500 |

2.5 **Triumph Mall Project - Saratov**

Triumph Mall is a four story shopping center. Two of the floors are for commercial use, an additional floor is for cinemas and restaurants and the underground parking level consists of 485 parking places, with total net leasable space of 27,243 sq. meter. The shopping center is located in the center of Saratov, close to the main shopping pedestrian mall (Kirovsky Prospect) where most of the city's restaurants, businesses and entertainment facilities are concentrated (the "**Triumph Mall Project**"). The project area is surrounded by residential neighborhoods, business centers and

industrial zones, and has easy access to transportation. The shopping center was opened to the general public in December 2010.

As of the Date of the Report, the Company has full ownership rights in Investisionno Ipotechnaya Kompania LLC ("**IIK**"), which holds the ownership rights in the project land (freehold) (with an area of about 22 dunam) and the project's building area, through its wholly owned subsidiary Mall Project Co. Ltd.

As of the Date of the Report, the asset is fully leased (100%), mostly to lessees with long-term leases. The asset is managed by means of an external service provider according to amounts which are insignificant to the Group.

2.5.1 **General**

| | **As of December 31, 2015** |
|---|---|
| Asset name | Triumph Mall |
| Location of the property | Saratov |
| Asset area | 22 dunam (approx. 27,243 sq. meter net for lease) |
| Company's share in the asset | 100% |
| Asset holdings structure | Through the companies IKK and Mall Project Co Ltd. |
| Partners in the asset | None |
| Property purchase date | April 2006 |
| List the legal rights in the asset | Freehold |
| State of registration of legal rights | Registered rights |
| Substantial unused building rights | - |
| Special matters (substantial building violations, land contamination, etc.): | - |
| Method of presentation in financial statements (consolidated / relative consolidation / equity method): | Consolidation |
| Details of sold asset | N/A |

2.5.2 **Main Data**

| **Data by Company's share in the asset (100%)** | **2017** | **2016** | **2015** | | **Property purchase date** |
|---|---|---|---|---|---|
| Fair value at end of period (US$ 000's) | 84,900 | 75,200 | 72,000 | **Cost of Purchase/construction (in US$ 000's)** | 84,326 |
| Book value at year-end (in | 84,900 | 75,200 | 72,000 | **Purchase date** | April |

| | | | | | |
|---|---|---|---|---|---|
| presentation currency) | | | | | 2006 |
| Impairment recognized during the period (if the property is measured at cost) | N/A | N/A | N/A | **Occupancy rate (%)** | - |
| Average occupancy rates | 100% | 100% | 100% | NOI | - |
| Leased area (sq. meter) | 27,243 | 27,243 | 27,243 | | |
| Total revenue (US$ 000's) | 13,406 | 11,026 | 12,278 | | |
| Average rent per sq. meter | 324 | 276 | 320 | | |
| Average lease fees per sq. meter in contracts signed during the period | 208 | 494 | 288 | | |
| NOI (US$ 000's) | 10,172 | 8,155 | 8,737 | | |
| Adjusted NOI (US$ 000's) | 10,172 | 8,155 | 8,737 | | |
| Actual rate of return | 12% | 10.8% | 12.1% | | |
| Adjusted rate of return | 12% | 10.8% | 12.1% | | |
| Number of lessees at end of reporting year | 121 | 112 | 118 | | |
| The ratio of lease fees of the total proceeds or average proceeds per sq. meter | N/A | N/A | N/A | | |
| Exchange rate (end of period) | 57.6 | 60.7 | 72.9 | | |

2.5.3 **Segmentation of the structure of revenues and costs (US$ 000's)**

| **Data by Company's share in the asset (100%)** | **2017** | **2016** | **2015** |
|---|---|---|---|
| **Income** | | | |
| From lease fees - fixed | 12,426 | 10,438 | 11,448 |
| From lease fees - variable | 980 | 588 | 830 |
| From management fees | - | - | - |
| Other | - | - | - |
| **Total revenue** | 13,406 | **11,026** | **12,278** |
| **Expenses** | | | |
| Management, maintenance, and operation | (2,209) | (2,789) | (2,858) |
| Depreciation (if recorded) | - | - | - |
| Other expenses | (1,025) | (82) | (683) |
| **Total costs** | (3,234) | **(2,871)** | **(3,541)** |
| NOI | 10,172 | **8,155** | **8,737** |

### 2.5.4 **Main tenants in the property**

| Data by Company's share in the asset (100%) | Rate of the area in the property associated with the lessee (%) in 2016 | Is it an anchor tenant? | Is it responsible for 20% of more of the income from the asset? | Lessee's sector affiliation | Original engagement period and remaining period | Options to extend (years) | Updating or linkage mechanism of lease fees* | Detail of guarantees (if any) | State any special dependence |
|---|---|---|---|---|---|---|---|---|---|
| Lessee A | 10% | Yes | No | Food | The lease term commenced on December 15, 2010 for ten years. The lease term was extended during 2017 up until September 14, 2021 | None | The lease fees in total of $311 per Sq. meter during the current year or 2.5% of the turnover, whichever is higher. The lease fees (permanent) exceed by 3% per annum during the lease period. | A guarantee on behalf of the parent company of Lessee A of three lease months. | No |
| Lessee B | 8% | Yes | No | Electric Appliances | The lease term commenced on December 15, 2010 for ten years. The lease term was extended during 2017 up until September 14, 2022 | None | Lease fees in the amount of $386 per sq. meter in the current year or 4% of the turnover, whichever is higher. The lease fees (permanent) increase by 2% per year during the lease term | Security deposit of Lessee A in total of two lease months. | No |
| Lessee C | 10% | Yes | No | Sports products | The lease term commenced on December 21, 2010 for ten years | None | Lease fees in the amount of $150 per sq. meter in the current year or 8% of the turnover, whichever is higher. The | A guarantee on behalf of the parent company of Lessee | No |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | lease fees (permanent) increase by 3% per year during the lease term | A of three lease months. | |
| Lessee D | 15% | Yes | No | Theater | The lease term commenced on December 15, 2010 for 15 years | None | Lease fees in the amount of $116 per sq. meter or 9.6% of the turnover, whichever is higher. | Security deposit of Lessee A in total of 1.5 lease months. | No |

* As of the Date of the Report, the maximum ruble - dollar rate of exchange that will be paid by Lessee A is 37.4 rubles/dollar; Lessee B (January – November) 41 rubles/dollar; Lessees C-D - 42 rubles/dollar. It should be noted that this condition is for defined periods and may change in the future in accordance with the financial condition in Russia.

### 2.5.5 **Expected income from signed lease agreements**

| Data based on 100%* | 2018 | 2019 | 2020 | 2021 | 2022 and after |
|---|---|---|---|---|---|
| **Fixed components** | 9,983 | 10,185 | 10,248 | 7,394 | 7,790 |
| **Variable components (estimate)** | - | - | - | - | - |
| **Total** | 9,983 | 10,185 | 10,248 | 7,394 | 7,790 |

For the purpose of the data included on the table above, the following assumptions were made:

(a) Discounts were given and the exchange rate was restricted toward various lessees for fixed periods, in accordance with the data used by the external appraisers of the Company.

(b) Fines for early exit, if any, are not taken into account.

(c) Amounts in ruble were converted into dollar according to the known rate on December 31, 2017, or according to the conversion rate, stated in the rental agreement (if any).

(d) The addition to the lease fees for percent of revenue was not taken into account when calculating lease fees.

The management of the Company obtains no information with respect to the income expected from variable components while distinguishing from the other income.

### 2.5.6 **Planned renovations and changes in the asset**

As of the date of this Report, no renovations and/or changes are planned in the asset.

### 2.5.7 **Specific financing**

| Details | | | SberBank |
|---|---|---|---|
| **Balance in the statement of financial position (US$ 000's)** | December 31, 2017 | Presented as a short-term loan | 1,235 |
| | | Presented as long-term loan | 80,491 |
| | December 31, 2017 | Presented as a short-term loan | 1,055 |
| | | Presented as long-term loan | 80,851 |
| Fair value as of December 31, 2017 (in US$ 000's) | | | 84,163 |
| Original loan date | | | August 2013 |
| Original loan amount (US$ 000's) | | | 95,000 |
| Effective interest rate as of December 31, 2017(%) | | | 7% |
| Repayment date of the principal and interest | | | The loan balance as of the Date of the Report will be repaid over a period of ten years with the last payment at a rate of 84% of the loan balance. |
| Main financial stipulations | | | Compliance with a debt coverage ratio for IKK of at least 1:1; compliance with LTV of no more than 70%*. |
| Other financial stipulations | | | None |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | No |
| Is it non-recourse? | | | No |

* According to the terms of the arrangement with the bank, there is an exemption from compliance with the above until December 31, 2017. It was extended up until December 31, 2018. For details, see Section 1.1.8 above. In the event that it is not extended, failure to meet these financial standards will entail insignificant fines to the Company and in any event will not present a cause for the placing of the loan for immediate payment.

### 2.5.8 **Material Liens and Legal Restrictions on the Asset**

| Type | Details | Secured amount (US$ 000's) |
|---|---|---|
| **Liens** | a. Lien on all of the rights of IKK in the Triumph Mall project;<br>b. Lien of shares of IIK held by Mall Project Co. Ltd. Ltd. and shares of Mall Project Co. Ltd. held by the Company;<br>c. Cross pledges on behalf of MAG, Hydro and Inomotor on their assets for payment of the debt and fulfillment of all of the obligations of IKK;<br>d. Undertaking to pledge cash flow (stages 4+5 of the St. Petersburg Project);<br>e. The Company has provided a | The principal and interest balance on the loan as of December 31, 2017, is in the amount of US$ 83 million excluding other expenses and payments secured under the lien. |

| | | |
|---|---|---|
| | guarantee for payment of the debt and fulfillment of all of the liabilities of IKK. | |

2.5.9 **Details of the Valuation**

| Data (Company's share) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Determined value (in US$ 000's) | 84,900 | 75,200 | 72,000 |
| Identity of appraiser | C&W | C&W | C&W |
| Is the appraiser independent? | Yes | Yes | Yes |
| Is there an indemnification agreement? | Yes | Yes | Yes |
| Effective date of the valuation | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Valuation model | DCF | DCF | DCF |
| | | | |
| Gross leasable area used for the calculation (sq. meter) | 27,243 | 27,243 | 27,243 |
| Occupancy rate in year + 1(%) | 100% | 99% | 100% |
| Occupancy rate in year + 2(%) | 100% | 100% | 100% |
| Occupancy rate in year + 3(%) | 100% | 100% | 100% |
| Occupancy rate in year + 4(%) | 98% | 100% | 100% |
| Representative occupancy rate from leasable area for valuation (%) | 100% | 100% | 93% |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 1 | 375 | 328 | 293 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 2 | 391 | 323 | 309 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 3 | 408 | 345 | 333 |
| Average lease fees (monthly / annual) by sq. meter for valuation in year + 4 | 404 | 353 | 356 |
| Average representative lease fees (monthly / annual) per leased sq. meter for valuation | 400 | 396 | 423 |
| Representative NOI for valuation | 10,536,677 | 10,102,920 | 9,636,950 |
| Average periodic expenses for | 100,090 | 102,965 | 100,241 |

| | | | | |
|---|---|---|---|---|
| maintaining the status quo | | | | |
| Discount rate taken for the valuation | | 14% | 14% | 14% |
| Time to conceptual exercise (years) | | 5 | 5 | 5 |
| Rate of return upon conceptual exercise | | 11.5% | 11.5% | 11.5% |
| Sensitivity analyses [based on valuation method] | | Change (in US$ 000's) | | |
| Occupancy rates | Increase of 5% | Full occupancy | Full occupancy | Full occupancy |
| | Decrease of 5% | -500 | -400 | -400 |
| Discount rate | Increase of 1% | -6,400 | -5,800 | -5,600 |
| | Decrease of 1% | 7,600 | 7,000 | 6,700 |
| Lease fees for meter | Increase of 5% | 2,300 | 2,800 | 2,700 |
| | Decrease of 5% | -2,400 | -2,700 | -2,700 |

# 3. Description of the Field of Operation of Residential Real Estate

## 3.1 General Information on the Field of Operation

### 3.1.1 General

The Group's residential real estate operations involve the promotion, development, construction, renovation, operation, management and sale of residential real estate. As of the Date of the Report, the Company has two projects in the field of residential real estate - one in St. Petersburg, which is the Group's largest project (about 397,092 net sq. meter for sale - excluding the area of sold apartments or the project's commercial part), and another project in the outskirts of Moscow-Pruszków (about 38,728 sq. meter excluding the area of the houses sold as of the Date of the Report).As of the Date of the Report, stage 1 of Western Residence and stages 1 to 4 (inclusive) of St. Petersburg were completed and stage 5 of St. Petersburg is under construction. In addition, during the fourth quarter of 2014, the construction of an additional tower was commenced. This project is on an area of approx. 7,425 sq. meter, which is expected to include about 132 residential units and 352 sq. meter (net) of commercial areas and 44 parking places ("**Green Tower**" and the "**Building**", respectively). The Building was built without bank financing, but out of the Group's independent resources. The land of the

Green Tower, including the rights thereon, are not pledged. For details regarding the diminished construction rights in the Project, as a result of the change in the local legislation in this context during 2016, see Section 3.6 below.

The construction of residential real estate projects in Russia is different with respect to the specifications and finishing level, compared to residential real estate projects in Israel and in Western Europe. Apartments in Russia are offered for sale according to a very basic finish level ("Shell & Core"), and in fact include the external walls, smoothed concrete floor, openings and basic infrastructure for electricity, gas and plumbing (connections and pipes only). Internal partitions and other accessories (sanitary fittings, kitchen, floor tiling, etc.) are completed and paid for by the purchasers and are not within the responsibility of the contractor and/or the developer.

At the same time, during the recent years, there is a change of trend in the level of specification and finish, which is now above Shell & Core.

The following table describes the status of construction and marketing of residential real estate of the Company (in net Sq. meter for sale) –

| **Stage** | **Commencement of construction** | **Completion of construction** | **Marketed and acknowledged in the financial statements** | **Marketed but not acknowledged in the financial statements, as yet** | **Sold as a gorund unit** | **Total** |
|---|---|---|---|---|---|---|
| **St. Petersburg** | | | | | | |
| Stage 1 | Q 3/2011 | Q 3/2013 | 26,219 | - | - | **26,219** |
| Stage 2 | Q 3/2012 | Q 3/2014 | 32,588 | - | - | **32,588** |
| Stage 3 | Q 3/2013 | Q 3/2016 | 61,786 | - | - | - |
| Stage 4 | Q 3/2014 | Q 3/2017 | - | **58,065 | 2,629 | - |
| Green Tower | Q 3/2016 | Q 3/2019 | - | 474 | 6,951 | - |
| Stage 5 | Q 3/2017 * | Q 3/2020 * | - | 12,551 | - | - |
| Stages 6a | Q 3/2017 | | - | - | - | [33]12,500 |

[33] Emerging from the sale of the land division. For details, see Section 1.1.4 above.

| | | | | | | |
|---|---|---|---|---|---|---|
| Stages 6-8 | Undetermined as yet | Undetermined as yet | - | - | 129,796 | - |
| **Total** | | | **120,593** | **71,090** | **192,909** | **12,500** |
| **Western Residence – Perkoshkevo** | | | | | | |
| Stage 1 | Q 3/2007 | 25,031 | - | 4,121 | - | **29,152** |
| Stage 2 | Undetermined as yet | - | - | 34,607 | - | **34,607** |
| Total | - | **25,031** | - | **38,728** | - | **63,759** |

* This evaluation / forecast is correct as of the Date of Publication of the Report. The aforementioned information is future anticipating information, as this term is defined in the Securities Law, 1968. The actual results could be different from the forecast, due to factors not depending on the Company, emerging mainly from risk factors of the Company, specified in this Report hereunder.

