MirLand

Annual Report and Accounts 2015

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Who We Are

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

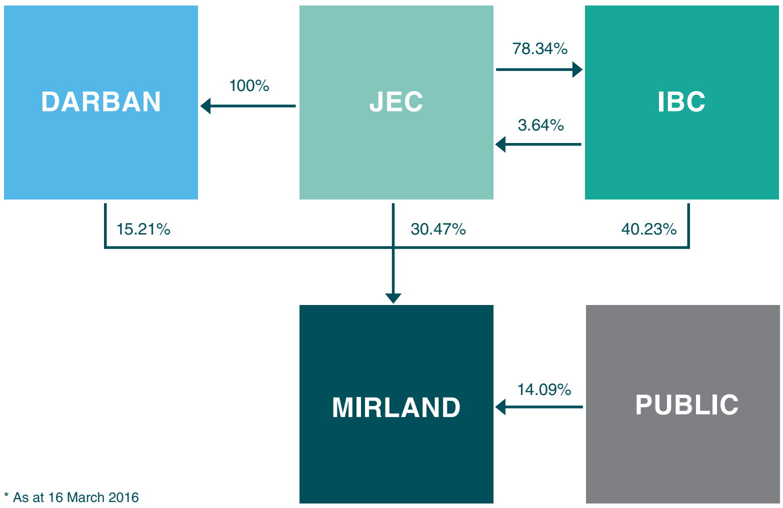
MirLand was established in 2004 as part of the Fishman Group, a global investment group with over US$2bn of combined annual income and a strong international track record of over 30 years of investing in, developing and managing real estate assets via public companies.

The Company's controlling shareholders include Jerusalem Economic Corporation Ltd. ("JEC"), Industrial Buildings Corporation Ltd. ("IBC") and Darban Investments Ltd. ("Darban"). JEC and IBC (a subsidiary of JEC) are public companies traded on the Tel Aviv Stock Exchange Ltd. and Darban, a company wholly owned by JEC, is a reporting entity. The Company entered into Shareholders Agreements with JEC, IBC and Darban to regulate the relations of the shareholders among themselves and between them and the Company.

On 29 February 2016 JEC completed a public offering, as a result of which, the holdings of JEC's shareholders were diluted by approximately 52% (on a non-fully diluted basis). In light of the above, as of the date of this report, and to the best knowledge of the Company, JEC has no single controlling shareholder.

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

Our Corporate Structure*



* As at 16 March 2016

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

The Company's net leverage stands at 82,3% of its total assets.

The Company currently owns 12 residential and commercial projects across Russia, with a total rentable/saleable area of approximately 1.3m sqm upon completion. Of these, six commercial projects are already yielding, and the two residential projects are generating income. Three projects are at various stages of planning and in the process of obtaining permits.

Financial Highlights

Total Revenues
US$86.3m

Gross Profit
US$21.8m

Total Assets
US$577.8m

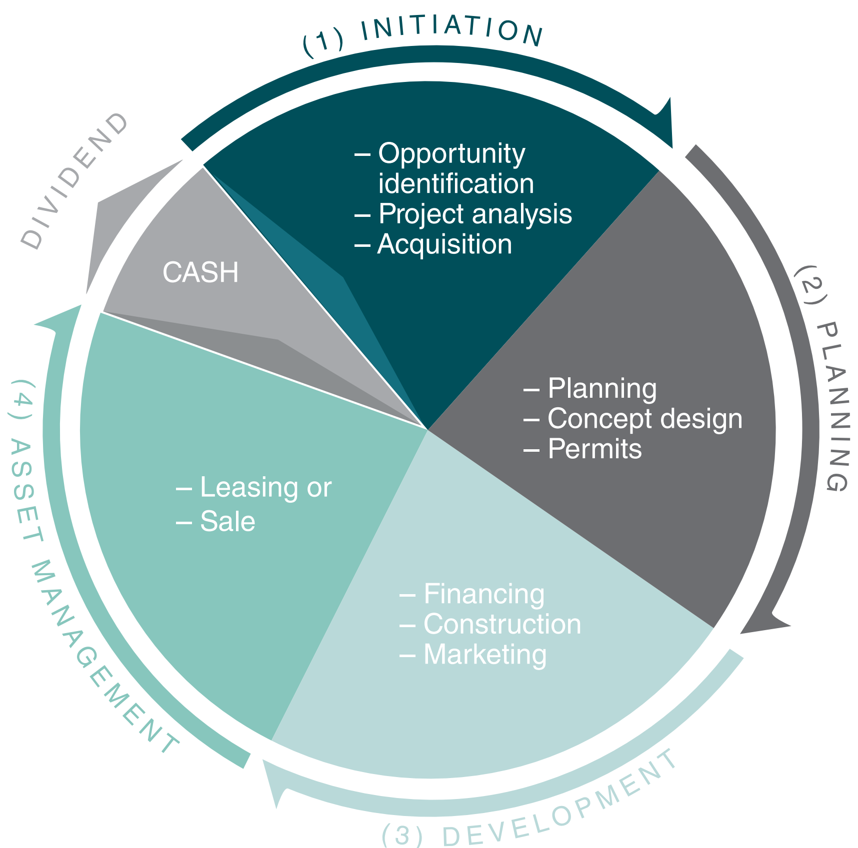
Net Operating Income
US$22m

EBITDA
US$7.2m

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

Our Business Model

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



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

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

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

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

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

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

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

Our Competitive Strengths

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

Financial Highlights

- **Total revenue remains flat** at US$86.3 million (31 December 2014: US$86.3 million);
- **Total revenues from investment properties** down 38% to US$35.1 million (31 December 2014: US$56.5 million), mainly due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market;
- **Net operating income** (“NOI”) from investment properties (Company’s share) down 41% to US$22 million (31 December 2014: US$37.3 million), mainly due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market;
- **Gross profit** down 44% to US$21.8 million (31 December 2014: US$39.1 million), also due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market;
- **EBITDA** down 69% to US$7.2 million (31 December 2014: US$22.9 million), mainly due to a decrease in the NOI from investment properties;
- **Loss** of US$157.5 million (31 December 2014: loss of US$62.9 million) due to the ongoing impact of adverse conditions in the Russian economy, which resulted in the negative fair value adjustment of investment properties of approximately US$125 million following a decrease in projected NOI and occupancy rates . In addition, the Company recorded net foreign exchange losses of US$84.7 million. This was partly offset by a positive fair value adjustment of investment properties of US$79.2 million following;
- **Total assets** amounted to US$577.8 million, of which 90% are property and land assets (31 December 2014: US$756.6 million);
- **Total deficit** of US$19.3 million (31 December 2014: equity of US$141.4 million);
- **Net leverage** stands at 82.3% of total assets (31 December 2014: 56.9%);
- The Company is continuing its discussions with the trustees of the Series A-F bondholders and its banks to agree a restructuring of its debt and will update the market in due course.

Triumph Mall, Saratov

Operational Highlights

Residential:

Triumph Park, St. Petersburg

Development continues to deliver with a strong sales rate and pricing of later phases increasing ahead of inflation in Rouble terms:

- Phase II: Handover of final apartments during the third quarter of 2015;
- Phase III: Sales momentum continues with a total of 209 sales during the year. In total, 1,103 apartments out of 1,346 have been pre-sold, totalling circa 82% of the scheme and representing sales of approximately US$66.8 million;
- Phase IV: Construction of 1,244 units began in Q3 2014, followed by the commencement of sales in Q1 2015. 479 apartments were pre-sold off plan during the year with sales totalling approximately 39% of the scheme or US$28.4 million.

Western Residence, Perkhushkovo, Moscow

- Sales of nine houses completed during the year, taking the total number of units sold at the scheme to 52 out of 77 houses.

Retail:

- Following pressure on rents and occupancy rates during year, Vernissage Mall and Triumph Mall delivered NOI of US$13.5 million compared to US$23.9 million last year;
- Occupancy slightly decreased to approximately 94% (100% in 2014);

Offices:

- Occupancy rates slightly decreased at the MirLand Business Centre, and stand at 79% – in line with the market. NOI has reduced to US$8.5 million (Company share) in 2015 (US$15 in 2014).

Triumph Park, St. Petersburg

Vernissage Mall, Yaroslavl

Triumph Mall, Saratov

Chairman's Statement

Nigel Wright
Chairman

As previously advised to shareholders, MirLand continues to be negatively impacted by the deterioration of the Russian economy which has seen a significant and continued devaluation of the Rouble against the US dollar, alongside the continued negative effect of low oil prices. Despite the difficult market conditions, the Company has maintained a generally positive operating performance in Rouble terms and is still maintaining occupancy above 86% in its yielding assets. As previously advised to shareholders, MirLand continues to be negatively impacted by the deterioration of the Russian economy which has seen a significant and continued devaluation of the Rouble against the US dollar, alongside the continued negative effect of low oil prices. Despite the difficult market conditions, the Company has maintained a generally positive operating performance in Rouble terms and is still maintaining occupancy above 86% in its yielding assets.

Financing

The challenging economic environment continues to have a substantial impact on the independent valuation of the Company's real estate portfolio, which has been marked down in value by approximately 33% resulting in net leverage increasing substantially to 82.3% of total assets (31 December 2014: 56.9%). Total net borrowings amounted to US$475.7 million (31 December 2014: US$430.1 million).

As previously reported, the Company has been in negotiation with the trustees of the Series A-F bondholders to agree a restructuring of its debt which addresses the challenges posed by the current instability in the Russian economy for the benefit of all the Company's creditors and shareholders. On 17 November 2015, Mirland announced that, following preliminary meetings held in Israel on 11 November 2015, a Proposed Restructuring Plan and amended trust deeds to the Bonds (Series A-F) were approved by the Company's Bondholders (Series A-F). The completion of the Restructuring Plan is subject to certain conditions precedent and these have yet to be satisfied.

On 1 February 2016 the Company held a meeting with the trustees of the Company's A-F bonds at which certain terms of the Proposed Restructuring Plan were discussed in light of a further sharp decline in the exchange rate of the Russian Rouble against the US Dollar. At this stage no agreement has been reached with the Trustees.

On 15 March 2016 Standard & Poor's Maalot, a subsidiary of Standard & Poor's Rating Services, reconfirmed the Company's D rating on local Israeli scale.

In addition, as a result of the negative economic conditions, the Company is behind on its payment of US$0.5 million out of a total of US$1.5 million which is due to one of its banks which provides financing to one of its shopping centres. The total loan amount provided by banks against the Company's subsidiaries' yielding assets is US$240 million. Currently, the Company is negotiating with its banks in order to restructure the loans provided to the Company's subsidiaries. Due to the continued negotiations with the Bondholders and the financing banks in Russia and until a final agreement is reached with them, the Group may defer principal payments to the financing banks in Russia.

Operational Update

The Company continues to deliver good progress on the pre-sale, build and delivery of Triumph Park in St. Petersburg, the Company's BREEAM certified sustainable residential project. Phase II was concluded in the third quarter of 2015 with all flats sold, and handed over to the buyers. Sales have continued to be strong in Phase III of the scheme, with 1,103 (82% of the scheme) apartments now pre-sold. The Company is continuing to achieve sale prices in Russian Rouble in these later phases ahead of the rate of inflation, underpinning the strong levels of profitability for the project.

The construction of Phase IV of the project, representing a further 1,244 units, commenced in Q3 2014, and 479 units were pre-sold during the 2015 financial year.

The Western Residence residential development scheme at Perkhushkovo, Moscow has also maintained momentum with nine houses sold during 2015 taking the total number sold to 52 of a total of 77 houses in the scheme.

Our Vernissage Mall and Triumph Mall assets remain over 94% let, with footfall high at both. During 2015, the Company successfully added big international and local sport and children anchor chains to Vernissage Mall.

Occupancy at the MirLand Business Centre remains at circa 79% of the total lettable area, which is in line with the market average.

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

The past year has undoubtedly been the most challenging in the Company's history, with adverse changes across most, if not all, of our key performance indicators. The problems we have faced are industry-wide and are not subjected to MirLand alone. This means that, while we have continued to take appropriate management actions to address the issues, many of the headwind we have faced are beyond the Company's control at the macro economic and political level, including oil price movements, exchange rates and lack of liquidity in the financial markets.

Results

Total assets as at 31 December 2015 decreased by 23.7% to US$577.8 million, as compared to US$756.6 million as of 31 December 2014. Equity as at 31 December 2015 was a negative US$(19.3) million compared to US$141.4 million the preceding year.

Losses for the year amounted to US$157.5 million (31 December 2014: loss of US$62.9 million), due to the turmoil in the Russian market, which resulted in negative fair value adjustment of investment properties of approximately US$125 million following a decrease in projected NOI. In addition, the Company recorded net foreign exchange losses of US$84.7 million. This was partly offset by positive fair value adjustment of investment properties of US$79.2 million following an appreciation of the US Dollar against the Rouble of approximately 29.5%, resulting in the nominal appreciation of commercial assets at the same rate.

Over the period, net operating income ("NOI") from investment properties decreased by 41% to US$22 million (31 December 2014: US$37.3 million) mainly due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market.

MirLand's assets are externally valued quarterly. The valuation is conducted by Cushman & Wakefield. As a result of the above mentioned financial crisis, the value of MirLand's portfolio (Company's share) decreased by approximately 33% to US$394.9 million as at 31 December 2015 (31 December 2014: US $589.5 million). Adjusted NAV, based on Cushman & Wakefield's valuation, became negative of US$(31.1) million (31 December 2014: US$164.6 million).

Portfolio Development

Despite the severe crisis in the Russian economy, MirLand's focus for 2015 was to continue to deliver its flagship residential project already under construction, carefully manage its income-producing investment properties in order to decrease operational expenses, and progress its high quality pipeline of development projects. MirLand continues to keep this strategy under review in light of macro-economic developments in Russia.

Residential

MirLand has continued to make good progress at its flagship residential led development, Triumph Park in St. Petersburg. Following the successful conclusion of Phase II with all flats sold, and handed over to the buyers during the third quarter of 2015, the Company has achieved strong sales in Phase III, with an additional 209 apartments out of 1,346 pre-sold, totalling circa 82% of the scheme, representing sales of approximately US$66.8 million.

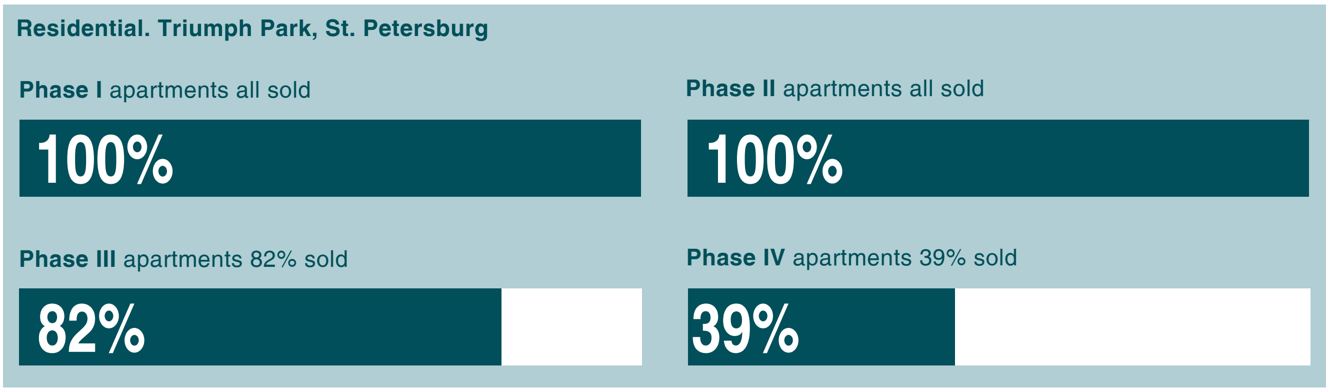
In Q3 2014, we commenced construction of 1,244 units at Phase IV followed by the commencement of sales in Q1 2015. Approximately 479 units were pre-sold during the year totalling circa 38.5% of the scheme, representing sales of approximately US$28.4 million.

The project offers good quality and competitively priced housing in St. Petersburg's strengthening residential market. Situated on a 40 hectare site, the project represents one of the few large scale developments in the city in close proximity to major transport links. Furthermore, the development is the first eco-residential complex in St. Petersburg certified by BREEAM, the world's leading assessment organisation of green and sustainable construction. It will provide attractive features including ecologically friendly construction materials, energy efficient design, reduced CO2 emissions, water purification filters and high speed eco lifts certified according to ISO 14001. The flexibility of the apartment mix in terms of both its range of sizes and fit-out options is designed to appeal to a wide range of purchasers.
Phase I of the Western Residence project in Perkhushkovo (where 77 houses out of 163 are built) is being marketed to prospective buyers. To date, a total of 52 houses have been sold.

Retail

The Company owns two retail projects located in large prosperous regional cities with an average occupancy of 96% and high footfall throughout the year.

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



deal, the big box shop was successfully opened during the first quarter of 2016. As part of MirLand's strategy to grow the retail segment of the portfolio, negotiations are currently taking place with a single tenant for a tailor-made theme store development which will be let on a long term lease agreement at Triumph House, a retail project in Kazan.

Offices

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

Dividend Policy

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

In light of the challenges currently facing the Company, the Board has determined it inappropriate to declare a dividend for the financial year ended 31 December 2015.

Our People

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

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

Once again I would like to pay tribute to both my executive and non-executive Board colleagues and all our staff. Together they form the backbone of our business and I thank them for their continuing dedication, energy and achievement. Their efforts have ensured that the Company is able to face the current and future challenges.
The Board of Directors and the management are fully committed to sound corporate governance. As in previous years, detailed information regarding our approach to governance issues, our internal controls and key team members will be provided in our Annual Report & Accounts.

