MirLand

Annual Report and Accounts 2016

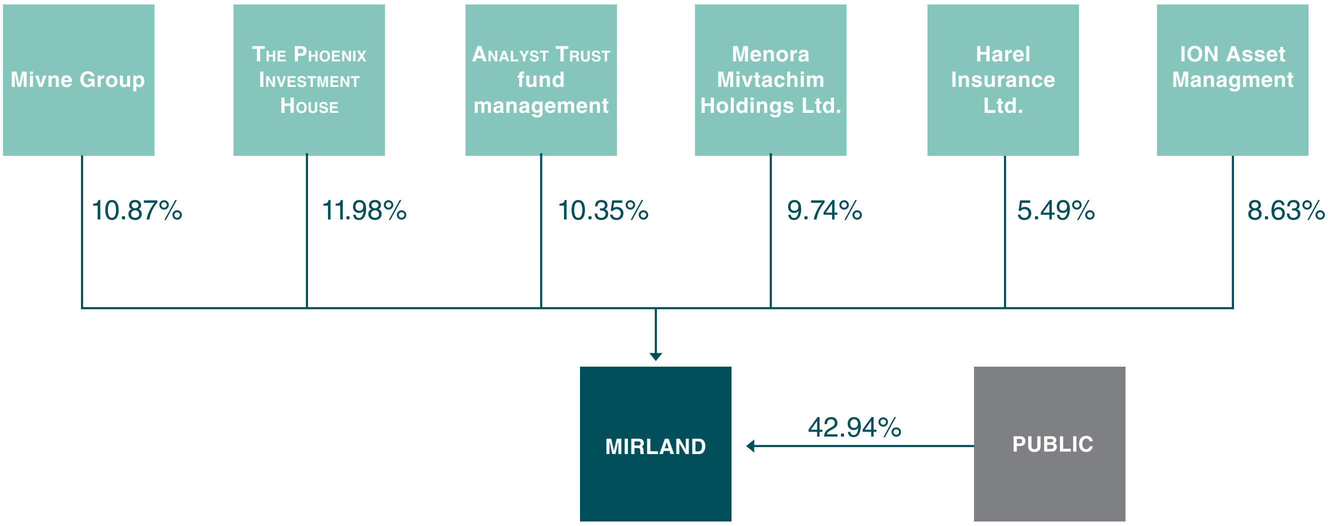
Contents

P10

Triumph Park
Portfolio focus

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

Corporate Structure*



* As at 09.07.2017

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

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

Up until December 22, 2016 (the "Effective Date" or the "Settlement Execution Date") shares of the Company were registered for trade on the AIM (Alternative Investment Market) of London, England. In consequence of completion of the Settlement Plan, from the Effective Date all the securities of the Company (shares and debentures of Series G) of the Company, are registered for trade on the Tel Aviv Securities Stock Exchange Ltd. (the "Stock Exchange") only. Furthermore, resulting from completion of the Settlement Plan, according to the best knowledge of the Company as of the Date of the Report, the Company is without a control core.

The Company's net leverage stands at 47% of its total assets.

The Company currently owns 12 residential and commercial projects across Russia, with a total rentable/saleable area of approximately 0.7m 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 2016

Total Revenues
US$104.8m

Total Assets
US$517.2m

Net Income
US$127.8m

Net Operating Income
US$21.1m

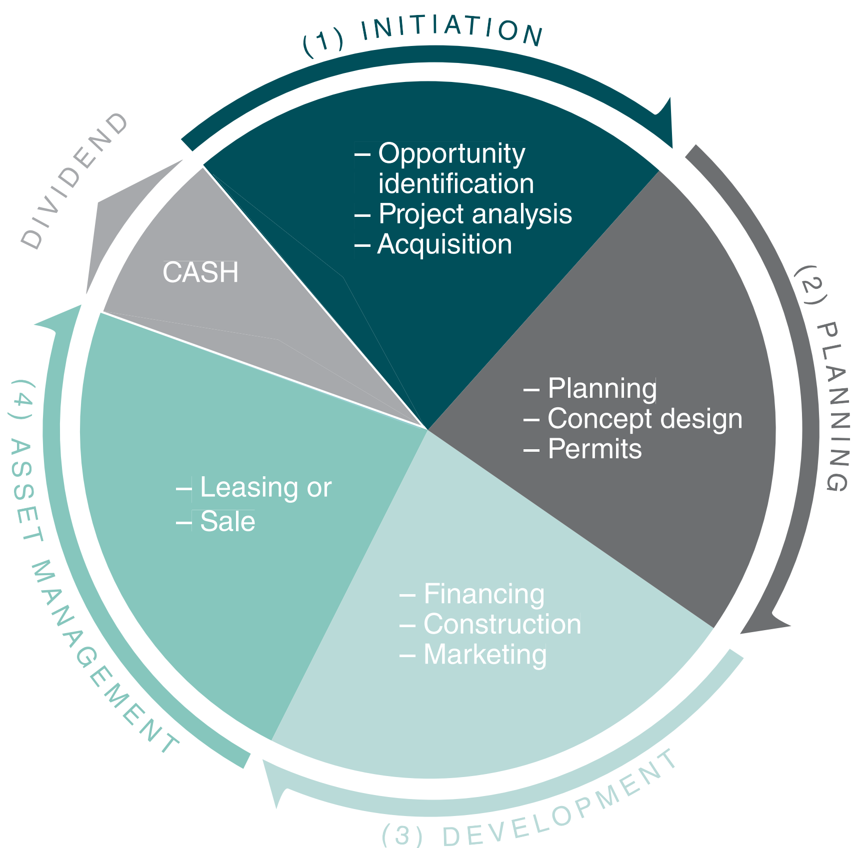
EBITDA
US$5.1m

Our Business

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

Our Business Model

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



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

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

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

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

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

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

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

Our Competitive Strengths

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

How We Performed in 2016

Financial Highlights

- **Total revenue grow to** US$104.8 million (31 December 2015: US$86.3 million);
- **Total revenues from investment properties** down 12% to US$30.9 million (31 December 2015: US$35.1 million), mainly due to depreciation in the Russian Ruble against the US Dollar and due to negative movement in the Russian office real estate market;
- **Net operating income** ("NOI") from investment properties down 15% to US$20.1 million (31 December 2015: US$23.8 million), mainly due to depreciation in the Russian Ruble against the US Dollar and due to negative movement in the Russian office real estate market;
- **Gross profit** changed to negative US$2 million (31 December 2014: US$23.4 million), also due to depreciation in the Russian Ruble against the US Dollar and due to high impairment of inventory of apartments for sales that was recorded;
- **EBITDA** down 28% to US$5.2 million (31 December 2015: US$7.2 million), mainly due to a decrease in the NOI from investment properties;
- **Net Income** of US$127.8 million (31 December 2015: loss of US$157.5 million) this is mainly due to profit from change of conditions resulting from the closing of the arrangement with the debentures holders amounted to US$ 222.5 million
- **Total assets** amounted to US$517.3 million, of which 91% are property and land assets (31 December 2015: US$577.8 million);
- **Total equity** of US$136.8 million (31 December 2015: deficit of US$19.3 million);
- **Net leverage** stands at 47% of total assets (31 December 2015: 82.3%);

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 III: Sales momentum continues with a total of 223 sales during the year. In total, 1,326 apartments out of 1,346 have been pre-sold, totalling circa 99% of the scheme and representing sales of approximately US$101.4 million;
- Phase IV: Construction of 1,244 units began in Q3 2014, followed by the commencement of sales in Q1 2015. To date 908 apartments were pre-sold off plan with sales totaling approximately 73% of the scheme or US$69.3 million.
- Green Tower: Construction of 132 units began in Q4 2016, followed by the commencement of sales i. To date 15 apartments were pre-sold off plan with sales totaling approximately 11% of the scheme or US$1.2 million.

Western Residence, Perkhushkovo, Moscow

- Sales of twelve houses completed during the year, taking the total number of units sold at the scheme to 64 out of 77 houses.

Retail:

- Following pressure on rents and occupancy rates during year, Vernissage Mall and Triumph Mall delivered NOI of US$13 million compared to US$13.5 million last year;
- Occupancy slightly increased to approximately 97% (94% in 2015);

Offices:

- Occupancy rates slightly decreased at the MirLand Business Centre, and stand at 71% – in line with the market. NOI has reduced to US$7.1 million in 2016 (US$10.3 in 2015).

Triumph Park Phase IV, St. Petersburg

Vernissage Mall, Yaroslavl

Triumph Mall, Saratov

Strategy & Key Performance Indicators

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.

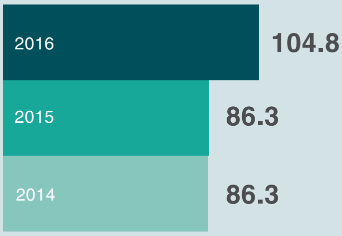
Portfolio diversification:

- 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.

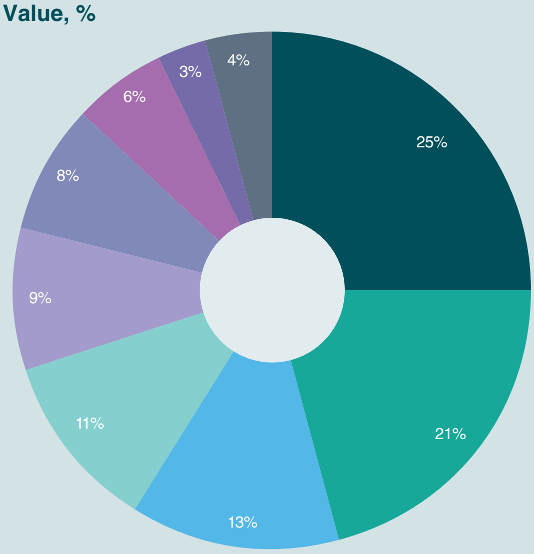
Key Performance Indicators

Revenues, US$ m

US$104.8m



Assets by Value, %



Total Assets Value

US$360.2m

25%	Triumph Park
21%	Triumph Mall
13%	Vernissage Mall
11%	Century
9%	MAG
8%	Hydro
6%	Tamiz
3%	Western Residence
4%	Other

Source: CW valuation, as of 31 December 2016

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.

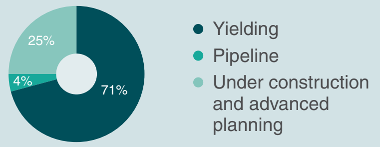
Use of diverse financing sources to accelerate business activity and growth:
- Equity, shareholders' loans, corporate loans, project financing and bond issuances are used to finance the Company's activities and projects.

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.

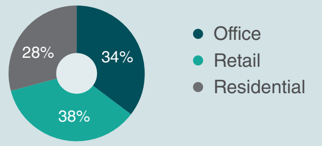
Key Performance Indicators

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

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
5,063 sqm*

* (excluding sold houses)

Western Residence Phase II

In Planning
34,607 sqm

St Petersburg

Triumph Park

Under construction
68,119 sqm

Saleable area in planning
208,380 sqm

Leasable area in planning
106,000 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


ТРИУМФ
МОЛЛ

Portfolio Focus Triumph Park

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 neighborhood. 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 to the owners.

- Phase III construction of circa 63,200 sqm commenced in Q3 2013. Sales launch in Q4 2013, to date, 1,326 apartments out of 1,346 pre-sold (circa 99% of the scheme). 1,022 apartments were delivered to the owners.

- 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 908 apartments pre-sold during the year (73% of the scheme).

- Green Tower construction of circa 7,302 sqm commenced in Q4 2016. Sales launch in Q4 2016, to date, 15 apartments out of 132 pre-sold (circa 11% of the scheme).

On completion of the entire development, expected by 2023, Triumph Park will comprise 8,500 apartments, commercial areas 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.

Location

- St Petersburg, a city with a population of 5million 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

Triumph Park
Sustainability awards winner

BREEAM 0044-7227

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

Triumph Park creates sustainability history in Russia

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

Triumph Park, St Petersburg

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

99% sold

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

Project Status
Sold and delivered to owners

* Fully repaid

Phase IV

73% 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
Final stages construction

Green Tower

11% sold

Number of apartments	**132**
Sellable area	**7,302 sqm**
Sales commencement	**Q4 2016**
Credit line	**Equity**
Expected completion	**Q2 2019**

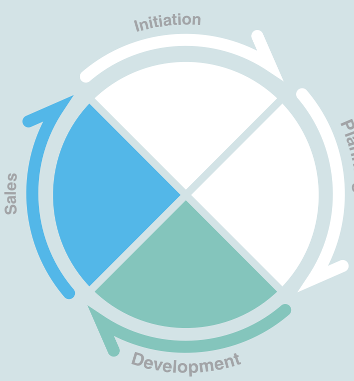
Project Status
Under construction

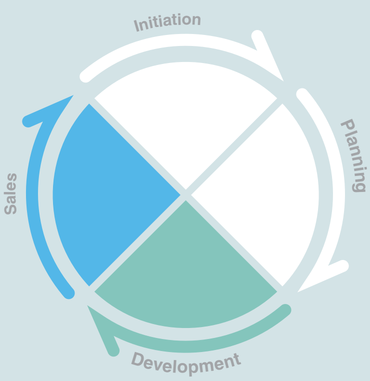
Phase V-VIII

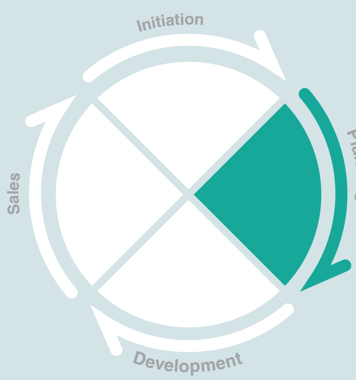
In planning

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

Project Status
In planning





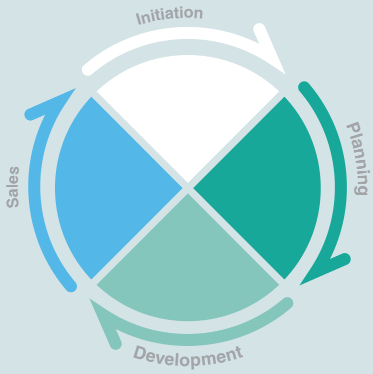


Portfolio

Triumph Park

8,500
apartments

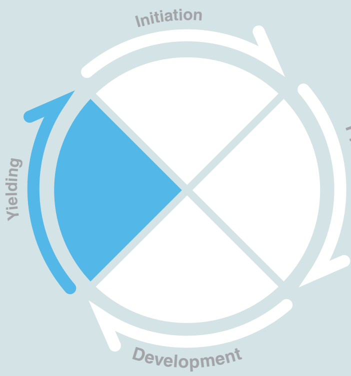
Location	**St Petersburg**
Land area	**41 ha**
Total saleable area	**397,000 sqm**
Leasable area	**117,775 sqm**
Sales commencement	**Q4 2011**
Planned completion	**Q4 2023**
Freehold rights	**100%**



Triumph Mall

100%
occupied

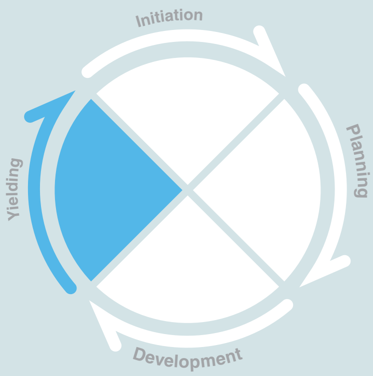
Location	**Saratov**
Land area	**2.2 ha**
Leasable area	**27,300 sqm**
Completed	**Q4 2010**
Freehold rights	**100%**