** Expected to be acknowledged during the first half of 2018.

### 3.2 Summary of the results

Below is a summary of the results of the area of development real estate for the years 2015-2016:

| Parameter | For year ending on | | |
|---|---|---|---|
| | 31.12.2016 | 31.12.2015 | 31.12.2014 |
| | US$ 000's | | |
| Income attributed to the field of operation (consolidated) | 42,090 | 73,956 | 51,206 |
| Profits (losses) attributed to the field of operation (consolidated) | 8,602 | (32,004) | (8,256) |
| Total balance sheet assets related to the field of operation (consolidated) | 264,900 | 226,721 | 248,494 |

### 3.3 Accumulated Revenues and Advances

The following are details of the anticipated revenues acknowledged from binding sale agreements:

| | Income recognized for binding sale agreements | | Advances and payments expected to be received for binding sale agreements |
|---|---|---|---|
| | US$ 000's | | |
| Year 2018 | **Q1** | 46,170 | 2,030 |
| | **Q2** | 56,973 | 2,316 |
| | **Q3** | 0 | 1,195 |
| | **Q4** | 0 | 1,195 |
| Year 2019 | | 6,874 | 4,781 |

| | | |
|---|---|---|
| Year 2020 | 21,115 | 4,014 |
| Year 2021 | 0 | 0 |
| 20221 and after | 0 | 0 |
| Total | 131,132 | 15,530 |

The following are details of projects, whose construction was completed but their sale was not yet fully completed, as of the last day of the reported year:

| | Number of months from completion of the construction | St. Petersburg (Stage 3) | Pruszków | Total |
|---|---|---|---|---|
| | | US$ 000's | | |
| | | 2016 | | |
| The balance of inventory on the books, related to the projects, whose construction was completed but their sale is not yet fully completed (in terms of cost) | 0-6 | 4,325 | - | 4,325 |
| | 6-12 | - | - | - |
| | 12-18 | - | - | - |
| | 18-24 | - | - | - |
| | Over 24 | - | 4,739 | 4,739 |
| | **Total** | 4,325 | 4,739 | 9,064 |
| The age of inventory of units in projects, whose construction is completed and the sale of which is not yet fully completed (in terms of number of units) | 0-6 | 33 | - | 33 |
| | 6-12 | - | - | - |
| | 12-18 | - | - | - |
| | 18-24 | - | - | - |
| | Over 24 | - | 11 | 11 |
| | **Total** | 33 | 11 | 44 |
| Expected gross profit | | 763 | 0 | 763 |
| Number of binding sale agreements signed from the end of the reporting period and until near the Date of the Report | | 11 | 0 | - |

### 3.4 Suppliers and Subcontractors

The following are details of the main suppliers and subcontractors of the activity:

| Identity of the supplier / subcontractor | Is it a related party? | Volume of purchases from the supplier during the reported period | Weight of the supplier out of the total purchases of the reporting corporation (in %) | Is there special dependence on the supplier? | Other matters |
|---|---|---|---|---|---|

| | | (US$ 000's) | | | |
|---|---|---|---|---|---|
| UNR 18 | No | 23,130 | 48.1% | No | - |
| USP | No | 7,824 | 16.3% | No | - |

## 3.5 Structure of the Field of Operation and Changes Therein

### 3.5.1 The Residential Real Estate Market in Moscow[34]

The residential real estate market in Russia is characterized by supply of about 24 sq. meter per resident on average, significantly under the average space per person in developed western countries. The mortgage market in Russia is not sufficiently developed. In 2017, peak points were recorded on the mortgage market: the lowest interest rate of 11% and a peak scope of approx. 2 billion ruble of mortgages that were issued during that year. This is a significant increase (of about 40%) in the scope of mortgages as compared to 2016, supported by the reduction of interest by the central bank of Russia.

From the third quarter of 2014, the activity of developers was slowed down in consequence of lack of economic stability. At present, there is a substantial supply of 1,060 lands offered in 39 towns around Moscow, as approx. 63% of them within a range of 20-30 km., 27% in the range of 11-20 km. 8% at a range of 2-10 km. and only about 2% within a distance of 2 km.

Traditionally, most of the demand in community settlements outside of Moscow is for land. From the aspect of supply, approx. 60% was at the *elite* level, slightly above 30% was at the *business* level and the rest according to *comfort* level.

On average, constructed houses are about 10%-30% more expensive than lands together with construction contracts. In 2016, the trend of a diminished purchase budget continued, expressed in lower demands for constructed areas and land, compared to previous years.

The average price of houses in towns in the area of Moscow in real terms has not changed, amounting in 2017 to 180 thousand ruble/Sq. meter (similarly to 2016). There were no significant changes in the pricing of said segments as compared to 2016.

[34] Source: Rosstat, Blackwood.

### 3.5.2 **The Residential Real Estate Market in St. Petersburg**[35]

The apartment market in the center of the city is characterized by old buildings of poor quality and faulty infrastructures. In addition, due to shortage of available land in the center of the city, three circles of neighborhoods have developed: the first circle consists of neighborhoods outside the city center, the second circle consists of residential neighborhoods in the outskirts of the city, which are under the administrative control of the municipality of St. Petersburg and the third circle that consist of residential neighborhoods in the city's outskirts.

2017 was a successful year in the area of residential construction, as approx. 3.4 million Sq. meter were added to the market, 16.3% above 2016.

The demands for dwelling in 2017 continued to demonstrate a trend of increase of approx. 16%, as opposed to 2016, backed by the improvement in mortgage conditions.

In 2017, there was an increase of approx. 2% in the prices of apartments in ruble terms. Approx. 97.2% of the apartments on the market are defined as "mass market" and prices increased in average by approx. 1.9% in ruble terms. 5.7% of the apartments, defined as elite, increased in average by approx. 0.8%. the remaining 1.6% are defined as business in ruble terms (in developed areas within the boundaries of the city). The expectation for 2018 is that prices of apartments will continue to increase moderately.

## 3.6 **Legislation and Standardization Restrictions**

a. Similar to the field of operation of commercial real estate, the Group's operations in the field of residential real estate are subject to statutory requirements in Russia with respect to various issues, including issues relating to planning, construction and the environmental protection (such as hazards, underground and air pollution and waste), and the Group must bear the costs involved in compliance therewith.

The requirements faced by the Group with respect to its operations in the residential real estate sector are stringent and stricter than the requirements in

[35] Source: Pterburgskaya Nedvizhimost Consulting, VTB Capital.

the commercial real estate sector, *inter alia*, including compliance with quality standards for residential apartments, warranties and overhaul periods for buildings and apartments sold in various projects, compliance with stricter requirements and standards with respect to issues relating to environmental protection, handling hazards and waste disposal.

b. As to the manner of payment for residential units, a distinction is made between the manner of payment in a multi-residential project and the manner of payment of a project comprised of private homes. The manner of payment for private homes is regulated through the general provisions of the Civil Code, which imposes no restrictions, other than the obligation to commit in a sale agreement with respect to the sold units. For details regarding various rights in land and various restrictions related to environmental protection under the Russian law, see Section 1.6.2. above in Chapter A of this Report.

c. Manner of payment for multi-residential projects is regulated through federal legislation. The developer may receive payment from purchasers only after the agreement was registered with the relevant authority. The status of purchasers after the payment is of an "investor" in the project. Pursuant to the provisions of Federal Law, the developer is required to construct the residential building (alone or through a third party), obtain a certificate of occupancy and transfer the apartment to the purchaser under the terms of the signed agreement. Additionally, the developer is responsible to transfer the apartment to the purchaser in accordance with the terms agreed upon and it is also liable for the quality of the construction. In order to ensure the rights of purchasers, the area of the project is considered to be pledged for the benefit of each of the purchasers in accordance with an agreement, registered with the relevant authority. For details with respect to the development of the legislation on this issue in the context of the St. Petersburg project, see Section 1.6 .2.15 above.

d. In 2016, an amendment to the FZ-2014 Federal Law was promulgated, arranging funds of clients, who have committed in agreements for the purchasing of residential units in multistoried buildings and/or multi-dwelling residential houses. Said amendment determines with respect to such projects, where an agreement with a prospective purchaser was not signed as yet (the

"**Initial Agreement**") – that from January 1, 2017, new provisions shall apply, including the following main provisions: (1) the equity capital of the construction company /the developer (the "**Developer**") will accord with the scope of the project constructed by it (the "**Equity Capital Requirement**") according to the following parameters: (a) a maximum construciton area of 1,500 sq. meter. – 2.5 million ruble; (b) a maximum construciton area of 2,500 sq. meter. – 4 million ruble; (c) a maximum construciton area of 10,000 sq. meter. – 10 million ruble; (d) a maximum construciton area of 25,000 sq. meter. – 40 million ruble; (e) a maximum construciton area of 50,000 sq. meter. – 80 million ruble; (f) a maximum construciton area of 100,000 sq. meter. – 150 million ruble; (g) a maximum construciton area of 250,000 sq. meter. – 400 million ruble; (h) a maximum construciton area of 500,000 sq. meter. – 800 million ruble; (i) a maximum construciton area of above 500,000 sq. meter. – 1.5 billion ruble. A Developer, who fails to meet the Equity Capital Requirements, as stated, will be entitled to place a guarantee of a parent company (meeting the minimum Equity Capital Requirement) pursuant to assurance of the obligations of the Developer up until the lapsing of two years from completion of the construction of the Project; (2) the Developer is not under procedures of bankruptcy, there is no court order instructing on such procedures and/or there is no decision and/or an order of a competent court pursuant to the termination of activity of the Developer; (3) the Developer is under no debt toward governmental authorities; (4) purchasers of the apartment will be given the possibility to pay for the residential unit by way of depositing funds in trust according to trust agreements.

e. FZ-214 was amended once again in July 29, 2017. Its principal provisions pertain to the management of the Developer, including a provision that those serving as the CEO and the CFO of the Developer were not convicted in economic offenses or in crimes against the state, or received another administrative punishment pertaining to suspension from their position. On the other hand, provisions alleviating the manner of activity of the Developer were also installed, for example: (1) in the event that the Purchaser of the residential unit declines to receive it, the Developer is released from meeting the provisions

of the law pertaining to the delivery of the residential unit; (2) the Purchaser is unable to cancel the purchase agreement unless it is fundamentally breached by the Developer; (3) changes in the size of the residential unit, which are under 5%, will not confer upon the Purchaser a right to cancel the purchase agreement; (4) the period for repairing defects in the residential units are no longer monitored (prior to the amendment it was 10 days) and ought to be determined in agreement between the Purchaser and the Developer; (5) the funds received from the Purchaser can be used by the Developer for additional purposes, such as: financing interest on loans taken by the Developer: construction of roads, kindergartens and hospitals.

In order to meet the provisions of said amendment, the Developer is required to electronically file documents and applications, in order to receive approval of the regional authority (usually a division within the construction permit department) with respect to compliance with the requirement and provisions, specified above, prior to signing the Initial Agreement. In the matter of implications of these legislative amendments on the project of the Company in St. Petersburg, see Section 3.10.2 hereunder.

f. On July 30, 2017, a new federal law was promulgated – FZ-218, pertaining to the construction of shared residential buildings by a developer under bankruptcy ("**FZ-218**"). Said law refers to three main issues: (1) establishment and management of a fund to protect the rights of purchasers of residential units in condominiums (shared construction buildings) (the "**Fund**"). The Fund was established in October 20, 2017 based upon an existing federal fund. From that date, prior to the filing of any document of the Developer together with the Purchaser, it is required to pay 1.2% of the value of the purchase agreement in favor of the Fund. This amount shall ultimately replace the liability of the Developer toward the Purchaser; (2) changes in the Insolvency Law; (3) significant, complex and broad changes in FZ-214. In this context, it should be clarified that the provisions of FZ-214 according to its draft prior to this amendment, will apply to the operations of a Developer, who received a construction permit up until July 1, 2018,

In the event that the construction permit was received on July 1, 2018 or subsequently, the amendment described hereunder in FZ-214 shall apply, with the exception of the requirements pertaining to the CEO and the CFO of the Developer, an approval of the relevant authorities with respect to the Developer's compliance with all the obligations imposed on him and absence of any bankruptcy procedures against the Developer, applicable from January 1, 2018 on all the Developers (regardless of the date of receipt of the construction permit).

g. The principals of the amendment are as follows: (1) specifying the nature of the Developer and its operations. Each Developer (or the parent company guaranteeing to it) is required to have an experience of at least three years in projects of residential construction on a total area of at least 10,000 Sq. meter that were completed successfully; i.e. – all the operative approvals were received by the Developer with respect to these projects; (2) the depositing of funds at a rate of 1.2% of the value of the purchase agreement in favor of the Fund (see Subsection f above); (3) the Developer is required to maintain a bank account from the list of banks approved by the authority. In this context, the Developer is prohibited to give loans or mortgages on property for assurance of obligations of third parties. It was also determined in this context that the rate of the other obligations of the Developer, which are unrelated to the construction, such as: labor fee, taxes, advertising, lease of offices and the like will in any event not exceed 10% of the price of the project; (4) restrictions on the financing of the project, other than a commitment in a loan agreement with the bank, which is funding the construction of the project. Payments of advances will not exceed 30% of the value of the project.

h. In December 1, 2017, the Government of Russia approved the "roadmap" (spread over three years) intended to replace the manner of acceptance and management of payments of purchasers of residential units in shared construction projects, in order to diminish the current risks of purchasers in transactions of this kind. The meaning of the aforementioned roadmap is beyond a model of funding residential constructions through a method of trusteeship and/or holding of such funds in special accounts.

Preparatory Stage – up until July 1, 2018 the amendments to the federal laws, arranging the construction for dwelling, including FZ-214, will be executed.

The Intermediate Stage – one year from July 1, 2018 – developers could raise money from purchasers through monetary funds, by way of signing a shared construction agreement, that includes the following methods: (1) creation of a trusteeship method with respect to funds of purchasers or other special accounts; or (2) direct payment of funds of purchasers to the Developer, who transfers the compulsory payment to the Fund, in order to protect the rights of purchasers.

Final Stage – from July 1, 2019 until December 31, 2020[36] – any commitment in a shared construction agreement will be stipulated in the signing of a trust agreement or the opening of another special account for the payments on behalf of the purchasers.

The government of Russia is of the opinion that said roadmap and the change of the model of payment in shared construction, *inter alia*, will allow to decrease the administrative requirements from initiators and cancel certain requirements, such as those specified in Subsection (g) above, and also to increase the scope of utilities that coud be executed in funds of purchasers by same Developer. Furthermore, it will help decreasing the supervision and control of governmental authorities upon the entrance into validity of provisions that compel the use of trust accounts and avoiding any use of such funds up until completion of the construction.

i. The group obtained construction permits without a construction validity date in land divisions 1-4 in the St. Petersburg Project. According to an appeal received by the legal consultants for the Company in Russia, although no official publication was given to it, as yet - the validity of the construction permits that were given is for a three year period, as stated, starting from January 1, 2017. Alongside their reservation, whereby the legislative amendments, as stated, introduce much uncertainty on the issue of development and construction, they are aware of cases where contractors were required by the St. Petersburg

[36] The aforementioned is correct with respect to construction projects, whose Initial Agreement was signed after July 1, 2019.