Controlling shareholders

The Company's controlling shareholders include Jerusalem Economic Corporation Ltd. ("JEC"), Industrial Buildings Corporation Ltd. ("IBC") and Darban Investments Ltd. ("Darban"). JEC and IBC (a subsidiary of JEC) are public companies traded on the Tel Aviv Stock Exchange Ltd. and Darban, a company wholly owned by JEC, is a reporting entity. The Company entered into Shareholders Agreements with JEC, IBC and Darban to regulate the relations of the shareholders among themselves and between them and the Company.

On 29 February 2016 JEC completed a public offering where it has raised approximately NIS 753 million. As a result of the offering, the holdings of JEC's shareholders were diluted by approximately 52% (on a non-fully diluted basis), including the holdings of Mr. Eliezer Fishman and his family members, who held 47.66% of the shares of JEC prior to the offering and hold 22.98% of the shares of JEC subsequently. In light of the above, as of the date of this report, and to the best knowledge of the Company, JEC has no single controlling shareholder.

Outlook

As has been noted, MirLand continues to be negatively impacted by the deterioration of the Russian economy as well as other macro factors. The Company has little or no control of such headwinds but remains acutely aware of the environment in which it operates and will do all within its control to address current and future concerns.

Negotiations with the trustees of the Series A-F bondholders and the Company's banks continue and we are determined to reach an agreement that satisfies all of its stakeholders. MirLand will update the market in due course on this matter. Meanwhile, focus remains on controlling and managing operational performance of the underlying business, maximising the potential of the property portfolio.

Nigel Wright
Chairman

16 March 2016

MirLand's principal activities are focused on the acquisition, development, construction, reconstruction, lease and sale of residential and commercial real estate in Russia. MirLand's vision is to be a leading developer of real estate in Russia and by following it's strategy, the Company aims to enhance shaveholder value and increase returns.

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

Focus on the completion of existing projects:

- The Company aims for the timely delivery of projects while ensuring they are completed to a high standard. Marketing of all of the Company's commercial projects is commenced during their development phase.

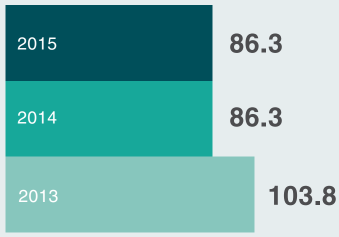
Portfolio diversification:

- To mitigate risk, the Company's portfolio is balanced between various sectors, locations and development stages.
- Geographic location: investments are spread across Moscow, St. Petersburg, and other major regional cities. Investment decisions are made following a detailed feasibility study and the close examination of local and national economic and demographic data, as well as the balance between supply and anticipated demand for international standard properties.
- Sector: the Company invests in a balanced mix of residential, retail, office and logistics, as well as mixed-use projects.
- The Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. The Company owns both yielding and development properties in order to obtain a relatively balanced spread in the use of working capital and demand for management's attention, that can, at the same time, generate an income flow from sales and yielding properties.

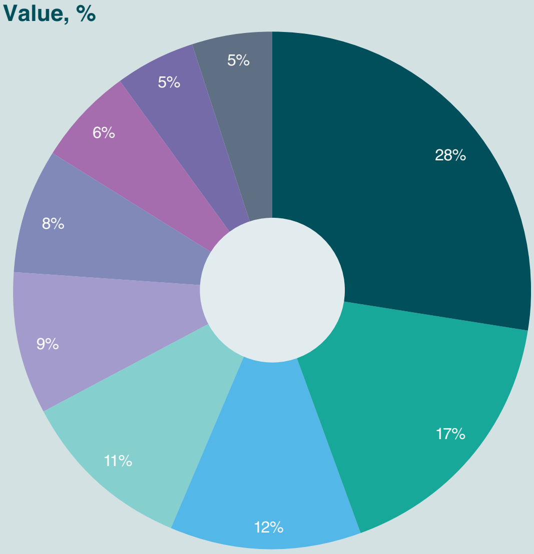
Key Performance Indicators

Revenues, US$ m

US$86.3m



Assets by Value, %



Total Assets Value

US$415.2m

28%	Triumph Park
17%	Triumph Mall
12%	Vernissage Mall
11%	Century
9%	MAG
8%	Hydro
6%	Tamiz
5%	Western Residence
5%	Other

Source: CW valuation, as of 31 December 2015

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Strategy & Key Performance Indicators

Realisation of assets:

- The Company will continuously assess whether to retain yielding properties or realise their market value through disposal, depending on the opportunity and on prevailing market conditions. The Company uses revenues from yielding assets to diversify its income sources.

Use of diverse financing sources to accelerate business activity and growth:

- Equity, shareholders' loans, corporate loans, project financing and bond issuances are used to finance the Company's activities and projects.

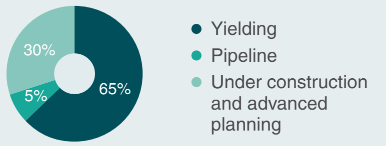
The recent financial turmoil has led the Company to adjust its operational focus to be more directed on managing its core activities and available financial resources.

This has been achieved through:

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

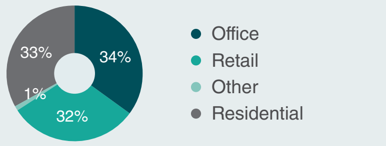
Key Performance Indicators

Development Stage by Value, %



Source: CW valuation

Segment Distribution by Value, %



Source: CW valuation

Geographic Distribution by Value, %

Source: CW valuation

Portfolio at a Glance

Retail | Offices | Residential | Logistics

Moscow and Moscow Region

Hydromashservice
Yielding
16,700 sqm

MAG
Yielding
18,530 sqm

Century Buildings
Yielding
20,900 sqm

Tamiz
Yielding
11,730 sqm

Western Residence Phase I
Saleable area
9,456 sqm*

* (excluding sold houses)

Western Residence Phase II
In Planning
34,607 sqm

St Petersburg

Triumph Park
Under construction
122,500 sqm
Saleable area in planning
268,713sqm
Leasable area in planning
117,775 sqm

Saratov

Triumph Mall
Yielding
27,240 sqm

Saratov Logistics
In planning
104,000 sqm

Kazan

Triumph House
In planning
18,500 sqm

Yaroslavl

Vernissage Mall
Yielding
34,100 sqm

Vernissage Mall Phase II
In planning
40,000 sqm

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

Where dreams become opportunities

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

- Phase I of the project, with total net sellable area of is approximately 27,700 sqm plus approximately 1,000 sqm of retail space and two levels of underground parking, was completed in Q2 2013. All 510 apartments have been sold and delivered to the owners.
- Phase II comprising circa 34,000 sqm, was launched in Q3 2012. Construction completed in Q4 2014. To date 630 apartments sold out and delivered.
- Phase III construction of circa 63,200 sqm commenced in Q3 2013. Sales launch in Q4 2013, to date, 1,103 apartments out of 1,346 pre-sold (circa 82% of the scheme).
- Phase IV construction of 1,244 apartments with total net sellable area of 60,700 sqm and circa 3,500 sqm of commercial area, commenced in Q3 2014. Sales launched in Q1 2015 with 479 apartments pre-sold during the the year (39% of the scheme).

On completion of the entire development, expected by 2021, Triumph Park will comprise 8,500 apartments, approximately 58,000 sqm of retail space, 60,000 sqm of offices and a variety of public amenities such as kindergartens, schools and parks.

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

Triumph Park, St Petersburg, Phase I-IV

Triumph Park
Sustainability awards winner

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

BREEAM 0044-7227

Triumph Park creates sustainability history in Russia

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

Location

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

Main characteristics

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

Phase I

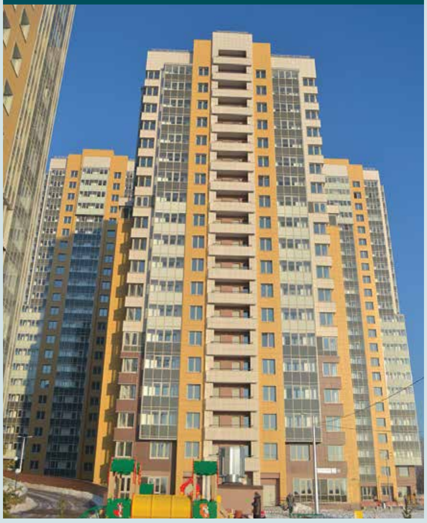
100% sold

Number of apartments	510
Sellable area	27,719 sqm
Commercial area	1,076 sqm
Sales commencement	Q4 2011
Credit line	RUB1,245m*
Completion	Q2 2013

Project Status
Sold and delivered to owners

* Fully repaid

Phase II



100% sold

Number of apartments	630
Sellable area	34,088 sqm
Commercial area	1,107 sqm
Sales commencement	Q3 2012
Credit line	RUB1,460m*
Completion	Q4 2014

Project Status
Sold and delivered to owners

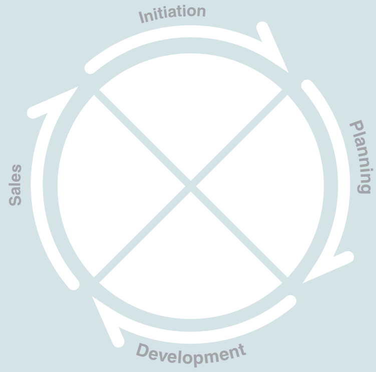
* Fully repaid

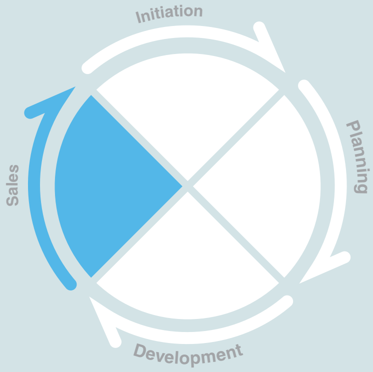
Phase III

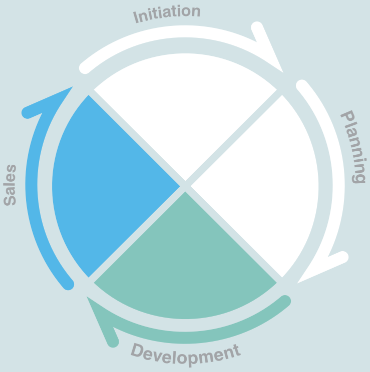
82% sold

Number of apartments	1,346
Sellable area	63,186 sqm
Commercial area	1,323 sqm
Sales commencement	Q4 2013
Credit line	RUB3,075m
Expected completion	Q3 2016

Project Status
Under construction







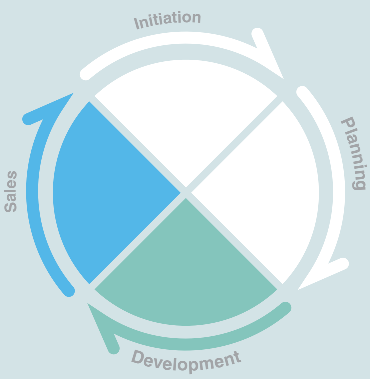
Retail Offices Residential Logistics

Phase IV

39% sold

Number of apartments	**1,244**
Sellable area	**60,694 sqm**
Commercial area	**3,475 sqm**
Sales commencement	**Q1 2015**
Credit line	**RUB3,311m**
Expected completion	**Q4 2017**

Project Status
Under construction

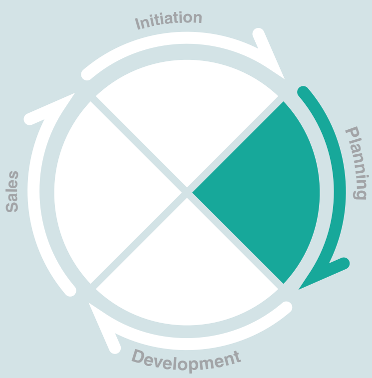


Phase V-VIII

In planning

Number of apartments	**~5,500**
Sellable area	**268,713 sqm**
Commercial area	**28,794 sqm**

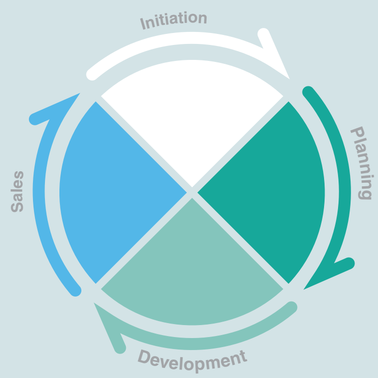
Project Status
In planning



Triumph Park

8,500
apartments

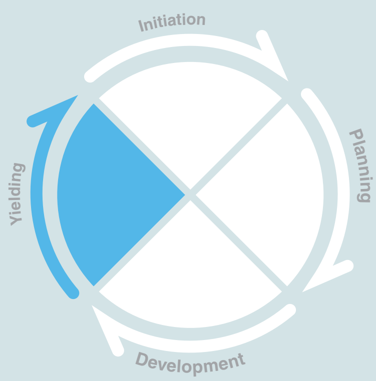
Location	**St Petersburg**
Land area	**41 ha**
Total saleable area	**450,000 sqm**
Leasable area	**117,775 sqm**
Sales commencement	**Q4 2011**
Planned completion	**Q4 2021**
Freehold rights	**100%**



Triumph Mall

100%
occupied

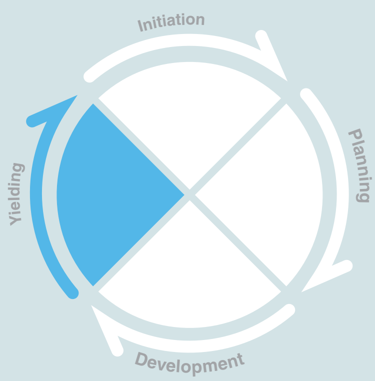
Location	**Saratov**
Land area	**2.2 ha**
Leasable area	**27,300 sqm**
Completed	**Q4 2010**
Freehold rights	**100%**



Vernissage Mall

89%
occupied

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

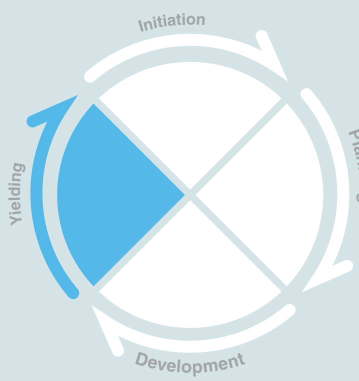


Retail | Offices | Residential | Logistics

Hydromashservice

85% occupied

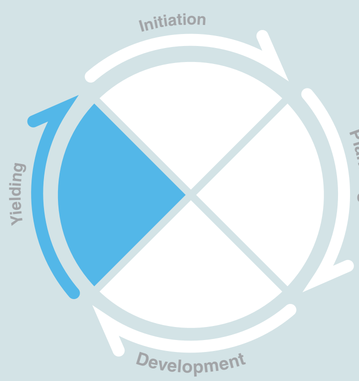
Location	**Moscow**
Land area	**1.2 ha**
Leasable area	**16,700 sqm**
Completed	**Q4 2008**
Leasehold rights	**100%**



MAG

75% occupied

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

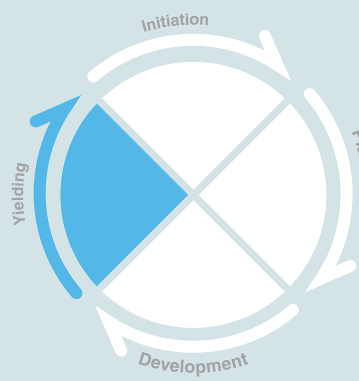


Century Buildings

76% occupied

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

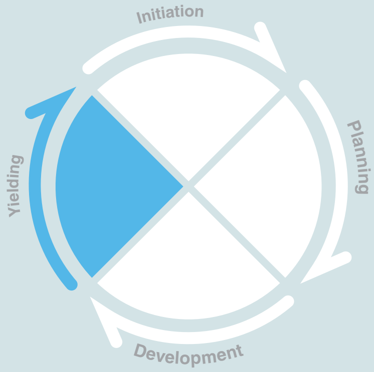
*This project is comprised of two buildings.



Tamiz

81%
occupied

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

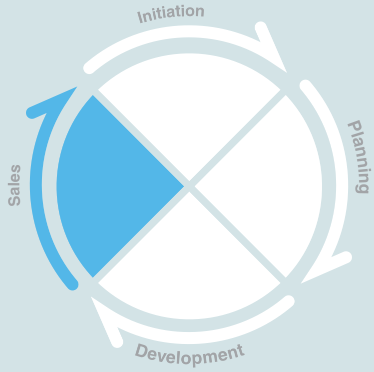


Western Residence

68%
houses sold

Location	**Perkhushkovo**
Land area	**11 ha**
Saleable area*	**9,456 sqm**
Phase I completed	**Q4 2011**
Freehold rights	**100%**

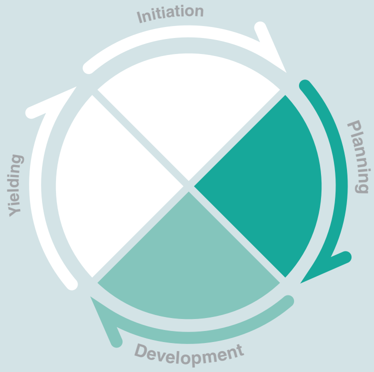
*Excluding sold houses. Sales: 52 out of 77 houses were sold as of the date of this report.