Vernissage Mall

98%
occupied

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

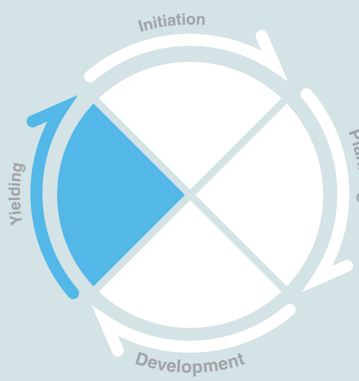


Retail | Offices | Residential | Logistics

Hydromashservice

79%
occupied

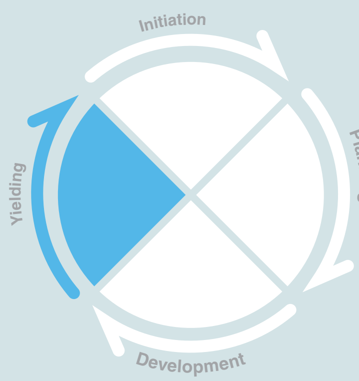
Location	**Moscow**
Land area	**1.2 ha**
Leasable area	**16,700 sqm**
Completed	**Q4 2008**
Leasehold rights	**100%**



MAG

81%
occupied

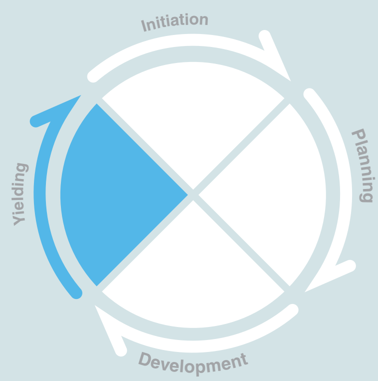
Location	**Moscow**
Land area	**2.2 ha**
Leasable area	**18,500 sqm**
Completed	**Q4 2007**
Leasehold rights	**100%**



Century Buildings

49%
occupied

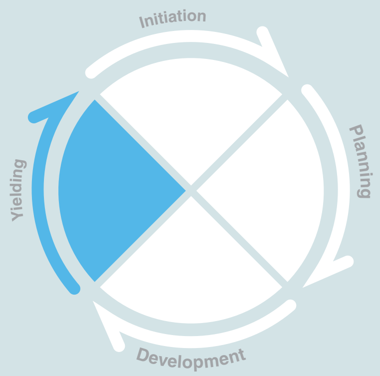
Location	**Moscow**
Land area	**0.58 ha**
Leasable area	**20,900 sqm**
Completed	**Q1 2009**
Leasehold rights	**100%**



Tamiz

68%
occupied

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

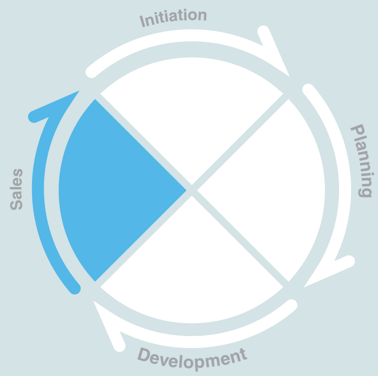


Western Residence

83%
houses sold

Location	**Perkhushkovo**
Land area	**11 ha**
Saleable area*	**5,063 sqm**
Phase I completed	**Q4 2011**
Freehold rights	**100%**

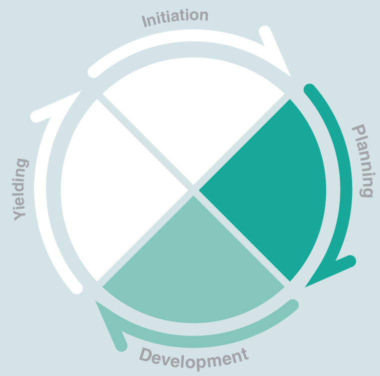
*Excluding sold houses. Sales: 64 out of 77 houses were sold as of the date of this report.



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

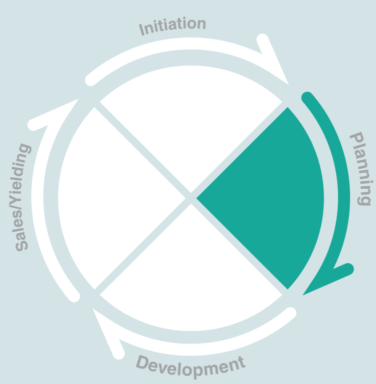
104,000
sqm leasable area

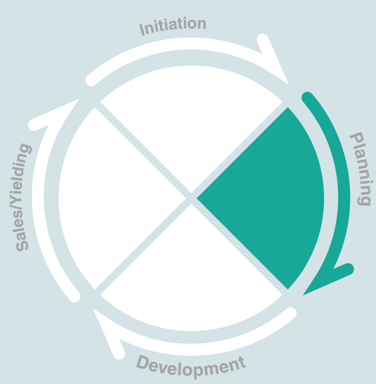
Location	**Saratov**
Phased development of a logistics centre close to the federal highways and the city ring road.	
Land area	**26 ha**
Leasable area	**104,000 sqm**
Freehold rights	**100%**

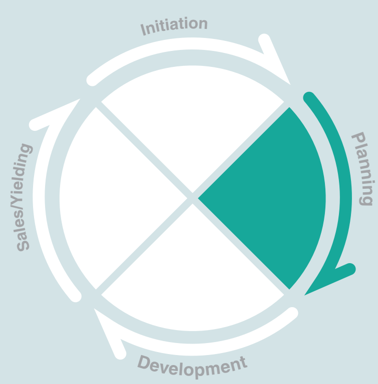
Western Residence -II

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%**







Chief Executive's Statement

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

Roman Rozental
CEO

Strategy

MirLand's 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.
- Realization of assets: The Company will continuously assess whether to retain yielding properties or realize 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$360.2 million as at 31 December 2016, based on the Company's freehold/leasehold rights. This value represents a decrease of approximately 13% since 31 December 2015.

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: 79%
- Financing: US$20 million financed by Sberbank in September 2012 (principal balance as of 31 December 2016: US$16.6 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: 81%
- Financing: US$49 million financed by Sberbank in 2012-2014 (principal balance as of 31 December 2016: US$42 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: 100%
- Occupancy rate: 49%
- Financing: US$39 million financed by Sberbank and Nordea bank in 2014 (principal balance as of 31 December 2016: US$34.4 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: 68%

Vernissage Mall, Yaroslavl, Phase I – retail. 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: 97%
- Financing: US$49 million financed by Bank of Moscow in April 2014, Covenrted during 2016 to RUB loan in the amount of US$ 40 million (principal balance as of 31 December 2016: US$41.8 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 2016: US$84million)

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: 64 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: 397,000 sqm
- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2023
- Freehold rights: 100%
  - Marketing:
  - Sales and construction of Phase IV, which consists approximately 60,694 sqm representing 1,244 apartments, was lunched in Q1 2015 to date 908 apartments were pre-sold representing 73% of total scheme
  - Launch of sales of Green Tower, which will consist approximately 7,302 sqm representing 132 apartments, was in Q4 2016
- Sales:
  - Phase I: sold out and delivered
  - Phase II: sold out and delivered
  - Phase III: to date, 1,326 sale contracts have been executed 1,022 delivered to owners
  - Phase IV: to date, 908 sale contracts have been executed
  - Green Tower: to date, 13 sale contracts have been executed
- Financing:
  - credit line of RUB 3,075 million for Phase III construction was obtained from Sberbank in September 2013 to date the credit line was fully repaid
  - 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 2016: US$14.8 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: n/a
- 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
- easable 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 2017

Overview of Portfolio Market Values as at December 2016

City	Property Name and Address	Portfolio Market Value as of 31 of December 2016 (Rounded)	Percentage Owned by MirLand
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	$28,000,000	100%
Moscow	MAG, 2-Khutorskaya str., 38A	$32,200,000	100%
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	$11,200,000	100%
Saratov	Triumph Mall, 167 Zarubina street	$75,200,000	100%
St Petersburg	Triumph Park, Residential	$91,200,000	100%
St Petersburg	Triumph Park, Trade Centre	$8,300,000	100%
Yaroslavl	Vernissage Mall, Kalinina str	$47,200,000	100%
Yaroslavl	Phase II	$2,200,000	100%
Moscow	Tamiz Building	$20,600,000	100%
Moscow	Century Buildings	$40,700,000	100%
Kazan	Triumph House	$1,800,000	100%
Saratov	Logistics Complex	$1,600,000	100%
Total		**$360,200,000**	

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

Board of Directors & Senior Management

Shouky Oren

Independent Director, Chairman of the Board,age 58

Former Accountant General of the State of Israel. Shouky Oren brings more than 30 years of extensive and diversified experience as an executive in the financial and investments markets.
Starting 2012 until mid-2016 Oren acted as the CEO of Kardan N.V (a Dutch investment company). Oren was the chairman of all subs active in Real Estate in Central Eastern Europe and in China, Water infrastructure in developing countries and financial services and banking in Central Eastern Europe.
In 2007 Oren was appointed by the government of Israel to become the Accountant General, being responsible for all government financial issues including disposition in Assets, management of government debt both domestic and foreign, leading all PPP projects of Israel including transportation energy and water desalination.
As of 2002 Oren managed Bank Leumi in Switzerland which made a substantial turnaround.
Before Oren was a senior executive in banking and with the Ministry of Finance in Israel.
Oren holds BA in economics and MA in Business Administration both from the Hebrew University in Jerusalem.

Roman Rozental

Chief Executive Officer, Certified Public Accountant, age 49

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.

Yevgeny Steklov

Chief Financial Officer, Certified Public Accountant, age 38

Yevgeny Steklov has worked 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.

Ze'ev Milbauer

Independent Non-executive Director, Chairman of the Audit Committee, age 61

Ze'ev Milbauer is the Chief Executive Officer and Owner of Zeev Milbauer Investment Banking, Ltd since 2015. Company specializes in MNA, Investment Banking, Venture Capital, and Financial Consulting. For eight years he served as the Member of the Advisory Board of Fenix Insurance Company. Ze'ev has vast experience in brokerage and the investment banking, as he worked his way up from Manager to the position of Chief Executive Officer and Partner at I. B. I. Investment Banking. Ze'ev graduated from the College of Business Administration in Tel Aviv with a diploma in Business Administration. He is fluent in Hebrew, English, Russian and Yiddish

Maria Despina Argyridou
Non-executive Director and Chairman of the Remuneration Committee, age 44

Since 2013 Maria is an independent consultant, cooperating with property professionals in the field of attracting foreign investment in properties in Cyprus and management of residential properties.
Maria's career started with a Stockbrokers Firm as a Financial Analyst before moving to Banking. Worked with Societe Generale Cyprus in Offshore Banking and then joined the Bank of Cyprus in Corporate Banking. Progressed to Private Banking of Bank of Cyprus initially to supervise Banking Operations of Wealth Management Departments and then to setup a new division specializing in lending of HNWI.
Maria Despina Argyridou is a Cypriot citizen. Holds a BA from the University of Reading, UK and MSc in Investment Management from Cass Business School, London, UK.

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

Alexander Regenbogen has over 17 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.

David Zvida
Non-executive Director, CPA, age 44

David Zvida CPA, CEO of the Mivne Group, which includes Jerusalem Economic Corporation, Industrial Buildings and Darban Investments Ltd. Prior to this position he served as the CFO and VP of Business Development at Dankner Investments, a holding and real estate company. David spent eight years as a Senior portfolio coordinator of the real estate team at Ernst &Young (Israel). He has vast experience in financial consulting and leading public offerings.

Constantinos Pandelides
Independent Non-executive Director, CPA, age 47

Constantinos Pandelides is a Cypriot citizen and a Certified Chartered Accountant and has a long track record of providing accounting and consultancy services. He is currently managing director of Rombus Services Ltd, his own business which provides a range of professional services in accounting, capital adequacy calculations, corporate management and administration, tax and business consultancy. Prior to this he spent ten years, until 2008, as CFO and Finance Director for Asoted Service Ltd. Constantinos is currently also a director of Joseph Ribkoff India Private Ltd, Celebar Investments Ltd, F. Papathomas Services and Oretha Services Ltd. In addition, he acts as a corporate director to several companies, either personally or through his company, Rombus Services Ltd in its capacity as Corporate Service Provider.

Consolidated Management Report

The Directors present their report and the audited financial statements for the year ended 31 December 2016.

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 2017.

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

Review of Business Development and Prospects
For the future years the Group plans to continue the development of the residential project “Triumph Park” in St. Petersburg.
The Group also plans to improve the occupancy in the business centre and maintain high occupancy in the shopping centre.

Results for the Year
The results of the Group are set out in the Consolidated Income Statement on page 30 which shows a net income for the financial year of US$127.8m (2015: loss US$157.5m). The Consolidated Statement of Financial Position on pages 28 to 29 shows net assets of US$138.8m (2015: net liabilities of US$19.3m).

The Directors do not recommend the payment of a dividend.

Share Capital and Treasury Shares
During the year the Company performed share consolidation to its existing shares in a ratio of 1:20.
During the year the Company issued 69,813,064 new shares.

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

Directors
The Directors of the Company as of December 31, 2016 are as follows:
Roman Rozental
Yevgeny Steklov
Eyal Fishman
Elias Eliades
David Zvida
Constantinos Pandelides
Saydam Salaheddin
Alexander Regenbogen

On 16 May 2016 Eliezer Fishman retired as an executive Director.
On 16 May 2016 Nigel James Wright retired as a Non-executive director and Chairman of the board of directors,
on the same date Saydam Salaheddin was appointed as the Chairman of the board of directors.
On 4 July 2016 Constantinos Pandelides was appointed as a Non-executive director and member of the audit committee.
On 7 November 2016 David Zvida was appointed as an executive director.

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 to 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.

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

Auditors
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
There were no material post balance sheet events

Saydam Salaheddin
Chairman

13 March, 2017

Independent Auditor's Report
To the Members of Mirland Development Corporation PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Mirland Development Corporation PLC (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 8 to 76 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report on pages 2 to 4.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors 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.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements
Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

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 to 2016 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.

The engagement partner on the audit resulting in this independent auditor's report is Charis Stylianou.