Municipality to obtain an approval once again for a development plan that was approved prior to January 2017, in order to acknowledge the validity of the construction permits that were issue on its strength. In addition, as stated in Section 6.2.15.1 above, in the field of residential real estate in multistoried or residential building projects in the municipal area of the St. Petersburg municipality, from 2017 the current PZZ was amended and replaced by a new PZZ. The PPT and the PMT of the residential real estate project of the Company in St. Petersburg were given in 2009 without a restriction of validity. In light of that stated and based upon the opinion of the attorneys for the Company in Russia, in accordance with the interpretation of Section 4.6 of the New PZZ, it is likely that the local authority in St. Petersburg will support projects, whose execution was commenced, based upon the PPT and the PMT that were conferred upon the Company at that time, according to the construction parameters stated therein.

j. Furthermore, in addition to that stated in Section 6.2.15.1 above, in light of the requirements to maintain equity capital in accordance with the magnitude of the project constructed by it, with respect to all projects that did not receive a construction permit - Petra 8 is liable to be required to meet an equity capital condition of approx. 400 million ruble (approx. $6.6 million according to the rate of exchange of the ruble/dollar, as of December 31, 2017) with respect to receipt of new construction permits, as well as additional restrictions, including the depositing of funds with the federal government fund, in order to assure the funds of purchasers.

## 3.7 Critical Success Factors in the Field of Operation

The Company is of the opinion, that the critical success factors in residential real estate operations are as follows:

(a) Know-how and expertise in residential real estate, financing and marketing, allow the Company to maintain its level of income and clients;

(b) A good reputation, mainly with respect to meeting schedules and honoring agreements.

(c) Locating attractive lands and assets in terms of cost and potential for sale, identifying in advance areas in which an increase in asset prices is expected.

(d) Attractive architectural designs, professional engineering planning and high construction standards, by means of well-known reputable contractors.

(e) Close and strong working relationship with the Russian banking system, based on professionalism and trust.

## 3.8 Main Entrance and Exit Barriers of the Field of Operation

**Entry barriers** - Entities operating in the residential real estate sector are primarily required to have the equity and financial stability, that will enable them to raise capital, in order to purchase land at relatively low financing costs. Moreover, know-how and experience in this field, a good reputation in the industry and correct and professional identification in choosing the location of projects in areas of high demand are also very important. In light of the crisis that occurred in 2014 in Russia's economy, there is an overflow of supply in the Russian real estate market, but there are not many lessees, who are interested to purchase real estate assets and finance such assets.

**Exit barriers** – the principal exit barriers in the residential real estate sector are generally in projects that take time to complete, involving long-term contractual obligations, undertakings to provide services and warranties (for faulty construction), even after completion and delivery of apartments, undertakings and commitments based on financing terms and financial facilities for each of the projects, and the fact that under certain market conditions, the sale of residential apartments in projects might take longer than expected. Additionally, in light of the crisis that occurred in 2014 in the Russian economy, the quantity of transactions executed in the real estate field decreased significantly and the realization of real estate assets is liable to take longer than that expected.

## 3.9 The Structure of Competition in the Field of Operation and the Changes Therein

The Group is exposed to competition from numerous residential real estate entrepreneurs, leading the market to declining prices in this field. In light of the crisis in Russia's economy in 2014, the competition between real estate developers intensified. The number of new companies entering the real estate market decreased

and the competition revolves mainly around the ability of the Company to bring projects to completion and to deliver the apartments to the purchasers in due time. For additional details, see Section 4.1 of the Periodic Report.

## 3.10 Details of Projects in which the Group is Involved in the Field of Operation

### 3.10.1 General

As of the Date of the Report, the Company has two projects in the field of residential real estate - one in St. Petersburg, which is the Group's largest project (approx. 397,092 net sq. meter for sale – not including the project's commercial part) and also one project in the outskirts of Moscow – Western Residents Project on a total area of approx. 63,759 Sq. meter, divided into two stages – the area of the first stage is 29,152 Sq. meter (out of which 24,089 Sq. meter were sold, as of the Date of the Report) and the area of the second stage is 34,607 Sq. meter, whose construction was not commenced as yet.

**The information below regarding the Company's assessments of the manner of progress of projects and expected costs in the construction of the projects is future anticipating information, as this term is defined in the Securities Law, 1968, *inter alia*, based upon the Company's estimates, forecasts and work plans, as of the Date of the Report (including the Company's decision to execute the second stage of the project). It is possible that part of the Company's assessments may actually materialize differently due to factors beyond the Company's control, such as changes in the Russian economy as of the Date of the Report, changes in sale prices of apartments in the areas surrounding the Company's projects, changes in the conditions prevailing in the residential real estate market, as of the Date of the Report, changes in construction costs, which are estimated on the basis of labor and planning calculations and on which the Company relies in determining the number of apartments in each project, and all of that, while taking into consideration the duration of time which will be required to realize the projects and its various stages.**

**The Company's assessments, set out below, might not realize, and the information pertaining to sales and overall cost could actually be different from those appearing in the Company's assessments, to the**

**extent that significant changes occur in the Russian economy and/or the residential housing market in general, as well as specific areas where the projects are located in particular and/or construction prices and/or the planning on which the Company relies in determining the number of residential apartments and/or the costs of financing related to the development and construction of each of the projects.**

3.10.2 **St. Petersburg Project**

General

As of the Date of the Report, the St. Petersburg project is the largest project in the Group's asset portfolio. The project spans on land with an approximate net area for sale of approx. 397,092 sq. meter, situated near the main road (Pulkovskoe Shosse) connecting the airport to the center of St. Petersburg, about 5 km from the airport and 16 km from the city center (the "**Project Land**"). In 2016 a change in the net land area for sale of the Project from 450,000 sq. meter to 397,092 sq. meter was effected. This change resulted from legislative amendments and restrictions imposed on the scope of construction in projects in the St Petersburg area. For details on this matter, see Section 6.2.15.1 and Section 3.6 above. At this stage, the figures are presented, based upon the engineering determination of the Group, in accordance with its understanding of the implications of said legislation on the St Petersburg Project and based on the professional consultation of experts on the matter.

**The information stated in the foregoing section is future anticipating information as this term is defined in the Securities Law, 1968, *inter alia*, based upon the Company's estimates, forecasts and work plans, as of the Date of the Report. It is possible that part of the Company's assessments may actually materialize differently due to factors beyond the Company's control, such as a different interpretation of legislative provisions and/or additional previsions, which may affect the construction rights of the Group in the project.**

The Company completed the construction of stages 1-4 of the project spanning on an area of approx. 181,287 sq. meter. The Company is also executing stage 5 and the Green Tower, spanning on an area of approx.

73,509, including 1,462 residential units and 339 parking places and commercial areas with a total area of approx. 3,903 sq. meter. The entire residential project will be executed in several stages, as would be decided by the Company, based upon marketing and sales assessments. An additional area in the project of office and commercial buildings spans on an area of approx. 106 thousand sq. meter, which would serve the residential project as stated (for details, see Section 0 above).

**Project Description**

As set out above, the Company intends to construct a residential project on the land (the "**Residential Project**") in accordance with which 8,500 apartments are planned for construction in eight stages.

The first stage, consisting of 510 residential units, and the second stage, consisting of 630 residential units, were completed. The third stage of 1,346 residential units was completed in August 2016. In the first half of 2017, the construction of Stage 5 was commenced. Stage 4, which consists of 1,244 residential units, received a population approval in December 2017 and the delivery of apartments to purchasers began in January 2018. During the fourth quarter of 2016, the construction of the Green Tower, consisting of 132 residential units, was commenced. In 2017, the construction of Stage 5 was commenced.

The residential project will comprise of multi-level residential towers and residential buildings of 9 - 24 floors. From Stage 6, the construction height is restricted to 40-45 meters (12-14 floors), as per the restrictions specified in Section 1.6.2.

The average size of the residential apartments, that will be sold in the project, is about 47 sq. meter. The residential units will be built according to the Comfort Class finish level.

In order to create the appropriate infrastructure for the residential project, the project plan includes the allocation of public areas for the establishment of public buildings, which would serve the residents, such as kindergartens, schools, community centers, etc., and also underground parking places.

Construction of the public buildings, as aforesaid, will be carried out concurrently with the construction of the residential units. In addition, the Company intends to establish municipal parks in the area of the project. As of the Date of the Report, the Group commenced the construction of the first kindergarten, whose construction is expected to complete in the second half of 2018. Concurrently, the Group is in contacts with the municipality as to the manner of reimbursement of the costs of construction of the kindergarten, as per the commitment with it. For details regarding the undertakings of both the Company and the municipality in this respect, see the discussion regarding the existence of infrastructures nearby the project on the table in Section 3.10.2.1 below.

For the table, that summarizes the sales of Stages 3, 4, 5 and the Green Tower, see Section 1.1.11 above.

In general, the Company is promoting various stages of the project with time intervals of about a year and a half from the beginning of construction of each stage, while the transition from stage to stage is stipulated in the marketing and sale of at least 50% of the apartments at any stage of the project. However, in light of the current economical situation in Russia, the Company will review the timing for the start of construction of the fifth stage of the project. As of the date of this Report, a decision has not yet been taken on this matter. The Company estimates that the construction of the last stage of the project is expected to end in 2023.

Petra-8 is committed in a marketing agreement with a local real estate agency, in order to market the real estate assets and the project, in return for marketing fees at rates between 4% - 5%, based on fulfillment of targets and the conditions set out in the relevant agreement. The Company's expenses in connection with this marketing agreement amounted in 2017 to approx. $3.9 million.

The Company estimates that the balance of development costs of the residential project are approximately US$ 269 million (excluding land). The Company has construction rights for approx. 106,000 Sq. meter (net) of commercial areas. Out of these commercial areas, approx. 20,000 Sq. meter

constitute neighborhood's commercial areas (on the first floors of residential buildings) out of which 6,835 Sq. meter were constructed so far, and 3,903 sq. metereter are under construction. The remaining neighborhood's commercial areas are expected to be constructed concurrently with the construction of the residential project. In all matters pertaining to the 86,000 Sq. meter of commercial areas, as of the Date of Publication of this Report, they are under stages of planning.

**The information stated in the foregoing section is a future anticipating information as this term is defined in the Securities Law, 1968, *inter alia*, based upon the Company's estimates, forecasts and work plans, as of the Date of the Report. It is possible that part of the Company's assessments may actually materialize differently, due to factors beyond the Company's control, such as changes in rates of exchange, schedules for receipt of permits, regulatory restrictions, etc.**

**Management of the Project**

As of the Date of the Report, the Company committed in a management agreement with an un-related third party (hereinafter in this section: the "**Management Company**") whereby the Management Company furnishes the Company with management services for Stages 3-5 and the Green Tower, *inter alia*, including assistance in preparing the project plans, preparing RFPs in order to choose suppliers, technical supervision of the project, control of budgets, etc.

As of the Date of the Report, the Company pays to the Management Company monthly management fees in the amount of approx. 5 million rubles (including VAT), approx. US$ 82,600 (based on the exchange rate as of December 31, 2016) presenting approx. 1.7% of the construction budget.[37]

In addition, the Company committed with another management company with respect to the advanced stages of the project, including approx. 3,000 residential units, in consideration of a total of approx. 2.7 million rubles per month (including VAT), approx. US$ 47,000 (based on the exchange rate as of December 31, 2017). The services provided by the additional management company include engineering planning, architectural design, handling the

[37] Under an assumption of construction of two stages in the project concurrently.

necessary approvals, actions opposite the authorities, in order to handle infrastructures, etc.

In addition to the foregoing commitments, Petra-8 signed an agreement with a third party, which is not related to the Company, in accordance with which the third party will provide to Petra-8 various professional services, toward obtaining the approvals and permits required for the project. Under the provisions of the agreement, as amended from time to time through supplementary agreements, Petra-8 will pay in consideration of those services an amount equivalent to 2.5% of the profits of Petra-8 (net) from the sale of the rights in the project. This consideration will be paid on dates and in installments, as set out in the agreement. Arrangements were entered between parties, whereby advance payments were made on account of the consideration, as stated (based on the accounting mechanism specified in the agreement) up until the Date of the Report, amounting to approx. US$ 4,300 thousand. In excess of said amounts, as of December 31, 2017, based upon the evaluations of the Company with respect to the profits expected in the project, the third party is not entitled to any additional payment in addition to the amounts already paid to it, as stated above.

**Development of the Project**

The Company hired a local contractor for the construction of the fifth stage at a fixed price of approx. 52,000 ruble per sq. meter net for sale ($900 per sq. meter, according to the ruble/dollar rate of exchange as of December 31, 2017). The Company has a lien right amounting to 5%, and the contractor undertook to furnish the Company with a bank guarantee for the “overhaul warranty” concerning the fifth stage. Furthermore, the Company hired a local contractor for the construction of the Green Tower according to similar conditions.

3.10.2.1 Presentation of the Project

| Data according to 100% (Company's effective share of the project - 100%) | Detail as of December 31, 2016 |
|---|---|
| Project name | Triumph Park |
| Project location | St. Petersburg |
| A brief description of the project | Residential apartments |
| Company's effective share of the project | 100% |
| Structure of holdings in project | Holdings through Petra-8 subsidiary |
| Project partners | - |
| Method of presentation in financial statements | Consolidation |
| Purchase date of the land on which the project will be built | Year 2006 |
| Area of land on which the project will be built | 206 dunam |
| Date of completion of construction work | Q4/2021 |
| Date of beginning marketing in project, expected / actual | Q4/2011 |
| Date of expected/actual completion of marketing | Q4/2023 |
| Agreements with performance contractors | See above |
| Date of beginning of construction work | Year 2008 |
| Details of legal rights in the land | Ownership |
| Special agreements related to the project | - |
| Existence of material legal exposure of the reporting corporation for the project | - |

**Was an estimate of the net exercise value performed for the inventory attributed to the project in the reported period?** (Details will be provided of assumptions regarding very substantial land inventory) Yes.

4. **Was the estimate based on a zoning change of the land from the current zoning?** No.
5. **Project area** - 397,092 net sq. meter for sale.
6. **Ratio of net/gross sq. meter in the project -** 71%.
7. **Average construction cost per gross sq. meter assumed:** about 85,000 ruble ($ 1,400) per sq. meter.
8. **Average sale price per net sq. meter**: 109,000 ruble (US$ 1,800) per sq. meter.
9. **Period taken into account until the completion of the construction:** seven years.
10. **Period taken into account until the completion of the sales**: seven years.
11. **Scope of financing and rate as a percentage of the construction costs**: a credit line of about US$ 52 million, representing approx. 70% of the construction cost of the fourth stage, which was fully used. Another credit line of US$ 62 million, representing approx. 65% of the cost of construction of the

| | |
|---|---|
| fifth stage, out of which a total of approx. $15.7 million was used.<br>12. **The expected gross profit of the project** (inc. stages whose construction was completed): approx. 8 billion ruble (approx. $139 million). | |
| Discussion with respect to the existence of infrastructures in the vicinity of the project | The St. Petersburg Municipality intends to build the main road in the project. The construction of the road was part of the Municipal work plan for 2018-2019.<br>In addition, following negotiations with the Municipality, a protocol was signed in which it was agreed that the subsidiary of the Company would parcel the project's land and transfer land to the ownership of the city from the aforesaid area of about 40 dunam, pursuant to the establishment of kindergartens and schools in the project, which were designated in advance under the original project plan for the same purpose. It should be noted that within the protocol, it was agreed that the subsidiary would build three kindergartens, as the first two would be purchased by the city from the subsidiary at cost price. The city undertook to publish public tenders for the construction of the designated two schools in the project. |
| Special matters (substantial building violations, land contamination, etc.): | As described above. |

3.10.2.2 The Planning Condition of the project

| Current Planning Condition | | | |
|---|---|---|---|
| **Inventory type** | Total area (sq. meter) | Total units | Comments |
| **Constructed residential units** | 181,287 | 3,730 | Stages 1-4 |
| **Residential units under construction** | 73,509 | 1,642 | Stages 5 and the Green Tower |
| **Sold land unit** | 12,500 | - | Stages 6a |

| | | | |
|---|---|---|---|
| **Unexploited construction rights** | 129,796 | 3,128 [38] | Stages 6-8 |

3.10.2.3 Detail of costs invested and which would be invested in the Project - Stage 4 – whose construction was completed during the reported period.

| Data according to 100% (Company's effective share of the project - 100%) (US$ 000's) | 2017** | 2016 ** | 2015** |
|---|---|---|---|
| **Costs invested** | | | |
| Total aggregate costs of lands upon completion of the period (in the cpresentation currency) | 5,667 | 5,440 | 5,585 |
| Total aggregate costs for development, taxes and fees (in the presentation currency) | 29,945 | 24,823 | 10,258 |
| Total aggregate costs (in presentation currency) | 61,680 | 32,418 | 16,123 |
| Total aggregate financing costs (capitalized) (in presentation currency) | 7,636 | 4,741 | 4,349 |
| Total aggregate financing costs (in presentation currency) | 104,928 | 67,422 | 36,316 |
| **Costs not yet invested and completion rate** | | | |
| Total aggregate costs of lands, not yet invested (estimate) (in the cpresentation currency) | - | - | - |
| Total aggregate costs for development, taxes and fees not yet invested (estimate) (in the presentation currency) | - | 2,180 | 7,904 |
| Total aggregate costs not yet invested (estimate) (in presentation currency) | - | 16,451 | 29,873 |
| Total completion rate (engineering / financial) (without land) (%) | - | 18,631 | 37,777 |
| **Total cost remaining for completion** | 100%/100% | 73%/78% | 41%/52% |
| | Q4/2017 | Q4/2017 | Q4/2017 |

* The amounts in the table are based on the ruble-dollar exchange rate as of December 31, 2017, amounting to 57.6.
** The costs in 2015-2017 are distributed evenly.

