MirLand Development Corporation Plc

Annual Report and Accounts 2017

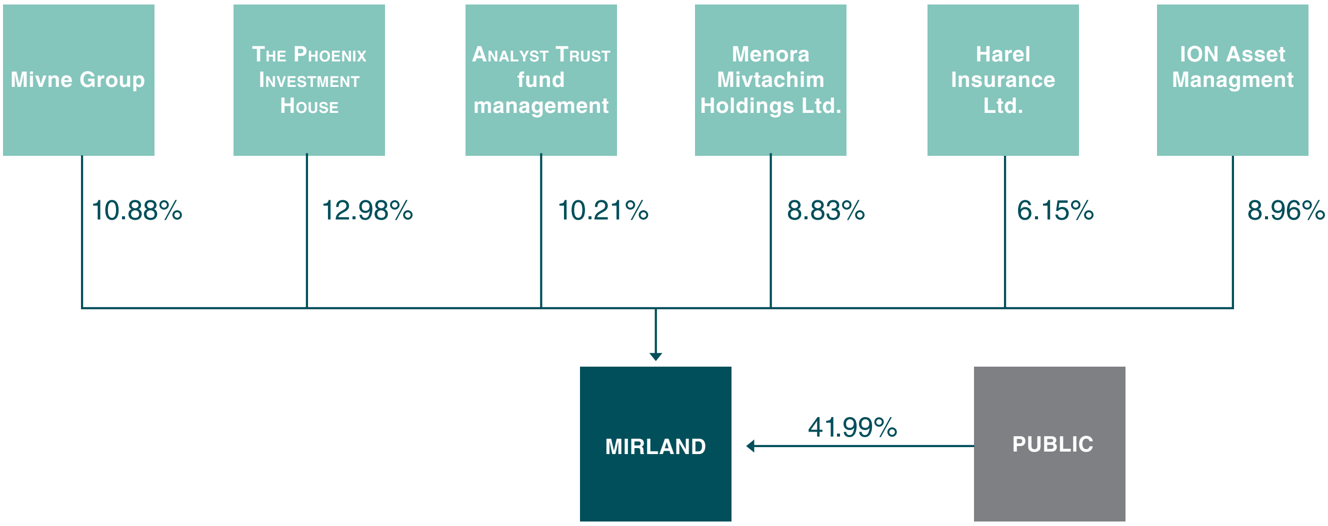
P10
Triumph Park
Portfolio focus

Contents

Who We Are

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

Corporate Structure*



* As at 15 June 2018

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 41% 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 2017