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

13 April 2017

Consolidated Statement of Financial Position

	Note	31 December 2016 US$000	31 December 2015 US$000
Current assets:			
Cash and cash equivalents		**14,708**	5,097
Cash in escrow account		**-**	11,159
Trade receivables, net	5	**3,084**	2,274
Other receivables, net	6.a	**7,283**	7,885
VAT receivable 8,436	2.j	**3,118**	3,321
Inventories of apartments and buildings for sale under construction and real estate for construction	7.b	**161,027**	**171,240**
		189,220	**200,976**
Non-current assets:			
Investment properties	8.a	**243,900**	260,200
Investment properties under construction	9.a	**13,900**	19,000
Inventories of apartments and buildings for sale under construction and real estate for construction	7.b	**54,978**	68,298
VAT receivable		**406**	290
Fixed assets, net		**837**	969
Other long term receivables	6.b	**2,996**	14,709
Prepaid expenses		**458**	455
Deferred taxes	16.b	**10,549**	12,944
		328,024	**376,865**
Total assets		**517,244**	**577,841**

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

Consolidated Statement of Financial Position

	Note	31 December 2016 US$000	31 December 2015 US$000
Current liabilities:			
Long-term loans from banks which were classified as short-term	11.a	**17,003**	196,328
Current maturities of credit from banks and payable interest	11.a	**3,428**	19,575
Current maturities of debentures and payable interest	13.a	**71**	115,672
Credit from banks for financing of inventory of buildings under construction for sale	11.a	**13,744**	24,845
Long-term debentures, which were classified as short-term	13.a	**-**	135,523
Institutes (VAT)		**1,772**	1,537
Trade payables		**6,939**	6,361
Deposits from short term tenants	14	**2,244**	2,033
Advances from buyers	7.a	**85,908**	73,783
Other accounts payable		**1,866**	845
		132,975	576,502
Non-current liabilities:			
Long-term credit from banking corporations	11.a	**196,962**	-
Debentures	13.a	**27,522**	-
Other non-current liabilities	14	**9,632**	9,077
Deferred taxes	16.b	**13,323**	11,519
		247,439	20,596
Total liabilities		**380,414**	597,098
Equity attributable to share holders of the parent company:			
Share capital	16.a	**14,998**	1,036
Share premium		**376,453**	359,803
Capital reserve for share-based payment transactions	19	**12,619**	12,586
Capital reserve for transactions with controlling shareholders	12	**16,223**	10,556
Capital reserve for transactions with non-controlling interest	4	**17,067**	-
Foreign currency translation reserve		**(187,814)**	(175,193)
Accumulated deficit		**(112,716)**	(242,865)
Total equity (capital deficit) attributable to share holders of the company:		**136,830**	(34,077)
Non-controlling interest		**-**	14,820
Total equity (capital deficit)		**136,830**	(19,257)
Total equity and liabilities		**517,244**	577,841

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

Consolidated Income Statement

	Note	**31 December 2016 US$000**	31 December 2015 US$000	31 December 2014 US$000
		(except for share and per share data)		
Rental income from investment properties		**28,175**	32,271	52,525
Revenues from sale of residential units	7	**73,956**	51,206	29,796
Revenues from management fees		**2,707**	2,808	3,938
Total revenues		**104,838**	86,285	86,259
Cost of sales and maintenance of residential units		**(70,400)**	(47,265)	(28,974)
Cost of maintenance and management	20a	**(10,733)**	(11,310)	(18,228)
Gross profit before decreases		**23,705**	27,710	39,057
Impairment of inventory of apartments and buildings under construction		**(25,726)**	(4,330)	-
Gross profit (loss)		**(2,021)**	23,380	39,057
General and administrative expenses	20.b	**(12,580)**	(12,578)	(13,043)
Debt settlement expenses		**(1,545)**	(2,276)	-
Marketing and sale expenses		**(4,815)**	(4,300)	(4,053)
Fair value adjustments of investment properties and investment properties under construction	8.a, 9.a	**(72,267)**	(56,152)	84,802
Other expense (income), net	20.d	**(2,655)**	(5,075)	(1,992)
Company's share in earnings of companies accounted for using the equity method, net, and gain from obtaining control in company previously accounted for using the equity method	4.a	**-**	-	4,009
Operating income (loss)		**(95,883)**	(57,001)	108,780
Financing income	20c	**223,402**	271	1,521
Financing expenses	20c	**(36,740)**	(35,035)	(36,942)
Net foreign exchange differences		**42,820**	(84,716)	(149,361)
Profit (loss) before taxes on income		**133,599**	(176,481)	(76,002)
(Taxes on income) tax benefit	16.c	**(5,814)**	19,004	13,125
Net income (loss)		**127,785**	(157,477)	(62,877)
Attributable to:				
Shareholders of the parent		**130,149**	(153,108)	(71,313)
Non-controlling interests		**(2,364)**	(4,369)	8,436
		127,785	(157,477)	(62,877)
Basic net earnings (loss) per share (US Dollars) attributable to shareholders of the parent	18	**18.86**	(*) (29.6)	(*) (13.8)
Diluted net earnings (loss) per share, attributable to shareholders of the parent	18	**18.80**	(*) (29.6)	(*) (13.8)

(*) Adjusted due to capital consolidation, see Note 18.
The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

	31 December 2016 US$000	31 December 2015 US$000	31 December 2014 US$000
Net income (loss)	**127,785**	(157,477)	(62,877)
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income classified or 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
Exchange differences on translation of foreign operations	**9,224**	(5,283)	(130,853)
Group's share of net other comprehensive loss of companies accounted for using the equity method	**-**	-	(3,298)
Total other comprehensive income (loss)	**9,224**	(5,283)	(127,527)
Total comprehensive income (loss)	**137,009**	(162,760)	(190,404)
Attributable to:			
Shareholders of the parent	**137,174**	(154,104)	(183,987)
Non-controlling interests	**(165)**	(8,656)	(6,417)
	137,009	(162,760)	(190,404)

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

Consolidated Statement of Changes in Equity

	Share capital US$000	Share premium US$000	Reserve for share-based Payments US$000	Reserve for transactions with controlling shareholder US$000	Reserve for transactions with Non-controlling shareholders US$000	Accumulated deficit US$000	Foreign Currency Translation Reserve US$000	Total equity attributable to equity holders of the parent US$000	Non-controlling interest US$000	Total equity US$000
Balance as of 1 January 2016	1,036	359,803	12,586	10,556	–	(242,865)	(175,193)	(34,077)	14,820	(19,257)
Net profit (loss)	–	–	–	–	–	130,149	–	130,149	(2,364)	127,785
Other comprehensive profit	–	–	–	–	–	–	7,025	7,025	2,199	9,224
Total comprehensive profit	–	–	–	–	–	130,149	7,025	137,174	(165)	137,009
Benefit from the controlling holder	–	–	–	5,667	–	–	–	5,667	–	5,667
Acquisition of non-controlling rights (*)	–	–	–	–	17,067	–	(19,646)	(2,579)	(14,655)	(17,234)
Share issuing (**)	13,962	16,650	–	–	–	–	–	30,612	–	30,612
Share-based payment	–	–	33	–	–	–	–	33	–	33
Balance as of 31 December 2016	**14,998**	**376,453**	**12,619**	**16,223**	**17,067**	**(112,716)**	**(187,814)**	**136,830**	**-**	**136,830**

(*) See Note 4.
(**) See Note 13.
The accompanying notes are an integral part of the consolidated financial statements.

	Share capital US$000	Share premium US$000	Reserve for share-based payments US$000	Reserve for transactions with controlling shareholder US$000	Accumulated deficit US$000	Foreign Currency Translation Reserve US$000	Total equity attributable to equity holders of the parent US$000	Non-controlling interest US$000	Total equity US$000
Balance as of 1 January 2015	1,036	359,803	12,530	8,556	(89,757)	(174,197)	117,971	23,476	141,447
Loss	–	–	–	–	(153,108)	–	(153,108)	(4,369)	(157,477)
Other comprehensive loss	–	–	–	–	–	(996)	(996)	(4,287)	(5,283)
Total comprehensive loss	–	–	–	–	(153,108)	(996)	(154,104)	(8,656)	(162,760)
Benefit from the controlling holder	–	–	–	2,000	–		2,000	–	2,000
Share-based payment	–	–	56	–	–	–	56	–	56
Balance as of 31 December 2015	1,036	359,803	12,586	10,556	(242,865)	(175,193)	(34,077)	14,820	(19,257)

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

Consolidated Statement of Changes in Equity continued

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

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

Consolidated Statement of Cash Flows

	31 December 2016 US$000	31 December 2015 US$000	31 December 2014 US$000
Cash flows from operating activities:			
Net profit (loss)	**127,785**	(157,477)	(62,877)
Adjustments necessary to present cash flows from operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	**4,890**	(20,367)	(14,824)
Depreciation and amortisation	**194**	156	201
Finance expenses, net	**(229,482)**	119,480	184,782
Share-based payment	**33**	56	134
Fair value adjustment of investment properties and investment properties under construction, net	**72,267**	55,152	(84,802)
Group's share in earnings of associates net from loss (gain) from obtaining control in company accounted for under the equity method	**–**	–	(4,009)
Gain from sale of investment property	**–**	1,000	–
	(152,098)	155,477	81,482
Working Capital adjustments:			
Impairment of inventory	**25,726**	4,330	–
Impairment of financial assets	**–**	3,200	–
Decrease (increase) in trade receivables	**1,407**	(599)	1,879
Decrease (increase) in VAT receivable and others	**287**	(430)	(3,022)
Decrease (increase) in inventories of buildings for sale	**36,927**	(20,789)	(78,763)
Increase (decrease) in trade payables	**(1,170)**	1,603	6,957
Decrease (increase) in other accounts payable	**(4,780)**	3,997	62,724
	58,397	(8,688)	(10,225)
Interest paid	**(18,780)**	(21,301)	(36,730)
Interest received	**86**	217	231
Taxes paid	**(638)**	(1,229)	(2,046)
	(19,332)	(22,313)	(38,545)
Net cash flows generated from (used in) operating activities	**14,752**	(33,001)	(30,165)

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

Consolidated Statement of Cash Flows continued

	31 December 2016 US$000	31 December 2015 US$000	31 December 2014 US$000
Cash flows from investing activities:			
Additions to investment properties	**(243)**	(1,778)	(3,529)
Additions to investment properties under construction	**(1,908)**	(2,852)	(3,418)
Purchase of fixed assets	**–**	–	(625)
Cash from obtaining control in companies previously accounted for using the equity method (Appendix A)	**–**	–	(21,140)
Loans paid (granted) to related parties	**–**	–	(10,684)
Proceeds from sale of investment property under construction	**–**	3,170	–
Net cash flows used in investing activities	**(2,151)**	(1,460)	(39,396)
Cash flows from financing activities:			
Receipt of loans from banks and others, net from origination costs	**58,630**	42,028	155,630
Repayment of loans from banks and others	**(81,704)**	(33,966)	(109,667)
Receipt of loans from controlling holders	**–**	2,038	–
Proceeds from the controlling holders, as part of the Debt Settlement and the issuing of the shares	**12,098**	–	–
Purchase of non-controlling rights	**(4,678)**	–	–
Net proceeds from the issuing of debentures, net	**–**	–	39,152
Payment of debentures	**–**	–	(32,211)
Net cash flows generated from (used in) financing activities	**(15,654)**	10,100	52,904
Exchange differences on balances of cash and cash equivalents	**1,505**	(29)	(8,851)
Decrease in cash and cash equivalents	**(1,548)**	(24,390)	(25,508)
Cash and cash equivalents at the beginning of the year	**16,256**	40,646	66,154
Cash and cash equivalents at the end of the year	**14,708**	16,256	40,646

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

Consolidated Statement of Cash Flows continued

	31 December 2016 Unaudited US$000	31 December 2015 Audited US$000	31 December 2014 Audited US$000
Acquisition of consolidated companies consolidated for the first time:			
The subsidiaries' assets and liabilities at the date of purchase:			
Working capital (excluding cash and cash equivalents)	–	–	136
Investment properties	–	–	(109,800)
Fixed assets, net	–	–	(313)
Other receivables	–	–	(49)
Deferred taxes	–	–	16,107
Loans from banks	–	–	21,419
Other non-current liabilities	–	–	12,700
Indemnification asset due to a liability toward the Yaroslavel Municipality	–	–	(5,737)
Foreign currency translation reserve	–	–	6,624
Gain (loss) from obtaining control	–	–	702
Investment in associate accounted for using the equity method	–	–	33,727
Loans granted to associates accounted for using the equity method	–	–	3,344
	–	–	(21,140)

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

Note 1: General

a. General Description of the Company and its Operations

Mirland Development Corporation Plc (the "Company") was incorporated in Cyprus on 10 November 2004. Its main offices are situated in Cyprus. The main operations of the Company and the subsidiaries (hereinafter: the "Group") are initiating, purchasing and developing projects in the field of real estate in the Russian Federation (hereinafter: "Russia") for commercial and residential purposes.

In December 2016, a settlement with the holders of the debentures entered validity, within the framework of which shares of the Company on the AIM Stock Exchange in London were stricken out, and the shares of the Company were issued on the Tel Aviv Stock Exchange. The debentures of the Company are traded on the Tel Aviv Stock Exchange.

b.

1. Further to that stated in Note 1b to the Company's annual financial statements as of December 31, 2015 in connection with the deterioration in Russia's economy, in the course of 2016, the Russian economy took another turn for the worse. The Russian economy continues to present a negative GDP growth, however, during the year, the rate of the dollar appreciated by approx. 16% to a level of 60.7 ruble to dollar. The Central Bank of Russia gradually decreased the inter-banking interest to 10%. After the date of the balance sheet, there was an additional revaluation of approx. 3% in the ruble to dollar rate.

2. In the matter of the settlement that was committed opposite the holders of the Debentures, see Note 13; and in the matter of the settlement that was committed with the lending banks in Russia, see Note 11. In consequence of the aforementioned arrangements, the Company shifted to a positive equity capital and working capital, as opposed to a deficit in its equity capital and working capital, as of December 2015.

3. As stated in Note 11b(3) to the Financial Statements, the Company failed to meet the financial covenants, as stated in the loan agreements with Nordea Bank (hereinafter: the "Bank"), as the balance of the loan amounts to $1.85 million, as at December 31, 2016. In December 2016, the Bank and the Company committed in an interim agreement, within its framework the quarterly payments to the Bank with respect to the fourth quarter of 2016 and the first and second quarters of 2017 were decreased. The Bank and the Company are holding negotiations toward changing the conditions of the loan agreement, inter alia, pursuant to deferral of the payments dates of the loan. As described in the note, an unbinding letter was issued by the Bank, whereby the Bank will contemplate to defer the full payment of the principal of the third and fourth quarters of 2017 to the final loan payment date of the loan in 2019. At the same time, the management of the Company is of the opinion, that in the event that the Bank will require payment of the loan in full, the cash received from realization of the property, serving as a security to the loan, whose fair value amounts to a total of $22.8 million, as at December 31, together with the balance of cash available to the Company in the amount of approx. $10 million, as at December 31, 2016, are sufficient for the covering of the debt.

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 consolidated companies.
Consolidated Companies (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.
Interested Parties and Controlling Holder	According to their Definition in the Securities Regulations (Annual Financial Statement) 2010.
Related parties	As defined in IAS 24 (revised)

Note 2: Significant Accounting Policies

The following accounting policies were 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 and requirements of Cyprus Companies Law Cap. 113.
Furthermore, the consolidated financial statements are prepared in accordance with the provisions of the Securities Regulations (Annual Financial Statements) 2010.

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

From its foundation, the Company prepares financial statements according to the IFRS Standards, which were published from December 18, 2006 to the public on the AIM Stock Exchange (Alternative Investment Market) in England, where its shares were formerly traded, and from December 2007 also on the Tel Aviv Stock Exchange, where the debentures and shares are currently traded. In November 2016, a settlement with the holders of the debentures was approved, within the framework of which shares were stricken out of trade on the AIM Stock Exchange and were issued on the Tel Aviv Stock Exchange. Within the framework of the Settlement, a new debenture series was issued instead of the debentures that existed until that time, which are traded on the Tel Aviv Stock Exchange. The financial reporting in Israel, according to IFRS Standards, is based on the financial statements, as stated there, translated into Hebrew, and as they include the requirements of disclosure in accordance with the Securities Regulations (Annual Financial Statement) 2010.

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 shareholders 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. Realization of the holding in the subsidiary, without losing control, and an increase in the rate of holding in the subsidiary is recognized as a change in capital.

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 holding 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, presentation and foreign currencies:
1. Functional currency and presentation currency:
The financial statements are presented in 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, are treated as part of the investment, therefore the rate differences in these loans (with a deduction of the tax effect) are credited as other total profit (loss) to the "adjustment emerging from the translation of the financial statements).

Upon the full or partial realization 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, with the exception of those capitalized into qualifying assets or attributed to the equity in hedging transactions. 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 transaction. Non-monetary assets and liabilities are presented according to the fair value, translated into the functional currency, as per the rate of exchange upon the date that the fair value was determined.

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.