Vernissage Mall - II

40,000
sqm leasable area

Location	**Yaroslavl**
Land area	**16,5 ha**
Leasable area	**40,000 sqm**
Planned commencement	**Q3 2017**
Planned completion	**Q2 2019**
Freehold rights	**100%**



Projects in Planning

Retail | Offices | Residential | Logistics

Triumph House

18,500
sqm leasable area

Location	**Kazan**
Development of retail at favourable location in the city.	
Land area	**2.2 ha**
Leasable area	**18,500 sqm**
Planned commencement	**Q4 2016**
Planned completion	**Q1 2018**
Freehold rights	**100%**

Saratov Logistics

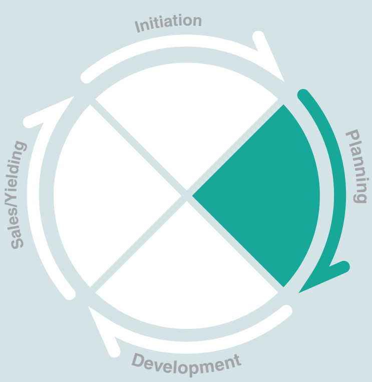
104,000
sqm leasable area

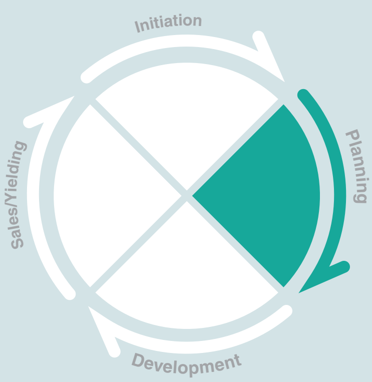
Location	**Saratov**
Phased development of a logistics centre close to the federal highways and the city ring road.	
Land area	**26 ha**
Leasable area	**104,000 sqm**
Freehold rights	**100%**

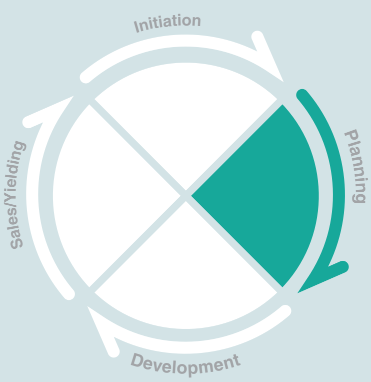
Western Residence -II

34,607
sqm saleable area

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







Russian Business Environment

Key economic indicators	2012	2013	2014	2015
Population (m)	143.0	143.3	143.9	146.5
GDP per capita (PPP, US$)	23,700	24,298	24,764	23,564
GDP growth rate (%)	3.5	1.5	0.6	-3.8
Inflation (%)	6.5	6.5	11.4	15.5
Unemployment rate	5.5	5.5	5.3	5.8
RUB/US$ exchange rate (end of the year)	30.4	32.9	56.3	72.9
Sovereign credit rating	BBB	BBB	BB+	BB+

The Russian economy is undergoing a significant slowdown and the main factors are the sanctions and the dropping price of oil. As a result of the undermining of the geopolitical situation on the Russia-Ukraine border, which began in March 2014, diplomatic and economic sanctions were imposed on Russia by the EU and the US, and Russia responded with counter economic sanctions.

Since the end of 2014, when the oil price had fallen by about 50% in the second half of the year, and during 2015, it fell by about 47%, a general trend can be identified of the Rouble responding to fluctuations in the price of oil, impacted by external factors. Since the oil and gas sector constitutes about 65% of Russia's export revenues, the recovery in oil prices is the key to the beginning of the rehabilitation of the Russian economy.

The interest rate of the Central Bank of Russia ("CBR") decreased in the first half of 2015 from the peak of 17% (which was determined in December 2014), and stabilized at 11% since the end of July 2015 (on January 29, 2016, the Central Bank announced that it was not changing the interest rate at this stage). The rate of the Rouble decreased by about 29% during 2015.

In January 2015, the credit rating company Standard & Poor's reduced the Russian government rating of the debt in foreign currency to BB+ with a negative outlook, and during the year, there was no change to the credit rating.

The Central Bureau of Statistics in Russia (RosStat) reported that Russia's GDP growth decreased from 0.6% in 2014 to negative 3.8% in 2015, with the inflation rate increasing to 15.5% during the year. The main factors for inflation were the increase in the food prices and the sharp devaluation of the Rouble. The decrease in growth arose from weak domestic and external demand.

The growth rate of retail sales decreased below 0 and amounted to (-9.7%) compared to 2.5% in 2014. The unemployment level in Russia remained relatively low (5.8%) during the year and was supported by a decrease in imports due to the sanctions imposed by the Russian government on products imported from the United States and European Union and from the weak currency that encouraged exports, which together encouraged the local activity.

The capital outflows in 2015 amounted to USD 56.9 billion (USD 9.2 billion in the last quarter), while in 2014, the capital outflows amounted to about USD 153 billion.

The federal budget deficit in 2015, was of 1.9% of the GDP compared to 0.1% surplus in 2014, with a minor improvement in the component of deficit not linked to oil, 10.6% compared to 10.9% in 2014. The government expenses increased by 0.3% of the GDP, an increase of 3.5% in nominal terms compared to 2014, due to very high social and security expenses. The deficit in the federal budget of 2.2 trillion Roubles is largely financed by the retained earnings that decreased in the second half of 2015 (to USD 46 billion) compared to December 2014 (USD 89.7 billion).

Annual Average Exchange Rates & Brent Oil Price Dynamics 2004–2015

Source: Central Bank of Russia, EIA- US Energy Information Administration

Despite the economic and political challenges faced by the country, Russia still has high foreign exchange reserves in the amount of about USD 369 billion at the end of 2015, a decrease of about 26% compared to 2014. It is reasonable that the government will continue to use these reserves in order to support the balance of payments and in order to attempt to stabilize the currency and economy. In addition, the reserves may also be used to support the Russian bank system when its capital ratios start to deteriorate.

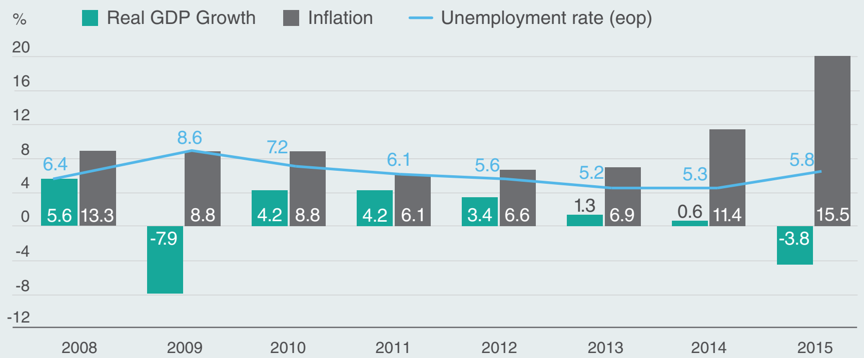
Russian Real Estate Market

The scope of the investments in commercial real estate in Russian in 2015 decreased sharply to about USD 2.8 billion, a decline of 28% compared to 2014 (in dollar terms). This is considerably lower than the investments volume of USD 8.5-9 billion in 2011-2013. The sharp decline in the volume of investment is attributed to both the global macroeconomic environment and the macroeconomic environment in Russia.USD1.2 billion of investments attributed to the office segment. The investments in the retail sector amounted to about USD 0.7 billion, and investments in assets in the logistics sector amounted to about USD 0.6 billion. The share of foreign investments in commercial real estate in 2015 reached 30% of the total investments, compared to about 20% in 2014.

The forecast volume of investment in 2016 is expected to be at the same level as in 2015.

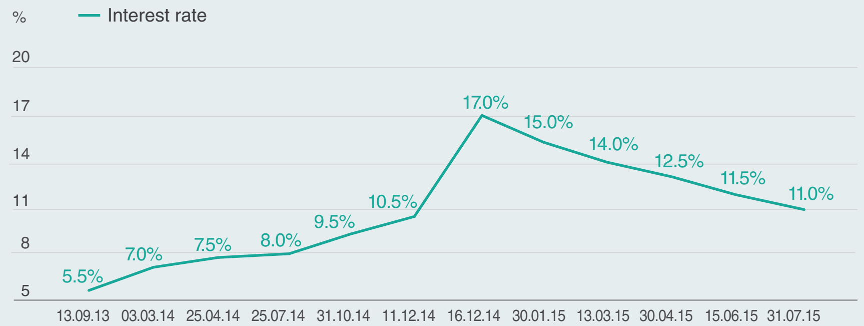
The deterioration in the macroeconomic environment not only stopped the declining trend in the discount rates in all segments of commercial real estate in Russia, which took place from 2010 to

Real GDP Growth, Inflation and Unemployment, %



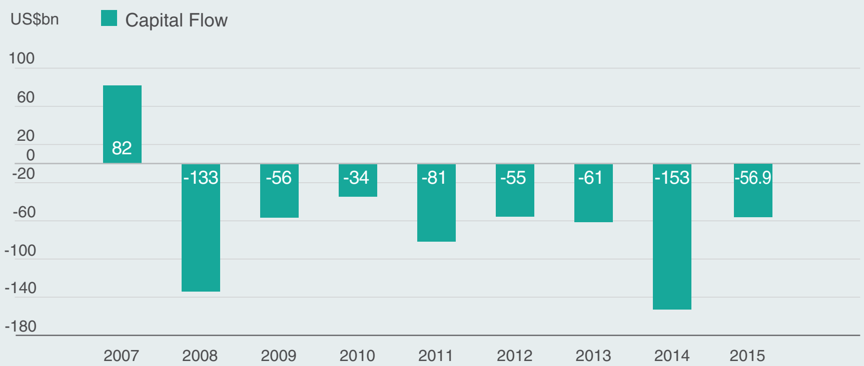
Source: Rosstat, MED, CBR, Alfa Bank

CBR Interest Rate, %



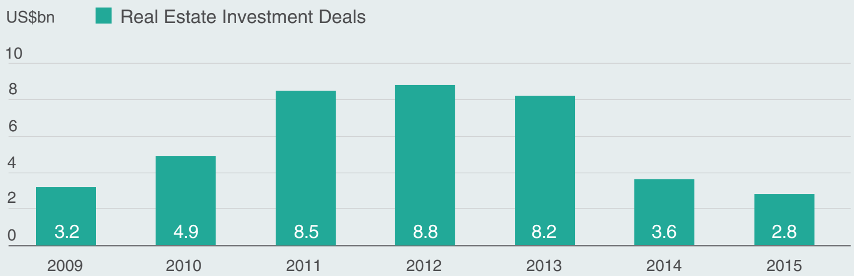
Source: Rosstat, MED, CBR, Alfa Bank

Capital Flow, US$bn



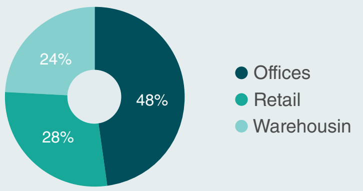
Source: Rosstat, MED, CBR, Alfa Bank

Overall Volume of Real Estate Investment Deals, US$bn



Source: Cushman & Wakefield

Breakdown of Investments by Segment, eop 2015, %



Source: Cushman & Wakefield

2013, but also led to an increase in the discount rate during 2014, especially in the fourth quarter, when the Central Bank of Russia raised the interest to 17%, together with the sharp decline in oil prices and the sharp devaluation of the Russian Rouble. The discount rates have risen to a rate of 11% in the office segment and decreased only by 0.5% in 2015, the retail sector reached a discount rate of 11% in 2014 and remained unchanged in 2015. The discount rate for logistics segment was at 13% in 2014 and declined by 0.25% in 2015.

The Office Sector

Similar to previous years, in 2015 the office sector has attracted the lion's share of investment in commercial real estate in Russia (46%). The total volume amounted to USD 1.2 billion, most of which was invested in assets in Moscow. However, investments in the office sector decreased by about 20% compared to 2014.

The main driving forces behind this expansion are increased employment in office jobs, entry of foreign investors and the general increase in corporate profits, which allowed them to upgrade their offices to Class A and B levels of finish.

At the end of 2015, the market supply amounted to 16.7 million square meters, of which 3.8 million square meters are Class A offices and the rest are Class B. The total volume of office completions in 2015 reached 715,000 sq m, which is half the amount of 2014, when delivered volume was more than 1.4 million sq m.

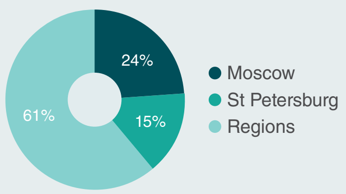
The structure of supply by classes maintains the distribution of 2014. Class B+ have the largest share of office space, taking 48% of the total existing stock, while 29% and 23% are made up of Class B and Class A respectively.

By the end of 2015, the total amount of available supply reached 2.4 million sq m, which corresponds to a vacancy level of 13.9% (14.2% in 2014). The highest level of vacancies was observed in Class A office buildings, where the rate reached 25.3%. In Class B offices the vacancy rate decreased throughout the year down to 10.5% (26.1% and 10.9% respectively in 2014).

In 2015, the decrease in asking rental rates reached a historical minimum level. By the end of the Q4, the average rental rate in dollars declined in Class A offices by 36% and in Class B by 40%. The average rental rate recalculated into dollars for Class A offices was $410/sq m/year, for Class B — $210/sq m/year.

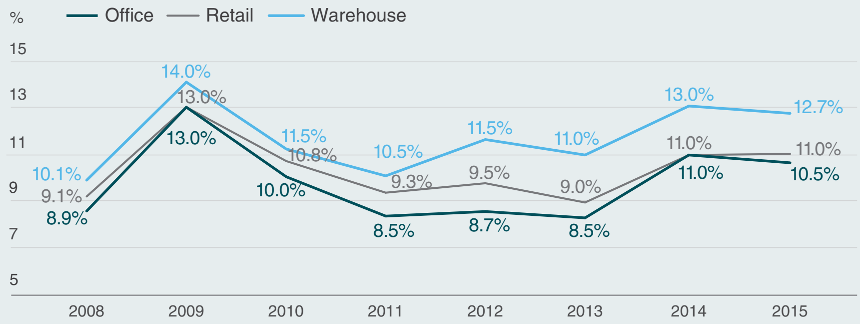
The devaluation of the Rouble and fluctuations in exchange rates had an impact on the commercial terms in the office market, thus many owners have switched dollar rental rates for Roubles.

Structure of Total Stock at the end of 2015, %



Source: Cushman & Wakefield

Prime Yields in Moscow, %



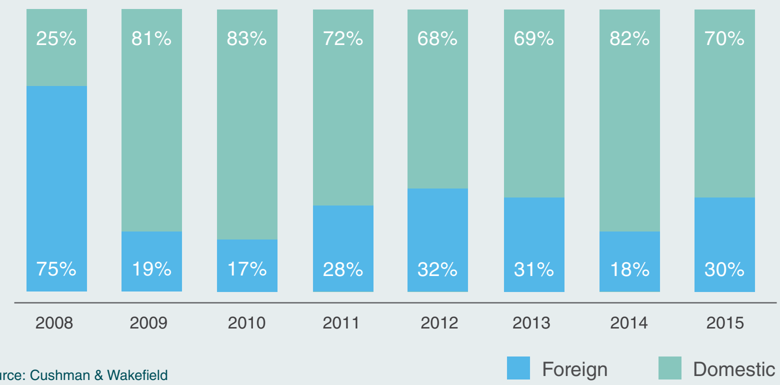
Source: Rosstat, MED, CBR, C&W, Alfa Bank

The Retail Sector

The economic situation in Russia in 2015 seriously adjusted the ambitious plans of the developers' forecasts announced a year earlier of about 4 million sq m of completed retail space across the country. More than a half of the projects planned for completion in 2015 were frozen or openings were postponed. The total stock of quality retail space in Russia increased by 1.86 million sq m due to the completion of 62 shopping centers (45 of which in the regions) and reached around 21 million sq m by the end of 2015. The number of shopping centers opened in 2015 is comparable to that in 2014, but the average size of a shopping center declined by almost 20%.

As usual, more than a third of new completions took place in Moscow. In the structure of quality retail stock in Russia, Moscow takes 26% at year-end, which is equal to the total stock of retail space in all regional million-plus cities (excluding St. Petersburg).

Breakdown of Investments by The Origin, eop 2015, %



Source: Cushman & Wakefield

Vacancy rates at the end of 2015 in quality retail centers in Moscow was 2%, slightly higher than 1.5% in 2014.

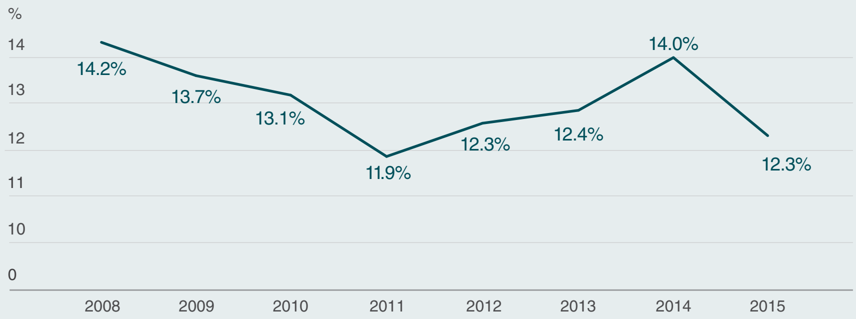
Russia is the largest retail market in Europe, with a sales turnover of about 24.3 trillion rubles in 2015 (USD300 billion), almost unchanged in Rouble terms compared to 2014 (24.1 trillion rubles, USD430 billion). With modern commercial centers starting to appear in Russia about ten years ago, shopping has become an entertainment center for many residents and, therefore, the footfall volume in shopping centers has remained stable even in times of economic crisis.