3.10.2.4 Costs invested and which would be invested in the project - Stage 5*

[38] The quantity of residential units is derived by the evaluation of the Company with respect to the average size of the residential units, which would be constructed in the Project.

| Data according to 100% (Company's effective share of the project - 100%) (US$ 000's) | 2017* |
|---|---|
| **Costs invested** | |
| Total aggregate costs of land at the end of the period (presentation currency) | 4,150 |
| Total aggregate costs of development, taxes and fees (presentation currency) | 13,996 |
| Total aggregate costs of construction (presentation currency) | 16,718 |
| Total aggregate costs of financing (capitalized) (presentation currency) | 1,171 |
| Total aggregate cost (in presentation currency) | 36,035 |
| **Costs not yet invested and completion rate** | |
| Total costs for land not yet invested (estimate) (in presentation currency) | - |
| Costs for development, taxes and fees, not yet invested (estimate) (in presentation currency) | 4,609 |
| Costs for construction, not yet invested (estimate) (in presentation currency) | 60,294 |
| **Total cost remaining for completion** | 64,903 |
| Total completion rate (engineering / financial) (without land) (%) | 33%/25% |
| Expected completion date | Q4/2019 |

3.10.2.5 Marketing of the project*

Project marketing - Stage 3

| Data according to 100%. (Company's effective share of the project - 100%) (US$ 000's) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contracts signed during the current period (#)* | | | |
| Residential units (#) | 32 | 264 | 209 |
| Residential units (sq. meter) | 1,778 | 13,000 | 10,255 |
| Average price per square meter in contracts signed during the current period (in functional currency)** | 2,108 | 1,834 | 1,830 |
| Aggregate agreements by end of period (#) | | | |
| Residential units (#) | 1,346 | 1,314 | 1,050 |
| Residential units (sq. meter) | 61,786 | 59,984 | 46,984 |
| Average price per square meter in aggregate in contracts signed | 1,741 | 1,732 | 1,675 |

| | | | |
|---|---|---|---|
| until the period end (in functional currency)* | | | |
| **Marketing rate of the project (%)** | | | |
| Total income expected from the entire project (in functional currency)* | 108,665 | - | - |
| Total income expected from signed contracts in the aggregate (the operative currency)* | 108,665 | 103,579 | 78,011 |
| Marketing rate as of last day of the period (%) | 100% | 98% | 78% |
| **Areas for which agreements have not yet been signed** | | | |
| Residential units (#) | - | 32 | **296** |
| Residential units (sq. meter) | - | 1,801 | **14,802** |
| Total cost attributed to areas for which binding contracts are not yet signed in the Statement of Financial Position (consolidated)* | - | 2,719 | 22,562 |
| Number of contracts signed from end of the period up to the Date of the Report (#)*** | - | 12 | **53** |
| Number of contracts signed from end of the period up to the Date of the Report in sq. meter *** | - | 691 | **2,577** |
| Average price per square meter in contracts signed from end of the period up to the Date of the Report ** | - | 1,944 | **1,874** |

* The amounts listed on the table are based on the ruble-dollar exchange rate as of December 31, 2017, which is 57.6. Where comparative data of previous years was presented, they were technically adjusted to said exchange rate (as opposed to the data presented in relevant previous reports) for purpose of presentation and ease of reading only.

** The amounts indicated on the table are according to the average ruble/dollar rate of exchange in the relevant period.

*** Up until March 1, 2017.

Project marketing - Stage 4*

| **Data according to 100%. (Company's effective share of the project - 100%) (US$ 000's)** | **2017** | **2016** | **2015** |
|---|---|---|---|
| Contracts signed during the current period (#)* | | | |
| Residential units (#) | 340 | 438 | 433 |
| Residential units (sq. meter) | 17,371 | 21,134 | 19,560 |
| Average price per square meter in contracts signed during the current period (in functional currency)** | 1,846 | 1,512 | 1,549 |
| Aggregate agreements by end of period (#) | | | |
| Residential units (#) | 1,211 | 871 | 433 |
| Residential units (sq. meter) | 58,065 | 40,694 | 19,560 |
| Average price per square meter in aggregate in contracts signed until the period end (in functional currency)* | 1,750 | 1,700 | 1,635 |

| | | | |
|---|---|---|---|
| **Marketing rate of the project (%)** | | | |
| Total income expected from the entire project (in functional currency)* | 106,730 | - | - |
| Total income expected from contracts signed in the aggregate (functional currency)* | 101,641 | 69,164 | 30,415 |
| Marketing rate as of last day of the period (%) | 97% | 70% | 35% |
| **Areas for which agreements have not yet been signed** | | | |
| Residential units (#) | 33 | 373 | 811 |
| Residential units (sq. meter) | 2,629 | 20,000 | 41,134 |
| Total cost attributed to areas for which binding contracts are not yet signed in the Statement of Financial Position (consolidated)* | 3,925 | 19,720 | 32,681 |
| Number of contracts signed from the end of the period up to the Date of the Report (#)*** | 11 | 37 | 46 |
| Number of contracts signed from the end of the period up to the Date of the Report in sq. meter *** | 838 | 2,082 | 2,145 |
| Average price per square meter in contracts signed from end of the period up to the Date of the Report ** | 1,928 | 1,721 | 1,600 |

* The amounts listed on the table are based on the ruble-dollar exchange rate as of December 31, 2017, which is 57.6. Where comparative data of previous years was presented, they were technically adjusted to said exchange rate (as opposed to the data presented in relevant previous reports) for purpose of presentation and ease of reading only.

** The amounts indicated on the table are according to the average ruble/dollar rate of exchange in the relevant period.

Project marketing - Stage 5*

| **Data according to 100%. (Company's effective share of the project - 100%) (US$ 000's)** | **2017** | **2016** | **2015** |
|---|---|---|---|
| Contracts signed during the current period (#)* | | | |
| Residential units (#) | 293 | - | 293 |
| Residential units (sq. meter) | 12,551 | - | 12,551 |
| Average price per square meter in contracts signed during the current period (in functional currency)** | 1,662 | - | 1,662 |
| Aggregate agreements by end of period (#) | | | |
| Residential units (#) | 293 | - | 293 |
| Residential units (sq. meter) | 12,551 | - | 12,551 |
| Average price per square meter in aggregate in | 1,682 | - | 1,682 |

| | | | |
|---|---|---|---|
| contracts signed until the period end (in functional currency)* | | | |
| **Marketing rate of the project (%)** | | | |
| Total income expected from the entire project (in functional currency)* | 113,762 | - | 113,762 |
| Total income expected from contracts signed in the aggregate (functional currency)* | 21,115 | - | 21,115 |
| Marketing rate as of last day of the period (%) | 19% | - | 19% |
| **Areas for which agreements have not yet been signed** | | | |
| Residential units (#) | 1,217 | - | 1,217 |
| Residential units (sq. meter) | 53,533 | - | 53,533 |
| Total cost attributed to areas for which binding contracts are not yet signed in the Statement of Financial Position (consolidated)* | 26,376 | - | 26,376 |
| Number of contracts signed from end of the period up to the Date of the Report (#)*** | 87 | - | 87 |
| Number of contracts signed from end of the period up to the Date of the Report in sq. meter *** | 3,717 | - | 3,717 |
| Average price per square meter in contracts signed from end of the period up to the Date of the Report ** | 1,691 | - | 1,691 |

* The amounts listed on the table are based on the ruble-dollar exchange rate as of December 31, 2017, which is 57.6. Where comparative data of previous years was presented, they were technically adjusted to said exchange rate (as opposed to the data presented in relevant previous reports) for purpose of presentation and ease of reading only.

** The amounts indicated on the table are according to the average ruble/dollar rate of exchange in the relevant period.

### 3.10.2.6 Recognition of Income From Binding Sale Agreements in the Project and Advances Expected to be Received From the Project*

| Data according to 100% (Corporation's effective share of the project - 100%) (US$ 000's) | Total income recognized / would be recognized for signed contracts (consolidated) (Presentation currency) | Total advance payments received / expected (Consolidated) (Presentation currency) |
|---|---|---|
| Up until the final day of 2017 | 196,579 | 736,855 |
| Year 2018 | 102,600 | 6,413 |
| Year 2019 | 6,874 | 767 |
| Year 2020 | 6,874 | 4,781 |

| | | |
|---|---|---|
| Year 2021 | 21,115 | 4,014 |
| 2022 henceforth | - | - |

* The amounts listed on the table are based on the ruble-dollar exchange rate as of December 31, 2017, amounting to 57.6.

3.10.2.7 Estimated Total Gross Profitability in the Project (US$ 000's) *

| | | **Year 2016** |
|---|---|---|
| Expected income for the project | | 136,855 |
| Expected project costs | | 597,493 |
| Expected gross profit (loss) for the project | | 139,362 |
| Out of which, gross profit already recognized in the report | | 24,779 |
| Out of which, gross profit not yet recognized in the report | | 114,583 |
| Rate of gross profit including forecast in the project (%) | | 19% |
| Average price based on which gross profit not yet recognized is calculated (by use) | **Commercial** | N/A |
| | **Residential** | 1,910 |

* The amounts listed on the table were not acknowedged as yet according to the ruble-dollar exchange rate as of December 31, 2017, which is 57.6.

** The amounts acknowedged are based on the dollar-ruble exchange rate as of same period.

3.10.2.8 Sensitivity Analysis of Gross Profit Expected in the Project, not yet Recognized

| | **Impact of 10% increase** | **Impact of 5% increase** | **Total gross profit not yet recognized** | **Impact of 5% decrease** | **Impact of 10% decrease** |
|---|---|---|---|---|---|
| The impact of a change in the sale prices for areas where binding sale contracts have not yet been signed, per sq. meter, on the anticipated gross profit not yet recognized. | 50,416 | 25,208 | 114,583 | -25,208 | -50,416 |
| Impact of change to construction cost per sq. meter on anticipated gross | -38,958 | -19,479 | 114,583 | 19,479 | 38,958 |

| | | | | | |
|---|---|---|---|---|---|
| profit not yet recognized | | | | | |

3.10.2.9 Specific Financing Taken for the Project

Stage 4

| Details | | | |
|---|---|---|---|
| Balances in the statement of financial position (US$ 000's) | December 31, 2017 | Presented as a short-term loan | - |
| | | Presented as long-term loan | - |
| | December 31, 2016 | Presented as a short-term loan | 13,744 |
| | | Presented as long-term loan | - |
| Lending institution | | | Sberbank |
| Date of approval of the loan / credit line, and date of taking the loan | | | Q3/2014 |
| Total credit limit (US$ 000's) | | | approx.42, 172 |
| Out of which, unused balance: | | | 5,588 |
| Interest determination mechanism and interest rate: | | | 10.9% together with the addition of various commissions |
| Repayment date of the principal and interest | | | The credit line was repaid in 2017 |
| Main financial stipulations | | | - |
| Other financial stipulations | | | - |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | No |
| Is it non-recourse? | | | No |
| Conditions to release surplus from the lending account, including whether the conditions were fulfilled: | | | N/A |
| Securities | | | Residential units under construction and land |

Stage 5

| Details | | | |
|---|---|---|---|
| Balances in the statement | December 31, 2017 | Presented as a short-term loan | 9,591 |

| | | | |
|---|---|---|---|
| of financial position (US$ 000's) | | Presented as long-term loan | - |
| | December 31, 2016 | Presented as a short-term loan | - |
| | | Presented as long-term loan | - |
| Lending institution | | | Sberbank |
| Date of approval of the loan / credit limit, and date of taking the loan | | | June 2, 2017 |
| Total credit limit (US$ 000's) | | | $64 million |
| Of which, unused balance: | | | $48 million |
| Interest determination mechanism and interest rate: | | | 11.5% together with various fees |
| Repayment date of the principal and interest | | | The credit line bears annual ruble interest at the rate of 11.5% in addition to further commissions set forth in the loan agreement. The loan period is four years. The loan will be partly repaid by receivables from the sale of the pledged residential units (see details below). The average receivables rate which will be used for repayment of the loan amounts to 60% of the entire receivables expected from the sale of residential units and additional areas in stage 5 of the project, according to the subsidiary's sales projection.<br>As of the Date of the Report, this credit line was fully repaid. |
| Main financial stipulations | | | - |
| Other financial stipulations | | | - |
| Were central conditions or financial criteria breached as of the end of the reporting year | | | No |
| Is it non-recourse? | | | No |
| Conditions to release surplus from the lending account, including whether the conditions were fulfilled: | | | N/A |
| Securities | | | Residential units under construction and land |

3.10.2.10 Material Legal Liens and Restrictions on the Asset

| Type | | Details | Secured amount as of December 31, 2017 (US$ 000's) |
|---|---|---|---|
| **Liens** | First / second rank | a. A lien on all of the Company's holdings in Petra;<br>b. A lien on approx. 300 of 400 dunam from the project area;<br>c. A future lien on residential units and the income generated from their sale in the fourth stage of the project;<br>d. The Company's guarantee for payment of the debt and the fulfillment of all of Petra's undertakings;<br>e. A lien over about 1,176 out of 1,510 residential units in the project (as of the reported date). | The principal and interest balance on the loan as of December 31, 2017, is in the amount of US$11 million excluding other expenses and payments secured under the lien. |

St. Petersburg - Triumph Park (US$ 000's) - Stage 3

| | |
|---|---|
| Expected gross profit | 12,966 |
| Adjustment to surplus | - |
| Add: Total amounts recognized as equity in the project | 7,376 |
| Addition: adjustment for expenses capitalized to inventory and recognized upon removal as cost of the sale, which are not paid from the financing account (such as discounting non-specific credit or costs capitalized to inventory that are not paid from the surplus account and not recognized by the Bank as equity) | 6,389 |
| Reduction: adjustments for the expenses paid from the financing account, which are not classified within the cost of sale (such as marketing costs or payment of overhead for the Company) | (7,765) |
| Reduction: contracting performance by the Company - the reduction of gross profit | - |

| | |
|---|---|
| from the performance arising from the gap between approved withdrawals from the financing account and the actual performance cost by the Company | |
| Other adjustment – recognition of previous years | - |
| Total surplus expected to be withdrawn* | 18,966 |
| Date expected for withdrawal of surplus | Upon delivery of the stage and populating of the apartments by the purchasers |
| Conditions precedent to the withdrawal of surplus | Delivery of apartments to purchasers in the specific stage and full payment of a credit line provided by the bank. |

* The total surplus expected for withdrawal from the project company could actually be lower, as a result of the investment of the same surplus in the development of the following stages of the project.