Total Revenues

US$77.4m

Total Assets

US$575m

Net Income

US$1.6m

Net Operating Income

US$23.2m

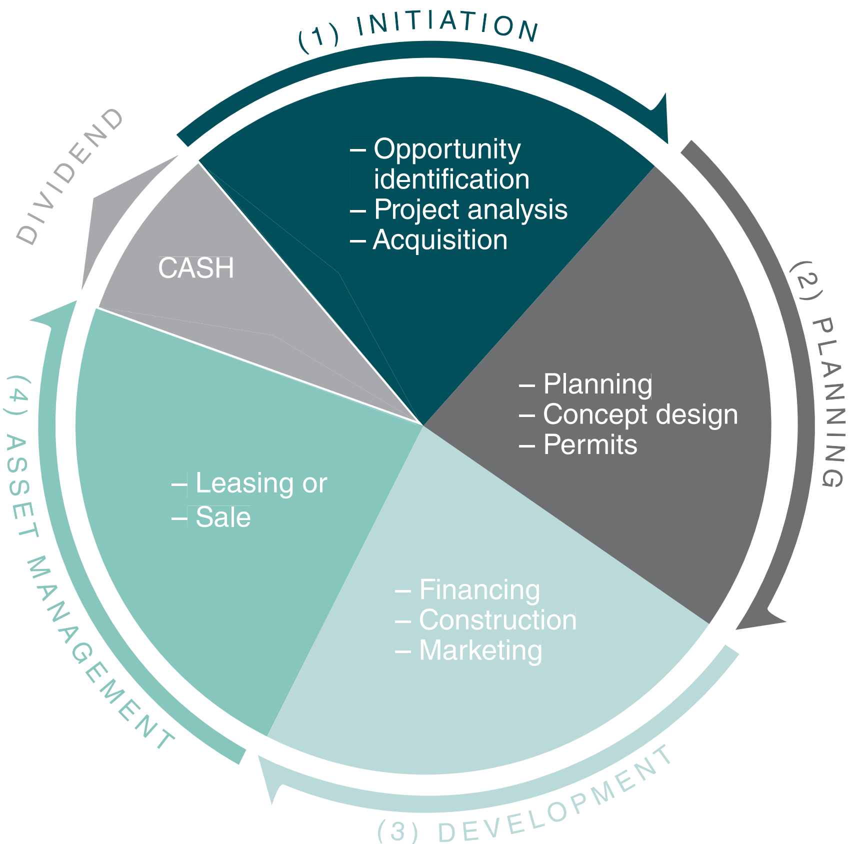
EBITDA

US$13.2m

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

Our Business Model

We believe that our full and integrated business model, together with the diversification of our portfolio, enables us to manage and mitigate 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 asset management companies. However, should an opportunity arise for asset realization, it will be considered in order 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

Our Strategic Base

- 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 2017

Financial Highlights

- **Total revenue** US$77.4 million (31 December 2016: US$104.8 million);
- **Total revenues from investment properties** up 14% to US$35.3 million (31 December 2016: US$30.9 million), mainly due to appreciation of the Russian Ruble against the US Dollar and due to improved Company performance;
- **Net operating income** ("NOI") from investment properties up 15% to US$23.2 million (31 December 2016: US$20.1 million), mainly due to appreciation of the Russian Ruble against the US Dollar and due to improved Company performance;
- **Gross profit** US$39.8 million (31 December 2016: loss of US$2 million), also due to appreciation of the Russian Ruble against the US Dollar and due to reverting of impairment of inventory of apartments for sales that was recorded;
- **EBITDA** up 153% to US$13.2 million (31 December 2016: US$5.2 million), mainly due to an increase in the NOI from investment properties and profit from residential sales;
- **Net Income** of US$1.6 million (31 December 2016: US$127.8 million);
- **Total assets** amounted to US$575 million, of which 92% are property and land assets (31 December 2016: US$517.3 million);
- **Total equity** of US$153.7 million (31December 2016: US$136.8 million);
- **Net leverage** stands at 41% of total assets (31 December 2016: 47%);

Triumph Mall, Saratov

Operational Highlights

Residential:

Triumph Park, St.Petersburg

The development of the project continues, with a strong sales pace and pricing increasing ahead of inflation in

Rouble terms:

- **Phase III**: The last 32 apartments were pre-sold during 2017. In total 1,326 apartments have been pre-sold and delivered to the owners;
- **Phase IV**: Sales momentum continues with 340 apartments pre-sold during the year. Since the beginning of sales, 97% of this phase apartments have been pre-sold (1,211 apartments), generating income from sales of circa US$104.2 million. 580 apartments were delivered to the owners;
- **Green Tower:** Construction of 132 units began in Q4 2016, followed by the commencement of sales. Until 31 December 2017, 65 apartments were pre-sold (53% of the phase), generating income from sales of circa US$7.3 million;
- **Phase V:** Construction of 1,510 units began in Q2 2017, followed by the commencement of sales. Until 31 December 2017, 293 apartments were pre-sold (25% of the phase), generating income from sales of US$27.5 million.

Western Residence, Perkhushkovo, Moscow

Sales of two houses completed during the year, taking the total number of units sold at the scheme to 66, out of 77 houses.

Retail:

- **Vernissage Mall and Triumph Mall** generated NOI of US$16.1 million compared to US$13 million in 2016;
- Average occupancy remained approximately 97%, same as in 2016.

Offices:

- **MirLand Business Centre** NOI remained unchanged from the last year, totaling in US$7.2 million;
- Occupancy rates slightly increased and reached average 75%, in line with the market figures.

Triumph Park, St. Petersburg

Vernissage Mall, Yaroslavl

Triumph Mall, Saratov

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.