The Residential Sector

The residential sector in Russia presents one of the best opportunities for growth due to the low level of living space per capita and what has been a slowly developing mortgage market. The average area per capita is circa 24 sqm and the mortgage market amounts to only small proportion of GDP, significantly lower than in western countries.
In 2015, there was a decline of 33% in mortgage volume compared to 2014. The estimated amount of circa 1.1bn RUB of mortgages were granted during 2015 The average lending rate in 4Q15 was at 12.3%, same as at the beginning of the year.

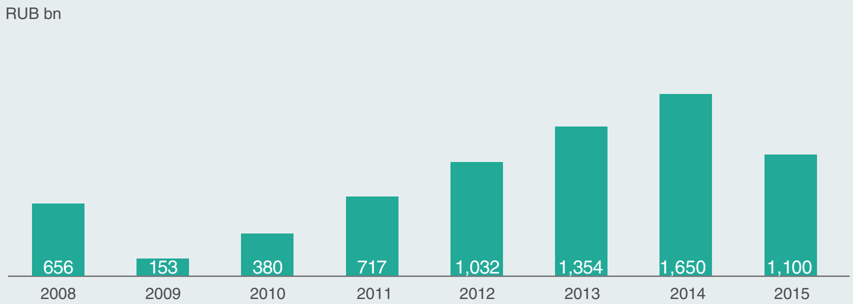
Despite the economic situation, the increase in interest rates on mortgages and the decline in purchasing power due to the sharp devaluation of the Rouble, the demand for housing in 2015 showed an upward trend of about 10%, compared with 2014.

Average Mortgage Lending Rate, %



Source: CBR -The Central Bank of The Russian Federation

Mortgage Lending, RUB bn



Source: Peterburgskaya Nedvizhimost

As of the end of 2014, there were 700 community settlements outside Moscow under development, with about 120 of them classified as level settlements for construction in Business Class and Prime Class. From the third quarter of this year, there was slowed entrepreneurial activity as a result of economic instability. On average, prepared homes are about 10% to 30% more expensive than land with construction contracts. In 2015, the trend of buying budget continued to decrease, which is reflected in relatively little demand for built areas and land compared to previous years.

Following the economic downturn and the decline in GDP growth in 2015, the average housing prices declined in real terms in Moscow, when the average price of an apartment in Roubles increased by 6% compared to an inflation rate of over 15% in 2015.

2014 was a record year in the field of residential construction in St. Petersburg, when about 2.9 million square meters were added to the market, and in 2015 there was a slight decrease of about 5%. In 2015, there was an increase of approximately 3% in house prices in ruble terms representing a decrease in dollar terms. 97% of the apartments on the market are defined as a "mass market" and the average price increased by 2% in terms of Roubles, the remaining 3% are defined as "elite" and the price rose by about 3.6% in terms of rubles. The expectation for 2016 is that home prices will continue to rise though at a lower inflation forecast.

The Logistics Sector

In 2015, the volume of industrial real estate market in Russia increased by 1.5 million sqm, which was 1/3 lower than the completions of 2014. About 878,600 sq m were built in the Moscow region, 168,000 sq m in St. Petersburg and 439,000 sq m in the Russian regions. Regional completions were higher than in 2014 by 15.5%

The total stock of quality industrial space in Russia at the end of 2015 was 18.5 million sq m: 64% of which was in the Moscow region, 14% in St. Petersburg and by 4% in Yekaterinburg and Novosibirsk.

The average volume of vacant space in Russian regions in 2015 was 3.8%, compared to 2.1% in 2014.

Large trading companies were the main customers for quality industrial space in 2015. Their share in the total annual take-up was about 75% (retailers — 67.6%, distributors — 7.4%).

Due to the current economic situation in the country and the large volumes of vacant space in existing warehouse schemes accompanied by low demand in regions, the average rental rate in regions corrected throughout the year, settling at the end of 2015 at RUB270/sqm/month (RUB300/sqm/month in 2014).

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

Roman Rozental
CEO

Strategy

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

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

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

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

This has been achieved through:

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

This strategy supports the Company's position as one of the leading international real estate companies in Russia.

Portfolio

MirLand currently has 12 projects, six of which are yielding assets (offices in Moscow and regional retail), one project is under construction (Phase III and Phase IV of the Triumph Park project in St. Petersburg), two are completed residential projects (Phase I in Western Residence in Perkhushkovo and Phases I and II of Triumph Park)) and three projects are at various stages of planning and in the process of obtaining permits (in addition to the Phase II of the Western Residence project in Perkhushkovo and phases V-VIII of the Triumph Park project in St. Petersburg). The Company's portfolio has been valued by Cushman & Wakefield at US$394.9 million (MirLand's share) as at 31 December 2015, based on the Company's freehold/leasehold rights. This value represents a decrease of approximately 33% since 31 December 2014.

Yielding Projects:

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

Hydromashservice (Hydro), Moscow – offices

Class B+ office complex. Part of the MirLand Business Center

- Land area: 1.2 ha
- Leasable area: 16,700 sqm
- Completed: Q4 2008
- Leasehold rights of land: 100%
- Occupancy rate: 85%
- Financing: US$20 million financed by Sberbank in September 2012 (principal balance as of 31 December 2015: US$16.8 million)

MAG, Moscow – offices

Class B+ office complex. Part of the MirLand Business Center.

- Land area: 2.2 ha
- Leasable area: 18,530 sqm
- Completed: Q4 2007
- Leasehold rights of land: 100%
- Occupancy rate: 75%
- Financing: US$49 million financed by Sberbank in 2012-2014 (principal balance as of 31 December 2015: US$42.6 million)

Century Buildings, Moscow – offices

Two Class B+ office buildings Part of the MirLand Business Center.

- Leasable area: 20,900 sqm
- Completed: Q1 2009
- Leasehold rights of land: 61%/51%
- Occupancy rate: 76%
- Financing: US$39 million financed by Sberbank and Nordea bank in 2014 (principal balance as of 31 December 2015: US$35.1 million)

Tamiz, Moscow – offices

New class B+ office building Part of the MirLand Business Center.

- Leasable area: 11,700 sqm
- Completed: Q3, 2011
- Leasehold rights of land: 100%
- Occupancy rate: 81%

Vernissage Mall, Yaroslavl, Phase I – retail

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

- Land area (Phase I): 12 ha
- Leasable area: 34,100 sqm
- Completed: Q2 2007
- Freehold rights: 100%
- Occupancy rate: 89%
- Financing: US$49 million financed by Bank of Moscow in April 2014 (principal balance as of 31 December 2015: US$39.4 million)

Triumph Mall, Saratov – retail

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

- Land area: 2.2 ha
- Leasable area: 27,240 sqm
- Completed: Q4 2010
- Freehold rights: 100%
- Occupancy rate: 100%
- Financing: US$95 million financed by Sberbank in June 2013 (principal balance as of 31 December 2015: US$82 million)

Completed Residential Projects:

Western Residence – Phase I, Perkhushkovo, Moscow region – residential complex

Development of 77 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow, targeting the high end of middle class segment.

- Land area (Phase I): 11 ha
- Saleable area (Phase I): 9,456 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 52 houses have been sold;
- Completion: Phase I (77 townhouses and cottages) was completed in Q4, 2011

Project Under Construction:

Triumph Park, St Petersburg – residential complex

Phased development of a residential neighbourhood which, upon completion, will comprise approximately 8,500 apartments, commercial and public areas with good accessibility to the city and its airport. The commercial areas will include offices and a commercial centre with underground parking. The public facilities will include kindergartens, a school and parks.

- Land area: 41 ha
- Saleable area: 450, 000 sqm
- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2021
- Freehold rights: 100%
- Marketing:
  - Sales and construction of Phase III, which consists of approximately 61,800 sqm representing1,346 apartments, was launched in September 2013
  - Launch of sales of Phase IV, which will consist approximately 60,694 sqm representing 1,244 apartments, was in Q1 2015
- Sales:
  - Phase I: sold out and delivered
  - Phase II: sold out and delivered
  - Phase III: to date, 1,103 sale contracts have been executed
  - Phase IV: to date, 479 sale contracts have been executed
- Financing:
  - credit line of RUB 3,075 million for Phase III construction was obtained from Sberbank in September 2013 (principal balance as of 31 December 2015: US$8.8 million)
  - credit line of RUB 3,311 million (conversion rate as of the signing date) for Phase IV construction was obtained from Sberbank in September 2014 (principal balance as of 31 December 2015: US$16.1 million)

Projects in Planning:

Triumph House, Kazan – retail

Development of home design and improvement centre at favourable location in the city

- Land area: 2.2 ha
- Leasable area: 16,783 sqm
- Planned construction commencement: Q4 2015
- Planned completion: Q1 2018
- Freehold rights: 100%

Vernissage Mall, Yaroslavl – Phase II – retail

Land plot adjacent to the Vernissage Mall

- Land area: 16.5 ha
- Leasable area: 40,000 sqm
- Planned construction commencement: Q3 2017
- Planned completion: Q2 2019
- Freehold rights: 100%

Saratov – logistics

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

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

Western Residence – Phase II, Perkhushkovo, Moscow region – residential

Development of 86 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow.

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

Outlook

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

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

Roman Rozental
Chief Executive Officer

16 March 2016

Overview of Portfolio Market Values as at December 2015

City	Property Name and Address	Portfolio Market Value as of 31 of December 2015 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as of 31 of December 2015 (Rounded)
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	$32,200,000	100%	$32,200,000
Moscow	MAG, 2-Khutorskaya str., 38A	$37,300,000	100%	$37,300,000
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	$19,300,000	100%	$19,300,000
Saratov	Triumph Mall, 167 Zarubina street	$72,000,000	100%	$72,000,000
St Petersburg	Triumph Park, Residential	$116,700,000	100%	$116,700,000
St Petersburg	Triumph Park, Trade Centre	$8,200,000	100%	$8,200,000
Yaroslavl	Vernissage Mall, Kalinina str.	$48,400,000	100%	$48,400,000
Yaroslavl	Phase II	$2,500,000	100%	$2,500,000
Moscow	Tamiz Building	$24,700,000	100%	$24,700,000
Moscow	Century Buildings	$45,600,000	51%/61%	$25,300,000
Kazan	Triumph House	$4,300,000	100%	$4,300,000
Saratov	Logistics Complex	$4,000,000	100%	$4,000,000
Total		**$415,200,000**		**$394,900,000**

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

Based on the Cushman & Wakefield valuation as at December 2015, the Company's Adjusted NAV became negative of US$(31.1) million (31 December 2014: US$146.6 million). As a result, the NAV per share as at 31 December 2015 was US$(0.3) in comparison to US$1.6 as at 31 December 2014.

Revenues for 2015 were US$86.3 million and the Company's real estate assets were valued at US$415.2 million.

Yevgeny Steklov
Chief Financial Officer

Total Assets at 31 December 2015 amounted to US$577.8 million and Equity amounted to US$(19.3) million. The Company's adjusted net asset value was US$(31.1) million. The Company's real estate assets were valued on 31 December 2015 at US$415.2 million (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US$394.9 million.

Accounting Policy

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

Income Statement

The Company's revenues consist of rental income from investment properties, income from sales of residential units and fees from managing investment properties. Rental income and fees from investment properties decreased to US$35.1 million from US$56.5 million, representing a 38% decrease. This decrease is mainly caused by the continuous depreciation of the Russian Rouble. The Company's recognised income of US$51.2 million from sale of inventory was due to the completion of handover residential units in Triumph Park Phase II and houses in the Western Residence project, to buyers.

The cost of maintenance and management of the Company decreased from US$18.2 million in 2014 to US$12.9 million in 2015, which is the result of management actions to reduce expenses and the continuous depreciation of the Russian Rouble.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2015 and has recognised the resulting movement in valuation through its income statement as fair value adjustments of investment properties and investment properties under construction.

The Company's general administrative expenses for the period were US$12.6 million in comparison to US$13 million in 2014. The decrease of 3% is mainly attributed to a reduction in salaries.

Marketing expenses for the period were US$4.3 million in comparison to US$4.1 million in 2014, largely attributed to the recognition of the brokerage fees relating to Phase II of the Triumph Park project.

Net financing costs for the period amounted to US$34.8 million compared to US$35.4 million in 2014.

The tax gain recorded in 2015 was mainly attributed to the decrease of a deferred tax liability in the Company's balance sheet, due to decrease in investment property and investment property under construction.

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

The loss for 2015 amounted to US$157.5 million in comparison to a loss of US$62.9 million in 2014. The loss is mainly attributed to the sharp decrease in value of the Company's investment assets.

Balance Sheet

Total assets as at 31 December 2015 amounted to US$577.8 million in comparison to US$756.6 million in 2014, a decrease of 23.6%. The main reasons for the overall decrease were the decrease in cash and cash equivalents balance, decrease in a fair value of investment properties, compensated by continuing development of the Company's residential projects which were financed through bank financing on the project level and apartment sales.

The Company's real estate portfolio amounted to US$518.8 million at the year end, and comprised 90% of the total assets, in comparison to US$673 million as at 31 December 2014 which comprised 89% of the total balance sheet.

Equity and Liabilities
Equity as at 31 December 2015 decreased to US$(19.3) million from US$141.4 million as at 31 December 2014. The decrease in equity from 2014 is ascribed mainly to the decrease in the value of company's real estate portfolio as described above.

Net financial liabilities as at 31 December 2015 amounted to approximately 475.7 million compared to US$430.1 million as at 31 December 2014.

Net Asset Value ("NAV")
The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2015 at US$415.2 million (for 100% rights from freehold/leasehold), of which MirLand's share is US$394.9 million.

Cash Flow
During 2015, the Company used US$22.2 million for investment in real estate properties (including change in buildings for sale) in comparison to US$85.7 million in 2014. Cash flow used in operating activities amounted to US$33 million. Cash flow provided by financing activities amounted to US$10.1 million.

Financial Strategy
As described above, the Company is in negotiations with the trustees of the Series A-F bondholders and with the local Russian banks to agree a restructuring of its debt which addresses the challenges posed by the current instability in the Russian economy for the benefit of all the Company's creditors and shareholders.

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

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

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

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

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

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

Regulatory Risks: On 11 December 2013, the Law on Promotion of Competition and Reduction of Concentration (2013) (the "Concentration Law" or the "Law") was published in Israel where the Company's bonds are listed. The Law deals with a number of issues, including restrictions on control of reporting companies within pyramid holding structures and a ban on control by a second layer company of a company in a different layer, all as more thoroughly described in Section C of the Concentration Law. A company which, upon the date of publication of the Concentration Law, was a second layer company, and so long as it remains as such, is entitled to continue to control a company of a different layer (the: "Different Layer Company") for up to six years from the date of publication of the Concentration Law, if such a company controlled the "different layer" company prior to the publication (the "Intermediate Period"). During the Intermediate Period, special corporate governance rules shall apply, as set out in the Concentration Law. On July 16th 2014 the Regulation on Promotion of Competition and Reduction of Concentration (Type of Companies that will not be regarded as Layer Companies and attribution of control directives') (2014) (the: "Regulation"). The Regulation define certain companies that will not be regarded as Layer Companies, since there is no public interest in determining such over such entities, for the purpose of the Intermediate Period provisions. The Intermediate Period provisions require that in Different Layer Companies, during the Intermediate Period, the majority of its directors will be independent according to the definition of the Law.

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

Shortly after publication of the regulations, the Company assumed the necessary actions in order to meet the provisions of the regulations. On November 16th 2015 Caroline Brown, who served as an independent director has resigned. Until the date of her resignation, the Company consisted of five directors (out of nine) corresponding with the definitions as stated. The Company intends to take the necessary measures in order to comply with the Law and Regulations, by either reducing the number of board members or appointing an additional independent director.

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

Yevgeny Steklov
Chief Financial Officer

16 March 2016

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

Board of Directors

Nigel Wright
Non-executive Director and Chairman of the Board, age 62

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

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

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

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

Eyal Fishman has served as chief executive officer of various companies in the Fishman Group, including Celio Chains Israel, P.K.P Design Ltd and Fishman Chains Ltd. He serves as chairman of the board of Fishman Retail Chains, and Home Center (DIY) Ltd. Eyal is a member of the board of directors of Darban Investments Ltd, the Company's significant shareholder, an office he has held for the past 17 years.

Saydam Salaheddin
Senior Independent Non-executive Director and member of the Audit Committee, Lawyer age 44

Saydam Salaheddin has over 15 years' experience in the investment banking sector and over 10 in the real estate industry. He is currently Head of Capital Markets for Russia and CIS at JLL in Moscow. Until 2013 he was responsible for global Real Estate at Renaissance Capital, prior to which he spent 13 years at Credit Suisse in London and Moscow. Saydam began his career as a corporate lawyer in London in 1996, next joining Morgan Stanley and then Credit Suisse as an Analyst in investment banking. As a Managing Director, Saydam became responsible for Eastern Europe, CIS and Turkey within the Real Estate group of Credit Suisse and moved to Moscow in 2007. Saydam remains a Board Member or advisor to the Board of several of the largest companies active in Russia in Real Estate and related sectors, including LSR Group, Cinema Park and Renaissance Development.Renaissance Construction and Development and MR Group.