St. Petersburg - Triumph Park (US$ 000's) - Stage 5

| | |
|---|---|
| Expected gross profit | 21,242 |
| Adjustment to surplus | |
| Add: Total amounts recognized as equity in the project | 8,031 |
| Addition: adjustment for expenses capitalized to inventory and recognized upon removal as cost of the sale, which is not paid from the financing account (such as discounting non-specific credit or costs capitalized to inventory that was not paid from the surplus account and is not recognized by the Bank as capital) | 6,491 |
| Reduction: adjustments for the expenses paid from the financing account which are not classified within the cost of sale (such as marketing costs or payment of overhead for the Company) | (5,688) |
| Reduction: contracting performance by the Company - the reduction of gross profit from | - |

| | |
|---|---|
| the performance arising from the gap between approved withdrawals from the financing account and the actual performance cost by the Company | |
| Other adjustment – recognition of previous years | - |
| Total surplus expected to be withdrawn* | 30,076 |
| Date expected for withdrawal of surplus | Upon delivery of the stage and populating the apartments by the purchasers |
| Conditions precedent for the withdrawal of surplus | Delivery of apartments to purchasers in the specific stage and full payment of a credit line provided by the bank. |

* The total surplus expected for withdrawal from the project company could actually be lower as a result of the investment of the same surplus in the development of the following stages of the project.

3.10.3 **Western Residence Project**

General The Company holds, through CreativeCom LLC ("**CreativeCom**"), 100% of the freehold rights in the Project which initially comprised of two plots of land on a total area of 225 dunam in the Odintsovksy district in the outskirts of the city of Moscow, near the highway (the Mozhayshoe Shosse), which are approximately 15 km from Moscow (the "**Project Area**"). The Company has completed the construction of 77 houses on an area of 106 dunam. As of the Date of the Report, 66 of the units have been sold.

The project land is located near a prestigious suburb of garden houses and vacation homes, known as Rublevka, having easy transportation access in many directions, including the highway to Moscow, a train station (5 km from the project land) and an airport (10 km from the project land).

Acquisition of the Rights in the Project Area

On November 14, 2005, CreativeCom committed in an agreement with a third party, not related to the Company, in accordance with which it purchased the rights of title in the project area in consideration of US$ 22.5 million. As of

the Date of the Report, the Company holds all of the ownership rights in CreativeCom.

**Project Description**

The total area of the project is 225 dunam. The Company completed the construction of the first stage of the project, consisting of 77 houses, paving access roads and installation of essential infrastructures. In the matter of the second stage of the project on an area of approx. 119 dunam, the Company acts pursuant to re-planning of this stage or the sale of the land division as a whole.

3.10.3.1 **Presentation of the project**

| **Data according to 100% (Company's effective share of the project - 100%)** | **Detail as of December 31, 2016** |
|---|---|
| Project name | Western Residence |
| Project location | Moscow outskirts |
| A brief description of the project | Residential - private homes |
| Company's effective share of the project | 100% |
| Structure of holdings in project | Through a fully held subsidiary, CreativeCom |
| Names of partners in the project | - |
| Method of presentation in financial statements | Consolidation |
| Purchase date of the land on which the project will be built | Year 2005 |
| Area of land on which the project will be built | 225 dunam |
| Date of completion of construction work | Stage 2 - N/A |
| Date of beginning of construction work | Stage 2 - N/A |
| Detail of legal rights in the land | Ownership |
| Special agreements related to the project | - |
| Existence of material legal exposure of the reporting corporation for the project | - |

**Was an estimate of the net exercise value performed for the inventory attributed to the project in the reported period?** Yes.

1. **Was the estimate based on a zoning change of the land from the current zoning?** No
2. **Project area** - 63,759 net sq. meter.
3. **Ratio of net/gross sq. meter in the project -** 90%.
4. **Average construction cost per gross sq. meter assumed:** about US$ 1,100 per sq. meter.
5. **Average sale price per net sq. meter**: US$ 1.300 per sq. meter.
6. **Period taken into account until the completion of the construction:** N/A

| Data according to 100% (Company's effective share of the project - 100%) | Detail as of December 31, 2016 |
|---|---|
| 7. **Period taken into account until the completion of the sales:** N/A<br>8. **Scope of financing and rate as a percentage of construction costs:** N/A<br>9. **Gross profit of the project**: 0. | |
| Discussion of existence of infrastructures in the vicinity of the project | N/A |
| Special matters (substantial building violations, land contamination, etc.): | N/A |

3.10.3.2 **Planning Condition of the Project**

| Planning state as of December 31, 2016 (Data based on 100%, Company's share of the project - 100%) | | | |
|---|---|---|---|
| **Current planning status** | | | |
| **Comments** | **Total units** | **Total area (sq. meter)** | **Inventory type** |
| Stage I | 77* | *29,152 | Residential units |
| Stage II | Undetermined as yet | 34,607 | Unused construction rights |

3.10.3.3 **Costs Invested and which would be Invested in the Project:**

| Data in order to 100% (Company's effective share of the project - 100%) US$ 000's | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Costs invested** | | | |
| Total aggregate costs for land at the end of the period (presentation currency) | 22,000 | 22,000 | 22,000 |
| Total aggregate costs for development, taxes and fees (presentation currency) | 32,418 | 32,418 | 32,418 |
| Total aggregate costs for construction (presentation currency) | 44,710 | 44,710 | 44,710 |
| Total aggregate costs for financing (capitalized) (presentation currency) | 13,257 | 13,257 | 13,257 |

| | | | |
|---|---|---|---|
| The realization of inventory | (53,220) | (53,061) | (45,171) |
| Exchange rate differences (about 10%) | (31,812) | (31,900) | (40,932) |
| Impairment | (16,364) | (15,418) | (4,330) |
| Total aggregate cost (in presentation currency) | 10,989 | 12,006 | 21,952 |
| Total costs for land not yet invested (estimate) (in presentation currency) | | - | - |
| Costs for development, taxes and fees, not yet invested (estimate) (in presentation currency) | 4,541 | 4,309 | 3,588 |
| Costs for construction, not yet invested (estimate) (in presentation currency) | 19,871 | 18,856 | 15,700 |
| Total aggregate for financing not yet invested (estimate) (in presentation currency) | - | - | - |
| Total completion rate (engineering / financial) (without land) (%) | 64%/72% (with respect to both stages) 100% with respect to Stage 1 of the project. | 64%/72% (with respect to both stages) 100% with respect to Stage 1 of the project. | 64%/72% (with respect to both stages) 100% with respect to Stage 1 of the project. |
| Expected completion date | N/A | N/A | N/A |

3.10.3.4 **Marketing of the Project:**

| **Data by 100%. Company's effective share of the project - 100%** | **2017** | **2016** | **2015** |
|---|---|---|---|
| **US$ 000's** | | | |
| Contracts signed during the current period (#) | | | |
| Residential units (#) | 2 | 12 | 12 |
| Residential units (sq. meter) | 942 | 4,393 | 4,363 |
| Average price per square meter in contracts signed during the current period (operative currency) | | | |
| Residential units (operative currency)* | 1,172 | 1,038 | 1,085 |
| Aggregate agreements by end of period (#): | | | |

| | | | |
|---|---|---|---|
| Residential units (#) | 66 | 64 | 52 |
| Residential units (sq. meter) | 25,030 | 24,089 | 19,696 |
| Average price per square meter in aggregate in contracts signed until the period end (operative currency) | | | |
| Residential units (operative currency)* | 1,159 | 1,030 | 1,002 |
| Marketing rate of the project (%)** | | | |
| Marketing rate (%) | 86% | 83% | 68% |
| Total income expected from the entire project ( operative currency)*** | 33,909 | 31,213 | 28,636 |
| Areas for which agreements have not yet been signed | | | |
| Residential units (#) | 11 | 13 | 25 |
| Residential units (sq. meter) | 4,121 | 5,063 | 9,455 |
| Total cost attributed to areas not yet sold in the Statement of Financial Position (consolidated) inc. Stag 2*** | 10,989 | 12,006 | 21,952 |
| Number of contracts signed from end of the period up to the Date of the Report (#) | - | - | - |
| Number of contracts signed from end of the period up to the Date of the Report in sq. meter | - | - | - |
| Average price per square meter in contracts signed from end of the period up to the Date of the Report | - | - | - |

* The amounts listed on the table are based on the ruble-dollar exchange rate. As of December 31, 2017, amounting to 57.6, where comparative data were presented with respect to previous years, there were technically adjusted to the aforementioned rate of exchange (as opposed to the data presented in the previous relevant report) for the purpose of presentation only and convenience of reading alone.

** The amounts indicated on the table are according to the average ruble/dollar rate of exchange in the relevant period.

** The marketing rate refers to Stage 1 only; in Stage 2 of the project, the Company has not yet started marketing.

3.10.3.5 **Recognition of Income from Binding Sale Agreements in the Project and Advances Expected to be Received from the Project**

| **Data in order to 100% (Company's effective share of the project - 100%) (US$ 000's)** | Total income recognized / will be recognized from **signed contracts (consolidated)** (Presentation currency) | Total advance payments received / expected (Consolidated) (Presentation currency) |
|---|---|---|
| Up until the final day of 2017 | 39,951 | 40,171 |
| Year 2018 | 543 | 323 |
| Year 2019 | - | - |
| Year 2020 | - | - |
| Year 2021 | - | - |
| 2022 henceforth | - | - |

* Accorduing to the rate of exchange of 57.6 Russian rubles to Dollar as of December 31, 2017.

3.10.3.6 **Detail of Adjustment Between Expected Gross Profit and Balance of Surplus Expected for Withdrawal**

Pruszków - Stage 1 (US$ 000's)

| | |
|---|---|
| Expected gross profit | - |
| Adjustment to surplus | |
| Add: Total amounts recognized as equity in the project | 8,770 |
| Addition: adjustment for expenses capitalized to inventory and recognized upon removal, as cost of the sale, which are not paid from the financing account (such as discounting non-specific credit or costs capitalized to inventory that are not paid from the surplus account and not recognized by the bank as equity) | 2,429 |
| Reduction: adjustments for the expenses paid from the financing account, which are not classified within the cost of sale (such as marketing costs or payment of overhead for the Company) | - |
| Reduction: contracting performance by the Company - the reduction of gross profit from the performance arising from the gap between approved withdrawals from the financing account and the actual performance cost by the Company | - |

| | |
|---|---|
| Other adjustment – recognition of previous years | (7,555) |
| Total surplus expected to be withdrawn | 3,644 |
| Date expected for withdrawal of surplus | In accordance with the pace of sales of the houses |
| Suspendig conditions to withdrawal of surplus | None |

3.11 **Customers**

In general, the residential units that the Company offers for sale are intended for private customers.

3.12 **Marketing and Distribution**

The marketing strategy of the entire residential project is determined based on its characteristics, as pursuant to its execution the Company is assisted by management companies that manage the projects and/or subcontractors with respect to the advertising, design, sales promotion, marketing, rental and PR.

The marketing channels that the Group uses are media advertising, direct mailing to appropriate sectors and agreements with local real estate agents, most of which are related to international real estate agencies. Occasionally, the Company pays commissions for such commitments. In addition, the Company accrued brokerage expenses mainly from the sale of apartments in the St. Petersburg project (for details, see Section 3.10.2 above). Marketing commissions and expenses, as stated, amounted in 2017 to a total of approx. $2.6 million, out of which $2.4 million with respect to the St. Petersburg Project and $0.2 million with respect to the Western Resident Project.

## 4. Common Matters of all of the Group's Operations

### 4.1 Competition

The real estate market in Russia is huge and broad in terms of geographical size and development opportunities. The market is characterized by a high level of competition, consisting of a relatively large number of development groups, mainly local, and also a number of international entities. The Company deems that the fact that the Russian real estate market contains a relatively small number of international and local development companies, which operate in accordance with international western standards, is and will remain an incentive for making attractive real estate investments.

In Moscow, where most of the Group's office projects are located, and in St. Petersburg, the site of the Company's largest project, the Group's main competition is on the part of large local and international real estate developers, such as Settle, Stel City, PIK Group, Capital Group and Etalon.

Until now, the main competition faced by the Group in county towns is on the part of local real estate developers, as most of the international real estate developers choose to concentrate their investments in the Russian real estate market in the cities of Moscow and St Petersburg, despite a noticeable trend of investing in the county towns.

In light of the crisis in Russia's economy in 2014, competition between real estate developers intensified and there is surplus of supply in the market and not enough financing possibilities for the funding of a purchase or lease of buildings. There are also insufficient lessees or purchasers that are interested in the execution of transactions in real estate assets.

In light of the magnitude of the Russian real estate market, the number of competitors, the nature of the competitors and various market components, as mentioned above - the Company cannot assess its share in the Group's activity, although it estimates that the Group's share is not material.

The Company estimates that the positive factors affecting its competitive standing in the market and providing it with the tools to deal with its competitors are:

(a) Know-how and expertise in real estate, both in terms of development and in terms of management and marketing, allowing to the Company to maintain its level of income and clients;

(b) Solid financial reputation, which enables it to receive financing according to favorable terms and to provide a proper response under varying market conditions;

(c) Creating goodwill based on reliability, compliance with timetables and agreements;

(d) Involvement in the project from the initial stages, allowing maximum control and monitoring, based on the Company's strategy;

(e) Local management and labor, proficient in the local Russian market and operating under competitive conditions;

(f) Its ability to locate attractive lands and projects with an internal high rate of return;

## 4.2 Fixed Assets and Land

### 4.2.1 Fixed assets

The following are details of the fixed assets of the Group (US$ 000's) as of December 31, 2017:

| | **Fixed assets, net** |
|---|---|
| Cost | 4,723 |
| Accumulated depreciation | (2,772) |
| Total net cost | 1,951 |

### 4.2.2 Offices

As of the Date of the Report, the Group's activity is performed from its offices in Russia, Cyprus and Israel, as follows:

Russia

The Company operates local offices in Moscow and in St. Petersburg from which it manages and conducts its operations in a centralized manner. As of the Date of the Report, the Group's Russian operations are conducted from a building owned by Hydro. The operations of the Group in St. Petersburg are executed from a construction, owned by the Group in St. Petersburg, within the commercial area of the residential project.

Cyprus

As of the Date of the Report, the Company leases offices on an area of 150 sq. m. in an office building in Limassol, Cyprus, from parties, which are not related to it. The current lease period ends on December 31, 2019. The Company's activities are managed and controlled from the Company's offices in Cyprus. The basis for the management and control of the Company in Cyprus is expressed in a wide range of parameters, including holding meetings of the board and management in Cyprus, signing agreements, managemnt of the Company's funds.