Index differences emerging from the adjustment, as stated, with the exception of those capitalized into qualifying assets or credited directly to the equity capital in hedging transactions, are reflected in the income statement.

h. 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.

i. Short-term deposits:

Short-term deposits comprise cash at banks whose maturity exceeds three months from the day of the investment and which do not correspond with the definition of cash equivalents. The deposits are presented according to the conditions of their depositing.

j. 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%.

k. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. As the amounts are not material, the Company did not acknowledge the provision for impairment concerning groups of accounts that are evaluated as a group. Debts of clients, whose value was decreased, are written off on the date in which these debts are no longer collectible.

l. Inventories of buildings under construction 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. The capitalized costs are debited as an expense, together with the other costs of the projects, upon acknowledgment of the income.

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.

m. 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 of the transaction 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.

n. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs.

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 are initially recognized at fair value. Liabilities 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 amortized cost:
After initial recognition, loans, including bonds, are measured based on their terms at amortized cost using the effective interest method.

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. Payment of Financial Liabilities Through Capital Instruments

The capital instruments, issued in order to replace a debt, are measured according to the fair value of the issued capital instruments, if they can be reliably evaluated. In the event that the fair value of the capital instruments that were issued cannot be estimated reliably, the capital instruments are measured according to the fair value of the financial liability that was paid upon its date. The difference between the balance on the financial statements of the paid off financial liability and the fair value of the capital instruments that were issued is recognized as profit or loss.

5. 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 Company 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, through other financial assets, goods or services; or if it 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.

6. Impairment of financial assets:

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

7. Financial assets carried at amortized cost:

The Group assesses individually whether 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 subsequent periods, 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.

o. 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. Lease income is recognized as revenue in the Income Statement on a straight-line basis over the lease term. Initial direct costs incurred due to real estate assets for investment measured according to their fair value, are added to the cost of the real estate for investment upon the initial recognition date and are attributed to the profit or loss upon the revaluation date thereof. Lease income is recognized as revenue in the Income Statement on a straight-line basis over the lease term. Stipulated lease receipts are related to the profit and loss statement as an income upon the date in which the Company has an entitlement to receive them.

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.
The useful life of the asset, the depreciation and accumulated impairment losses are examined upon the end of the year, and the changes are henceforth treated as an accounting estimate.

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.

q. 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 Company capitalizes borrowing costs pertaining to the construction of real estate for investment and inventory.

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. The amount of the borrowing costs, capitalized during the reported period, includes in addition to the direct borrowing costs also general borrowing costs, according to a weighted capitalization rate.

r. 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, any impairment losses, until the earlier of the date when fair value becomes reliably determinable or construction is completed.

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. Investment property is derecognized upon its realization or as the use thereof is terminated and there are no future economic benefits expected from its realization. The balance between the net consideration from the realization of the asset and the balance on the financial statements is recognized in the profit or loss during the periods in which the asset was derecognized.

s. Impairment of non-financial assets
The Company 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.

t. Taxes on income
The tax charges/credit in respect of current or deferred taxes are carried to the Income Statement unless 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 calculated for temporary balances between the amounts included in the financial statements and the amounts brought into account for tax purposes.

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.

On each reported date, 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.

Deferred taxes with respect to investment property held with the objective of regaining substantially all the economic benefits embodied therein, through realization and not through usage, are measured according to the expected manner of settlement of the base asset, based upon realization instead of utilization.

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.
Deferred taxes are offset if there is a legally 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.

u. 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.

v. 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.

w. Earnings (loss) per share
Earnings per share are calculated by dividing the net income attributable to shareholders 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. Furthermore, 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. The share of the Company in the earnings of subsidiaries is calculated according the earning per share of same companies, multiplied by the number of shares held by the Company.

x. 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 in the principal market for the asset or liability, or 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 - Data, which are quoted prices, included in Level 1, that can be expected directly or indirectly.
Level 3 - Data not based on market information that can be anticipated (valuation techniques without the use of expected market data).

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

1. Reasoning:
Classification of leases:
In order to determine whether to classify a lease as a finance lease or an operating lease, the Company evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, the Company 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

Upon the preparation of the financial statements, the management is required to employ estimates and assumptions, affecting the implementation of the accounting policy and the reported amount of assets, liabilities, income and expenses. Changes in the accounting estimates are attributed during the period in which the change of estimate was executed.

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, where a material adjustment in estimates and assumptions may change the value of assets and liabilities in the financial statements of the subsequent year:

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 the 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 and investment property under development require 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 under construction

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. A management's estimate is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits together with future tax planning strategy.

Determination of the fair value of share-based payment transactions

The fair value of share-based payment transactions is determined upon the initial recognition through the use of an acceptable option pricing model. The model is based on data of share price and realization price and on assumption with respect to the expected fluctuation, the anticipated lifetime and expected dividends.

Note 3: Disclosure of new IFRS standards in the period prior to their adoption

a. IFRS 15, "Recognition of Revenue from Contracts with Customers"

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

The New Standard presents a five stage model that will apply to income emerging from contracts with customers:

Stage 1 – Identification of the contract with the customer, including reference to a collection of contracts and handling modifications in contracts.
Stage 2 – Identification of distinct execution liabilities in a contract.
Stage 3 – Determination of a price for the transaction, including reference to variable consideration, a significant financing element, consideration not in cash and the consideration that will be paid to the customer.
Stage 4 – Allotment of the price for the transaction to each distinct execution obligation, based upon the separate relative sale price, while using prices, if they are available, or estimates and evaluations.
Stage 5 – Recognition of income upon meeting the execution obligation, while making a distinction between upholding the obligation upon a certain date and the fulfillment of a long term obligation.

The New Standard shall be implemented retroactively from the financial statement for annual periods, commencing on January 1, 2018. Early adoption is possible. At this stage, the Company does not intend to execute early adoption of the Standard.

The New Standard allows to choose partial retroactive implementation with certain easement, whereby the New Standard will be applied to applicable contracts from the first application period henceforth, without requiring re-presentation of comparative figures. In such a case, the Company ought to recognize the accumulated effect of the initial implementation of the New Standard, coordinating the opening balance of surpluses (or another capital element, as would be suitable) to the initial implementation date. Alternatively, the New Standard allows full retroactive implementation with certain easements.

At this stage, the Company examines various possibilities for the retroactive implementation of the Standard.

The Company produces its income from two main sources: sale of residential apartments and income from rental fees and management fees. The Company begun its preparation toward the implementation of the New Standard upon the binding date, while examining its possible effect on its financial statements, as specified hereunder:

a. Income from the Sale of Residential Apartments

The Company operates in the field of real estate toward the initiation, construction and sale of residential apartments in Russia. Currently, the Company recognizes income from the sale of residential apartments upon delivery of the apartment to the purchaser. According to the New Standard, upon the date of the commitment in a contract with the customer, the Company identifies the residential apartment as an execution liability. In connection with this operation, based upon an initial examination of contracts of the Company with its customers, and based upon the provisions of the law and the relevant regulation – the Company evaluates that within the framework of the contracts with its customers no asset with alternative utility was created to the Company, and also that it has a right for payment, enforceable with respect to executions that were completed until that date. Therefore, according to the New Standard, the Company will recognize income from these contracts in the long term, according to the rates of execution of the contract. In consequence of that described above, the Company anticipates that subsequent to the implementation of the New Standard, the timing of recognition of income from the sale of residential apartments will essentially change, and the Company will be compelled to recognize this income upon earlier periods.

In addition, among others, the Company examines the following issues in connection with income from the sale of residential apartments:

1. The measurement unit – the Company is required to determine the measurement unit for the purpose of recognition of income. At this stage, the Company evaluates that the measurement unit will be the residential apartment, subject of the same contract with the customer.

2. Determination of the transaction price – the Company is required to determine the price of the transaction distinctly for each contract with the customer. Upon exercising this discretion, the Company evaluates the effect of each variable consideration in the contract, taking into account discounts, fines, changes, claims, the existence of an essential financing element in the contract and also non-cash consideration. In the determination of the effect of variable consideration, the Company is expected to utilize the method of "the most reasonable amount" indicated in the Standard, whereby the transaction price is determined, while taking into account the only amount which is most reasonable within the range of consideration amounts possible in the contract. The Company will include amounts of variable consideration only if it is highly probable that a significant cancellation in the amounts of income recognized will not take place, as any uncertainty with respect to a change in the consideration will transpire later.

3. Execution progress measurement – in order to measure the progress of execution, the Company evaluates that it will implement the input method, without taking into account costs that will not reflect the progress of the execution, such as land, fees and credit costs. The Company deems that the use of the input method, whereby income is recognized on the basis of inputs, invested by the Company pursuant to the fulfillment of the execution obligation, will represent in the most proper manner the actually produced income. For the purpose of implementation of the input method, the Company will be required to evaluate the necessary costs for completion of the project, in order to determine the income amount to be recognized. These estimates include the direct costs and indirect costs in reference directly to the fulfillment of the contract, allocated on the basis of reasonable encumbrance loading key. Generally, it is not possible to make a delivery of a specific residential apartment prior to completion of the construction of the building as a whole. Therefore, the Company will determine the rate of progress of the execution, whereby the income is recognized for each specific said contract, according to the rate of progress of the building in general.

4. The existence of a significant financing element in the contract – pursuant to the examination of a significant financing element in the contract, the Company anticipates that it will choose the practical easement in the New Standard, whereby the consideration amount should not be linked with the financing element, if upon the commitment date in the contract it is expected that the period between the date of receipt of the consideration and the date of recognition of the income will not exceed one year. In events of receipt of long term advances (above three years) the Company will accumulate interest for the advances along the expected commitment period, as the contract includes a significant financing element, as per its definition in the New Standard. Upon the realization of advances, the Company will recognize the accrued interest as an income from the sale of a residential apartment.

5. Warranty – within the framework of contracts of the Company with its customers, it provides warranty services to its customers, as per the provisions of the law and according to that accepted in this industry. The warranty services are rendered in order to assure the quality of the job that was executed, not as an extra service given to the customer. Accordingly, the Company will recognize in its financial statements a provision for warranty, according to the provisions of IAS 37, that being similarly to the current handling.

6. Encumbering contracts – a provision for encumbering contracts is recognized as the benefits expected to be received from the contract to the Company are low relative to the unavoidable cost, due to meeting the contractual liabilities. The provision is measured according to the lowest from among the current value of the anticipated cost for cancellation of the contract and the current value of the net anticipated cost for continuance of application of the contract. The Company will frequently examine the need for a provision for an encumbering contract, as per the requirements of IAS 37, which are relevant to all the contracts, where income is recognized according to IFRS 15.

b. Disclosure and Presentation

The New Standard determines disclosure and presentation provisions, which are wider and further specified in comparison with the current standardization provisions. The Company began examining the need of adjustment of systems, the internal auditing, procedures and policy, which are necessary, pursuant to the collection of the material required to the presentation of disclosures.

The Company examines possible effects of the New Standard, but it is unable at this stage to estimate its effect on the Financial Statements, if any.

b. IFRS 9, Financial Instruments
In July 2014, the IASB issued the final and complete version of IFRS 9, “Financial Instruments”(hereinafter: the “New Standard”), which replaces IAS 39, “ Financial Instruments: Recognition and Measurement”, which focuses mainly on the classification and measurement of financial assets, applicable to all the financial assets included under IAS 39.

According to the New Standard, 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:

- The asset is held within a framework of a business model, whose purpose is to hold the assets, in order to collect the contractual cash flows emerging from them.
- According to the contractual conditions of the financial assets, the Company, on certain dates, is entitled to receive cash flows, representing merely payments of principal and interest on the balance of principal.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. The Standard 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.

In the matter of derecognition and in the matter of financial liabilities, the Standards states the same provisions that are required according to the provisions of IAS-39 with respect to derecognition and financial liabilities, in whose respect a fair value alternative has not been chosen.

According to the Standard, the amount of the change in the fair value of the liability – attributed to changes in the credit risk – which is attributed to other comprehensive income. All the other changes in the fair value will be attributed to the profit or loss.

The Standard includes new requirements in connection with hedging accounting.

The New Standard will be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

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

c. Amendments to IAS 7, Reporting Cash Flows, Additional Disclosures Concerning Financial Liabilities
In January 2016, the IASB published amendments to the IAS 7, Reporting Cash Flow (hereinafter: the “Amendments”) which require the giving of additional disclosure with respect to financial liabilities. The Amendments require to present the movement between the opening balance and the closing balance of financial liabilities, including changes emerging from cash flows from financing operations, the purchasing or loss of control in investees, changes in rates of exchange and changes in the fair value.

The Amendments are implemented from the annual periods commencing on January 1, 2017 or thereafter. It is not required to include disclosures, as stated, with respect to comparative figures, concerning previous periods prior to the date of the Amendments. An early adoption is possible.

The Company will include the necessary disclosures in its relevant financial statements.

d. IFRS 16 Leases
In January 2016, the ISAB published IFRS 16 with respect to leases (hereinafter: the “New Standard”).

According to the New Standard, a lease is defined as a contract or a part of a contract, which transfers the right of use of an asset for a definite time period in consideration for payment.

The followings are the principles of the New Standard:

- The New Standard requires from lessees to recognise all the lease assets against the lease liabilities in the statement of financial position (other than in certain cases) similarly to the accounting handling of a financial leasing, as per the applicable Standard – IAS 17, leases.

- Lessees will recognise the obligation for lease payments and on the other hand will acknowledge the utility right in the asset. Furthermore, lessees will recognise interest and depreciation expenses, separately.

- Varying lease payments, not depending on index or interest, based upon an execution or utility (e.g. a rate of the yield) will be recognized as an expense on the part of the lessees or an income on the part of the lessors upon the date of evolvement thereof.

- In the event of a change in index linked variable lease payments, the lessee ought to reevaluate the obligation with respect to the lease, as the effect of the change will be related to the assets with the right of use.

- The New Standard incorporates two exceptions, whereby lessees are entitled to treat leases according to the current accounting handling, in reference of operative leases, that being in the event of leasing assets of a low financial value or in the event of leases for a period of up to one year.

- The accounting handling on the part of the lessor remains unchanged as opposed to the current Standard, i.e. classifying as a financing lease or as an operative lease.

The New Standard was implemented from the annual period commencing on January 1, 2019 or thereafter. Early adoption is possible, for as long as IFRS 15, Recognition of Income for Contracts with Customers, is applied concurrently.

The New Standard allows lessees to choose the full retroactive application method or the partial retroactive application method with certain easements with respect to leases, applicable during the transition date, whereby a re-presentation of comparative figures will not be required.

The Company examines the possible effect of the Standard. At the same time, at this stage, it is unable to evaluate the quantitative effect on the financial statements.

e. Amendments to IAS 40, Investment Property – Transfers of Real Estate for Investment

In December 2016, the IASB published amendments to IAS 40, Real Estate for Investment (hereinafter: the “Amendments”). The Amendments clarify and provide guidelines for the implementation of the provisions IAS 40 with respect to transfers of real estate for investment or to real estate of investment. The main Amendments are the determination that the list of events, specified in the Standard with respect to transfers of real estate for investment, present examples of evidence with respect to changes in the use of said real estate, but do not present a close list. Furthermore, the Amendments clarify that a change in the intention of the management per se is not a sufficient evidence for a change of use.

The Amendments are applied from the financial statement for the annual period, commencing on January 1, 2018, with an option of retrospective application, where possible without the use of hindsight. Early adoption is possible. The Amendments allow to choose a partial retroactive implementation, whereby the Amendments are implemented with respect to transfers that took place from the first implementation period henceforth, and no re-presentation of comparative figures is required. In such an event, coordination with respect to the value of assets on the books, as of the first implementation date of the Amendments, will be attributed directly to the capital.