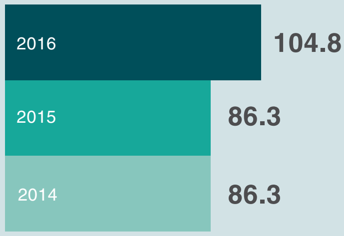
Portfolio diversification:

- 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.

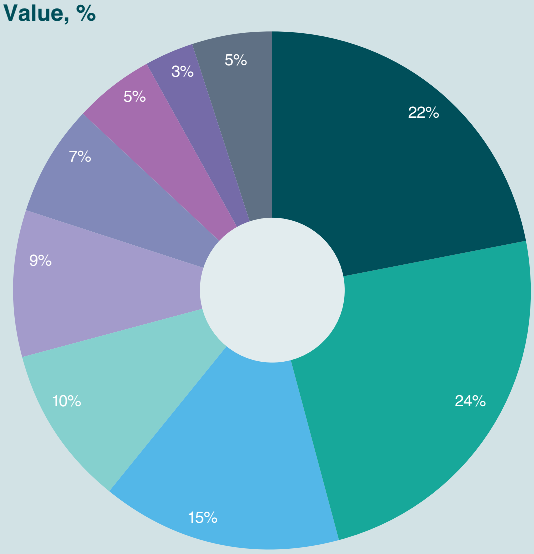
Key Performance Indicators

Revenues, US$ m

US$77.4m



Assets by Value, %



Total Assets Value

US$356.1m

22%	Triumph Park
24%	Triumph Mall
15%	Vernissage Mall
10%	Century
9%	MAG
7%	Hydro
5%	Tamiz
3%	Western Residence
5%	Other

Source: CW valuation, as of 31 December 2017

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.

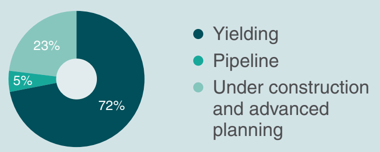
The recent financial turmoil has led the Company to adjust its operational focus to be more directed on managing its core activities and available financial resources.

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.

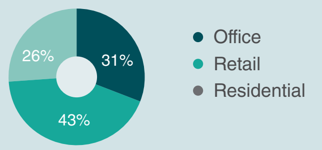
Key Performance Indicators

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
11,740 sqm

Western Residence Phase I

Saleable area
4,120 sqm*

* (excluding sold houses)

Western Residence Phase II

In Planning
34,607 sqm

St Petersburg

Triumph Park

Under construction
73,509 sqm

Saleable area in advanced planning
129,796 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

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. Due to the flexibility of the offered apartment mix, both in terms of the unit sizes and the fit-out options, Triumph Park is appealing to a wide range of potential buyers.

- **Phase I** of the project, with total net sellable area of circa 27,700 sqm with additional 1,000 sqm of commercial 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 34,100 sqm, with additional 1,100 sqm of commercial space was launched in Q3 2012. Construction completed in Q4 2014. All 630 apartments have been sold and delivered to the owners.
- **Phase III** construction of circa 63,200 sqm with additional 1,500 sqm of commercial space commenced in Q3 2013. Construction completed in Q3 2016, 99% of the 1,346 apartments have been sold and delivered to the owners.
- **Phase IV** construction of 1,244 apartments with total net sellable area of circa 62,300 sqm and additional 3,100 sqm of commercial area, commenced in Q3 2014. Construction completed in Q4 2017. Sales launched in Q1 2015 with 1,222 apartments pre-sold during the year (98% of the phase). To date, 580 apartments have been delivered to the owners.
- **Green Tower** - 18 storey business class tower of circa 7,400 sqm. Construction and sales commenced in Q4 2016. To date, 70 apartments out of 132 pre-sold (circa 53% of the phase).
- **Phase V** construction and sales of 1,510 apartments with total net sellable area of circa 66,094 sqm and additional 3,500 sqm of commercial area, commenced in Q2 2017. To date, 380 apartments pre-sold (25% of the phase).

On completion of the entire development, which is expected by 2023, Triumph Park will comprise approximately 8,500 apartments, as well as 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 neighborhood, ecology and innovations.