Eliezer Fishman
Non-executive Director,
Certified Public Accountant,
age 72

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

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

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

Elias Eliades
Non-executive Director and
Chairman of the Nomination
Committee, age 68

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

Alexander Regenbogen
Non-executive Director,
Chairman of the Remuneration
& Audit Committee, age 46

Alexander Regenbogen has over 16 years of experience in the Romanian real estate and finance industries. Since 2007 he has worked as an independent consultant & project manager in various fields: management of several residential projects, corporate finance advisory, investment support services. In 2012 he received a mandate from DS-Apex Holdings LTD (one of Israel's leading capital markets investment houses) to examine the opportunity to incorporate in Romania a financial institution with full licenses and activities in the fields of asset management, mutual funds distribution, stock exchange brokerage, and investment banking. Between 2000–2006, he served in various top executive positions at Eurom Bank (current Bank Leumi Romania), including President of the Executive Committee. Mr. Regenbogen is a former member of the Institute of Certified Public Accountants in Israel and holds a MBA from ESLSCA Business School in Paris and a BA degree in Accounting and Economics from Tel Aviv University.

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

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

Market

Changes in the Russian economic and political environment

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

Real estate market risks

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

Development

Dependence on contractors' and subcontractors' risks

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

Planning, general construction and development risks

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

Financial

Foreign exchange risk

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

Interest rate risk

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

Credit risks

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

Additional requirements for capital

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

The Directors present their report and the audited financial statements for the year ended 31 December 2015.

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

Principal Activities
During the year the Group continued its activities of property development, trading and investment. It will continue the same activities in 2016.

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

Review of Business Development and Prospects
Development of the Group's activities and its prospects are reviewed in the Chairman's Statement on pages 6 to 8 and the Chief Executive's Statement on pages 26 to 29.

Results for the Year
The results of the Group are set out in the Consolidated Income Statement on page 52 which shows a loss for the financial year of US$157.5m (2014: US$62.9m). The Consolidated Statement of Financial Position on pages 50 to 51 shows net assets of US$(19.3)m (2014: US$141.4m).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2015.

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

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

Directors
The Directors of the Company who served during the year are listed on pages 34 and 35.

On 16 November 2015 Caroline Brown retired as a Non-executive Director and Chairman of the Audit Committee. On Caroline Brown's resignation, Alexander Regenbogen replaced her as Chairman of the Audit Committee and Elias Eliades replaced her on the Remuneration Committee. On the same date Saydam Salaheddin was appointed as Senior Independent Director.

Directors' and Other Interests

The interests of the Directors in the shares of the Company at 31 December 2015, with comparative figures as at 31 December 2014, are as follows:

Director	Number of shares as at 31 December 2015	Number of shares as at 31 December 2014
Nigel Wright	**20,050**	20,050
Roman Rozental	**0**	0
Yevgeny Steklov	**0**	0
Eliezer Fishman*	**245,213**	245,213
Eyal Fishman*	**335,000**	335,000
Elias Eliades	**0**	0
Saydam Salaheddin	**0**	0
Alexander Regenbogen	**0**	0

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

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

In addition to the disclosures above, as at 16 March 2016, the Company was aware of the following interests amounting to 3% or more in the Company's shares:

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

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

Global, a subsidiary of the Company , which owns a commercial center in Yaroslavl, has entered into a lease agreement with Home Centres LLC ("Home Center"), a company controlled by the Fishman family, the controlling shareholders of the Company. The area leased to Home Center covers 6,703 sq.m. the minimal lease fees are 138 US dollars per sq.m. and the lease period, assuming the exercise of all of the option periods contained therein, is 25 years. The terms of the agreements are in accordance with market conditions. During 2014 Home Center entered into a process of ending its business in Russia. In May 2014, the Company entered into an agreement with Home Center under which the Company acquired from Home Center facilities which are inseparable of the property, and Home Center may stay in the store until the entry of a new tenant. As of September 2014 the lease agreement stated maximum dollar-ruble rate similar to the manner prescribed with other tenants. As of 01.01.2015 a new short-term lease agreement was signed whereby Home Center will pay the Company 4% of its business cycle, plus holding costs until the entry of a new tenant. During the year Home Center and the Company reached mutual agreement of concluding the lease agreement. To the Company's best knowledge Home Center is in the process of finalizing its business in Russia under the court supervision.

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

Statement of Directors' Responsibilities

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period and comply with International Financial Reporting Standards (IFRS). The Directors are responsible for ensuring that applicable accounting standards have been followed and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements for the year ended 31 December 2015.

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

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

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

Insurance of Directors

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

Financial Risk Management

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

Charitable Donations

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

Health and Safety

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

Branches

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

Auditors

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

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

Post-Balance Sheet Events

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

Nigel James Wright
Chairman

16 March 2016

Corporate Social Responsibility

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

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

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

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

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

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

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

Charity
The Board has stated its intention to donate to communities in cities and neighbourhoods in which it holds and develops real estate projects or to other communities that may approach the Company with an appropriate request for a donation. In 2015, the Company didn't make material amount donations. As market conditions improve, the Company intends to continue its charity policy.

Corporate Governance Report

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

Board Composition, Roles and Independence

During the financial year, MirLand's Board comprised nine Directors, until the resignation of Caroline Brown on 16 November 2015.

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

Chairman

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

Chief Executive Officer

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

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

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

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

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

** On 16 November 2015 Saydam Salaheddin was appointed as Senior Independent Director.

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

Overview

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Board Conduct

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

The table below sets out the dates of the scheduled Board meetings held in 2015 and provides details of the Directors' attendance at each meeting. During the year 18 Board meetings were held. The number of meetings attended by each of the Board is shown below.

	Nigel Wright (Chairman)	Caroline Brown[1]	Alexander Regenbogen	Roman Rozental	Eliezer Fishman	Eyal Fishman	Elias Eliades	Yevgeny Steklov	Saydam Salaheddin
12.01.2015[2]	✓	✗	✗	✓	✗	✗	✓	✓	✓
19.01.2015[2]	✓	✓	✓	✓	✗	✗	✓	✓	✓
27.01.2015[2]	✓	✓	✓	✓	✗	✓	✓	✓	✓
02.02.2015[2]	✓	✓	✓	✓	✗	✓	✓	✓	✗
11.02.2015[2]	✓	✗	✓	✓	✗	✗	✓	✓	✓
17.02.2015[2]	✓	✗	✓	✓	✗	✓	✓	✗	✓
04.03.2015[2]	✓	✓	✓	✓	✗	✓	✓	✓	✓
16.03.2015[3]	✓	✓	✓	✓	✗	✓	✓	✓	✓
11.05.2015[3]	✓	✓	✓	✓	✗	✓	✓	✓	✓
02.07.2015[2]	✗	✓	✓	✓	✗	✗	✓	✓	✓
14.08.2015[4]	✓	✓	✓	✓	✓	✓	✓	✓	✓
18.08.2015[2]	✓	✗	✓	✗	✗	✗	✓	✓	✓
25.08.2015[2]	✓	✗	✓	✓	✗	✓	✓	✓	✓
09.10.2015[2]	✓	✓	✓	✓	✗	✓	✗	✓	✓
28.10.2015[2]	✗	✗	✓	✓	✗	✗	✗	✓	✓
16.11.2015[3]	✓	✓	✓	✓	✗	✓	✗	✓	✓
23.12.2015[2]	✓	n/a	✓	✓	✗	✓	✓	✓	✗
29.12.2015[2]	✓	n/a	✓	✓	✗	✗	✓	✓	✓

1 Caroline Brown resigned as a director on 16 November 2015
2 Held by telephone
3 Held in Cyprus
4 Held in London

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

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

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

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

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

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

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

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

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

Retirement by Rotation and Re-election

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

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

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

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

Relations with Shareholders

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

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

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

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

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

Investment Committee

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

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

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

The Investment Committee held one meeting on 2015 on 11 March 2015, which was attended by all of the members.

	11 March 2015
Eyal Fishman (chair) Roman Rozental	✓
Nigel Wright (member)	✓
Elias Eliades (member)	✓
Roman Rozental	✓

Nomination Committee

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

The Nomination Committee was tasked with filling the position vacated by the retirement of Caroline Brown from the Board. It successfully identified Alexander Regenbogen as a suitable candidate to replace Caroline Brown as Chairman of the Audit Committee and Elias Eliades to replace her on the Remuneration Committee. The Nomination Committee has also continued to meet to consider the composition of the Board generally, and to evaluate its balance of skills, knowledge and experience, in accordance with best practice.

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

The Nomination Committee held three meetings in 2015: Nigel Wright did not attend the meetings of 16.03.2015 and 14.08.2015 due to the matters under consideration. The meeting on 16.11.2015 was attended by all of the members.

	16 March 2015	14 August 2015	16 November 2015
Elias Eliades (chair)	✓	✓	✓
Nigel Wright (member)	✗*	✗**	✓
Eyal Fishman (member)	✓	✓	✓

* Due to the business of the meeting being the independence of Mr Wright after 9 years' service, Mr Wright did not attend the meeting.

** Due to the business of the meeting being the renewal of Mr Wright's letter of appointment, he did not attend the meeting.

Internal Controls

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

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

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

Audit Committee

In addition to ongoing discussions that are held between the Chairman of the Audit Committee and the Chief Financial Officer of the Company, the Audit Committee formally meets at least four times each year, before each Board meeting, reporting any relevant matters to the Board where appropriate. Attendance of the individual Directors, who all served on the committee or attended its meetings throughout the year, is shown below. The Audit Committee comprised three independent Non-executive Directors. Caroline Brown resigned from her position as Non-executive Director and Chairman of the Audit Committee on 16 November 2015. On her resignation Alexander Regenbogen was appointed Chairman of the Audit Committee. Alexander Regenbogen has the particular recent, relevant financial experience recommended by the UK Corporate Governance Code.

	11 March 2015	7 May 2015	11/14 August 2015	15/16 November 2015
Caroline Brown (chair)	✓	✓	✓	✓
Alexander Regenbogen (member)	✓	✓	✓	✓
Saydam Salaheddin (member)	✓	✓	✓	✓
Roman Rozental	✓	✓	✓	✓
Yevgeny Steklov	✓	✓	✓	✓

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

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

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

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

Internal Audit

The Company's internal audit function is outsourced to a certified accountant in Cyprus who was nominated by the Audit Committee and approved by the Board. Baker Tilly Klitou and Partners Limited were nominated to be the internal auditors of the Company in October 2007. The internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the Audit Committee and the Board and is available for any meetings of the Audit Committee or Board. Baker Tilly Klitou and Partners Limited filed its reports for 2015 in the months of May, August and November 2015.

Going Concern

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

Share Dealing Code

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

Controlling Shareholders

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

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

Remuneration Committee and Directors’ Remuneration Report

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

Remuneration Committee

The Remuneration Committee comprises three independent Non-executive Directors and normally meets at least twice each year; in 2015 the Remuneration Committee met in March, May and November. The Remuneration Committee was chaired by Alexander Regenbogen; the other members are Caroline Brown, until her retirement on 16 November 2015, Nigel Wright and, from Caroline Brown’s retirement, Elias Eliades. The Remuneration Committee determines and reviews, among other matters, the remuneration of Executive Directors and any share incentive plans of the Company. In addition, the Remuneration Committee will prepare an annual report on the remuneration policies of the Company. The committee’s terms of reference are available on the Group’s website.
Three Remuneration Committee meetings were held in 2015:

	11 March 2015	11 May 2015	16 November 2015*
Alexander Regenbogen (chair)	✓	✓	✓
Caroline Brown* (member)	✓	✓	✓
Nigel Wright (member)	✓	✓	✓

* As of 16 November 2015 Caroline Brown retired as Non-executive Director and member of the Remuneration Committee. Elias Eliades replaced Caroline Brown as a member of the Remuneration Committee.

Remuneration Policy

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

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

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

Service Contracts and Letters of Appointment

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

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

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

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

* As of 16 November 2015 Saydam Salaheddin was appointed as Senior Independent Director.

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

Other Directorships

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

Non-Performance Related Remuneration

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

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

Pensions

Directors are not entitled to pension plans.

Performance Related Remuneration

MirLand grants performance related remuneration.

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

Non-performance related remuneration, US$

Chairman and Executive directors	Nigel Wright	Roman Rozental	Yevgeny Steklov	Total
Salary and fees	137,123	446,968	206,230	790,321
Other taxable benefits	–	58,297	42,551	100,848
Share incentive plan	–	–	56,865	56,865
Total remuneration for the year ended 31 December 2015	**137,123**	**505,265**	**305,646**	**948,034**
Total remuneration for the year ended 31 December 2014	160,444	713,438	500,868	1,374,750

Non-performance related remuneration, US$

Non-executive Directors	Caroline Brown	Eliezer Fishman	Eyal Fishman	Elias Eliades	Steven Holm	Alexander Regenbogen	Saydam Salaheddin	Total
Salary and fees	74,275	57,134	74,275	79,988	–	74,275	68,561	428,508
Other taxable benefits	–	–	–	–	–	–	–	–
Share incentive plan	–	–	–	–	–	–	–	–
Total remuneration for the year ended 31 December 2015	**74,275**	**57,134**	**74,275**	**79,988**	**–**	**74,275**	**68,561**	**428,508**
Total remuneration for the year ended 31 December 2014	85,612	65,865	87,100	69,123	61,059	32,930	79,027	480,716

Details of share awards and options are included below.

Directors' Share Options

Director	Number of options	Number vested as at 31 December 2015	Exercise price of options (GBP)
Nigel Wright	0	n/a	n/a
Roman Rozental	449,198	449,198	2.5
Alex Regenbogen	0	n/a	n/a
Yevgeny Steklov	258,750	172,500	2.6
Eliezer Fishman	0	n/a	n/a
Eyal Fishman	0	n/a	n/a
Saydan Salaheddin	0	n/a	n/a

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

Share Price Performance

On behalf of the Board

Alexander Regenbogen
Chairman of the Remuneration Committee

16 March 2016

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Mirland Development Corporation Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matter

We draw attention to the matter discussed in Note 1b to the consolidated financial statements regarding the crisis in the Russian economy and its implications on the Group, and to the negotiations being held with the main lending bank for the refinancing of the loans and with the trustees of the bond holders of the Company (series A-F) for examining a different debt arrangement with bond holders based on the Company's announcement of the deferral of principal and interest payments to the bond holders and in view of the said crisis. As a result of the above, among others, the Group has a working capital deficit of approximately $ 375.5 million as of December 31, 2015, a loss of approximately $ 157.5 million for the year then ended and negative cash flows from operating activities of approximately $ 33 million. In addition, during the year ended on December 31, 2015 the total equity attributed to shareholders of the Company decreased in the amount of approximately $ 152 million. As of 31 December 2015 the Company has a negative equity attributed to equity holders of the parent company in the amount of approximately $34.1 million. These conditions, along with other matters as set forth in Note 1b, indicate the existence of a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to the carrying amounts of assets and liabilities and their classification which might be required if the Group is unable to continue to operate as a going concern. Our report is not qualified in respect of this matter.

Report on other legal requirements

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

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

Other matter

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

Charis Stylianou
Certified Public Accountant and
Registered Auditor for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and
Registered Auditors

Limassol
16 March, 2016

Consolidated Statement of Financial Position

	Note	31 December 2015 US$000	31 December 2014 US$000
Assets			
Current assets:			
Cash and cash equivalents		**5,097**	40,646
Cash in escrow account	1	**11,159**	-
Trade receivables	5a	**2,274**	1,502
Other receivables	5b	**7,885**	6,530
VAT receivable	2i	**3,321**	4,438
Inventories of buildings for sale	6	**171,240**	169,297
		200,976	**222,413**
Non-current assets:			
Investment properties	7	**260,200**	383,800
Investment properties under construction	8	**19,000**	30,800
Inventories of buildings for sale	6	**68,298**	88,917
VAT receivable		**290**	314
Fixed assets, net		**969**	1,231
Other long-term receivables	5c	**14,709**	18,558
Prepaid expenses		**455**	517
Deferred taxes	16	**12,944**	10,056
		376,865	**534,193**
Total assets		**577,841**	**756,606**

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

	Note	31 December 2015 US$000	31 December 2014 US$000
Equity and liabilities			
Current liabilities:			
Long-term loans from banks which were classified as short-term	1b,11	**196,328**	181,588
Current maturities of long-term credit from banks	11	**19,575**	15,445
Current maturities of bonds	13	**115,672**	57,298
Credit from banks for financing of inventory of buildings for sale	11	**24,845**	3,300
Long-term bonds which were classified as short-term	13,1b	**135,523**	178,316
Trade payables		**6,361**	8,262
Deposits from tenants	14	**2,033**	2,762
Advances from buyers	6a	**73,783**	88,471
Other accounts payable		**2,382**	2,847
		576,502	538,289
Non-current liabilities:			
Loans from banks and others	11	**-**	34,847
Other non-current liabilities	14	**9,077**	12,562
Deferred taxes	16	**11,519**	29,461
		20,596	76,870
Total liabilities		**597,098**	615,159
Equity attributable to equity holders of the parent:			
Issued capital	17	**1,036**	1,036
Share premium		**359,803**	359,803
Capital reserve for share-based payment transactions	19	**12,586**	12,530
Capital reserve for transactions with controlling shareholders	12	**10,556**	8,556
Foreign currency translation reserve		**(175,193)**	(174,197)
Accumulated deficit		**(242,865)**	(89,757)
Total equity attributable to equity holders of the parent		**(34,077)**	117,971
Non-controlling interest		**14,820**	23,476
Total equity		**(19,257)**	141,447
Total equity and liabilities		**577,841**	756,606