Israel

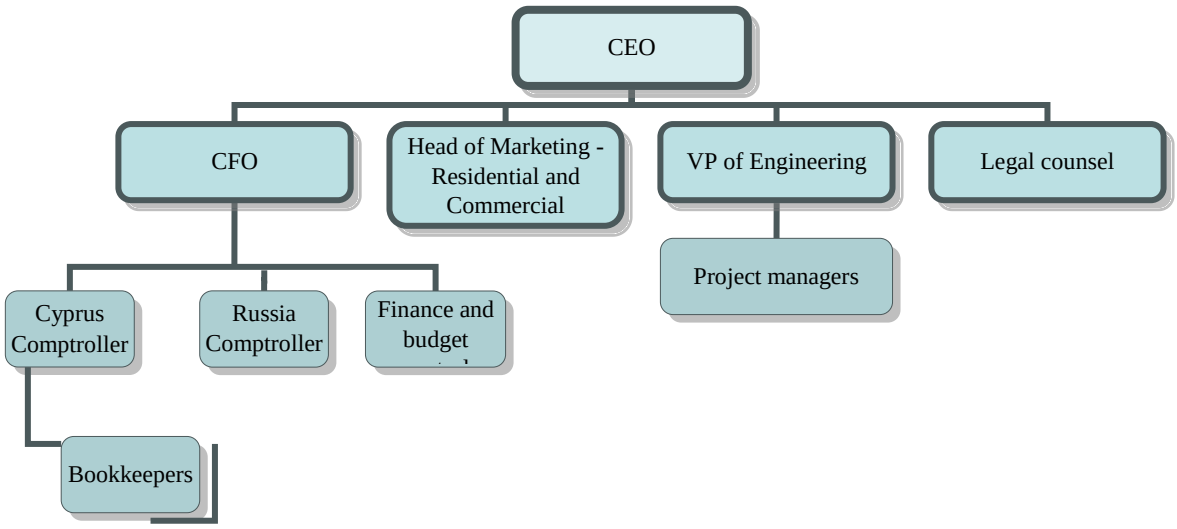
In February 2016, IRS committed in a new lease agreement with a third party that is not related to the Company and/or its controlling shareholder (the "**New Lessor**"), in which IRS leased from the New Lessor offices on an area

of 92 sq. meter (and two parking places) for a period of one year until February 2017. The monthly lease fees are equivalent to NIS 10,000, with an option to extend the lease for an additional year. IRS also pays management fees for management services in the premises, based on a method stated in the lease agreement with the New Lessor.

## 4.3 Human capital

### 4.3.1 Organizational Structure

The following chart describes the organizational structure of the Group:




### 4.3.2 Employees of the Group

As of the Date of the Report, the Group employs 211 employees. Below is a breakdown of employees by departments, as of the Date of the Report, compared to December 31, 2016 and December 31, 2017:

| Department / Occupation | As of the Date of the Report | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Senior management | 3 | 3 | 3 |
| Finance and administration | 49 | 51 | 48 |
| Building marketing and maintenance* | 109 | 111 | 108 |
| Engineering and development | 46 | 46 | 52 |
| **Total** | **207** | **211** | **211** |

* The Group erected a children activity center in the Vernissage Mall in Yaroslavel (see Section 2.1 above) and for this purpose it employs additional 20 employees.

As of the Date of the Report, the Group employs 205 employees in Russia, 4 in Cyprus and 2 in Israel.

The Group's employees enjoy standard labor agreements, based on a monthly salary. The Group's liabilities for termination of employer – employee relations are fully covered through payments to pension funds and executive insurance, as well as creating a balance sheet liability for the full balance of liabilities with respect to any severance pay, which is not covered through the above payment.

The Company's management deems that it has no material dependence on any particular employee. According to the best knowledge of the Company's management, labor relations in the Group are normal.

The Group's senior management consists of three employees, employed in the Company's offices in Cyprus and Russia. The Group's officers and executives are employed on the basis of individual employment agreements, which include various types of pension and insurance cover, standard benefits and personal incentives. In some cases, the services are provided by companies owned by senior employees.

In accordance with a resolution of the Company's board of directors, dated November 19, 2006, the Company adopted an employee option plan, under which the Company awarded its officers and service providers a total of 1,756,077 options, representing approx. 1.7% of the Company's issued share capital under full dilution (the "**2006 Option Plan**"). On November 30, 2015, 673,797 stock options, conferred upon Mr. Rosenthal Roman, have expired (reference no.: 2015-01-168543). In consequence thereof, 54,115 options remain under the 2006 Option Plan (after the capital consolidation - 12,938 options).

On 14 November 2016, the Company's Board approved the granting of 7,416,689 options, pursuant to a new option agreement, as a result of the completion of the Restructuring Plan between the Company and its bondholders (the "**2016 Options Program**"). Within this framework, the

Company's managers and officers will receive all the options under the 2016 Options Program, including 4,450,014 options to Mr. Roman Rozental (CEO and director) and 2,225,007 options to Mr. Evgeny Steklov. For details regarding the terms of the options of the 2016 Options Program, see Section 1.1.5 above as well as the Immediate Report of December 20, 2016 (ref. no. 2016-01-140773). For details regarding the issuance of the options to Mr. Roman Rozental and Mr. Evgeny Steklov, see Immediate Report, dated December 22, 2016 (ref. no. 2016-01-142249).

For details concerning the principal terms of service of officers of the Company, see Articles 21 and 22 of Chapter D (Additional Details of the Corporation) of this report.

## 4.4 Raw Materials and Suppliers

**4.4.1** As part of the Group's normal course of business, companies of the Group engage with contractors pursuant to the execution of planning, development, infrastructures and construction works; chief contractors (key contractors) in agreements for development and construction jobs; and also with engineering service providers such as architects, planners, coordinators, supervisors and consultants (for electricity, water, roads, air conditioning, etc.).

Payment to these entities is usually made by way of milestones, determined on the basis of construction progress of the relevant project, as applicable. In 2015, 2016 and 2017, the Company paid to contractors and suppliers, as stated, amounts in a total of approx. $64,488 thousand, approx. $35,561 thousand and approx. $30,413 thousand, respectively.

**4.4.2** The Company estimates that in view of the alternatives, available on the market, the Group is not dependent on any of its suppliers.

**4.4.3** The Group does not usually commit directly with suppliers of raw materials and such agreements, as stated, are usually committed with contractors, whose services are employed by the Group, as stated above.

**4.4.4** The Group's activity is affected by costs of construction, materials and wages. Construction costs are affected by supply and demand of workforce and building materials. Project managers, alongside managers, review the project budget and track compliance therewith, advertise tenders for

subcontractors, participate in negotiations toward appointment of awarded contractors, supervice schedules, and coordinate the work of subcontractors.

## 4.5 Working Capital

The working capital of the Group, as of December 31, 2017, amounts to $67 million. The following list explains the difference between the working capital and the working capital for the 12 month period:

| 2017 | Amount included in the financial statements | Adjustments (for a period of 12 months) | Total |
|---|---|---|---|
| | (US$ 000's) | | |
| Current assets | 232,124 | (31,384) | 200,740 |
| Current liabilities | 165,634 | (13,858) | 151,776 |
| Working capital deficit | 66,490 | (17,526) | 48,964 |

4.5.1 The Company's management estimates that it has no debts in material amounts whose collection is doubtful.

**4.5.2 Customer's credit –** In the Group's income-generating projects, rental fees in most of the lease agreements are paid in advance on a monthly or quarterly basis (guarantees and collaterals are usually taken from tenants to secure their obligations under the lease agreements). The Group does not give credit to its customers.

**4.5.3 Supplier's credit -** The Company usually pays its suppliers within 30 days. The Group is not required to secure credit for such suppliers.

## 4.6 Financing

### 4.6.1 General

As of the Date of the Report, the Group finances its operations through equity, cash flow from current operations, bank loans and other inter-bank loans (debentures – for details see Sections 1.2, 1.3 and 10 in Chapter B (board of directors' report) of this Report hereunder. Generally, as of the Date of the Report, the Company's policy is to use external funding to finance its projects.

With regard to residential projects, given that in Russia the banking loan market for housing projects is undeveloped, even as financing options exist for these projects, they are financed in principle by means of the Group's equity. This means that all the housing projects are built in stages, as the capital yield from early sales is usually used to finance the following stages of the project.

As of the Date of the Report, the Company completed a debt arrangement with the holders of its debentures (for details, see Section 1.1.5 above), and signed agreements with financing banks in connection with the restructuring of its loans (for details, see Section 1.1.4 above).

### 4.6.2 Credit Frameworks

As of December 31, 2017, unused credit line in the amount of 5.6 million in the St. Petersburg project (stage 5) is available to the Company.

### 4.6.3 Restrictions of Credit

Within the framework of loans, extended by banks to the Group's companies, the companies were subject to certain restrictions in accordance with said loan agreements. As of the Date of the Report, the Group's companies are in compliance with these restrictions, excluding the Avtoprioritet project, which is financed by Nordea Bank. The Company is negotiating with the aforesaid bank, in order to reach an agreement with it on this matter.

| Project | Credit sources / bank name | Original loan amount/credit limit US$ millions | Loan balance on the books in US$ millions | Unused credit US$ millions, net | Terms of the loans | Short/long term loans | Financial Criteria* | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Detail of financial criteria | Compliance with financial criteria |
| Triumph Mall, Saratov | Sberbank | 95 | 81.9 | - | The loan balance (taken in 2016) will be repaid over a period of ten years with 7% fixed (annual) dollar interest. Quarterly payments with a balloon payment of 84% at the end of the period. | Long | Compliance with a debt coverage rate of at least 1.1; compliance with LTV ratio of less than 70%. | Released until December 31, 2018[39] |
| MAG | Sberbank | 30 | 24.4 | - | The loan balance (taken in 2016) will be repaid over a period of ten years, with 7% fixed (annual) dollar interest in quarterly payments, with a balloon payment of 74% at the end of the period. | Long | Loan to asset value ratio of no more than 70%; rate of lease revenue to principal and interest payments of at least 1.1. | Released until December 31, 2018[40] |
| Hydro | Sberbank | 20 | 16.5 | - | The loan balance (taken in 2016) will be repaid over a period of ten years, fixed 7% fixed (annual) dollar interest in quarterly payments with a balloon payment of 86% at the end of the period. | Long | Compliance with a debt coverage rate of at least 1.1; compliance with LTV ratio of less than 70%. | Released until December 31, 2018[41] |

[39] This release was extended from December 31, 2017 until December 31, 2018.
[40] See Footnote 3.6.
[41] See Footnote 3.6.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Inomotor | Sberbank | 18 | 15.3 | - | The loan balance (taken in 2016) will be repaid over a period of ten years, 7% fixed (annual) dollar interest in quarterly payments with a balloon payment of 78% at the end of the period.. | Long | Compliance with a debt coverage ratio that is not less than 1.1. The ratio of loan to property value will not exceed 60%. | Released until December 31, 2018[42] |
| Avtopriorite t | Nordea Bank | 26 | 17.2 | | 5 year period Libor interest $_{3m}$ + 6.85%. Quarterly payments with a balloon payment of 73% at the end of the period. | Short | Compliance with a debt coverage ratio of at least 1.2. Loan to asset value ratio of no more than 65%. | No |
| MAG Building 26 | Sberbank | 19 | 16.8 | - | The loan balance (taken in 2016) will be repaid over a period of ten years, with 7% fixed (annual) dollar interest in quarterly payments, with a balloon payment of 73% at the end of the period. | Long | The result of the division of the balance of the loan by the EBITDA is under 6. Equity capital out of total assets is not under 25%. | Released until December 31, 2018 |
| Global | VTB Bank | 49 | 46.2 | - | The loan balance as of the Date of the Report will be repaid over a period of five years, bearing ruble interest of the Central Bank + 4% (14% as of the Date of the Report). Interest payment was actually deferred to the loan's final payment date. quarterly payments balloon payment | Short | Quarterly income above 65 million ruble. Positive asset value. EBITDA of above 250 million ruble. Debt service ratio above 1.1. The ratio of loan to property value will not exceed 100% during trhe 24 months from. Release from compliance with this term during the first year. 24 months from the | Yes |

[42] See Footnote 3.6.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | of 74% at the end of the period. | | commitment in the Agreement (September 2019) hencforth not exceeding 70%. Occupancy above 90% | |

* As of the Date of the Report, substantial debt agreements were executed by the Company with its financing banks, regarding the restructuring of its existing loans. For details, see Section 1.1.3 in Chapter A of the 2016 Report. In addition, no written request was received from the banks in Russia regarding requests for repayment of the loans due to non-compliance with the financial conditions, as stated.

### 4.6.4 Debentures of the Company

Currently, the Company has debentures of one series (Series G) in total amount of NIS 171,765,000 n.v. The Company committed with investors in a private offer for additional debentures according to a total amount of NIS 109,051,000, n.v. by way of expanding a series. On February 20, 2018, all the suspending conditions with respect to the private offer were fulfilled. For details, see Section 1.1.6 above.

## 4.7 Taxation

The Company is a Cypriot company for tax purposes. Notwithstanding that it is a foreign company, its revenues are liable to be charged with tax in Israel in the following circumstances: (a) the Company is directed and controlled from Israel; (b) the Company's revenues are from Israeli sources as per the Income Tax Ordinance. In the event that the Company is managed and controlled from Israel, there may be an obligation to withhold tax in Israel on payments of interest from the Company to its debenture holders (depending on the identity of the debenture-holders, who receive the interest payments) and also on dividend payments to foreign residents. The tax rate could be reduced in accordance with a tax treaty between Israel and the country of residence of the recipient of the interest/dividend. In the opinion of Company's management, the management and control of the Company, as well as the foreign entities held by it - are situated outside of Israel. Under the provisions of the Income Tax Ordinance, the Company's revenues will be taxable in Israel if the

Company is directed and controlled from Israel or if the Company has a permanent establishment in Israel. It should be noted that there is no certainty that the Israeli tax authorities and/or the tax authorities in foreign countries may accept this position of the Company, as described above, and accordingly the may not accept the tax consequences described below.

The expected tax implications on the Group's revenues up to the Company's level (excluding its shareholders) are as set out below. The Company is a Cypriot holding company, which is subject to the tax laws applicable in Cyprus. Most of the Company's revenues are expected from (current) dividends and from capital gains, as set forth below.

That stated above and below (in reference to the applicable law shortly before the Date of the Report) does not purport to present an authorized interpretation of the provisions of the law or an exhaustive description of the tax provisions, but rather a general description according to the best knowledge of the Company.

### 4.7.1 General and Current Taxation

**Russia**

a. Residency – the Company will be deemed to be a Russian resident if it is incorporated in Russia. In addition, from January 1, 2015, a company will be viewed as a Russian resident if the effective place of business of the company is in Russia.
b. Revenues from sale or leasing of real estate in Russia, less deductible expenses under law, are supposed to be subject to corporate tax in Russia, at a standard rate of 20%. In certain areas in Russia, a lower corporate tax may apply at the rate of 15.5%.
c. Up until December 31, 2016, losses for tax purposes could be forwarded over the ten years subsequent to their creation. According to a federal law, dated November 30, 2016, from January 1, 2017, losses that were created from 2007 could be forwarded without any restriction. However, according to the transitory provisions, valid during the tax years of 2017-2020, it is possible during these years to decrease up to 50% only of the chargeable income (after offsetting current losses) while offsetting

forwarded losses from 2007, whereby 50% of the taxable income (after offsetting current losses) will be actually charged with tax. Losses cannot be related to previous periods.

d. Tax expenses – the tax laws in Russia include three kinds of rules that allow interest expenses for tax purposes.

1. Transfer prices, applying to loans from related parties;
2. Thin financing rules, applying to loans from a related party or loans under guarantee of a related party, subject to the loan being held according to 25% or above by the lending related party, directly or indirectly.
3. General Economic Justification Rules – GAAR – applying to all the loans regardless of the identity of the lender (whether it is a related party or not)

Under these circumstances, all three rules, stated above, apply in accordance with the stand of the Russian authorities – and should be implemented concurrently, in order to restrict removal of capital.

(i) Transfer Prices Rules

Transfer prices rules apply to transactions between related parties, whereby transactions between two Russian related parties will be subject to the rules only in certain cases, where the level of such transactions cross a certain amount.