Note 4: Investments In Investees (Held Companies)

Commitment of the Company in a Transaction for the Purchasing of the Rights of Partners in Inomotor Company and Avtoprioriet Company

As of December 2015, the Company holds Inomotor Company and Avtoprioriet Company, which are holding the Century Project (hereinafter: the **"Century Project")** according to 61% and 51% of their shares, respectively. As of December 31, 2016, the Company holds 100% of Inomotor Company and Avtoprioriet Company.

Within the framework of contacts handled by the Company with a bank in Russia, SberBank (the "Bank") pursuant to the consolidation of a new outline for the payment of loans, placed by the Bank, as described in Note 11, the Company is required to create a pledge in favor of the Bank in part of the Project, which is financed by the Bank. In consequence thereof, the Company is required to purchase the entire holdings of the partners in the Century Project.

Accordingly, on June 22, 2016, the Company committed in an agreement for the purchasing of the entire holdings of the partners in consideration of a total amount of US$8 million (the **"Consideration"**), as the (net) consideration paid by the Company within the framework of the Purchase Transaction amounted to a total of US$ 4.7 million after offsetting debit balances of the sellers toward the Company (the **"Purchase Transaction"**).

On September 21, 2016, the Purchase Transaction was completed, and from that date the Company holds 100% of the Century Project, while the rights of the Company in the part of the Project, financed by the Bank, is mortgaged in favor of the Bank, as part of the debt settlement with it.

The Consideration according to the Purchase Transaction was 7% above the estimated value of the Project, as per the valuation that was executed with respect to the Project on March 31, 2016, which is the recent valuation prior to the commitment in the agreement.

In consequence of said transaction, a capital reserve from translation differences of debit in total of US$19,646 thousand and a capital reserve from transactions with holders of rights in total of US$17,067 thousand were recognized. The total effect of said transaction on the capital attributed to the shareholders of the Company is a total decrease of US$2,579 thousand in the capital.

	31 December 2016 US$000	31 December 2015 US$000
Statement of financial position at reporting date (as presented in the subsidiary's financial statements):		
Current assets	**278**	2,443
Non-current assets	**67,480**	71,289
Current liabilities	**(19,250)**	(36,145)
Non-current liabilities	**(20,468)**	(5,625)
Total equity	**28,040**	31,962
Non-controlling interests	**-**	14,820
Total equity attributable to shareholders of the parent	**28,040**	17,142

	31 December 2016 US$000	31 December 2015 US$000
The subsidiary's operating results (as presented in the subsidiary's financial statements):		
Revenues	**3,441**	5,489
Net income	**(9,799)**	(10,323)
Other comprehensive income (loss)	**5,878**	(9,232)
Total comprehensive (loss)	**(3,921)**	(19,555)
Net loss attributable to :		
Non-controlling interests	**(2,364)**	(4,369)
Shareholders of the parent	**(7,435)**	(5,954)
Total comprehensive (loss) attributable to :		
Non-controlling interests	**(165)**	(8,656)
Shareholders of the parent	**(3,756)**	(10,899)

	31 December 2016 US$000	31 December 2015 US$000
The subsidiary's cash flows (as presented in the subsidiary's financial statements):		
From operating activities	**(756)**	124
From investing activities	**–**	-
From financing activities	**(1,440)**	(2,145)
Exchange differences on balances of cash	**40**	120
Net increase in cash and cash equivalents	**(2,156)**	(1,901)

Note 5: Trade Receivables, net

Trade receivables:

	31 December 2016 US$000	31 December 2015 US$000
Trade receivables	**3,903**	2,768
Provision for doubtful debts	**(819)**	(494)
	3,084	2,274

Note 6: Other Receivables, Net

a. Other Receivables:

	31 December 2016 US$000	31 December 2015 US$000
Deferred sales commission	**4,260**	3,784
Advances to suppliers	**969**	895
Income tax authorities	**1,191**	990
Other trade receivables	**863**	2,216
	7,283	7,885

b. Other Long-Term Receivables:

	31 December 2016 US$000	31 December 2015 US$000
Loans granted to a related party (1)(2)	**-**	11,697
Indemnification assets due to a liability to Yaroslavl municipality (3)	**2,996**	3,012
	2,996	14,709

(1) See Note 4.
(2) In 2015, with the deduction of allowance for impairment.
(3) See note 23e

Note 7: Inventories Of Apartments And Buildings For Sale Under Construction And Real Estate For Construction

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 second phase, which include 630 apartments, was completed and delivered in 2015. In the third phase, consisting of 1,346 apartments, whose construction was completed, most of the residential units were sold and most of the apartments were delivered to the purchasers. The fourth phase of 1,244 residential units is under construction and the sale of residential units is currently executed.

As of December 31, 2016, the Company sold 1,314 apartments at the third phase and 871 apartments at the fourth phase of the St. Petersburg Project. As of the Reported Date, the Company received advances totaling approximately USD 85,601 thousands for the St. Petersburg Project and USD 307 thousand for the Western Residence Project. In 2016, 1,002 residential units in the St. Petersburg Project and 14 residential units in the Western Residence Project were delivered to purchasers.

b. Composition:

	31 December 2016 US$000	31 December 2015 US$000
St. Petersburg Project	**203,998**	217,586
Western Residence Project	**12,007**	21,952
	216,005	239,538

Current assets:

	31 December 2016 US$000	31 December 2015 US$000
Land	**27,480**	22,506
Construction costs (*)	**133,547**	148,734
	161,027	171,240

Non-current assets

	31 December 2016 US$000	31 December 2015 US$000
Land	**12,265**	16,446
Construction costs (*)	**42,713**	51,852
	54,978	68,298

(*) Including specific borrowing costs that were capitalized in the amount of approx. US$3,650 thousand for the year ended December 31, 2016 (approx. US$3,326 thousand for the year ended December 31, 2015) and general borrowing costs capitalized in the amount of approx. US$1,563 for the year ended December 31, 2016.

During 2016, the Company recognized impairment with respect to the inventory in the Western Residence Project in Moscow in the amount of US$9.7 million and also with respect to the inventory in the St. Petersburg Project in the amount of US$16 million during the year, that being according to a valuation received from an external independent valuator, and mainly as stated in Subsection c. below.

c. On June 21, 2016, St. Petersburg's Government Decision No. 524 – "Utility Rules of Land and Development of Sites" entered validity. The resolution, spreading over 350 pages, deals with construction rights and restrictions in St. Petersburg. At this stage, the Company identifies in the resolution two main changes in reference of (a) restricting the permitted height of construction and (b) reducing the exploitation of the permitted construction area. The resolution states a transfer period for the implementation of the new rules, up until December 31, 2018. Upon completion of the transfer period, a committee will be established, whose function will be to examine each and every case on its merit, and which will be entitled, among others, to allow deviations from the height restrictions.

As of December 31, 2016, after the Company examined the resolution of the St. Petersburg government and its main implications on the subsidiary of the Company, which owns a project of residential construction in the city, the Company re-evaluated the quantity of meters that can be sold in the Project from 450 thousand Sq .meters to approx. 397 thousand Sq. meters. In consequence thereof, the Company recognized an impairment in the inventory of properties under construction, amounting to approx. $10 million, see also Subsection b.

Note 8: Investment Properties

a. Composition and adjustment:

	31 December 2016 US$000	31 December 2015 US$000
Balance at 1 January	**260,200**	383,800
Changes during the year:		
Additions during the year	**186**	1,778
Classification to investment properties under construction	**-**	(9,900)
Fair value adjustments, net	**(62,299)**	(42,326)
Exchange rate differences	**45,813**	(73,152)
Balance at 31 December	**243,900**	260,200

The following is a detailed breakdown of fair value adjustments concerning investment properties:

	31 December 2016 US$000	31 December 2015 US$000
Decrease due to revaluation of the Ruble against the US dollar	**(45,813)**	73,152
Real decrease in fair value	**(16,486)**	(115,478)
Total (decrease) in fair value of investment property, net	**(62,299)**	(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 determined on the basis of the comparative method, as deemed appropriate by the valuation expert.

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

	31 December 2016 US$000	31 December 2015 US$000
Office Properties	**225**	234
Average lease fees per Sq. meter per annum (dollars)		
Average proceeds adjusted to risks, serving for the capitalization of net positive cash flows (in %)	**14%**	14%
Available areas for lease (in %)	**-**	-
Rate of proceeds upon conceptual realization (in %)	**29%**	21%
Commercial Properties	**10%**	10%
Average lease fees per Sq. meter per annum (dollars)	**196**	190
Average proceeds adjusted to risks, serving for the capitalization of net positive cash flows (in %)	**14%**	14%
Available areas for lease (in %)	**2%**	6%
Rate of proceeds upon conceptual realization (in %)	**11.5%**	11.5%

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

	Office properties US$000	Retail property US$000
Balance at January 1, 2016	120,400	139,800
Re-measurement, recognized as profit or loss	(19,859)	(42,440)
Additions during the year	186	-
Exchange rate differences	21,673	24,140
Balance at December 31, 2016	**122,400**	**121,500**

In consequence of the crisis in Russia, described in Note 1b, during the years many tenants sought to reduce the dollar rental fees. As part of coping with the situation, the subsidiaries held negotiations with the tenants for reductions in the rental fees. In those negotiations usually the Company set maximum amounts to the rate of exchange upon the payment of lease fees or that the Contract is now stated in ruble. Reductions were given in specific manner and for limited periods (usually for six months). The valuation took into account the maximum amounts for the rate of exchange, stated for the period of various contracts.

e. Real estate:

	31 December 2016 US$000	31 December 2015 US$000
Freehold	**122,400**	120,400
Leasehold	**121,500**	139,800
	243,900	260,200

The Group leases lands for periods of 12 to 39 years.

f. The following table presents the possible effect on the fair value of investment properties of the Company in consequence of change in the assumptions, serving in the calculation of the fair value of the assets.

	+ 1% US$000	**Fair value as presented on the books US$000**	**-1%** US$000
Change in capitalization rate	**222,700**	**243,900**	269,200

Note 9: Investment Properties Under Construction

a. Composition and adjustments:

	2016 US$000	2015 US$000
Balance as at January 1	19,000	30,800
Changes during the year:		
Additions	1,908	2,852
Sale of investment properties under construction	-	(5,655)
Classification from investment properties	-	9,900
Fair value adjustments, net	(9,968)	(12,826)
Exchange rate differences	2,960	(6,071)
Balance at 31 December	13,900	19,000

The following are details of fair value adjustments of investment properties under construction:

	US$000
Decrease due to revaluation of the Ruble compared to US dollar	(2,960)
Real decrease in fair value	(7,008)
Total decrease in fair value of investment property, net	(9,968)

b. Fair value of investment properties under construction:

The comparative method was used in the evaluation of investment properties under construction.

c. Fair value adjustment of investment properties under construction (level 3 in the fair value hierarchy):

	Retail property US$000	Logistics US$000
Balance as at January 1, 2016	15,000	4,000
Re-measurement, recognized in profit or loss	(6,934)	(3,034)
Additions	1,889	19
Exchange rate differences	2,345	615
Balance at December 31, 2016	12,300	1,600

d. Real estate:

	31 December 2016 US$000	31 December 2015 US$000
Freehold	13,900	19,000

Note 10: Measurement Of 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, 2016:

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1) US$000	Significant observable inputs (Level 2) US$000	Significant unobservable inputs (Level 3) US$000	Total US$000
Assets measured at fair value:					
Investment property (Note 8)					
Office properties	**Dec. 31, 2016**	-	-	121,500	121,500
Retail properties	**Dec. 31, 2016**	-	-	122,400	122,400
Investment properties under construction (Note 9):					
Logistics	**Dec. 31, 2016**	-	-	1,600	1,600
Retail properties	**Dec. 31, 2016**	-	-	12,300	12,300
Liabilities given according to the fair value- disclosure (Note 11):					
Long and short-term credit from banks	**Dec. 31, 2016**	-	-	218,502	218,502
Debentures	**Dec. 31, 2016**	29,703	-	–	29,703

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

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

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1) US$000	Significant observable inputs (Level 2) US$000	Significant unobservable inputs (Level 3) US$000	Total US$000
Assets measured at fair value:					
Investment property (Note 8)					
Office properties	**Dec. 31, 2015**	-	-	139,800	139,800
Retail properties	**Dec. 31, 2015**	-	-	120,400	120,400
Investment properties under construction (Note 9):					
Logistics	**Dec. 31, 2015**	-	-	4,000	4,000
Retail properties	**Dec. 31, 2015**	--		15,000	15,000
Liabilities given according to the fair value- disclosure (Note 11):					
Long and short-term credit from banks	**Dec. 31, 2015**	-	-	191,489	191,489
Debentures	**Dec. 31, 2015**	65,705	-	-	65,705

Note 11: Long-Term Credits from Banks

a. Composition:

	Weighted interest rate %	**31 December 2016 US$000**	31 December 2015 US$000
Loans from banks in US dollars with fixed interest rate	7%	**157,082**	197,033
Loans from banks in Ruble with variable interest rate	CBR(*)+4%	**42,278**	-
Loans from banks in Ruble with fixed interest rate	10.9%	**13,744**	24,845
Loans from banks in US dollars with variable interest rate	3M Libor +6.85%	**18,033**	18,870
With the deduction of -		**231,137**	240,748
Current maturities		**(3,428)**	(19,575)
Credit from banks for financing inventory of buildings for sale under construction		**(13,744)**	(24,845)
Loans from banks which were classified as short term (**)		**(17,003)**	(196,328)
		196,962	-

(*) CBR – Central Bank of Russia.
(**) As a result of incompliance with financial covenants, as determined by the financing entity, see also Subsection b below.

b. Arrangements with Funding Banks in Russia

1. Debt arrangement with SberBank of Russia

Principles of the Debt Settlement:

On July 8, 2016, the Company received five agreements, committed between SberBank of Russia (the **"Bank"**) and four subsidiaries of the Company: Mashinostroenie & Hydravlika OJSC ("MAG"), Investisionno Ipotechnaya Kompania ("IIK"), Hydromashservice LLC ("Hydro") and Inomotor LLC. ("INO") (hereinafter jointly: the **"Subsidiaries"**) pertaining to the settlement of the loans, which were placed in their favor by it (the **"Agreements"**) amounting as of the date of this report to a total of approx. US$160 million (the **"Loans"**). The Agreements constitute an amendment to the Loan Agreements with the banks, committed with the Subsidiaries.

On September 20, 2016, the Company and the Subsidiaries completed all the actions necessary, according to the debt settlement with the Bank, pursuant to its completion and entrance into validity. Accordingly, the payment schedules of the loans were amended in such a manner that approx. 81% in average of the balance of principal of the loans will be paid during the first quarter of 2026 and its balance will be paid each and every quarter during the period commencing after the date of these Financial Statements.

In addition, a decrease at the interest rate was entered in all the loans to a rate of 7%. For this purpose, the Company is obligated to hold each of the Subsidiaries by means of a designated Cypriot Company, which would be under full title of the Company (the **"Cypriot Companies"**). The holdings of the Company in the Cypriot Companies were mortgaged according to the Cypriot Law, pursuant to assurance of payment of the loans of the Subsidiaries (jointly and severally) to the Bank. The Company is obligated not to sell and/or pledge its holdings in the Cypriot Companies. The Subsidiaries are obligated to guarantee each to the entire debts of the other Subsidiaries. Furthermore, each of the Subsidiaries is obligated that in the event whereby the ratio in a certain project between the income with the deduction of operating expenses (including tax expenses) and the debt service (payment of principal and interest) (the "Debt Service Ratio") will exceed 1.05, the method of transferring funds calculated above the debt service (the **"Surplus"**) will apply to the Subsidiaries, where the ratio is under the Debt Service Ratio. In the event that there is a Surplus in the Debt Service Ratio in all the loans, then the balance of the funds, as stated, will serve for the early payment of the balance of the principal of the Loans (**"Cash Sweep"**). The initial examination of the aforementioned Debt Service Ratio commenced from the tenth day of the third quarter of 2016.