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

Consolidated Income Statement

	Note	31 December 2015 US$000	31 December 2014 US$000	31 December 2013 US$000
		(except for share and per share data)		
Rental income from investment properties		**32,271**	52,525	46,255
Revenues from sale of residential units	6	**51,206**	29,796	56,050
Revenues from management fees		**2,808**	3,938	1,505
Total revenues		**86,285**	86,259	103,810
Cost of sales and maintenance of residential units		**47,265**	28,974	46,680
Cost of maintenance and management	20a	**12,914**	18,228	17,370
Gross profit before provision for impairment		**26,106**	39,057	39,760
Impairment of inventory		**4,330**	–	–
Gross profit		**21,776**	39,057	39,760
General and administrative expenses	20b	**12,578**	13,043	13,282
Bond settlement expenses		**2,276**	4,053	5,389
Marketing expenses		**4,300**		
Fair value adjustments of investment properties and investment properties under construction	7,8	**(56,152)**	84,802	55,212
Other expense (income), net	20d	**3,471**	1,992	1,086
Group's share in earnings of companies accounted for using the equity method and gain from obtaining control in a company previously accounted for using the equity method	4c	**-**	4,009	7,591
Operating income (loss)		**(57,001)**	108,780	82,806
Finance income	20c	**271**	1,521	1,080
Finance expenses	20c	**(35,035)**	(36,942)	(32,445)
Net foreign exchange differences		**(84,716)**	(149,361)	(33,967)
Profit (loss) before taxes on income		**(176,481)**	(76,002)	17,474
Taxes on income (tax benefit)	16	**(19,004)**	(13,125)	(11,268)
Net income (loss)		**(157,477)**	(62,877)	6,206
Attributable to:				
Equity holders of the parent		**(153,108)**	(71,313)	3,339
Non-controlling interests		**(4,369)**	8,436	2,867
		(157,477)	(62,877)	6,206
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	18	**(1.48)**	(0.69)	0.03

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

Consolidated Statement of Comprehensive Income

	31 December 2015 US$000	31 December 2014 US$000	31 December 2013 US$000
Net income (loss)	**(157,477)**	(62,877)	6,206
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Transfer of currency translation reserve to income statement for obtaining control in companies previously accounted for using the equity method	**-**	6,624	244
Exchange differences on translation of foreign operations	**(5,283)**	(130,853)	(19,451)
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	**-**	(3,298)	(2,562)
Total other comprehensive income (loss)	**(5,283)**	(127,527)	(21,769)
Total comprehensive income (loss)	**(162,760)**	(190,404)	(15,563)
Attributable to:			
Equity holders of the parent	**(154,104)**	(183,987)	(15,898)
Non-controlling interests	**(8,656)**	(6,417)	335
	(162,760)	(190,404)	(15,563)

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

Consolidated Statement of Changes In Equity

	Issued capital US$000	Share premium US$000	Capital reserve for share-based payments US$000	Capital reserve for transactions with controlling shareholders US$000	Foreign currency translation reserve US$000	Accumulated deficit US$000	Total equity attributable to equity holders of the parent US$000	Non-controlling interest US$000	Total equity US$000
At 1 January 2015	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447
Loss	–	–	–	–	–	(153,108)	(153,108)	(4,369)	(157,477)
Other comprehensive profit (loss)	–	–	–	–	(996)	–	(996)	(4,287)	(5,283)
Total comprehensive income (loss)	–	–	–	–	(996)	(153,108)	(154,104)	(8,656)	(162,760)
Transaction with controlling shareholders	–	–	–	2,000	–	–	2,000	–	2,000
Share-based payments (Note 19)	–	–	56	–	–	–	56	–	56
At 31 December 2015	**1,036**	**359,803**	**12,586**	**10,556**	**(175,193)**	**(242,865)**	**(34,077)**	**14,820**	**(19,257)**

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

	Issued capital US$000	Share premium US$000	Capital reserve for share-based payments US$000	Capital reserve for transactions with controlling shareholders US$000	Foreign currency translation reserve US$000	Accumulated deficit US$000	Total equity attributable to equity holders of the parent US$000	Non-controlling interest US$000	Total equity US$000
At 1 January 2014	1,036	359,803	12,396	8,556	(61,523)	(18,444)	301,824	29,893	331,717
Net profit (loss) for the year	–	–	–	–	–	(71,313)	(71,313)	8,436	(62,877)
Other comprehensive loss	–	–	–	–	(112,674)	–	(112,674)	(14,853)	(127,527)
Total comprehensive income (loss)	–	–	–	–	(112,674)	(71,313)	(183,987)	(6,417)	(190,404)
Share-based payments (Note 19)	–	–	134	–	–	–	134	–	134
At 31 December 2014	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447

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

	Issued capital US$000	Share premium US$000	Capital reserve for share-based payments US$000	Capital reserve for transactions with controlling shareholders US$000	Foreign currency translation reserve US$000	Accumulated deficit US$000	Total equity attributable to equity holders of the parent US$000	Non-controlling interest US$000	Total equity US$000
At 1 January 2013	1,036	359,803	12,186	8,391	(42,286)	(21,783)	317,347	–	317,347
Net profit for the year	–	–	–	–	–	3,339	3,339	2,867	6,206
Other comprehensive loss	–	–	–	–	(19,237)	–	(19,237)	(2,532)	(21,769)
Total comprehensive income (loss)	–	–	–	–	(19,237)	3,339	(15,898)	335	(15,563)
Obtaining control in companies previously accounted for using the equity method (Note 3)	–	–	–	–	–	–	–	29,558	29,558
Equity component of transaction with controlling shareholders (Note 12)	–	–	–	165	–	–	165	–	165
Share-based payments (Note 19)	–	–	210	–	–	–	210	–	210
At 31 December 2013	1,036	359,803	12,396	8,556	(61,523)	(18,444)	301,824	29,893	331,717

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

Consolidated Statement of Cash Flows

	31 December 2015 US$000	31 December 2014 US$000	31 December 2013 US$000
Cash flows from operating activities:			
Net profit (loss)	**(157,477)**	(62,877)	6,206
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	**(20,367)**	(14,824)	10,779
Depreciation and amortisation	**156**	200	230
Finance expenses, net	**119,480**	184,783	65,332
Share-based payment	**56**	134	210
Fair value adjustment of investment properties and investment properties under construction, net	**55,152**	(84,802)	(55,212)
Group's share in earnings of associates net from loss (gain) from obtaining control of a company accounted for under the equity method	**–**	(4,009)	(7,347)
Gain from sale of investment property	**1,000**	–	(548)
	155,477	81,482	13,444
Working Capital adjustments:			
Impairment of inventory	**4,330**	–	–
Impairment of financial assets	**3,200**	–	–
Decrease (increase) in trade receivables	**(599)**	1,879	2,491
Decrease (increase) in VAT receivable and others	**(430)**	(3,022)	(36)
Increase in inventories of buildings for sale	**(20,789)**	(78,763)	(16,767)
Increase (decrease) in trade payables	**1,603**	6,957	450
Increase in other accounts payable	**3,997**	62,724	5,558
	(8,688)	(10,225)	(8,304)
Interest paid	**(21,301)**	(36,730)	(28,247)
Interest received	**217**	231	430
Taxes paid	**(1,229)**	(2,046)	(344)
	(22,313)	(38,545)	(28,161)
Net cash flows generated from (used in) operating activities	**(33,001)**	(30,165)	(16,815)

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

	31 December 2015 US$000	31 December 2014 US$000	31 December 2013 US$000
Cash flows from investing activities:			
Additions to investment properties	**(1,778)**	(3,529)	(6,466)
Additions to investment properties under construction	**(2,852)**	(3,418)	(1,125)
Purchase of fixed assets	**–**	(625)	(389)
Settlement of restricted deposit, net	**–**	–	1,119
Loans granted to related parties	**–**	(10,684)	(890)
Cash from obtaining control in companies previously accounted for using the equity method (a)	**–**	(21,140)	(2,914)
Proceeds from sale of investment property under construction	**3,170**	–	3,973
Net cash flows used in investing activities	**(1,460)**	(39,396)	(6,692)
Cash flows from financing activities:			
Issuance of debenture, net	**–**	39,152	125,267
Repayment of bonds	**–**	(32,211)	(28,685)
Receipt of loans from banks and others, net from origination costs	**42,028**	155,630	124,456
Repayment of loans from banks and others	**(33,966)**	(109,667)	(156,768)
Receipt of loans from parent company	**2,038**	–	–
Net cash flows generated from (used in) financing activities	**10,100**	52,904	64,270
Exchange differences on balances of cash and cash equivalents	**(29)**	(8,851)	(278)
Increase (decrease) in cash and cash equivalents	**(24,390)**	(25,508)	40,485
Cash and cash equivalents at the beginning of the year	**40,646**	66,154	25,669
Cash and cash equivalents at the end of the year	**16,256**	40,646	66,154

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

		31 December 2015 Unaudited US$000	31 December 2014 Audited US$000	31 December 2013 Audited US$000
(a)	**Cash generated from obtaining control in companies accounted for using the equity method:**			
	The subsidiaries' assets and liabilities at date of sale:			
	Working capital (excluding cash and cash equivalents)	–	136	2,793
	Investment properties	–	(109,800)	(94,972)
	Fixed assets, net	–	(313)	–
	Other receivables	–	(49)	(71)
	Deferred taxes	–	16,107	9,093
	Loans from banks	–	21,419	10,849
	Other non-current liabilities	–	12,700	866
	Loans from related party	–	–	5,973
	Indemnification assets	–	(5,737)	–
	Foreign currency translation reserve	–	6,624	244
	Non-controlling interests	–	–	29,558
	Gain (Loss) from obtaining control in companies accounted for using the equity method	–	702	(244)
	Investment in associate	–	33,727	35,997
	Loans granted to associates	–	3,344	–
		–	(21,140)	86
(b)	**Significant non-cash transactions:**			
	Obtaining control in companies accounted for using the equity method against offset of previously granted loans	–	–	600
	Additions to investment property and investment property under construction	–	–	83

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

Note 1: General

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

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

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

b. 1. In keeping with the matters discussed in Note 1b to the Company's annual financial statements as of December 31, 2014 in connection with extreme deterioration in Russia's economy, in the course of 2015, the Russian economy took another turn for the worse, expressed by the weakening of the Russian Ruble in relation to the U.S. dollar by about 28% from the beginning of the year through December 31, 2015, mainly due to the sharp drop in oil prices. Also during the year, the Central Bank of Russia reversed the trend that characterized 2014 and began a process of lowering the interbank rate from 17% to 11% as of December 31, 2015 and the date of signing the financial statements. Throughout the year, the international rating agencies (S&P, Moody's and Fitch Ratings) continued to gradually lower Russia's credit rating to BB+/BAA3 with a negative outlook. After the reporting date and through the date of signing the financial statements there was appreciation of the Ruble in relation to the U.S. dollar by about 3%, RUB 70.5 per U.S.$ 1. The continued devaluation of the Ruble in relation to the U.S. dollar is liable to have an adverse effect on the Company's equity.

2. In the course of 2015, the Company's management continued to hold negotiations with the trustees of the various series of bondholders and on March 30, 2015, June 22, 2015 and July 6, 2015, the Company reported the understandings reached with the trustees of the bondholders which include, among others, the deferral of the principal payments, the raising of the interest on all the bonds series, the obligations of the controlling shareholder in the Company and the allocation of shares and options to the bondholders and the controlling shareholders. On October 21, 2015, the Company issued a final settlement plan as agreed upon with the bondholders and on November 11, 2015 the plan was approved by the bondholders of the Company. As detailed in the settlement plan, its implementation is subject to the fulfillment of various condition prcedents on the dates stipulated in the plan, including obtaining the approval of the Cyprus Court for the plan, obtaining the TASE's approval and the approval of the Company's authorized entities. In January 2015, the company deposited $11.2 million in escrow account as was requested by the bondholders.In December 2015, in a meeting held by the bondholders of the Company, the bondholders agreed to defer the date of fulfillment of the prerequisites to February 28, 2016. On February 1, 2016, the Company met the bondholders trustees (series A-F) in order to review the implications of the sharp devaluation of the Ruble on the settlement plan as approved by the bondholders. At this stage, no decisions have been reached in this subject. In addition, in the course of 2015, the trustees of the various series of bondholders made several decisions, the latest of which in February 2016, to defer the principal and interest maturity dates to March 31, 2016. Also, on June 17, 2015, the meeting of the bondholders of (series B) decided not to authorize the trustee to defer the principal and interest maturity dates any further. On July 2, 2015, the TASE announced that the payments due to the bondholders of (series B) for interest and the partial redemption of the bondholders had not been received by the TASE Clearing House. The trustee has the right to place the entire series of bondholders for immediate repayment if the Company fails to repay any amount owed to the bondholders within 45 days from the applicable maturity date. Moreover, according to the trust deeds of the other series of bondholders, placing another series of bondholders for immediate repayment represents grounds for placing the remaining series of bondholders based on the trust deed of the bondholders (series B).

3. In the context of financing agreement with lending banks in Russia, certain financial covenants were established. As of December 31, 2015, the Company is not in compliance with most of the financial covenants relating, among others, to the LTV ratio, minimum occupancy rates and debt and interest coverage ratios. In addition, on February 22, 2016, the Company reported that due to the continuing economic uncertainty in Russia and the serious fluctuations in the Ruble exchange rate, the Company did not pay one of the lending banks an amount of US$ 0.5 million out of a payment of US$ 1.5 million due on February 19, 2016. The Company is holding negotiations with the lending bank for the refinancing of the loans provided by the bank (totaling approximately US$ 240 million). As a result of the above, in its financial statements as of December 31, 2015 the Company classified bank loans in respect of which the financial covenants are not met in a total of approximately US$ 197 million under current liabilities.

4. As of December 31, 2015, the Company has a working capital deficiency of approximately US$ 375.5 million and a loss and comprehensive loss attributable to equity holders of the Company totaling approximately US$ 153.1 million and US$ 154.1 million for the year then ended, respectively. The Company also has negative cash flows from operating activities totaling approximately US$ 33 million for the year ended December 31, 2015. In addition as of the date of the report the Company has cash and equivalent of approx. 18.4 Million.

   To the company's opinion the cash and cash equivalent balances are sufficient to cover the company's liabilities for period of 12 months from the date of signing of this Financial Statements. All of this under the assumption that during this period no payments will be made to the Bond holders and no loan principal payments will be made to part of the financing banks in Russia. The Company continues to closely monitor the developments in the Russian economy, which are external to its operations and therefore not under its control, and is taking steps to minimize to the extent possible its exposure to the economic situation, among others by setting a maximum exchange rate for the lessees of the Company's assets and by holding negotiations with lending institutions in order to defer its maturity dates until the Company's financial position is stabilized.

   Due to the continues of the negotiations with the bond holders and due to the fact that a final agreement has not been reached yet, there is a possibility that the group will defer principal payments to the financing banks in Russia.

c. Definitions:

In these financial statements:

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

Note 2: Significant Accounting Policies

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

a. Basis of presentation of the financial statements:

1. Measurement basis:

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

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

2. Basis of preparation of the financial statements:

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

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

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

b. The operating cycle:

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

c. Consolidated financial statements:

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

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

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

d. Business combinations and goodwill:

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

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

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

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

e. Investments in associates:

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

f. Investments accounted for using the equity method:

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

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

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

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

g. Functional and foreign currencies:

1. Functional currency and presentation currency:

The financial statements are presented in thousands of U.S. dollars.

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

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

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

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

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

2. Foreign currency transactions, assets and liabilities:

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

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

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

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

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

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

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

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

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

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

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

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

Revenues from sale of residential apartments:

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

Rental income from operating lease:

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

m. Financial instruments:

1. Financial assets:

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

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

Loans and receivables:

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

2. Financial liabilities:

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

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

Financial liabilities measured at amortised cost:

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

3. Offsetting financial instruments:

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

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

4. Derecognition of financial instruments:

a) Financial assets:

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

b) Financial liabilities:

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

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

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

5. Impairment of financial assets:

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

Financial assets carried at amortised cost:

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

n. Leases:

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

The Group as lessee:

Operating leases:

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

The Group as lessor:

Operating leases:

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

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

o. Fixed assets:

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

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

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

p. Borrowing costs in respect of qualifying assets:
The Group capitalizes borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

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

q. Investment property and investment properties under construction:
Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment property are included in profit or loss when they arise.
The fair value model is also applied to property under construction for future use as investment property when fair value can be reliably measured. However, when the fair value of the investment property is not reliably determinable due to the nature and scope of the project risks, the property is measured at cost less, if appropriate, any impairment losses, until the earlier of the date when fair value becomes reliably determinable or construction is completed.
Investment property is derecognized on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Judgements:

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

2. Estimates and assumptions:

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

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

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

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

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

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

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

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

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

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

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

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

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

2. IFRS 9, "Financial Instruments":

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

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

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

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

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

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

Note 3: Business Combinations

a. Business combination in 2014:

On December 23, 2013, the Company signed an agreement (“the agreement”) for the purchase of 49.5% of the share capital of Inverton Enterprises Limited (“Inverton” and “the purchased shares”, respectively) with the partner in Inverton (“the seller”)., Prior to the purchase, the Company held 50.5% of the share capital.Inverton are the owners of Global LLC which is the owners of the Yaroslavle Mall project.

According to the agreement, the Company paid the seller an advance of 3 million US dollars on December 24, 2013. The outstanding consideration of $ 25.6 million was paid on March 4, 2014 and an additional amount of $ 2.5 million was paid in April 2014.

As part of the transaction for obtaining control, the seller undertook to pay its share of the liability to the municipality of Yaroslavl if this payment is demanded in the next four years. As a result, an indemnification asset in a total of $ 5,737 thousand was recognized.