MirLand Company is constantly involved and initiates various social responsibility projects, in order to create a thriving community inside the high standard housing.

Location

- St Petersburg - the second largest city in Russia, with population of over 5 million people
- The project located at a well-developed residential district
- Easily accessible from downtown and main routes. Located within a short walking distance from public transportation and the underground 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

BREEAM 0044-7227

Triumph Park - Sustainability awards winner

- 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
- Winner of Urban Awards

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	1,040 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

100% sold

Number of apartments	1,346
Sellable area	63,186 sqm
Commercial area	1,538 sqm
Sales commencement	Q4 2013
Credit line	RUB3,075m*
Completion	Q3 2016

Project Status
Sold and delivered to owners

* Fully repaid

Retail Offices Logistics Residential

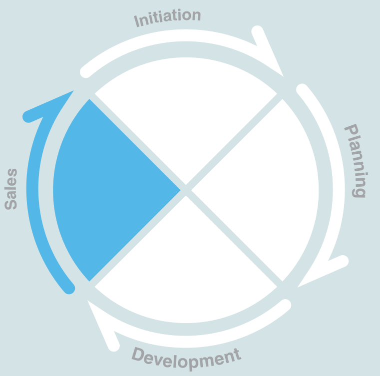
Phase IV

97% sold

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

Project Status
Completed

* Fully repaid

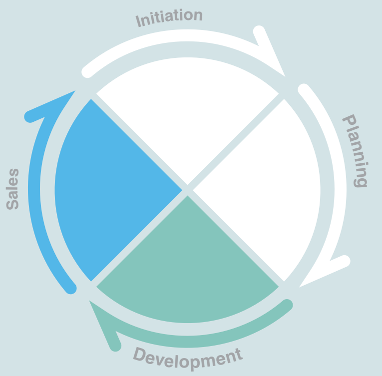


Green Tower

53% sold

Number of apartments	**132**
Sellable area	**7,302 sqm**
Commercial area	**371 sqm**
Sales commencement	**Q4 2016**
Credit line	**Equity**
Expected completion	**Q2 2019**

Project Status
Under construction

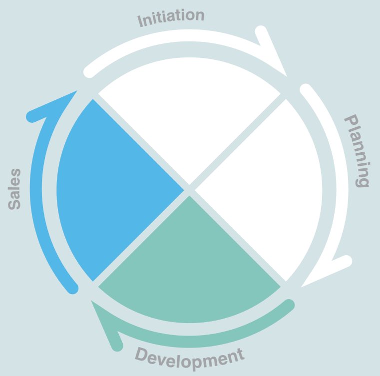


Phase V

25% sold

Number of apartments	**1,510**
Sellable area	**66,094 sqm**
Commercial area	**3,532 sqm**
Sales commencement	**Q2 2017**
Credit line	**RUB3,750m**
Expected completion	**Q4 2019**

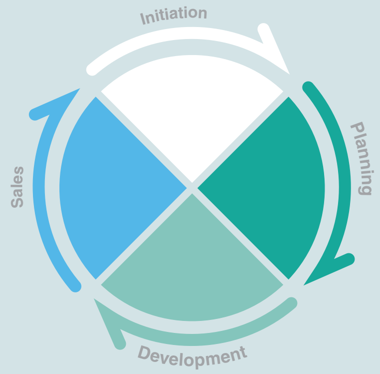
Project Status
Under construction



Triumph Park

8,500
apartments

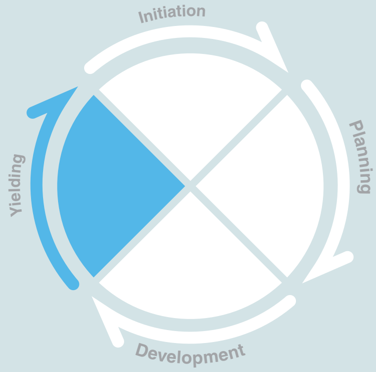
Location	St Petersburg
Land area	41 ha
Total saleable area	388,000 sqm
Leasable area	106,00 sqm
Sales commencement	Q4 2011
Planned completion	2023
Freehold rights	100%