In the matter of the St. Petersburg Project (the **"Project"**) under title of Petra-8 LLC (**"Petra"**) which is a subsidiary under full title of the Company - Petra was obligated to grant the Bank a mortgage over 60% of the cash flow emerging from the sale of apartments and commercial areas under construction, in whose respect a population form was received (and which were not sold as yet) and will use said amount for the early repayment of the principal of the Loan with respect to the Project (the "Petra Loan"). After full payment of the Petra Loan and to the extent that amounts still remain out of said amounts, they will serve for the payment of the principal of the loans of the Subsidiaries.

The guarantee that was given on behalf of the Company to the Bank in connection with the placement of the Loan shall also apply to changes in the conditions of the Loan, according to the provisions of the aforementioned debt settlement.

Within the framework of the debt settlement with the Bank, the covenants undertaken by the Subsidiaries have not been changed, with the exception of an improvement in the financial covenants, whereby the debt service coverage ratio (defined in the debt settlement with the Bank, as completed) will not be under 1.1 instead of not under 1.2 as prevailed so far, and with the exception of the fact that now a failure to meet the covenants may not constitute a cause for immediate payment, unless the Bank is given the right to impose fines according to insignificant amounts, which would be the sole relief of the Bank with respect to breach of these covenants. In addition, it was agreed that during the period up until December 31, 2017, the Subsidiaries will be released from meeting the financial covenants stated in the Loan Agreements with the Bank (the **"Release Period"**). The Subsidiaries are also given an option to extend the aforementioned release period, subject to the exclusive discretion of the Bank.

In consequence of that stated above, the Company stopped classifying the loans from banking corporations in its financial statements, in respect of whom it failed in the past to meet the financial covenants, within the framework of its current liabilities.

The Company examined the guidelines of the IAS 39 with respect to financial instruments, recognition and measurements in connection with change of conditions of the loans, as stated. The Company executed a quantitative and qualitative examination, reaching the conclusion that the change of the conditions, as stated, is not an essential change of conditions, and accordingly no derecognition of the current loan was executed.

2. Debt Settlement with VTB Bank

On September 26, 2016, a subsidiary of the Company, which is the holder of the rights and which directs the Vernissage Project committed in an agreement with VTB Bank (the **"Bank"**), pursuant to the change of conditions and reorganization of the Loan, that was placed in its favor on behalf of the Bank (the **"Agreement"**) whose balance, as of the date of the commitment in the Agreement, amounts to a total of approx. US$40 million.

Principles of the Debt Settlement:

(a) The Loan that was founded in dollar currency (US) will be fully converted into a loan in the local currency (ruble) according to the representative rate of exchange of the dollar/ruble on the date of execution of the Agreement;

(b) 97% of the principal of the Loan will be deferred to a single payment on the third quarter of 2021. 2% of the principal of the Loan will be paid in two equal installments on the first and second quarters of 2021, and the remaining 1% will be paid in quarterly installments (quotas of 0.02%-0.11%) during the period until the end of 2020;

(c) The annual interest borne by the Loan will amount to the interest of the Central Bank of Russia together with an addition of 4% (14% as of now) and in any event it will not exceed 18.75% per annum (the **"Effective Interest"**). The interest will be paid each and every month. Notwithstanding, the subsidiary will not be obligated to pay current interest payments at a rate of above 8% per annum (the **"Paid Interest"**), as in all matters pertaining to amounts emerging from the balance between the Effective Interest and the Paid Interest (the **"Interest Gap"**), they will be added each and every month to the amount of the principal of the Loan (at a rate of 97%) to be paid together with it in a single payment on the third quarter of 2021. Until its payment date, as stated above, the Interest Gap will be added to the amount of the principal of the Loan, accruing interest according to the conditions of the Loan.

Within the framework of the Agreement, a Cash Sweep method was determined for payment of the principal of the Loan. Thereby, to the extent that in a second quarter the EBITDA on a quarterly basis, with the deduction of taxes, costs of preservation of the asset, subject of the Project (Capex – Expenditure Capital); the debt service together with an addition of 10% is a positive figure (the "Surplus Balance"), the full Surplus Balance will be transferred for the payment of principal of the Loan in the subsequent quarter.

In addition, the subsidiary is obligated to meet the financial covenants which would be valid throughout the period of the loans, whose principals are as specified hereunder:

(a) minimum income in the Project, which would be examined at a quarterly level from a minimum threshold of 65 million ruble (approx. $1 million) in the third quarter of 2016 and up to 85 million ruble (approx. $2.1 million) by the end of 2020;

(b) maintaining a positive net asset value (NAV) throughout the period of the Agreement, from July 1, 2016;

(c) EBITDA – in 2016 not under 250 million ruble (approx. $3.3 million) and up to a threshold of 310 million ruble (approx. $8.4 million) in 2020;

(d) the debt service ratio will be above 1.1;

(e) loan to value ratio (LTV) – (1) during the period of the 12-24 first months after the signature of the Agreement – not above 100%; (2) 24 months from the date of signature of the Agreement – not above 70%; during the period of the first 12 months, the Company will be released from meeting this stipulation;

(f) the rate of occupancy in the Project throughout the period of the loans will be under 90%.

As of December 31, 2016, the Company complied with the financial covenants that were determined as part of the credit agreements.

The Company examined the guidelines of IAS 39 with respect to financial instruments, recognition and measurement in connection with changing the conditions of the loans, as stated. The Company executed a quantitative and qualitative examination, reaching the conclusion that the change of conditions, as stated, is a significant change of conditions, and accordingly a write-off of the current loan and recognition of the new loan was executed according to its fair value, as of the date of change of conditions. Accordingly, the Company recognised the expenses in its financial statements in the amount of US$480 thousand.

3. Agreement with Nordea Bank

In connection with the share in the Century Project, which is held by the subsidiary – Avtoprioriet NLC (the "subsidiary"), on December 28, 2016, the Subsidiary committed with Nordea Bank (hereinafter: the "Bank"), that finances its operations in the Project in an agreement for a change in the conditions of the loan placed in its in favor on behalf of the Bank whose balance as of the date of the Agreement amounts to a total of approx. US$18 million. According to the Agreement, in the fourth quarter of 2016 and in the first and second quarters of 2017, the quarterly payment of the principal of the Loan will decrease from a total of US$315,000 to a total of US$200,000 (the "Principal Balance"). The Principal Balance for said quarters will be deferred and will be added to the amount of the principal of the Loan (the balloon) which is placed for final payment on the second quarter of 2019, and be paid together with it in a single payment. Concurrently, an unbinding letter was issued by the Bank, whereby subject to the fulfillment of various conditions, stated in the letter, the Bank will contemplate to defer the full payment of the principal of the third and fourth quarter of 2017 to the final loan payment date.

a. According to theagreements with the Bank, the Company is obligated to meet several financial covenants, including that the loan balance divided by the EBITDA is under 6.5, the equity out of the total assets will not be under 25%, LTV not under 65% and DSCR which will not exceed 1.2 in both annual and quarterly calculation.

b. The Company failed to meet the financial covenants stated for this loan. Accordingly, the Company classifies said Loan in its financial statements, as at December 31, 2016, within the framework of its current liabilities. The Company handles negotiations with the Bank in connection with the conditions of the Loan.

c. Pledges and securities

Bearing in mind that all the loans that the investees received are intended for the financing or re-financing of specific projects of the Company, the investees pledged their rights in the projects and the income stemming from the aforesaid financed projects. The balance of the secured properties, as of the date of the Financial Statements, amounted to approximately 458.4 million US dollars. Furthermore, in some cases the Company pledged its shares in investees, which own the projects, in favor of the banks, as aforesaid.

d. The payment dates of contractual loans:

	31 December 2016 US$000	31 December 2015 US$000
First year - current maturities and credit from banking corporations for inventory of investment properties under construction	**18,239**	45,810
Second year	**3,764**	19,910
Third year	**18,782**	21,970
Fourth year and after	**194,668**	161,569
	235,453	249,259
With the deduction of borrowing costs	**(4,316)**	(8,511)
	231,137	240,748

Note 12: Loans And Guarantees From Controlling Holders

This year, the Company received an advance of US$5.7 million and also $2 million by the end of 2015 from the controlling companies at that time, on account of future payments that are expected to be received by the Company in accordance with the Settlement Plan between the Company and its debenture holders, as specified in Note 13. The loan does not have a set interest rate or payment date. The loan is measured, based on fair market value. In light of the calculated fair market value, the interest amount is negligible. Accordingly, a total of US$ 5.7 million was recognized as a benefit from the controlling holder in 2016, and a total of US$2 million was recognized as a benefit from the controlling holder in 2015.

In December 2016, the settlement with the debenture holders entered validity. In consequence thereof, the balance of the loan from the controlling holders, as presented in the Financial Statements, according to US$ 3.8 million, which constituted the consideration for the shares issued on their behalf within the framework of the debt settlement – was classified to share premium.

Note 13: Debentures

a. Composition

Series	Date of issuance	Nominal interest	Maturity date	Nominal value on date of issuance US$000	Linkage terms (principal and interest)	Effective annual interest rate	31 December 2016 Amount of bonds US$000	31 December 2016 Balance US$000	31 December 2015 Amount of bondholders US$000	31 December 2015 Balance US$000
A	December 2007	6.5%	6 equal annual payments from December 31,2010	10,085	Israel CPI	6.19%	-	-	13,087	4,304
B	December 2007	LIBOR +2.75%	6 equal annual payments from December 31,2010	52,626	US Dollar exchange rate	5.15%	-	-	68,225	18,512
C	August 2010 February 2011	9%	5 equal annual payments from August 31,2012	79,803	Israel CPI	5.59%–8.88%	-	-	119,224	36,560
D	August 2010 February 2011/ May 2013	6.5%	4 equal annual payments from November 30, 2014	56,586	Israel CPI	6.16%–7.86%	-	-	155,288	44,563
E	July 2013 December 2012	8.21%	5 annual payments from May 31, 2016	107,429	Not linked	6.29% -7.59% 7.29%-8.61%	-	-	382,400	107,409
F	September 2014	5.5% 6.5%	5 annual payments from September 30, 2016	39,656	Not linked	6.94%	-	-	144,389	39,847
G	December 2016	1%	3 annual payments from December 31, 2021	45,000	Not linked	9.77%	**45,000**	**27,593**		
								27,593		251,195

b. The Updated Settlement Plan and its Approval within the Framework of Meetings of Holders of Debentures

In July 18, 2016, following negotiations of more than a year and after the first Settlement Plan did not enter validity (in light of failure to fully fulfill the suspending conditions, stated therein, in due time) and receipt of approval of the board of the Company thereto, the Company published a new Settlement Plan outline between the Company and the holders of its Debentures (Series A–F). On August 1, 2016, the Company published the full new Settlement Plan, including its appendices, and including the new deed of trust (the “Settlement Plan” or the “Arrangement” or “Updated Settlement Plan”).

Principals of the Settlement Plan

Upon the execution of the settlement, subsequent to increasing the registered capital of the Company, as specified hereunder, and allotment of the shares according to the offering to the shareholders (as this term is defined hereunder) all the following actions were executed, whereby the total of the debt to the holders of the Debentures (Series A–F) of the Company, according to their balance upon the date of execution of the settlement, were replaced with the securities specified in Sections I–IV hereunder. In addition, upon the date of execution of the settlement, all the existing debentures were stricken out of trade and revoked, and thereby did not confer upon the current debenture holders any right according to them (including payments that were supposed to be executed prior to the settlement execution date and which were not executed). Furthermore, upon the cancellation and striking out of the current debentures, as stated, the validity of the current deeds of trust and all the rights conferred to any party according to them expired.

The entrance into validity of the Settlement Plan, as stated, and the issuing of the offered securities according to it, were subject to and stipulated in the fulfillment of suspending conditions. All the suspending conditions were met on November 24, 2016.

On December 5, 2016, the Effective Date for the execution of the settlement was determined, as December 19, 2016 was fixed as the date for the determination of entitlement to the distribution of considerations in the securities to the debenture holders, according to the Settlement Plan, as per the code of the stock exchange and the guidelines installed on its strength. On December 5, 2016, the trade in the Debentures (Series A–F) of the Company was terminated.

On December 19, 2016, the offering to the shareholders in England was completed, within its framework the raising of $14.1 million was completed, as required according to the conditions of the settlement.

On December 22, 2016, all the securities of the Company (the new debentures and the shares) begun trading on the Tel Aviv Stock Exchange, while cancelling on the very same day the registration for trade on the AIM Stock Exchange of London. In consequence of completion of the Settlement Plan, the registry of securities of the Company and the layout of holdings of interested parties in the Company significantly changed.

Increasing the Registered Capital of the Company

According to the Settlement Plan, the Company increased its registered share capital. On September 5, 2016, an approval of the shareholder meeting of the Company was received, pursuant to the increase of the registered capital of the Company from $1,350,000 divided into 135,000,000 Ordinary Shares of $0.01, n.v. each into $17,000,000, divided into 1,700,000,000 shares of $0.01 n.v. each. On November 22, 2016, the aforementioned capital increment was registered with the Registrar of Companies in Cyprus.

It should be indicated in this context, that in order to meet the code and guidelines of the stock exchange, pursuant to the registration of shares of the Company for trade on the stock exchange (including shares emerging in consequence of realization of the Management Options), on December 9, 2016, after receiving the approval of the board of the Company, the general meeting of shareholders of the Company approved the consolidation of the registered share capital and the issued and paid up share capital of the Company according to a ratio of 1:20, in such a manner that each 20 Ordinary Shares of $0.01 n.v. each, were consolidated into a single ordinary share of $0.20, n.v. each, of the Company (**"Capital Consolidation"**). After completion of the Capital Consolidation, as stated, the registered capital of the Company amounts to $17,000,000, divided into 85,000,000 shares of $0.20 n.v., each.

I. Allotment of Shares to the Current Debenture Holders

The Company allotted shares of the Company (the "Issued Shares") representing 80.5% of the issued and paid up share capital of the Company immediately after the allotment (73.3% in full dilution, which include the Management Options according to the Settlement Plan); the Issued Shares were registered for trade and are equal in their conditions to the current shares of the Company, as of the date of execution of the settlement. Payment of the par value with respect to the Issued Shares was executed against waiver of the current debenture holders of the debt with respect to the current debentures, according to an amount equivalent to the payment required by law and/or according to the code of the stock exchange in consideration of the par value.

II. Issuance of the New Debentures

The Company, upon the date of the settlement execution date, issued the Debentures (Series G) to the current debenture holders ("Debentures (Series G)" or the "New Debentures"). The New Debentures, whose principal is an amount in shekels equivalent to $45 million, as per the dollar to shekel representative rate of exchange, as stated in the Settlement Plan, will be paid in three equal installments on December 31 of each of the years 2021, 2022 and 2023; the principal of Debentures (Series G) bears an annual interest at a rate of 1%, which will accrue up until December 2017 (i.e. PIK interest) without compound interest, and be paid on that date. Thereafter, it will be routinely paid to the holders of Debentures (Series G) once a year on December 31 of each calendar year. The principal and interest of the Debentures (Series G) are not linked to the index or to any linkage basis (including any currency) nor are they secured through any securities or mortgages.

III. Inflow of the Controlling Companies

Within the framework of the settlement, the controlling companies transferred an amount of $14.1 million, and against the transferring of capital, as stated, the controlling companies remained with holding at a rate of 19.5% of the share capital of the Company (approx. 17.6% under full dilution).