In transactions, which are not subject to the transfer prices rules, income and expenses are considered as if they were entered according to the market conditions.

According to the transfer prices rules, applicable to loans that were given by a related party, acknowledgement of interest expenses will be allowed, subject to the following maximum amounts: for loans given in ruble: from 75% up to 125% of the rate of interest of the Central Bank of Russia, and for loans given in US dollars: from 4%+US$ LIBOR up to 7%+US$LIBOR (loans that are given in other currencies, are subject to various maximum amounts). In the event of an interest in deviation from the aforementioned maximum amounts,

a specific transfer price work is required to justify the market condition of said interest.

(ii) Thin Financing Rules

Thin financing rules restrict financing expenses on loans, corresponding with the definition of a Controlled Debt ("**Controlled Debt**").

A Controlled Debt is a debt of a Russian company, which is any of the following:

a. The loans are given by a foreign entity, that holds above 25% in the Russian company, directly or indirectly; or-
b. The loans are given by an entity, defined as a related party to the foreign entity; or-
c. As the foreign entity or the entity related to it provides a guarantee to a loan, that was given to the Russian company, or are securing compliance with the obligation, undertaken by the Russian company, in any other fashion.

Acknowledgment of interest expenses, defined as a Controlled Debt, is stipulated in compliance with the thin financing rules, setting a 3:1 ratio of capital to liability to the borrower. Payment of "surplus" interest (i.e. interest above the thin financing limits, which may not be deducted for tax purposes), according to the formula stated by law, will be classified as a distribution of dividend for tax purpose in Russia and is expected to be subject to tax withholding at source at a rate of up to15%, unless a lower rate was determined in accordance with a relevant treaty for prevention of double taxation.

It should be indicated that the courts may determine that the thin financing rules shall also apply to a loan, which is apparently unconnected directly to said rules, where it can be proven that the economic beneficiary of the interest payment is a foreign shareholder or an entity related to a shareholder, as stated.

Up until 2017, thin financing rules did not apply explicitly to loans given by related parties, which did not hold the lending Russian

company, directly or indirectly, however, there is broad ruling in favor of the tax authorities, whereby thin financing rules indeed apply in such cases, as stated.

Release from the application of the thin financing rules could be given in the following cases:

a. The lender is a Russian resident (individual or company):
    1. The lender is a Russian resident (individual or company) and it was as such during the accounting/tax period in which the loan was measured, and also-
    2. The lender has no concurrent loan from another foreign entity or individual, related to the borrower.
b. The lender is a banking entity:
    1. The lending banking is unrelated to the borrower, the guarantor or to another, that should undertake the liability of the lender in the event of failure to meet the payment liability, and which is a party, related to the foreign shareholder.

       Release from the thin financing rules will apply only where the lender approves in writing that the explicit conditions to application of the release have been met.

(iii) General Economic Justification Rules

As a rule, allowing any expense for tax purpose in Russia depends on the ability of the Russian taxpayer to show an economic purpose to the transaction, that produced the expense, as the court in Russia adopted a broad interpretation in this matter.

According to the new rules, entered validity in July 2017, interest expenses will be acknowledged only if (a) the main objective of the transaction is not avoidance of payment or decreasing the tax payment, and (b) an obligation with respect to the execution of the transaction was actually arranged by a party to a contract or by law.

e. Transfer prices: transfer prices rules will apply to cross border transactions between related parties, including financing transactions, the giving of guarantees, etc. In addition, transactions inside Russia will also

be subject to the transfer prices rules to the extent the prices of such transactions exceeds 1 billion ruble in any calendar year. It should be noted that transfer prices rules will also apply to transactions between unrelated parties if one of the parties to the transaction is a company registered as an off-shore country (for this purpose, it should be noted that Cyprus and Hungary are not regarded as off-shore countries).

f. Distribution of a dividend by a Russian company to a Cypriot company is supposed to be subject to a 5% tax withholding in Russia, in accordance with the provisions of the Double Taxation Treaty between Russia and Cyprus, if the Cypriot holding company invested directly in the Russian company's equity not less than Euro 100,000 and also subject to certain conditions. In other cases, a 10% tax withholding will apply to the extent that the provisions of the treaty are complied with and subject to certain conditions (otherwise – 15%).

g. Deoffshorization Initiatives - It should be noted that within the framework of legislation changes in Russia, from January 1, 2015, transparency of the "beneficial owner" is required. Accordingly, entitlement to the benefits of the treaty is subject to the Company, that receives the dividend, being a "beneficial owner" of the income.

h. In addition to the legislation changes in Russia, specified above, from January 1, 2015, new legislation with respect to a controlled foreign corporation (CFC) entered validity. Accordingly, individuals and companies, constituting Russian residents, are liable to be subject to taxation in Russia on their share of the profits of a foreign company, which were not distributed as yet.

**Cyprus**

a. Residency - a company will be deemed to be a resident of Cyprus if its businesses are controlled and managed from Cyprus.

b. Revenues from dividends of the Company or the Cypriot holding company are supposed to be exempt from corporate tax in Cyprus (at a rate of 12.5%), in accordance with local law, on condition that the dividend was not allowed as an expense in the distributing country. A defense tax at a

rate of 17% also applies in Cyprus on dividends received by Cypriot resident companies from subsidiaries that are not residents of Cyprus (foreign companies). However, dividends received from such foreign companies, as stated, will be exempted from the defense tax in Cyprus subject to the following conditions: (1) at least 50% of the revenues of the paying company do not directly or indirectly arise from operations that create revenues from the investment (i.e. passive revenues); and (2) the total foreign tax paid by the paying company on the profits, distributed to the Cypriot company as a dividend, is not significantly under the Cypriot corporate tax (in practice: under 6.25% effective). Therefore, in this case, dividends received from the Russian companies are supposed to be exempted from defense tax in Cyprus. In the event that the dividend is subject to a defense tax in Cyprus, it is possible to require crediting for the tax that was deducted by the company, that distributes the dividend. Furthermore, in the event that the dividend was received from an EU resident company, it is possible to require crediting for the tax that was paid in the foreign country on the income, out of which the dividend was distributed (indirect tax crediting). The credit amount shall not exceed the tax amount for payment in Cyprus.

c. Interest income by a Cypriot company is supposed to be subject to tax in Cyprus, according to the normal corporate tax rate (12.5%) on an aggregate basis (with the deduction of recognized expenses) provided that this income is generated in the normal course of a business or closely connected to the normal course of business of a Cypriot company ("Ordinary Carrying on of a Business or Closely Connected to it"). Other interest income i.e. interest income that is not generated or closely connected to the normal course of business (e.g. interest on bank deposits) will be subject to a defense tax at the rate of 30% on gross interest income (i.e. expenses in this context will not be deductible for the purpose of defense tax in Cyprus).

d. Distribution of a dividend by Cypriot holding companies to the Company is not supposed to be subject to taxation in Cyprus. It should be noted that

non-distribution of a dividend from the Cypriot holding companies to the Company could cause the attribution of a conceptual dividend to the Company's revenues, if during the two years from the end of the tax year in which a dividend was recently paid, at least 70% of the accounting profits after tax are not distributed as a dividend. Conceptual dividend at the rate of 70% of the undistributed profits will be subject to defense tax at a rate of 17%. The rule of conceptual distribution does not apply, as the shareholders of the Company, at the top of the holding structure, are not Cypriot residents for tax purposes.

e. Distribution of a dividend by the Company to its foreign shareholders, who are not residents of Cyprus, is not supposed to be subject to tax withholding in Cyprus, because in accordance with the internal law Cyprus does not impose tax withholding with respect to dividends paid by a Cypriot company to its foreign shareholders. Distribution of a dividend by the Company to its shareholders, who are individual residents of Cyprus for tax purposes (where relevant) shall be subject to defense tax at a rate of 17%, which shall be withheld by the Company. Distribution of a dividend by the Company to its shareholders, which are Cypriot resident companies (where relevant), is supposed to be exempted from tax withholding. If the Company has shareholders, which are Cypriot companies, a conceptual dividend could be attributed to their revenues, in the event that for a period of two years following the end of the tax year in which a dividend was recently distributed, at least 70% of the accounting profits after tax are not distributed as a dividend. Conceptual dividend at a rate of 70% of the undistributed profits will be subject to defense tax at a rate of 17%. As stated, the conceptual distribution rule does not apply when the shareholders standing at the top of the holding structure are not residents of Cyprus for tax purpose.

### 4.7.2 Capital Gains from the Sale of Shares of Russian Companies and/or Cypriot Holding Companies

Russia

a. From January 1, 2017, according to the new draft of the tax treaty between Cyprus and Russia, capital gain from the sale of shares of a Russian company, that above 50% of its assets are real estate in Russia, is supposed to be subject to a capital gain tax in Russia at a rate of 20%. It should be indicated that during 2016-2017, the governments of Cyprus and Russia held negotiations, in order to defer the entrance into validity of the new draft, however, these negotiations have matured into an agreement, therefore the new draft is valid from January 1, 2017.

b. Capital gains from the sale of shares in the Cypriot holding companies - from 2015, capital gain from indirect sale of real estate assets in Russia is supposed to be subject to taxation in Russia. At the same time, a method for the deduction/tax payment was not determined as stated in connection with transactions between two foreign companies (without physical presence in Russia).

Cyprus

According to the local law in Cyprus, capital gains on the sale of the shares in the Russian companies and/or the Cypriot holding companies (held by the Company) are supposed to be exempted from tax in Cyprus, since Cyprus does not impose corporate tax, defense tax or capital gains tax on profits originating from the sale of shares of companies, whose properties do not include real estate in Cyprus.

### 4.7.3 Finance

**Russia**

Payment of interest to the foreign financing companies of the Group is not supposed to be subject to tax withholding in Russia under the provisions of the Double Taxation Treaty between Hungary and Russia and between Cyprus and Russia, given the conditions determined for this purpose, as well as the beneficial owner condition, specified above (otherwise, tax at the rate of 20% shall apply). This is based on the assumption that the interest is

according to the market conditions and that it complies with all the rules allowing an interest expense, as specified above.

Hungary / Switzerland

The Hungarian financing company and the Swiss branch, under its ownership, are expected to be subject to corporate tax at an effective rate of up to 9%. It should be indicated that a new legislation entered validity in the natter of CFC companies and it could be that this legislation would apply to profits of branches of Hungarian companies. An application for clarification was filed with the Hungarian Ministry of Economics in the matter of application of the legislation on the Swiss branch. In the event that said legislation applies, the total profits will be taxed at a rate of 9% (and even above in the event that a credit will not be given with respect to the Swiss tax). Otherwise, the effective tax rate is expected to be lower.

Distribution of a dividend by the Hungarian finance company to the Company is not supposed to be subject to tax withholding in Hungary. It should be emphasized that although the principles of transfer prices do not apply to income derived from a foreign source, that is exempted from Hungarian corporate tax, they will apply to inter-company transactions carried out by the Hungarian financing company.

### 4.7.4 IRS Services Company

IRS's revenues from the provision of services to the Russian companies in the Group are subject to corporate tax in Israel (24% in 2017, 23% 2018 and thereafter).

## 4.8 Environmental Risks and Management Thereof

The Group and the companies in the Group, as owners or lessees of land, are liable – to breaches of environmental laws in the Company's fields of operation. In addition, as part of the process of obtaining building permits for construction on various properties and/or for the construction thereof, and at times as part of the process of approval of the building plan, the Group may take action in order to neutralize the effects of external hazards (noise, pollution, etc.).

In order to comply with the requirements of the Russian law, and the needs of the project in respect of environmental issues, the Group is assisted by professional consultants in relevant areas.

The Company examines the land it acquires by means of local environmental experts, in accordance with local standards. These examinations are carried out during the course of due diligence prior to acquisition of the land.

During 2016, significant changes took place in the standards of waste removal management, while passing the handling of this matter to private companies. Within this framework, it is possible to impose fines in amounts that are insignificant to the Company.

The costs involved in the implementation of environmental requirements are not material.

**4.9 Restrictions and Supervision Over the Corporation's Activity**

The Group operates in the promotion and development of real estate for residential and commercial purposes in Russia and is therefore subject to land laws and planning and building laws in Russia.

The Company operates through a series of subsidiaries, most of which are registered in Russia and Cyprus, therefore each of them is subject to either Russian or Cypriot law, as applicable. For details regarding legislative developments on this matter, see Section 3.6 above. In addition, in this regard, see Section 4.7.1 above.

**4.10 Legal Proceedings**

As of the Date of the Report, there are no material legal proceedings against the Company.

**4.11 Business Strategy and Objectives**

The Group examines its goals and business strategy from time to time. As a rule, the Group's business strategy in its fields of operations includes the use of its accumulated know-how and expertise to generate profits, while retaining and continually improving the quality of its project implementation. Pursuant to the realization of the Group's strategy, the Group operates, *inter alia*, as follows:

**4.11.1** The current asset portfolio of the Group contains 12 assets. As to the commercial assets in the Group, the purpose of the Company is to protect long-term lease agreements and focus on pre-letting commercial space. While the Company prefers long-term lease agreements with anchor tenants that provide the Company with security through lease income, it is possible that the Company will also prefer short-term lease agreements with local lessees. Following the economic crisis in Russia, the subsidiaries of the Company

provide the lessees with discounts and adjustments in light of the economic situation. It should be noted that in order to handle the economic condition in Russia, as stated, the Company prefers short-term arrangements that will allow it to maximize lease receipts, while maintaining current lessees.

**4.11.2** The Company intends to offer for sale all of the residential projects and make use of the cash flows generated for reinvestment in the Company or servicing the debt to its creditors, including to the holders of its debentures. The Company's strategy is the ensure the advance sale of residential units in the early stages of the project, which will be paid to the Company gradually as the construction progresses.

**4.11.3** As to the Group's commercial assets, the Company's goal is to protect long-term lease agreements and focus on reducing the percentage of free area, while the Company prefers long-term lease agreements with anchor tenants that provide the Company with security from lease income, it is possible that the Company will also prefer short-term lease agreements with the local lessees, in which the Company provides the lessees with discounts and makes adjustments based on Russia's financial condition. It should be noted that in order to handle the economic condition in Russia, the Company prefers arrangements that will allow it to maximize lease receipts, while maintaining current lessees.

**4.11.4** Various stages of development – the Group's property portfolio contains projects that are planned for completion on a variety of dates in different stages of development. The Group intends to retain a balanced property portfolio in respect of development and project completion dates, and at the same time, continue generating revenues from income-producing properties and from the sale of properties.

**4.12 <u>Anticipated Development in the Coming Year</u>**

The Group intends to continue the accelerated development of the St. Petersburg residential project, maximization of NOI from the income generating assets, held by it, through continuously improving its efficiency and increasing occupancy rates in these assets.

According to the busies strategy of the Company, it intends to act pursuant to locating business opportunities in the residential and commercial fields and also to examine realization of office projects, according to an attractive price.

It should be clarified that it is uncertain whether the Company will be able to realize its operative strategy and/or achieve its goals, as specified above, fully or partially, *inter alia*, bearing in mind that their realization also involves conditions and factors that are not under control of the Company, including the condition of the global economy, market conditions in fields of operations of the Group, the conditions prevailing on the real estate market relevant to the Group in its fields of operation, and/or the realization of any of the risk factors specified in Section 5 hereunder, which may have an impact (even a material impact) on the ability of the Company to act and accomplish its objectives, fully or partially.

**4.13 Events or matters deviating from the ordinary course of the corporation's business**

As of the Date of the Report, the Company has reached an arrangement with the holders of debentures, issued by the Company in Israel, and the main banks financing its operations in Russia. For details, see Sections 1.1.3 and 1.1.5 in Chapter A of the 2016 Report.