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

	Fair value US$000
Cash and cash equivalents	7,009
Other assets	2,119
Investment properties	109,800
	118,928
Loan from bank	21,419
Other liabilities	1,926
Deferred taxes	16,127
Other non-current liabilities	12,700
Loans from related parties	5,948
	58,120
Net identifiable assets	60,808
Assignment of loans from related parties to the Company	2,614
Gain from obtaining control	(7,326)
Total acquisition cost	56,096

The fair value of investment property was determined by external appraiser. A loan from the bank in amount of US$21.4m was received close to the balance sheet date; therefore the carrying amount is equal to its fair value.

Cost of acquisition:

	Fair value US$000
Cash paid	31,149
Fair value of existing investment at acquisition date	30,684
Indemnification asset	(5,737)
Total	56,096
Cash flow on the acquisition:	
Cash and cash equivalents in Inverton at the acquisition date	7,009
Cash paid during the period	(28,149)
Cash from obtaining control paid during the period	(21,140)
Cash paid during 2013, as advance	(3,000)
Net cash	(24,140)

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

b. Business combination in 2013:

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

Before the date of obtaining control, the Century Companies were accounted for using the equity method.

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

	Fair value US$000
Cash and cash equivalents	7,009
Investment properties	109,800
Other long-term receivables	2,119
	118,928
Loans from bank and others	21,419
Other liadilities	1,926
Deferred taxes	16,127
Other non-current liabilities	12,700
Loans from related parties	5,948
	58,120
Net identifiable assets	60,808
Conversion of related party loans	2,614
Profit	(7,326)
Total acquisition cost	56,096

Cost of acquisition

	Fair value US$000
Cash paid	31,149
Waiver of option (1%) previously granted to the sellers, at fair value	(5,737)
Fair value of existing investment on acquisition date	30,684
Total	56,096
Cash flow on the acquisition	
Cash and cash equivalents in the Century Companies on acquisition date	7,009
Cash paid	(28,149)
Net cash	(21,140)

Note 4: Interest in Investees

a. Investment in companies accounted at equity method:

	2015 US$000	2014 US$000
Balance as of 1 January	–	33,789
Changes during the year:		
Obtaining control in companies previously accounted for using the equity method [(1)]	–	(33,727)
Groups share in earnings of companies accounted for using the equity method	–	3,290
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	–	(3,352)
Balance for 31 December	–	–

(1) See Note 3.

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

As of 31 December, 2015 the Company holds 61% of the share on Inomotor and 51% of Avtoprioritet.

	31 December 2015 US$000	31 December 2014 US$000
Statement of financial position at reporting date (as presented in the subsidiary's financial statements):		
Current assets	2,443	4,288
Non-current assets	71,289	96,231
Current liabilities	(36,145)	(2,940)
Non-current liabilities	(5,625)	(46,062)
Total equity	31,962	51,517
Non-controlling interests	14,820	23,476
Total equity attributable to equity holders of the parent	17,142	28,041

	31 December 2015 US$000	31 December 2014 US$000
The subsidiary's operating results (as presented in the subsidiary's financial statements):		
Revenues	5,489	9,509
Net income	(10,323)	18,062
Other comprehensive loss	(9,232)	(33,292)
Total comprehensive income (loss)	(19,555)	(15,230)
Net income attributable to:		
non-controlling interests	(4,369)	8,436
Equity holders of the parent	(5,954)	9,626
Total comprehensive income (loss) Attributable to:		
non-controlling interests	(8,656)	(6,417)
Equity holders of the parent	(10,899)	(8,813)

	31 December 2015 US$000	31 December 2014 US$000
The subsidiary's cash flows (as presented in the subsidiary's financial statements):		
From operating activities	124	116
From investing activities	–	(23,930)
From financing activities	(2,145)	27,115
Exchange differences on balances of cash	120	(372)
Net increase in cash and cash equivalents	(1,901)	2,929

Note 5: Trade and Other Receivables, net

a. Trade receivables:

	31 December 2015 US$000	31 December 2014 US$000
Trade receivables	**2,768**	1,502
Bad debt provision	**(494)**	–
	2,274	1,502

b. Other receivables:

	31 December 2015 US$000	31 December 2014 US$000
Deferred sales commission	**3,784**	4,205
Advances to suppliers	**895**	572
Tax authorities	**990**	1,211
Other trade receivables	**2,216**	542
	7,885	6,530

c. Other long-term receivables:

	31 December 2015 US$000	31 December 2014 US$000
Loans granted to related parties [(1)]	**11,697**	14,190
Indemnification assets [(2)]	**3,012**	4,274
Others	**–**	94
	14,709	18,558

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

Note 6: Inventories of Buildings for Sale

a. The Company has two residential projects, one project in Saint Petersburg, which is the largest project of the Group, and the other one is the Western Residence Project in Moscow. The Company intends to build approximately 8,500 apartments in several phases. The first phase includes 510 apartments and was completed and delivered during 2013 and 2014. The construction of the second Phase, which include 630 apartments was completed during the last quarter of 2014, and the Company has started to deliver the apartments. The third phase includes 1,346 apartments and the fourth phase includes 1,244 apartments, those phases are under construction, and the sales of the apartments have started. As of 31 December 2015, the Company has sold 1,045 apartments at the third phase and 429 apartments at the fourth phase in consideration for which the Company received advances totaling approximately USD 73,486 thousands, of which the Company expects to recognize a total of USD 26,068 thousands as income in the coming year.

b. Composition:

	31 December 2015 US$000	31 December 2014 US$000
St Petersburg Project	**217,586**	218,557
Western Residence Project	**21,952**	39,657
	239,538	258,214

Current assets:

	31 December 2015 US$000	31 December 2014 US$000
Land	**22,506**	22,065
Construction costs	**148,734**	147,232
	171,240	169,297

Non-current assets:

	31 December 2015 US$000	31 December 2014 US$000
Land	**16,446**	21,773
Construction costs	**51,852**	67,521
	68,298	88,917

c. This includes specific capitalized borrowing costs of approximately 3,326 thousand US dollars for the year ended 31 December, 2015 (in 2014 – 2,782 thousand US dollars), as well as general capitalized borrowing costs of approximately 1,276 thousand US dollars for the year ended 31 December, 2015.

Note 7: Investment Properties

a. Composition and adjustment:

	31 December 2015 US$000	31 December 2014 US$000
Balance at 1 January	**383,800**	431,500
Obtaining control (1)	**–**	109,800
Additions during the period	**1,778**	2,932
Classification to Investment properties under construction	**(9,900)**	–
Fair value adjustments, net	**(42,326)**	91,112
Exchange rate differences	**(73,152)**	(251,544)
Balance at 31 December	**260,200**	383,800

(1) See also Note 3.

Below is detailed breakdown of the fair value adjustments:

Increase due to devaluation of the Rouble against the US Dollar	73,152
Real decrease in fair value	(115,478)
Total decrease in fair value of investment property	(42,326)

b. Fair value measurement of investment property:

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

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

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

Investment property	Valuation technique	Significant unobservable Inputs	Range (weighed average)
Office properties	DCF method	Rental value per sqm per year	234
		Vacancy rate	21%
		Average discount rate	14%
		Cap rate	10%
Retail property	DCF method	Rental value per sqm per year	190
		Vacancy rate	6%
		Average discount rate	14%
		Cap rate	11.5%

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

	Office properties US$000	Retail property US$000
Balance at 1 January 2015	207,400	176,400
Fair value adjustments, net	(27,468)	(14,858)
Additions	–	1,778
Classification to Investment properties under construction	–	(9,900)
Real estate financing for construction investments		
Exchange rate differences	(40,132)	(33,020)
Balance at 31 December 2015	**139,800**	**120,400**

(1) See note 3.

Following the crisis in Russia, described in Note 1b., during 2015, multiple tenants ask to reduce the dollar rental fees. As part of coping with the situation, the subsidiaries held negotiations with the tenants for reduces in the rental fees. In those negotiations usually the Company set celling to the rate of exchange. Reductions given in specific manner and for limited periods (commonly for six months).

e. Real estate:

	31 December 2015 US$000	31 December 2014 US$000
Freehold	**120,400**	176,400
Leasehold	**139,800**	207,400
	260,200	383,800

The Group leases lands for period of 14 to 41 years.

Note 8: Investment Properties Under Construction

a. Composition and adjustments:

	2015 US$000	2014 US$000
At 1 January	**30,800**	59,100
Additions for the year	**2,852**	3,418
Disposal	**(5,655)**	–
Classification from Investment properties	**9,900**	–
Fair value adjustments, net	**(12,826)**	(6,310)
Exchange rate differences	**(6,071)**	(25,408)
At 31 December	**19,000**	30,800

Below is detailed breakdown of the fair value adjustments:

Increase due to devaluation of the Rouble compared with the US Dollar	6,071
Real decrease in fair value	(18,897)
Total decrease in fair value of investment property under construction	(12,826)

b. Fair value of investment property under construction:

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

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

Investment Property under construction	Valuation technique	Significant unobservable inputs	Range (weighed average)
Retail properties	DCF method	Estimated rental value per sqm (US$)	21.5%– 20%
		Estimated costs per sqm (US$)	210-164
		Discount rate	1,142-975
		Average rate per sqm	232-63

d. Fair value movement of investment property under construction:

	Retail properties US$000	Logistic centres US$000
Balance at 1 January 2015	**22,900**	7,900
Fair value adjustments, net	**(10,367)**	(2,459)
Classification from Investment properties	**9,900**	–
Disposal	**(5,6550)**	–
Additions	**2,833**	19
Exchange rate differences	**(4,611)**	(1,460)
Balance at 31 December, 2015	**15,000**	4,000

e. Real estate:

	31 December 2015 US$000	31 December 2014 US$000
Freehold	**19,000**	28,400
Leasehold (1)	**–**	2,400
	19,000	30,800

(1) The leasehold rights are according to a lease agreement for 5 years, with option extend for additional 2 years. The leasehold period was to terminated on 16 December 2015. The Company returned the land to the municipal authority.

f. On December 16, 2015, the lease agreement on the land in Novosibirsk had finished. The ownership on the land reverted to the local authority as of December 31, 2015, as a result of that stated above.

Note 9: Measurement Fair Value

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

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December, 2015:

		Fair value measurement using			
	Date of valuation	Total US$000	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Investment property (Note 7)			–	–	
Office properties	**31/12/2015**	139,800	–	–	139,800
Retail properties	**31/12/2015**	120,400	–	–	120,400
Investment properties under construction (Note 8):					
Logistics Complex	**31/12/2015**	4,000	–	–	4,000
Retail properties	**31/12/2015**	15,000	–	–	15,000
Liabilities for which fair values are disclosed (Note 15):					
Long and short-term credit from banks	**31/12/2015**	–	–	191,489	191,489
Bondholders	**31/12/2015**	65,705	65,705	–	–

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

Note 10: Short-Term Credit From Banks

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

Note 11: Long-Term Credits from Banks

a. Composition:

	Weighted interest rate %	**31 December 2015 US$000**	31 December 2014 US$000
Loans from banks in US Dollars with fixed interest rate	8.4%	**197,033**	212,254
Loans from banks in Ruble with fixed interest rate	11%	**24,845**	3,300
Loans from banks in US Dollars with variable interest rate	LIBOR + 6.85%	**18,870**	19,626
		240,748	235,180
Current maturities		**(19,575)**	(15,445)
Credit from banks for financing inventory of buildings for sale		**(24,845)**	(3,300)
Loans from banks which were classified as short term*		**(196,328)**	(181,588)
		–	34,847

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

b. Financial covenants:

According to the agreements for the credit lines from banks in Russia, the Company's subsidiaries were required to meet several financial covenants, including a Loan to Value Ratio (LTV) of 70% and a Debt Service Coverage Ratio (DSCR) that varies from between 120% and 130%. As of December 31, 2015, some of the Group's subsidiaries did not complied with most of the financial covenants that were determined as part of the credit agreements. Therefore, the Company reclassified its loans from the bank in the amount of 181.6 million US dollars and presented them as of the reporting date under current liabilities.

c. Pledges and securities:

The Company's subsidiaries pledged their rights in the projects and the income stemming from the aforesaid financed projects. The balance of the secured properties as of 31 December 2015 is amounted to approximately 498.3 million US dollars. Furthermore, in some cases the Group pledged its shares in the subsidiaries which own the projects in favor of the banks, as aforesaid.

d. The maturity dates of long-term loans:

	31 December 2015 US$000	31 December 2014 US$000
First year – current liabilities	**45,810**	24,630
Second year	**19,910**	17,560
Third year	**21,970**	19,917
Fourth year and after	**161,569**	184,961
	249,259	247,068
Origination costs	**(8,511)**	(11,888)
	240,748	235,180

Note 12: Loans and Guarantees from Shareholders

On 15 December 2015, the Company board approved the receipt of an advance of USD 2 million from the controlling companies of the Company in exchange for future payments that are expected to be received by the Company in accordance with the proposed settlement agreement between the Company and its holders of bondholders. The loan does not have a set interest rate or maturity date. The loan is measured based on fair market value. In light of the calculated interest amount, at a rate of 100%, the fair market value is based on a negligible amount, and the benefit from the shareholders is valued at USD 2 million and is included in the principal amounts for transactions with shareholders.

Note 13: Bonds

a. Composition

Series	Date of issuance	Nominal interest	Maturity date	Nominal value on date of issuance US$000	Linkage terms (principal and interest)	Effective annual interest rate	31 December 2015 Amount of bonds US$000	31 December 2015 Balance US$000	31 December 2014 Amount of bondholders US$000	31 December 2014 Balance US$000
A	December 2007	6.5%	6 equal annual payments beginning 31 December 2010	10,085	Israel CPI	6.19%	**13,087**	**4,304**	13,087	4,108
B	December 2007	LIBOR +2.75%	6 equal annual payments beginning 31 December 2010	52,626	US Dollar exchange rate	5.15%	**68,225**	**18,512**	68,225	18,036
C	August 2010 February 2011	8.5% 9%*	5 equal annual payments beginning 31 December 2010	79,803	Israel CPI	5.59%–8.88%	**119,224**	**36,560**	119,224	34,269
D	August 2010 February 2011/ May 2013	6% 6.5%*	4 equal annual payments beginning 30 November 2014	56,586	Israel CPI	6.16%–7.86%	**155,288**	**44,563**	155,288	42,125
E	July 2013 December 2013	7.21% 8.21%*	5 annual payments beginning 31 May 2016	107,429	Not linked	6.29%–7.59%	**382,400**	**107,409**	382,400	99,693
F (b)	September 2014	5.5% 6.5%*	5 annual payments beginning 30 September 2015	39,656	Not linked	6.94%	**144,389**	**39,847**	144,389	37,383
								251,195		235,614

* Not including interest accrued, in the amount of 19,544 US dollars as of 31 December, 2015 which is part of current maturities of long-term loans from banks and bondholders.

b. As of December 31, 2015 the Company is not in compliance with the above financial covenants and accordingly classified the above bonds to current liabilities. (See also note 1b).

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

d. The expected maturities as of 31 December, 2015:

	Less than 1 year US$000	1 to 2 years US$000	2 to 3 years US$000	3 to 4 years US$000	4 to 5 years US$000	> 5 years US$000	Total US$000
Series A	**3,918**	**–**	**–**	**–**	**–**	**–**	**3,918**
Series B	**17,542**	**–**	**–**	**–**	**–**	**–**	**17,542**
Series C	**32,553**	**–**	**–**	**–**	**–**	**–**	**32,553**
Series D	**27,952**	**13,976**	**–**	**–**	**–**	**–**	**41,928**
Series E	**9,800**	**22,050**	**22,050**	**22,050**	**22,050**	**–**	**98,000**
Series F	**3,700**	**1,850**	**1,850**	**29,603**	**–**	**–**	**37,003**
	95,465	**37,876**	**23,900**	**51,653**	**22,050**	**–**	**230,944**
Discount							**707**
Total							***231,651**

* Not including interest accrued, in the amount of 19,544 US dollars as of 31 December, 2015 which is part of current maturities of long-term loans from banks and bondholders.

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

Note 14: Other Non-Current Liabilities

	31 December 2015 US$000	31 December 2014 US$000
Deposits from tenants (1)	**5,021**	6,707
Less short-term deposits from tenants	**(2,033)**	(2,780)
Liability to Yaroslavl municipality (2)	**6,089**	8,635
	9,077	12,562

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

Note 15: Financial Instruments

a. Financial risk factors:

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

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

1. Foreign currency risk:

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

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

For the accelerated devaluation of the Rubble in compare to US dollars, see also Note 1b. The Group has financial instruments stated in Rubble at the amount of 9 million US dollar, and financial instrument stated in ILS at the amount of 206 million US dollar.

The following table represents the sensitivity to a reasonably possible change in the U.S. dollar/Ruble exchange rates:

	2015 Effect on profit (loss) before tax US$000	2014 Effect on profit (loss) before tax US$000
Increase of 5% in US Dollar/Ruble	**(1,455)**	(11,647)
Increase of 10% in US Dollar/Ruble	**(2,910)**	(23,294)
Increase of 20% in US Dollar/Ruble	**(5,820)**	(46,588)
Decrease of 5% in US Dollar/Ruble	**1,455**	11,647
Decrease of 10% in US Dollar/Ruble	**2,910**	23,294
Decrease of 20% in US Dollar/Ruble	**5,820**	46,588

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

	2015 Effect on profit (loss) before tax US$000	2014 Effect on profit (loss) before tax US$000
Increase 5% in US Dollar/NIS	**(11,073)**	(10,296)
Decrease 5% in US Dollar/NIS	**11,073**	10,296

2. Credit risk:

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

3. Interest rate risk:

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

The Group has loans from banks and issued bonds.