Triumph Mall

100%
occupied

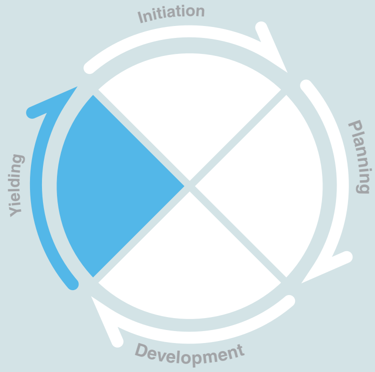
Location	Saratov
Land area	2.2 ha
Leasable area	27,300 sqm
Completed	Q4 2010
Freehold rights	100%



Vernissage Mall

97%
occupied

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

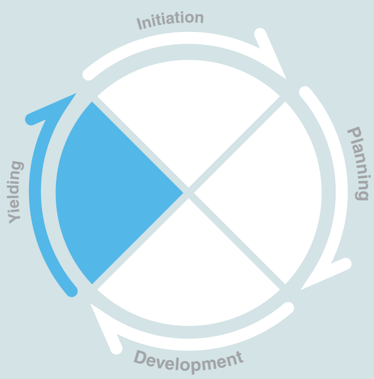


Retail | Offices | Residential | Logistics

Hydromashservice

80%
occupied

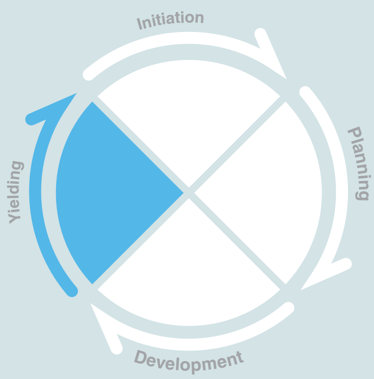
Location	**Moscow**
Land area	**1.2 ha**
Leasable area	**16,700 sqm**
Completed	**Q4 2008**
Leasehold rights	**100%**



MAG

88%
occupied

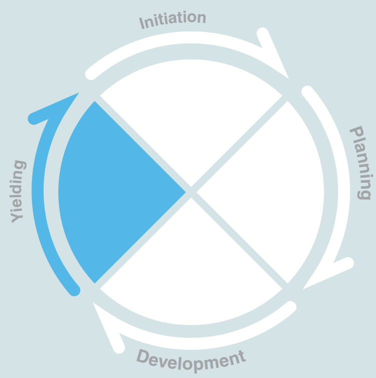
Location	**Moscow**
Land area	**2.2 ha**
Leasable area	**18,530 sqm**
Completed	**Q4 2007**
Leasehold rights	**100%**



Century Buildings

64%
occupied

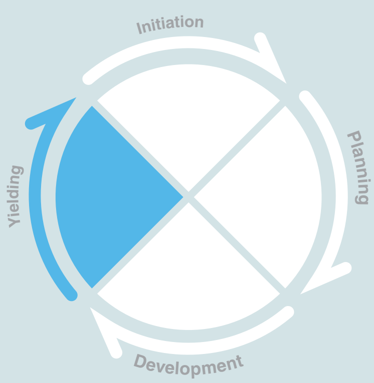
Location	**Moscow**
Land area	**0.58 ha**
Leasable area	**20,900 sqm**
Completed	**Q1 2009**
Leasehold rights	**100%**



Tamiz

68%
occupied

Location	**Moscow**
Land area	**0.45 ha**
Leasable area	**11,740 sqm**
Completed	**Q3 2011**
Leasehold rights	**100%**

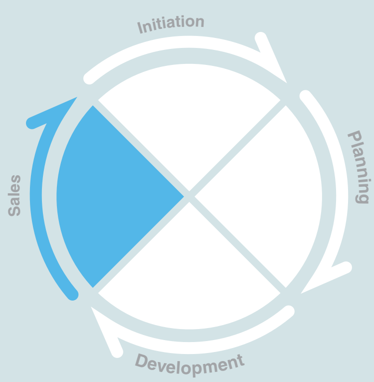


Western Residence

86%
houses sold

Location	**Perkhushkovo**
Land area	**11 ha**
Saleable area*	**4,120 sqm**
Phase I completed	**Q4 2011**
Freehold rights	**100%**