# Part Four - Discussion of Risk Factors

## 5. Discussion of Risk Factors

The Group's real estate operations in Russia are exposed, *inter alia*, to the following risk factors:

### 5.1 Macro-Economic Risks

**Political instability** – Political instability in Russia may induce instability in the Company's market.

**Economic recession -** An economic recession in Russia will bring about a drop in the profitability of business, an increase in unemployment figures, a decrease in the demand for commercial and office properties and apartments, which may adversely affect the Company's ability to sell and/or market the projects. Furthermore, developing markets, such as the Russian market, are exposed to larger risks in comparison with more developed markets, including significant statutory, economic and political risks.

**Exposure to exchange rate fluctuations –** in consequence of the crisis in Russia from 2014, most of the lease Contracts of the Company confer upon the lessee a right to fix (max. cap) the ruble-dollar rate of exchange or alternatively the contract is indicated in rubble. On the other hand, most of the loans from banking corporations, taken by the Company, are indicated in dollars, while the debentures issued by the Company are stated in NIS. In consequence thereof, the Company has a currency exposure. The Company examines the execution of hedging transactions of essential balances, indicated in non-dollar currency (rubble and Shekel) while continuously tracking developments on the Russian real estate market, in order to allow itself a quick response ability to changes in the business environment. The Company also examines conversion of loans from banking corporations, which were taken in dollar, into rubble. An additional depreciation of the rubble rate is liable to cause an essential reduction in the Company 's revenues in dollar term and injure its payback ability with respect to loans, stated in dollars and Shekel.

**Exposure to inflation** – The Company could be exposed to risks relating to changes in indices, that indicate inflationary changes in Russia, which could increase the Group's costs.

**Russia – Ukraine Relations –** The geopolitical situation in the Crimea Peninsula and the tension between Russia and Ukraine, have several results that might affect the Group, such as a cessation in trade.

**International sanctions** - Sanctions on the part of the United States and the EU against Russia may cause a decline in foreign investments in Russia and undermine the ruble exchange rate. The effect on the Group is expressed in the increase of its costs, limiting the Group's ability to manage its business effectively, decrease the demand in the commercial and residential sector and limit its ability to obtain financing.

**Prices of commodities** - Russia is mostly based on the manufacturing of natural resources, whereby extreme changes in prices of international goods may have an essential effect on the budgetary management of the government of Russia, which is liable to effect rates of exchange, recession and inflation.

5.2 **Sectorial risks**

**Downturn of the real estate market in Russia** – A downturn in the condition of the Russian economy could adversely affect demand for the Group's projects. A downturn in Russia's macro-economic condition could slow the entry of international entities into the Russian market, which could bring about a slowdown in the growth of local businesses and a reduction in demand in the office and commercial real estate sector.

**Liquidity of real estate investments –** The real estate industry in Russia is a sector where the level of liquidity is not high, as a result of a number of factors, *inter alia* the relatively low number of international real estate companies and limited information regarding identical real estate transactions. Moreover, it is possible that in the future, additional liens could be imposed on the Company's rights in some of the projects, as part of a refinancing process. In addition, the Company has rendered a right of first refusal to its partners in joint ventures and projects. Such rights could hinder or even prevent the Company from passing fast resolutions in accordance with market changes. The Company's profitability could be materially undermined if it is wishes to sell one of its projects and is unable to do so at an adequate price and/or within the scheduled time frame.

**Planning approvals and compliance -** In order to develop land in Russia, developers and contractors require many permits from a large number of government institutions, both federal and local. The Group's properties under construction require approvals for commercial and/or residential use. In the event that the Company does not have such an approval or that such approval does not comply with the designated purpose of the project or is not granted in a timely manner, the Company may be adversely affected, including facing allegations regarding breach of obligations and termination of its rights. Furthermore, the Company will need to file an application for the appropriate approvals - a process which is long, complex and expensive, as a result of the bureaucratic processes that characterize the relevant authorities. An absence of appropriate approvals and the Company's inability to obtain licenses, approvals and permits required for its operations, as noted, will have an adverse effect on its operations.

**Exposure to construction and development risks** – The Group is exposed to general construction risks that could increase costs and/or postpone or prevent the construction of the Group's projects. The Group, when contracting with general contractors and subcontractors to carry out the construction work on the projects, is exposed to a number of risks such as work quality, delays in performance, faults in construction and lack of economic strength of principal contractors and subcontractors. Furthermore, a shortage of qualified workers could delay completion of the Group's projects or increase its costs.

**Expropriation of land –** Under Russian law, buildings and land may be expropriated including for "the needs of the State or a municipal authority." Under the Russian law, where expropriation has taken place for such a purpose, owners of land or a building that has been expropriated are entitled to a 90 day notice, and payment of the full market value and also compensation for any investments made by them in the land, and any other direct loss caused thereto. In the event of such expropriation, application could be filed with the courts in Russia in order to protect the rights in land and/or property and to confront the authorities in connection with the purposes of such expropriation; however, this involves the investment of considerable material and managerial resources and could continue over a very long period of time. It is clarified that in any case of such

expropriation, the owner of the expropriated land or building is entitled to compensation that will be set according to the market price for such expropriation. Furthermore, changes in the Lands Code may also impose upon the Company uncertainty as to the application of its current and future agreements, as well as its rights in the real estate assets.

**Shortage in raw materials -** From time to time the construction industry experiences a shortage of raw materials and a corresponding increase in prices. In this light, the effect of this shortage is expressed in a deviation from the project budget and delays in the execution thereof.

**Competition** – Competition in the real estate market could give rise to greater supply of office, commercial and residential real estate in developed areas, to a reduction in sales prices and/or rental prices for existing properties and to an increase in the prices of land for development. The existence of such competition can materially affect the ability of the Company to acquire properties and develop land at a reasonable cost and/or to ensure acquisitions of its projects at a reasonable price.

**Liability for environmental damage** – The Company could be exposed to certain liabilities for protecting the environment and for running environmentally friendly projects and also for the costs involved in compliance with such liabilities, as this could bear a significant negative effect on the results of the Company's operations.

**Rights in lands** – Russian legislation in the field of real estate is complex and given to various interpretations. In particular, the process of obtaining a building permit is complex and exposed to changes. At times, building laws and environmental laws also contain provisions and requirements that are difficult to implement. Additionally, at times, there are legislative changes that might impose additional costs and/or cause delays in the progress of projects. As a result, the Company's leasing rights in land are exposed to effects of decisions of various government authorities and even decisions regarding the termination of the lease. Construction projects can be deferred or even cancelled, and the operation of completed projects could be suspended in cases of breach of lease agreements, and/or violation of the Russian law. In addition, the Company's

legal rights over the land, which are the basis for development of its projects, could be the subject to a third party lawsuit that could delay or cause the cancellation of the Company's projects.

**Expiry and termination of lease agreements -** The Company has certain projects in which it has merely leasing rights, and in future it could also invest in additional projects in which it will have only leasehold title in the land. Unilateral termination of lease agreements, caused due to breach of its terms or its expiry could have a materially adverse effect on its businesses.

**Frequent changes of legislation and regulation –** Changes of legislation on the issue of control over currency may bear an effect on the number of participants in the real estate market. In some of its projects, the Group is required to bear additional costs for the improvement of infrastructures and erection of certain public infrastructure services. These costs are initially borne by the Group. Additionally, preliminary discussions are held regarding laws that will impose certain restrictions on the performance and/or formation of real estate transactions in foreign currency.

5.3 **Risks Unique to the Group**

**Composition of the asset portfolio –** The Company's asset portfolio is comprised a small number of large projects (one project represents 33% of the asset portfolio's value) and it therefore has material exposure if one of the large projects produces inferior results compared to the estimates and forecasts.

**Early stages of execution of the Company's projects –** Some of the Company's existing projects are in various stages of development, apart from seven projects which have been completed. The Group's failure to achieve scheduled completion of projects (which constitute the majority of the value of the Group's real estate portfolio) for any reason whatsoever could adversely affect the Group's businesses.

**Geographic expansion into remote areas** – As set forth above, the Company's strategy includes selective geographical expansion into provincial areas in Russia in which the Group has less experience and less knowledge of the market. Its operations in remote locations could pose administrative and operational challenges to the Company's management ,while failure in this aspect could

harm the control of project performance and management, thereby harming the results of the Group's operations.

**Restrictions on withdrawal of dividends from subsidiaries –** The Company is a holding company and most of its operations are executed via designated project companies. As a result, the financing of the Company's operations, *inter alia*, depends on its ability to withdraw dividends from the designated companies. Withdrawal of such dividends is subject to the Russian law and a system of laws and treaties in the field of taxation, as well as liabilities and compliance with financial criteria toward banking corporations. Restrictions on withdrawal of dividends could harm the Company's ability to finance its operations.

**Financing the Company's operations** – The Company's operations were financed in the past mainly by the founders of the Company, through credit raised from issuance of debentures, and by means of the Company's own equity. As of the Date of the Report, the Company is conducting negotiations in order to reach a debt arrangements with the holders of its debentures and with banks in Russia. Failure to reach an arrangement, as well as difficulties in raising additional financing, could make it difficult for the Company to finance its operations. In addition, an increase in interest rates will increase the Company's financing expenses and will adversely affect the profits of the projects. In addition, in return for the bank's financing, the Company might need to comply with various financial criteria in respect of its operations toward its financiers and also to mortgage and/or pledge certain properties. In the event of breach of any of its above undertakings (including failure to execute payments in due time, as actually occurred), the Company could be exposed to demands for immediate repayment of credit and realization of its pledged properties.

**Reduction in value of the Company's real estate properties** – The value of the real estate properties held by the Group is affected by various factors that are not under control of the Company, including: (a) reduction in the sales price of the Company's properties, offered for sale, and a reduction in the rental prices of properties, which produce profits for the Group; (b) assets that are not leased over a long period incur auxiliary costs (maintenance, fees, marketing expenses); (c) the Company's inability to collect payments from tenants and/or lessees; (d)

renewal of lease agreements according less favorable terms; (e) a competitive lease market that affects property occupancy rates; (f) legislative and regulatory changes in land law, environmental and safety policies, taxes and other payments to state institutions; (g) changes and fluctuations in rates of currencies.

**Fluctuations in business results** – Due to the nature of the Company's operations, the Company is likely to experience material changes in its revenues and profits from one period to another, caused by the realization of projects in its property portfolio and/or the acquisition of other projects. Fluctuations in the Group's financial results from one period to another could prevent stable growth in profits or could harm the Group's ability to plan its budget or its commercial operations.

**Debt ratio / registered capital** – In accordance with the Russian law, there is a restriction whereby if the registered capital of a Russian company limited by shares is negative over two consecutive years, the tax authorities in Russia may force its liquidation.

**Taxation** – (a) Calculation of the Group's tax liabilities involves interpretation and application of various tax laws and treaties. The Company is registered in Cyprus and invests in Russia via local subsidiaries and is therefore subject to local and overlapping tax laws. The taxation authorities could charge the Group in a manner that is different from the Group's assessments; (b) the Company could have additional tax liabilities if it is deemed to be resident for tax purposes in Russia or in Israel or in England; (c) the taxation system in Russia involves a considerable amount of uncertainty that could cause the Group to bear a significant extra tax burden; (d) Russian laws regarding transfer prices could require adjustments and impose additional tax liability in respect of the Group's audited transactions; (e) the Group could encounter difficulties in reclaiming VAT from the Russian authorities.

**Additional general risks relating to the Group's operations in Russia –** (a) The banking system in Russia is still undeveloped, whereby a banking crisis could lead to a crisis among the Group's customers; (b) improper governmental actions, from an administrative perspective, *inter alia*, including selective or arbitrary measures, could bear negative consequences on the Group's operations;

(c) disputes and disagreements between the federal, regional and local governments and other political disputes could create an uncertain operating environment for the Group's affairs; (d) bureaucracy and delays in the Russian legal system and uncertainty regarding the interpretation of Russian law could disrupt the legal certainty required in order to make investments in the Group's areas of commercial operations, particularly in light of the reforms and reorganization of the Russian legal system; (e) Russian governmental authorities could become hostile to foreign public companies, whose securities are listed for trade outside of Russia, while most of its properties are located in Russia. In such a situation, the Company could face a requirement on the part of the authorities to list the Company's securities on the Russian stock exchange; (f) In light of the nature of the regime and the governmental culture in Russia, it is difficult to foresee the imposition of restrictions on foreign investments. Restrictions on such investments that are imposed unexpectedly could cause material harm to the Company's operations and its business results; (g) imposing a broad liability with respect to any legal entity that directs the business affairs of the corporation (including the direction by means of directors of the corporation) compelling it to act fairly and in good faith within the process of the normal business affairs of the Company, otherwise it is liable to be responsible towards the legal entity for damages, caused in consequence of its conduct; (h) property laws relating to real estate easements and pledge laws are relatively new laws in Russian legislation and therefore could expose the Group to uncertainty regarding their interpretation and methods of application; (i) the courts and prosecution authorities in Russia have the power to compel a Russian legal entity to liquidate due to non-compliance with certain formal requirements of the Russian law; (j) the government culture in Russia and the lack of transparency in various institutions and authorities, as well as abuse of public positions for personal gain could create a complex environment for commercial operations in all matters connected with the transparency and commercial security of foreign companies operating in Russia, and this could bear an adverse effect on the Group's operations; (k) damage to the Group's relations with the federal and local authorities in Russia could have a negative impact on the Group's businesses; (l)

according to new developments in the Civil Code, the authority is able, as a sanction, to force the liquidation of the Company, as opposed to the administrative sanctions, which were customary in the past; (m) in light of the economic condition, there are risks that the local authorities will not meet their obligations toward the Company, will impose new limitations on projects under development of the Company or requirements for the construction of public buildings at its expense; (n) as a result of the sharp devaluation of the ruble, there is an increasing trend of transit to lease/sale agreements denominated in rubles in commercial projects, as opposed to the dollar, as customary so far.

The following table presents the risk factors described above according to their nature – macro risks, industry risks and risks unique to the Group, ranked in accordance with the assessments made by the Company's management, based on their impact on the Company's business in general – large, medium or small.

| | **Degree of impact of the risk factor on the Company's field of operation** | | |
|---|---|---|---|
| | **Large** | **Moderate** | **Small** |
| **Macro risks** | | | |
| Political instability | √ | | |
| Economic recession | √ | | |
| Exposure to changes in the exchange rate | √ | | |
| Inflation exposure | | √ | |
| Russian Ukraine relations | √ | | |
| International sanctions | √ | | |
| Commodity prices | | √ | |
| **Sectorial risks** | | | |
| Deterioration in the real estate market in Russia | √ | | |
| Liquidity of real estate investments | √ | | |
| Approval of design and adjustment | √ | | |
| Exposure to construction and development risks | | √ | |
| Expropriation of lands | | √ | |
| Raw material shortage | | | √ |
| Competition | | | √ |
| Liability for environmental damages | | | √ |

| | | | |
|---|---|---|---|
| Rights in real estate | √ | | |
| Expiration and cancellation of lease agreements | | √ | |
| Frequent legislative and regulatory changes | √ | | |
| **Risks unique to the Company** | | | |
| Asset portfolio mix | | √ | |
| Early stages of execution | | √ | |
| Geographic expansion to remote areas | | | √ |
| Restrictions on withdrawing dividends from subsidiaries | | | √ |
| Financing the activity of the Company | √ | | |
| Impairment of real estate assets owned by the Company | | √ | |
| Business results fluctuations | | | √ |
| Debt ratio/registered capital | | | √ |
| General risks associated with operations in Russia | | √ | |
| Taxation | | √ | |

Identification of the risk factors and the degree of their impact on the Group is based on the valuation of the Company alone, and it is possible that in reality, there are risk factors that have not yet been identified or whose impact is different from the above.