IV. Allotment of Securities to the Management of the Company

Upon the settlement execution date, the management of the Company was allotted, without any consideration, option warrants (non-negotiable) for the purchasing of shares of the Company, constituting under assumption of exercise thereof, nine percent (9%) of the issued and paid up capital of the Company, immediately after allotment of all the shares according to the Settlement Plan (including allotment of the Issued Shares) (the "Management Options").

The terms of the Management Options were determined by the board of the Company. According to the Settlement Plan, the Management Options could be exercised up until completion of five years from the vesting of the first quota of the Management Options (December 22, 2022). The exercise price of each option was set to 0.3 cent per share, after adjustment due to the capital consolidation. The Management Options can be exercised in four equal quotas over a period of four years, from December 22, 2017, so long that upon the exercise date, the offeree is still employed or renders services to the Company.

On November 14, 2016, the board approved under stipulation, that the new Settlement Plan will enter validity upon the granting of the options to the management of the Company, see Note 19.

V. Amendment of the Articles of the Company; the Board of Directors of the Company
According to the Settlement Plan, it was determined that upon the settlement execution date, a general meeting of the shareholders of the Company will be convened in such a manner that the shareholders participating therein will be the shareholders after completion of the settlement (the "Meeting") on whose agenda:

a. Amendment to the articles of the Company and its replacement with the articles attached hereto, as an appendix to the Settlement Plan (or a similar drafting which will be brought for approval within the framework of the invitation to the general meeting) inter alia. The approval will include instructions for the appointment of directors of the Company, whereby until the unpaid balance of the New Debentures is fully paid (the "Payment Date"), the board of the Company shall consist of not less than two external directors and an additional independent director;

b. The appointment of two external directors and an additional independent director. According to the Settlement Plan, the controlling companies are obligated to vote in the general meeting in favor of the change of the articles, as stated above. As of the date of the statement, the Company acts toward the summoning of the Meeting, including locating the candidates, who would service as independent directors with the Company.

c. The accounting treatment of the debt settlement is as follows:
1. The issued shares of the Company were recorded according to their fair value upon the issuance thereof.
2. Debentures of the Company, which are issued within the framework of the settlement, include essentially different conditions and economic characteristics in comparison with the previous shares. The new debentures were recorded according to their fair value upon of the issuance thereof.
3. The previous debentures were derecognized.
4. The loans received from the controlling holders, which were recognized until that date on the Financial Statements, were fully written off and attributed as a premium on the issued shares.

The total profit, which was recorded in consequence of the debt settlement during the Reported Period, amounts to approx. US$ 222.5 million, calculated as the balance between the fair value of the consideration elements and the book value of the previous debentures. This profit was presented within the framework of the financing income in the Statement of Income.

d. The Contractual Payment Dates as of December 31, 2016:*

	1st Year US$000	2nd Year US$000	3rd Year US$000	4th Year US$000	5th Year US$000	6th Year henceforth US$000	Total US$000
Debentures (Series G)	-	-	-	-	15,189	29,484	44,673
Total	-	-	-	-	15,189	29,484	44,673
Discount							(17,151)
Total							27,522

* Not including payable interest, accrued on the debentures, amounting to a total of approx. US$71 thousand, as of December 31, 2016, which is presented within the current maturities of loans from banking corporations and debentures in the Financial Conditions Statement, as per the shekel-dollar rate of exchange, known on December 31, 2016..

Note 14: Other Non-Current Liabilities

	31 December 2016 US$000	31 December 2015 US$000
Advances of Lessees (1)	5,823	5,021
With a deduction – deposits of short term lessees	(2,244)	(2,033)
Liability toward the Yaroslavl Municipality (2)	6,053	6,089
	9,632	9,077

(1) The deposits do not bear interest, reflecting payment of lease for a period of up to three months, which are supposed to be returned to the lessee upon completion of the lease period.
(2) See Note 23e.

Note 15: Financial Instruments

a. Management's Policy Targets with Respect to Financial Risk Management

The operations of the Group on the Russian market expose it to various financial risks, such as market risks, currency risks, interest risk, credit risk, consumer price index risk and liquidity risk. The comprehensive risk management plan of the Company focuses on actions toward minimizing possible adverse effects on the financial performance of the Company.

The Group carried out sensitivity tests for principal market risk factors, which can affect the results of operations or the reported financial position. Both the risk factors and the 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.

The parameters serving the Company in the execution of the sensitivity test are as follows:

The changes that were chosen under the relevant risk variables were determined according to a valuation of the Company with respect to possible reasonable changes in these risk variables.

In long term loans under variable interest, the sensitivity test for the interest risk was executed merely on the variable component of the interest. The sensitivity of the debentures to interest rates was evaluated, based upon the remaining period of the Debentures. In long term loans with fix interest, there is no exposure to the Group do to interest risks.

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 balances in financial instruments held in Ruble, New Israeli Shekels ("NIS") and Hungarian Forint ("HUF") and also revenues in Ruble, therefore, there is an exposure to changes in their value in consequence of changes in the rate of exchange. The Group's policy is not to enter into any exchange rate hedging transactions.

For the accelerated devaluation of the Ruble in comparison to US dollars, see also Note 1b. The Group has balances in financial instruments, stated in Ruble, in the amount of US$70.5 million, and financial instrument, stated in Shekel, amounting to US$ 47.3 million.

The following table presents a sensitivity analysis with respect to changes in the U.S. dollar/Ruble exchange rates:

	December 31 2016 US$000	December 31 2015 US$000
Increase of 5% in n market factor	**(2,886)**	(1,455)
Increase of 10% in market factor	**(5,772)**	(2,910)
Increase of 20% in market factor	**(11,544)**	(5,820)
Decrease of 5% in market factor	**2,886**	1,455
Decrease of 10% in market factor	**5,772**	2,910
Decrease of 20% in market factor	**11,544**	5,820

The following table presents a sensitivity analysis with respect to changes in the U.S. dollar/NIS exchange rates:

	December 31 2016 US$000	December 31 2015 US$000
Increase 5% in market factor	**(1,263)**	(11,073)
Decrease 5% in market factor	**1,263**	11,073

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 holds negotiations with its customers, allowing specific reduction for limited periods, in order to allow its customer to be able to pay their rental fees.

3. Interest 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 Company has loans from banks and interest bearing debentures. These balances bear variable interest rate and therefore expose the Company to cash flow risk in respect of increase in interest rates.

23% of the Company's loans bear variable interest rates.

The following table presents the sensitivity analysis to a change in interest rate:

	2016 Effect on profit (loss) before tax US$000	2015 Effect on profit (loss) before tax US$000
Increase 1% in market factor	**(185)**	(374)
Decrease 1% in market factor	**185**	374

4. Liquidity risk:

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

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

The following table summarizes the payment dates of the Group's financial liabilities based on contractual undiscounted payments (including payments for interest):

	As at December 2016					
	Less than 1 year US$000	**1 to 2 Years US$000**	**2 to 3 Years US$000**	**3 to 4 Years US$000**	**> 5 Years US$000**	**Total US$000**
Loans from banks	**28,478**	**27,843**	**33,783**	**17,645**	**259,679**	**367,428**
Debenture holders	**459**	**447**	**447**	**447**	**45,561**	**47,361**
Accounts payable and credit balances	**8,805**	**–**	**6,053**	**–**	**–**	**14,858**
	37,742	**28,290**	**40,283**	**18,092**	**305,240**	**429,647**

	As at 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**	**> 5 Years US$000**	**Total US$000**
Loans from banks	64,361	35,345	35,755	82,562	95,796	313,819
Debenture holders	125,989	47,293	30,476	56,296	22,957	283,011
Accounts payable and credit balances	7,206	–	6,090	–	–	13,296
	197,556	82,638	72,321	138,858	118,753	610,126

5. Financial instruments and 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 minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's insolvency.

The Group's maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2016 and 2015 is the amount of cash balances, presented in the Statement of Financial Position.

The following table presents a sensitivity analysis with respect to changes in the consumer price index:

	2016 December 31 US$000	2015 December 31 US$000
Increase 5% in market factor	*	(1,709)
Decrease 5% in market factor	*	1,709

* From the date of execution of the settlement, as described in Note 13, the Company is no longer exposed to changes in the CPI.

b. Fair Value:

The following table specifies the balance in the financial statements and the fair value of groups of financial instruments, presented in the financial statements as at December 31, 2015 and 2016, not according to their fair value.

	31 December 2016		31 December 2015	
	Balance US$000	Fair value US$000	Balance US$000	Fair value US$000
Financial liabilities				
Long and short-term loans and credit from banking corporations(1)	**235,453**	**233,947**	240,748	191,489
Debentures (series A) (2)	-	-	4,304	1,191
Debentures (series B) (2)	-	-	18,512	6,644
Debentures (series C) (2)	-	-	36,560	10,734
Debentures (series D) (2)	-	-	44,563	10,295
Debentures (series E) (2)	-	-	107,409	26,480
Debentures (series F) (2)	-	-	39,847	10,361
Debentures (series G) (2)	**27,593**	**29,703**	-	-

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

The management assessed that balance of cash and cash equivalents, restricted deposits and loans to related parties accord or are close to their fair value, due to the short-term maturities of these instruments.

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

- Fair value of price based negotiable debentures, quoted as of the reported date.
- Fair values of the Group's interest-bearing borrowings and loans are determined through the DCF method, using discount rate that reflects the issuer's interest rate as at the end of the reported period.

The following is a description of significant data that cannot be foreseeable, serving for the evaluation:

	Valuation technique	Significant unforeseeable data	Range (weighted average)
Short and long term loans	DCF	Average discount rate for dollar and ruble loans	8.81%

Note 16: Taxes On Income

a. Main tax rates applicable to the Company:

Russia - corporate tax rate - 20%. In certain areas in Russia, it is possible to enjoy a decreased corporate tax rate of 15.5%.
Cyprus - corporate tax rate - 12.5%.
Hungary - corporate tax rate - on income up to US$ 1,720 thousand – 10% and on income above the aforementioned amount, the corporate tax rate is 19%. The corporate tax rate in Hungary decreased to 9% from January 1, 2017.
Israel - corporate tax rate - 25%. The corporate tax rate in Israel decreased to 24% from 2017.

b. Deferred taxes:

	Statements of financial position		Income statements		
	31 December 2016 US$000	31 December 2015 US$000	**31 December 2016 US$000**	31 December 2015 US$000	31 December 2014 US$000
Deferred tax liabilities:					
Investment property and Investment property under construction	**(25,800)**	(36,198)	**15,556**	13,011	(19,429)
Inventory of buildings	**(926)**	(6,104)	**5,772**	(155)	6,021
Deferred tax assets:					
Carry forward tax losses	**23,952**	43,727	**(26,313)**	7,309	28,317
Deferred tax expenses (income)			**(4,985)**	20,165	14,909
Deferred tax, net	**(2,774)**	1,425			

1. The deferred taxes are calculated according to an average tax rate of 20%, based on the tax rates that are expected to apply at the time they are realized.

2. In February 2012, the Russian parliament approved the new protocol of the Cyprus-Russia Tax Treaty, among others, updating the taxation of capital gains, whereby a Cypriot holding company, producing a capital gain from the sale of shares in a Russian real estate company will be charged with a tax at the rate of 20% in Russia, and will not be released from taxation, as it was so far. This provisions will enter validity within four years from the tax year in which the protocol was ratified.

The Company examined the possible impact of the change in the treaty on the financial statements. The change will not have any material effect on the Company's results of operations, because the Company has accounted for a tax provision which was deducted according to the full tax burden. From December 29, 2016, the Governments of Russia and Cyprus decided to delay the application of the change in the treaty until further notice.

3. The new legislation of the transfer prices became valid from January 1, 2012, which allow the tax authorities to perform adjustments to the income for tax purposes, in relation to related party transactions, whose prices differ from the market price. In 2016, it was determined, that all cross border transactions with related parties are subject to transfer prices rules, as per the applicable law. In addition, transactions with related parties, situated in certain countries (specified on a list) are subject to transfer prices rules, if they exceed 60 million ruble. In respect of local transactions, the laws apply to the extent that the transactions are according to amounts exceeding one billion ruble. Within the framework of the 2012 legislation, inter alia, the burden of proof was transferred from the tax authorities to the companies. The Company deems that it will be able to prove that such related party transactions were made on market terms. Due to the uncertainty and the lack of current practice concerning the new law, the Russian tax authorities are liable to dispute the price level, determined by the Group with respect to these transactions, and to determine that the Company owe an additional tax. The management of the Company evaluates that the transactions committed between the Company and third parties are according to the market prices.

4. Amendments to the tax laws, which entered validity from 2015, intended to deter tax avoidance, through activities in countries, presenting lower tax rates and aggressive tax planning. These amendments, inter alia, include the definition of a beneficial owner, residency for tax purposes in a location, where the business activity is carried out and also legislation with respect to a foreign investee. The aforementioned legislation, together with the interpretation of applicable laws, as assumed by the tax authorities, testifies of a stricter stand of the tax authorities, which could impose a higher tax liability, as well as fines and various charges upon the execution of tax control to companies of the Group. The management of the Company is of the opinion that it properly interprets the provisions of said laws upon the creation of deferred taxes and tax provisions in its Financial Statements.

5. Until December 31, 2016, losses for tax purposes in Russia could be forwarded for 10 years only from their evolvement. According to the federal law, dated November 30, 2016, from January 1, 2017, losses evolving from 2007 could be forwarded without restriction. According to the transitory provisions, valid in 2017 – 2020 tax years, only 50% could be decreased from the taxable income (after offsetting a current loss) upon offsetting forwarded losses from 2007 henceforth. Losses cannot be carried backwards.

c. Taxes on income (tax benefit), included in the Income Statements:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Current taxes	**830**	1,161	1,784
Deferred taxes	**4,984**	(20,165)	(14,909)
	5,814	(19,004)	(13,125)

d. Theoretic Tax:

The following is an adjustment between the tax amount, that would have been applied if all the income and expenses, profits and losses were charged with tax according to statutory tax rate and the amount of taxes and income, attributed to the profit or loss.

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Profit (loss) before taxes on income	**133,599**	(176,481)	(76,002)
Tax (tax benefit) calculated according to the statutory tax rate in Russia (20%)	**26,720**	(35,296)	(15,200)
Increase (decrease) in taxes on income emerging from the following factors:			
Exempted revenues	**(44,622)**	-	-
Change of rate for previous years	**1,385**	-	-
Effect of different tax rates in Cyprus (12.5%) and in Hungary (19%)	**2,154**	2,631	1,653
Earnings of companies accounted for under the equity method for which deferred tax were not recorded	**-**	-	(658)
Inter-company expenses for which deferred tax liabilities were recorded	**3,210**	(6,106)	(11,768)
Losses for tax purposes for which deferred tax assets were not recorded	**23,570**	17,216	11,374
Tax benefits from losses, for which no deferred tax assets were previously recognised	**(7,298)**	-	-
Expenses not recognized for tax purposes	**692**	2,462	1,313
Others	**3**	89	161
Taxes on income (tax benefit)	**5,814**	(19,004)	(13,125)

e. Losses carried forward for tax purposes:

total loss carried forward by the Company (including subsidiaries), as of December 31, 2016, is approx. US$ 120 million In consequence of this forwarded loss, deferred taxes of US$ 23.9 million was recognised.

Deferred tax assets in total amount of US $23.6 million with respect to forwarded losses in the amount of US$87 million were not recorded due to unexpected utilisation thereof.