These balances bear variable interest rate and therefore expose the Group to cash flow risk in respect of increase in interest rates. 8% of the Company's loans bear floating interest rates.

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

	2015 Effect on profit (loss) before tax US$000	2014 Effect on profit (loss) before tax US$000
Increase 1% in interest	**(374)**	(377)
Decrease 1% in interest	**374**	377

4. Liquidity risk exposure:

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

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

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (Including payments for interest) and it does not include the effects of negotiations with the bondholders:

	31 December 2015					
	Less than 1 year US$000	1 to 2 Years	2 to 3 Years	3 to 4 years	> 5 years	Total
Loans from banks and others	**64,361**	**35,345**	**35,755**	**82,562**	**95,796**	**313,819**
Bonds	**125,989**	**47,293**	**30,476**	**56,296**	**22,957**	**283,011**
Accounts payable	**7,206**	**–**	**6,090**	**–**	**–**	**13,296**
	197,556	**82,638**	**72,321**	**138,858**	**118,753**	**610,126**

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

5. Financial instruments and cash deposits:

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

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2015 and 2014 is the amount of cash balances as presented in this report.

6. Israeli Consumer Price Index risk:

a) The Series A, C and D Bonds issued by the Company are linked to the Israeli Consumer Price Index ("CPI"). The total amount of financial instruments which are linked to CPI is 85,248 thousand US dollars and 80,502 thousand US dollars as of 31 December 2015 and 31 December 2014, respectively.

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

	2015 Effect on profit (loss) before tax US$000	2014 Effect on profit (loss) before tax US$000
Increase 2% in CPI	**(1,709)**	(1,610)
Decrease 2% in CPI	**1,709**	1,610

Note 15: Financial Instruments continued

b. Fair value of financial instruments:

Set out below is a comparison by category of carrying amounts and fair values of all the financial instruments of the Group as of 31 December, 2014 and 31 December, 2015:

	31 December 2015		31 December 2014	
	Carrying amount US$000	Fair value US$000	Carrying amount US$000	Fair value US$000
Financial liabilities				
Long and short-term loans (1)	**240,748**	**191,489**	226,461	187,611
Bonds (series A) (2)	**4,304**	**1,191**	4,108	1,181
Bonds (series B) (2)	**18,512**	**6,644**	18,036	6,663
Bonds (series C) (2)	**36,560**	**10,734**	34,269	9,764
Bonds (series D) (2)	**44,563**	**10,295**	42,124	11,891
Bonds (series E) (2)	**107,409**	**26,480**	99,693	27,483
Bonds (series F) (2)	**39,847**	**10,361**	37,384	10,663

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

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

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

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

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Bank loans	DCF	Discount rate	14.75%

Note 16: Income Tax

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

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

b. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December 2015 US$000	31 December 2014 US$000	**31 December 2015 US$000**	31 December 2014 US$000	31 December 2013 US$000
Deferred tax liabilities:					
Investment property and Investment property under construction	**(36,198)**	(59,822)	**13,011**	(19,429)	(14,355)
Inventory of buildings	**(3,784)**	(4,454)	**(155)**	6,021	220
Deferred tax assets:					
Carry forward tax losses	**41,407**	44,871	**7,309**	28,317	3,354
Deferred tax expenses (income)			**20,165**	14,909	(10,781)
Deferred tax, net	**1,425**	(19,405)			

1. The deferred taxes are calculated at the average tax rate of 20% (2014 - 20%) based on the tax rates that are expected to apply at the time they are realized.

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

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

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

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

   The Company believe it will be able to prove the related party transactions were made on market terms.

c. Tax expense (tax benefit):

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Current income tax	**1,161**	1,784	487
Deferred taxes	**(20,165)**	(14,909)	10,781
Tax expense (tax benefit) in income statement	**(19,004)**	(13,125)	11,268

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

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Income (loss) before tax expense	**(176,481)**	(76,002)	17,474
Tax at the statutory tax rate in Russia (20%)	**(35,296)**	(15,200)	3,495
Increase (decrease) in respect of:			
Effect of different tax rate in Cyprus (12.5%) and Hungary (19%)	**2,631**	1,653	3,010
Earnings of companies accounted for under the equity method for which deferred tax were not recorded	**–**	(658)	(1,518)
Inter-company expenses for which deferred tax liabilities were recorded	**(6,106)**	(11,768)	(1,526)
Losses for which deferred tax assets were not recorded	**17,216**	11,374	6,363
Expenses not recognised for tax purposes	**2,462**	1,313	1,325
Others	**89**	161	119
Income tax expense (tax benefit)	**(19,004)**	(13,125)	11,268

* See also Note 16 b2.

e. Losses carried forward:

The tax losses carried forward by the Group companies' amount to approximately 358 million US dollars. Deferred tax assets amounting to 40.1 million US dollars have been recognized.

Deferred tax assets in the total amount of 29.3 million US dollars, on tax losses carried forward in the amount approximately157.5 million US dollars, were not recorded.

Note 17: Equity

a. Composition of issued capital:

	31 December 2015 US$	231 December 2014 US$
Authorised shares of $ 0.01 par value each	**1,350,000**	1,350,000
Issued and fully paid shares of $ 0.01 par value each	**1,035,580**	1,035,580

b. Accompanying rights to shares
The shares are traded on the AIM London stock exchange.

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

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

c. Dividend distribution policy:
Since its establishment, the Company has not distributed a dividend to its shareholders.

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

The ratio of net debt to adjusted capital in 2015 which the Company is required to comply under the issuance of bondholders F during 2015 (see also Note 13b):

Ratio of net debt to adjusted capital:

	31 December 2015 US$000
Total debt reported in the financial statements	491,943
Less – cash and cash equivalents	(16,256)
Net debt	475,687
Total equity reported in the financial statements	(34,077)
Less – foreign currency translation reserve	175,193
Adjusted capital	141,116
Ratio of net debt to adjusted capital	3,37

As mentioned in Note 1b and following the crisis in Russia and the devaluation of the Russian Rubble compared to the US dollar, during 2015, the total equity attributable to equity holders of the parent reduced, and mostly in the fourth quarter of the year, at the amount of 154 million US dollar.

As a result, the Company is in not in compliance with the above financial covenant.

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

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

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

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

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

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

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

Note 18: Earnings (Loss) Per Share

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	**103,558**	103,558	103,558
Income (loss) used for computing basic and diluted earnings per share (in thousands of US Dollars) (attributable to parent company)	**(153,108)**	(71,313)	3,339

Note 19: Share-Based Payments

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

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

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

c. On 2 December 2010, the Company granted Mr. Rozental, who was appointed, at that time, as the Company's CEO, additional Share Options for 673,797 Ordinary shares of the Company. The options expired on 1 December 2015.

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

1. To re-issue 449,198 options exercisable into 449,198 shares at an exercise price of 2.50 GBP per option, to Mr. Roman Rozental, CEO of the Company, in lieu of 449,148 options which were previously issued to Mr. Rozental.

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

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

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

f. On November 10, 2014 the Company's Board of Directors resolved, by way of a new issuance, the extension of the expiration date of 374,332 options by additional two years until December 19, 2016 which the Company issued in the past to its service provider, and as such, the exercise price of such options from 3.5 Pounds per share to an exercise price of 2.85 Pounds per share.

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

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
	56	134	210

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

	2015		2014	
	Number	**WAEP**	Number	WAEP
Outstanding at 1 January	**1,756,077**	**3.8**	2,879,071	4.7
Expired during the year	**673,797**	**3.45**	1,122,995	5.5
Outstanding 31 December	**1,082,280**	**3.92**	1,756,076	3.8
Exercisable at 31 December	**996,030**	**3.93**	1,583,577	3.8

i. The weighted average remaining contractual life for the share options outstanding as at 31 December 2015 is one and a half years.

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

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

Note 20: Additional Details Regarding Profit and Loss

a. Cost of maintenance and management:

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Maintenance of property	**8,734**	10,642	10,858
Land lease payments	**510**	809	909
Management fees	**815**	1,422	1,243
Property tax on investment property	**2,855**	5,355	4,360
	12,914	18,228	17,370

b. General and administrative expenses:

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Salaries (1)	**5,606**	6,860	7,591
Office maintenance	**1,951**	2,099	1,494
Professional fees	**2,519**	2,545	2,772
Travelling expenses	**434**	636	554
Bad debt provision	**494**	–	–
Depreciation	**156**	200	230
Other costs	**1,418**	703	641
	12,578	13,043	13,282
(1) Includes cost of share-based payment	**56**	134	210

c. Finance costs and income:

Finance income:

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Interest income from cash and cash equivalents and restricted deposits	**271**	**323**	51
Interest income from loans provided	**–**	**1,198**	1,029
	271	**1,521**	1,080

Finance expenses:

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Interest expenses – loans from banks	**(18,168)**	(20,864)	(15,677)
Interest expenses – bondholders	**(16,380)**	(16,716)	(14,486)
Net capitalised interest expenses	**1,276**	2,782	1,415
Bank charges and others	**(1,167)**	(1,900)	(3,301)
Effect of discounting of long-term receivables	**(596)**	(244)	(396)
	(35,035)	(36,942)	(32,445)

d. Other income (expenses):

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Change in provision regarding service providers (see Note 23a and b)	**(600)**	(3,485)	(1,390)
Adjustment of liability to Yaroslavl municipality	**1,285**	1,493	–
Gain from sale of investment property under construction	**–**	–	548
Impairment of financial assets	**(3,200)**	–	–
Other	**(956)**	_	(244)
	(3,471)	(1,992)	(1,086)

Note 21: Related Parties

a. Transactions with related parties:

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Interest income from related parties	**–**	1,198	701
Interest paid to shareholders (1) (2)	**599**	518	756
Private jet expenses	**–**	–	42

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

b. Balances with related parties:

	31 December 2015 US$000	31 December 2014 US$000
Bondholders held by shareholders	**12,888**	12,297
Capital reserve for transaction with controlling owner	**10,566**	–

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

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

	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000	Year ended 31 December 2013 US$000
Salaries	**754**	1,090	1,003
Share-based payments	**56**	134	210
	810	1,224	1,213

e. The Company provided guarantees in favor of its subsidiaries' financing banks at the amount of 240.7 million UD dollars.

Note 22: Agreements with Related Parties

a. Global, a subsidiary of the Company, which owns a commercial centre in Yaroslavl, has entered into a lease agreement with Home Centres LLC ("Home Center"), a company controlled by the Fishman family, the controlling shareholders of the Company. The area leased to Home Center covers 6,703 sq.m. the minimal lease fees are 138 US dollars per sq.m. and the lease period, assuming the exercise of all of the option periods contained therein, is 25 years. The terms of the agreements are in accordance with market conditions. During 2014 Home Center entered into a process of ending its business in Russia. In May 2014, the Company entered into an agreement with Home Center under which the Company acquired from Home Center facilities which are inseparable of the property, and Home Center may stay in the store until the entry of a new tenant.

As of September 2014 the lease agreement states maximum dollar-ruble rate similar to the manner prescribed with other tenants.

As of 01.01.2015 a new short-term lease agreement was signed whereby Home Center will pay the Company 4% of its business cycle, plus holding costs until the entry of a new tenant.

During the year Home Center and the Company reached mutual agreement of concluding the lease agreement. To the Company's best knowledge Home Center is in the process of finalizing its business in Russia under the court supervision.

Note 23: Commitments and Contingencies

a. On January 4 2013, subsidiaries of the Company holding office buildings entered into a management services agreement with TMJK Holdings Ltd, a Cypriot Company owned by Mr. Michael Krichevski, an officer of the Company, and Fadida Holdings Ltd, a Cypriot company controlled by Mr. Ofer Fadida-Lupin (henceforth jointly referred to as the "Service Providers"). The agreement replaces the previous agreement between the parties, by which the Service Providers will provide Hydro with project management services, including, among other things, management of the rental agreements, marketing of plots that are available for rent, provision of ongoing maintenance services etc.

In consideration for the management services, the Service Providers will be entitled to the following payments: (a) a total amount equal to 10% of the current income of the project less expenses, including investments and financing costs (the "Project Fees") and additionally – (b) an amount equal to 2% of the rental fees actually received by the subsidiaries from renting the project buildings.

During 2013 a settlement of account was carried out with the Service Providers, and the Company's obligations were fully offset by the advances paid to the Service Providers.

Similarly, a subsidiary of the Company granted loans to the Service Providers during 2014 totaling approximately USD 11 million. These loans bear an annual interest rate of 11% and were given for a term of two years.

As a result of the decline in the economic state of Russia and as a result of signs of further decline of the value of the advances and loans that were provided, the Company has undertaken a study of the decline and has reached the conclusion to deduct a total of approximately 5 million US dollar.

b. A subsidiary of the Company, Petra 8 LLC ("Petra"), entered into the following agreements with a third party, which is not related to the Company, pursuant to which it will provide various professional services to Petra in connection with the receipt of the approvals and permits that are required for the project. Pursuant to the provisions of the agreement, as revised from time-to-time in the supplementary agreements, in consideration of the aforesaid services, Petra 8 will pay an amount that is equal to 2.5% of Petra 8's profit (net) stemming from project's realization. The consideration will be paid on dates and at rates detailed in the agreement, pursuant to which advances were paid on account of the aforesaid consideration in the amount of approximately 3.5 million US dollars (according to a mechanism for the settling of accounts that was determined in the agreements), until the financial statements date.

An agreement with another third party according to which such third party provides services which include preparation for tenders, assistance in projects planning, assistance in selection of providers, technical supervision, budget control etc. As of the reporting date Petra pays such third party monthly management fees in an amount of approximately 111 thousands US dollars, which are recorded among the other long term liabilities.

An agreement with another management company for the purpose of developing the third phase of the Project for a monthly consideration of 41 thousands US dollars.

An agreement a with local marketing company for the marketing of the project for commissions at the amount of 4-5%, in respect of specific goals achievement and in accordance with the terms specify in the agreement.

An agreement with a local contractor for the construction of the Third and Fourth phase in Petra project, for 700 dollar per meter.

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

Future minimum lease payments as of 31 December 2015 are as follows:

	US$000
First year	**462**
After one year but no more than five years	**1,849**
More than five years	**5,345**
Total	**7,656**

d. Expected rental income:

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

The minimum rental income is as follows:

	31 December 2015 US$000
First year	**23,021**
Second year until five years	**51,419**
More than five years	**39,710**
	114,150

e. A subsidiary of the company, which owns a plot of land in Yaroslavl, has entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the built area on said land. The Group has recorded a provision regarding this agreement. Additionally, the Company has recorded a provision regarding the asset-backed indemnification of half of the liability, as agreed upon in the control agreement (See Note 3).

f. Charges:

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

Note 24: Segment Information

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

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

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

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

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

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

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

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

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2015:			
Segment revenues	**35,079**	**51,206**	**86,285**
Segment results	**(36,035)**	**(8,256)**	**(44,291)**
Unallocated expenses			**(12,710)**
Finance expenses, net			**(119,480)**
loss before taxes on income			**(176,481)**

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2014:			
Segment revenues	56,463	29,796	86,259
Segment results	121,905	(4,944)	116,961
Unallocated expenses			(8,181)
Finance expenses, net			(184,782)
Income before taxes on income			(76,002)

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2013:			
Segment revenues	47,760	56,050	103,810
Segment results	88,689	2,925	91,614
Unallocated expenses			(8,808)
Finance expenses, net			(65,332)
Loss before taxes on income			(17,474)

	Year ended 31 December 2015		
	Commercial US$000	**Residential US$000**	**Total US$000**
Assets:			
Segments assets	**291,377**	**248,494**	**539,871**
Unallocated assets			**37,970**
Total assets			**577,841**
Liabilities:			
Segments liabilities	**228,986**	**104,368**	**333,354**
Unallocated liabilities			**263,744**
Total liabilities			**597,098**

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

Note 25: Subsequent Events

Due to the ongoing decline in the Russian economy resulting in additional depreciation of the Russian Ruble against the US Dollar, on February 1, 2016 the Company approached the trustees of the bond holders in order to examine together with them the effect of the decline on the approved bond settlement. As of the date of the report decisions are yet to be received.

On February 22, 2016 the Company announced that due to the continues of the uncertainty in Russia and the extreme volatility in the Russian Ruble, The Company did not pay to one of the Russian financing banks an amount of USD 0.5 million from a total consideration of USD 1.5 million that was due for payment on February 19, 2016. The Company is in contact with the bank in order to form a new outline for the debt payment. (Approximately USD 215.9 million).

Note 26: Date Of Approval Of The Financial Statements

The Board of Directors approved these consolidated financial statements for issue on 14 March 2016.

Shareholders' Information

Financial Calendar

Annual General Meeting	16 May 2016
Announcement of 2016 first quarter results	May 2016
Announcement of 2016 interim results	August 2016
Announcement of 2016 third quarter results	November 2016

Share Price

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

Price at 31 December 2015	72.5p
Lowest price during the year	49.5p
Highest price during the year	80p
Average	61.4p

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

Website

www.mirland-development.com

Shareholders' Enquiries

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

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

Secretary and Registered Office

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

Advisers

Nominated Adviser
Investec Bank Plc, London

PR Agency

FTI Consulting, London

Legal Advisers

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

Real Estate Consultants

Cushman & Wakefield, Moscow
Jones Lang LaSalle, Moscow
CB Richard Ellis, Moscow

Notes


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ХОУМ
спортмастер
ВЕРНИСАЖ
М.Видео