Note 17: Equity Capital

a. Composition of the share capital:

	Registered 31 December US$000	Issued and paid up 31 December US$000
Ordinary Shares of US$0.2 n.v. each for 2016	**17,000,000**	14,998,000
Ordinary Shares of US$0.01 n.v. each for 2015	**1,350,000**	1,035,580

Increasing the registered capital of the Company
In accordance with the conditions of the settlement plan, specified in the Settlement Plan, the Company was required to increase and consolidate the registered share capital of the Company. For further details, see Note 13.

b. Rights attaching to the shares
In December 2016, shares of the Company on the AIM London stock exchange were de-listed and shares were listed on the Tel Aviv Stock Exchange, as per the conditions of the settlement, specified in Note 13.

Voting rights – each shareholder has one vote for each share, in general meetings.

Rights for dividends – a dividend will be determined based on the number of shares held by each individual shareholder.

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

The distribution of dividends by the Company depends on the financial performance and position of the Company, its equity and its working capital requirements. On November 27, 2006, the Company's board adopted a dividend policy which reflects the long-term earnings and its cash flow, taking into account the capital requirements, while at the same time maintaining an appropriate level of dividend coverage. As of the Date of the Report, the Company has no worthy profits for distribution.

d. Reserve for transaction with controlling shareholder
Financial 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 upon the date of the transaction. The difference between the fair value and the consideration determined in the transaction is attributed to the equity and is therefore presented in a separate item in the equity capital of "reserve from transaction with a controlling holder". For further details, see Note 12.

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

1. Preserving the ability of the Group to assure continuity of the enterprise, thereby create a yield to the shareholders, investors and other interested parties.
2. Achieving return on capital to shareholders through pricing correctly rents level and sale prices, adjusted to the business risk levels.
3. Maintaining healthy capital ratios in order to support its business activity and maximize shareholder's value.

The Company 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 Company's industry and business environment.

The Company manages its capital structure and executes adjustments in consequence of changes in the economic conditions and the risk factors pertaining to its operations. In order to preserve or adjust the necessary capital structure, the Company assumes various means, such as making changes in dividend amounts, payables to the shareholders, raising capital through the issuing of share capital and the realization of assets, in order to diminish its debt layout.

Note 18: Earnings (Loss) Per Share

	For the year ended December 31, 2016		For the year ended December 31, 2015		For the year ended December 31, 2014	
	Weighted quantity of shares US$000	Profit attributed to shareholders of the Company US$000	Weighted quantity of shares (*) US$000	Loss attributed to shareholders of the Company US$000	Weighted quantity of shares (*) US$000	Loss attributed to shareholders of the Company US$000
Quantity of shares and net profit (loss)	**6,899**	130,149	5,178	(153,108)	5,178	(71,313)
For the calculation of the basic diluted net profit (loss)	**6,922**	130,181	5,178	(153,108)	5,178	(71,313)

(*) After adjustment for the consolidation of shares.

Note 19: Share-Based Payments

a. As stated in Note 13b, on November 14, 2016, the board of the Company approved to the management of the Company an allotment of 7,416,689 option warrants (non-negotiable) for the purchasing of 7,416,689 shares of the Company, representing, under the assumption of realization thereof, 9% of the issued and paid up capital of the Company immediately after the allotment and after allotment of all the shares according to the Settlement Plan. These options can be exercised up until December 22, 2022. The exercise price of each option is determined to 0.3 cent per share. Management options shall vest in four equal quotas over a period of four years, from December 22, 2017. Upon the date of the grant, the fair value of the options was evaluated in US$ 1,032 thousand. The realization method is Net Exercise, whereby the options are exercised on the basis of the benefit element, thus, subsequent to the conversion of options into shares, the offeree is actually entitled to receive shares that are reflecting the benefit element embodied in the exercised options in consideration of the par value of the shares. In other words, the offeree does not pay the exercise price, determined upon the option granting date, as the exercise price serves merely for the calculation of the benefit element.

The following table presents the data serving in the measurement of the fair value of the options for shares, covered through the capital instruments of the Company, as per the binomial model for pricing options, with respect to aforementioned plan:

Dividend yield on the share (%) : 0%
Expected fluctuations in share prices (%) 45%
Riskless interest rate (%) : 1.59%
Anticipated life time of the options for shares (years): 6
Price per share (NIS): 1.3

b. 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 will expire within five years from the granting date.

c. On 11 November, 2013 the Board of the Company took several resolutions in connection with option warrants ("Option Warrants"), as follows:

1. Re-allotment of 449,198 Options Warrants exercisable into 22,460 shares of the Company (449,148 Option Warrants before the adjustment for the capital consolidation) at an exercise price of 2.50 GBP per Option Warrant, to Mr. Roman Rozental, CEO of the Company, in lieu of Option Warrants, which were previously issued to Mr. Rozental. The aforementioned Option Warrants 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. Allotment of 258,750 new Option Warrants to Mr. Yevgeny Steklov, CFO of the Company, exercisable into 12,938 shares of the Company at an exercise price of 2.60 GBP for each option. The aforementioned Option Warrants will be exercisable in three equal quotas from the end of the first year from the date of issuance of such options. The Option Warrants will expire within five years from their allotment.

d. On November 10, 2014, the Company's Board of Directors approved the extension of the expiration date of 374,332 options, previously allotted by the Company to its service provider, by additional two years until December 19, 2016, as well as updating the exercise price of such options from 3.5 Pounds per share to an exercise price of 2.85 Pounds per share. Said options expired on December 19, 2016.

e. The expense that was recognized in the financial statements for services provided by employees and officers in connection with the share based payment is presented in the following table:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Total expenditure recognized from share based transactions	**33**	56	134

f. Changes during the year:
The following table includes the number and weighted average exercise prices (WAEP) and changes in the options plans to employees during the year:

	For the year ended December 31, 2016		For the year ended December 31, 2015		For the year ended December 31, 2014	
	No. of options (*)	**WAEP US$**	**No. of options (*)**	**WAEP US$**	**No. of options (*)**	**WAEP US$**
Options for shares at the beginning of the year	**54,114**	**3.92**	87,804	3.8	143,954	4.7
Options for shares granted during the year	**7,416,689**	**0.3**	-	-	-	-
Options for shares expired during the year	**(18,717)**	**3.5**	(33,690)	3.45	(56,150)	5.5
Options for shares at the end of the year.	**7,452,086**	**0.55**	54,114	3.92	87,804	3.8
Options for shares exercisable by the end of the year.	**35,397**	**3.11**	49,801	3.93	79,179	3.8

(*) After adjustment for capital consolidation.

g. The weighted average of the anticipated lifetime of the options for shares that have not expired, as yet, is six years.

h. Measurement of the fair value of equity-settled share options:
The Company utilizes 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 and officers.

Note 20: Additional Details Of Profit And Loss Items

a. Cost of maintenance and management of leased assets:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Cost of maintenance of property	**8,100**	7,130	10,642
Cost of land lease	**398**	510	809
Management fees	**587**	815	1,422
Property tax on investment property	**1,648**	2,855	5,355
	10,733	11,310	18,228

b. General and administrative expenses:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Salaries and auxiliary payments (1)	**5,593**	5,606	6,860
Office maintenance	**1,528**	1,951	2,099
Professional fees	**2,984**	2,519	2,545
Overseas traveling expenses	**466**	434	554
Doubtful debts provision	**341**	494	–
Depreciation	**194**	156	200
Other costs	**1,474**	1,418	795
	12,580	12,578	13,043
(1) Includes cost of share-based payment	**33**	56	134

c. Financing income and expenses:

Finance income:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Profit resulting from the settlement with the debenture holders (1)	**222,472**	-	-
Interest income from deposits with banks	**95**	271	323
Interest income from loans given to third parties	**835**	-	1,198
	223,402	271	1,521

(1) See also Note 13.

Finance expenses:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Interest expenses due to loans from banking corporations.	**(19,013)**	(18,168)	(20,864)
Interest expenses due to debentures	**(18,298)**	(16,380)	(16,716)
Capitalized interest	**1,563**	1,276	2,782
Banking and other commissions	**(539)**	(1,167)	(1,900)
Effect of discounting for long-term receivables	**(453)**	(596)	(244)
	(36,740)	(35,035)	(36,942)

d. Other expenses, net:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Updating the provision regarding a service provider (see Note 23a)	**744**	(600)	(3,485)
Adjustment of the liability to Yaroslavl municipality (see Note 23e)	**18**	1,285	1,493
Impairment of financial assets	**(318)**	(3,200)	-
Other	**(3,099)**	(2,560)	–
	(2,655)	(5,075)	(1,992)

Note 21: Related Parties

a. Transactions with related parties and interested parties:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Interest expenses to shareholders and related parties [(1)]	**–**	599	518

(1) Including interest expenses for the debenture, which are held by the shareholders and related parties of the Company.

b. Balances with related parties and interested parties:

	31 December 2016 US$000	31 December 2015 US$000
Debentures of the Company	**-**	12,888
Capital reserve for transaction with controlling owner	**16,223**	10,556

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

d. Benefits to key management personnel, employed by the Company:

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000	Year ended 31 December 2014 US$000
Short term benefits	**1,007**	754	1,090
Share-based payments	**28**	56	134
	1,035	810	1,224

e. The Company provided guarantees in favor of its subsidiaries' financing banks at the amount of approx. 235.5 million US dollars.

Note 22: Agreements With Related Parties And Interested Parties

During the Reported Period, no agreements were entered with related parties and/or interested parties

Note 23:- Contingent Obligations, Guarantees, Commitments And Pledges

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 Krechbiski and Fadida Holdings Ltd, a Cypriot company controlled by Mr. Opher Fadida-Lupin (hereinafter jointly: the "Service Providers"), hereby the Service Providers will provide Hydro with management services for the projects, among others, including management of lease contracts, marketing of available areas, providing current maintenance services etc. In September 2016, further to the purchasing of the rights of the minority, as specified in Note 4 to the statement, cooperation agreements between the parties have been terminated.

As part of the agreements previously with the Service Provider and in consideration for the aforementioned management services, it was concluded that 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 also– (b) an amount equal to 2% of the rental fees actually received by the subsidiaries from renting the project buildings.

Furthermore, a subsidiary of the Company granted loans to the service providers during 2014 totaling approximately USD 11 million. These loans bore an annual interest rate of 11% and were given for a term of two years. On September 21, 2016, the transaction for the purchasing of the full non-controlling rights was completed, as stated in Note 4, within its framework aforementioned loan balances were also settled.

b. A subsidiary of the Company, Petra 8 LLC ("Petra"), entered into the following agreements: - An agreement with a third party, which is not related to the Company, pursuant to which it will provide various professional services to Petra in connection with the receipt of the approvals and permits that are required for the project. Pursuant to the provisions of the agreement, as revised from time-to-time in the supplementary agreements, in consideration of the aforesaid services, Petra 8 will pay an amount that is equal to 2.5% of Petra 8's profit (net) stemming from project's 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 US$4 million (according to a mechanism for the settling of accounts that was determined in the agreements), amounting up until the financial statements date to a total of approx. US$ 4 million.

- An agreement with a third party according to which such third party provides services which include preparation for tenders, assistance in projects planning, assistance in selection of providers, technical supervision, budget control etc. As of the reporting date Petra pays such third party monthly management fees in an amount of approximately US$ 70 thousands US dollars, which are recorded under the item of other long term liabilities.
- An agreement with another management company for the purpose of developing the phases of the project for a monthly consideration of US$41 thousands.
- A marketing agreement a with local marketing company for the marketing of the project in consideration of commissions of 4-5%, in respect of specific goals achievement and in accordance with the terms specify in the agreement.
- An agreement with a third party contractor for the construction of the third phase in Petra project, for a fixed price of 50 thousand ruble per meter (approx. $820 per meter, according to the dollar-ruble rate of exchange, as at December 31, 2016).
- An agreement with a third party contractor for the construction of the fourth phase in Petra project, for a fixed price of 50 thousand ruble per meter (approx. $820 per meter, according to the dollar-ruble rate of exchange, as at December 31, 2016).

c. The Group entered into commercial lease agreements with respect to its real estate. These leases have a term of 12-39 years with a renewal option.

Future minimum un-capitalized lease payments of lease contracts are as follows:

	31 December 2016 **US$000**	31 December 2015 **US$000**
First year	**411**	462
Second year and up to five yearsה	**1,643**	1,849
More than five years	**8,962**	8,850
Total	**11,016**	11,161

d. Expected rental income:

The lease agreements of the Group are for periods of up to 10 years.

The expected rental income is as follows:

	31 December 2016 US$000
First year	**23,664**
Second year until five years	**46,647**
More than five years	**30,191**
	100,502

e. A consolidated company of the Company, which own a land in Yaroslavl, is liable to transfer up to 8% of the value of the built areas on the aforementioned real estate in favor of the Yaroslavl Municipality, that being on the strength of a commitment of the land's previous owner with the municipality. In consequence of said commitment, the Company recognized a provision for this liability in its financial statements. The Company further recognized an indemnification asset over half of the level of the liability, as concluded in the agreement of attaining control in the consolidated company. During the period, a reminder letter was received from the Yaroslavl Municipality with respect to the obligation of the Company toward the municipality at a rate of 8% of the built area of the project.

f. Pledges:
In order to secure the Group's liabilities, real estate properties were mortgaged and fixed charges were recorded on investment property, 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: Operating Segments

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") for the purpose of decision making with respect to the allocation of recourses and evaluation of performances.

For management purposes, the Group is organized according to operating segments based on products and services, as follows:

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

Segment performance (segment income (loss)) are 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 financing costs and financing 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 revenues and income 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,2016:			
Income			
Total income	**30,882**	**73,956**	**104,838**
Segment results	**(55,639)**	**(32,004)**	**(87,643)**
Unallocated expenses			**(8,240)**
Operating loss			**(95,883)**
Financing income, net			**229,482**
Profit before taxes on income			**133,599**

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2015:			
Income			
Total income	35,079	51,206	86,285
Segment results	(36,035)	(8,256)	(44,291)
Unallocated expenses			(12,710)
Operating loss			(57,001)
Financing 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:			
Income			
Total income	56,463	29,796	86,259
Segment results	121,905	(4,944)	116,961
Unallocated expenses			(8,181)
Operating loss			108,780
Financing expenses, net			(184,782)
Loss before taxes on income			(76,002)

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2016			
Assets:			
Segments assets	**268,350**	**226,281**	**494,631**
Unallocated assets			**22,613**
Total assets			**517,244**
Liabilities:			
Segments liabilities	**231,509**	**105,986**	**337,495**
Unallocated liabilities			**42,919**
Total liabilities			**380,414**

	Commercial US$000	Residential US$000	Total US$000
Year ended 31 December 2015			
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

Note 25: Subsequent Events

There were no material events after the reporting date which require disclosure in the financial statements.

Note 26: Date Of Approval Of The Financial Statements

The Board of Directors approved these consolidated financial statements for issue on 13 March 2017

Shareholders' Information

Financial Calendar

Annual General Meeting	October 2017
Announcement of 2017 first quarter results	May 2017
Announcement of 2017 interim results	August 2017
Announcement of 2017 third quarter results	November 2017

Share Price

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

Price at 31 December 2016	NIS 1.83
Lowest price during the year	NIS 1.3
Highest price during the year	NIS 1.83
Average	NIS 1.66

Daily information on the Company's share price can be obtained on the Israeli Stock Exchange website (Company's ticker MLD). The company began trading on TASE on December 22, 2016.

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 legal consul at:

SHG- Steinmetz, Haring Gorman & Co., Advocates
Derech Menachem Begin 23, Tel Aviv-Yafo, 66183

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

PR Agency

Eisenberg-Eliash, Tel-Aviv

Legal Advisers

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


real
ХОУМ
спортмастер