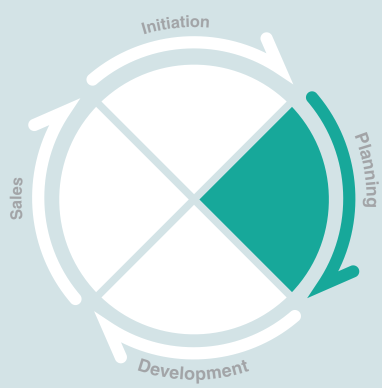
*Excluding sold houses. 66 out of 77 houses were sold as at 31.12.2017



Vernissage Mall - II

40,000
sqm leasable area

Location	**Yaroslavl**
Land area	**16,5 ha**
Leasable area	**40,000 sqm**
Freehold rights	**100%**



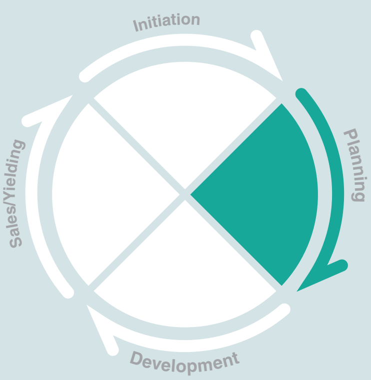
Projects in Planning

Retail | Offices | Residential | Logistics

Saratov Logistics

104,000
sqm leasable area

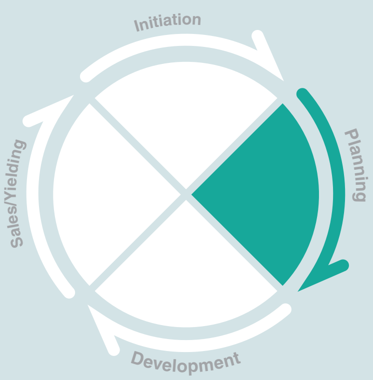
Location	**Saratov**
Phased development of a logistics centre close to the federal highways and the city ring road.	
Land area	**26 ha**
Leasable area	**104,000 sqm**
Freehold rights	**100%**



Triumph House

18,500
sqm leasable area

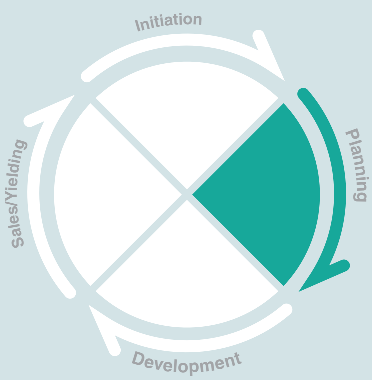
Location	**Kazan**
Development of retail at favourable location in the city.	
Land area	**2.2 ha**
Leasable area	**18,500 sqm**
Freehold rights	**100%**



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 development of 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 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 projects usually commenced during their development stage.
- 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 financial turmoil, caused by the crisis in Russia, 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 portfolio currently contains 12 projects, six of which are yielding assets (offices in Moscow and regional retail), one project is under construction (Phase 5 and Green Tower of the Triumph Park project in St. Petersburg), two completed residential projects (Phase 1 in Western Residence in Perkhushkovo and Phases 1-4 of Triumph Park) and three projects are at various stages of planning and in the process of obtaining permits (in addition to the Phase 2 of the Western Residence project in Perkhushkovo and phases 6-8 of the Triumph Park project in St. Petersburg). The Company's portfolio has been valued by Cushman & Wakefield at US$356.1 million as at 31 December 2017, based on the Company's freehold/leasehold rights. This value represents a decrease of approximately 1% since 31 December 2016.

Yielding Projects:

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

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

- Land area: 1.2 ha
- Leasable area: 16,700 sqm
- Completed: Q4 2008
- Leasehold rights of land: 100%
- Occupancy rate: 80%
- Financing: US$20 million financed by Sberbank in September 2012 (principal balance as of 31 December 2017: US$17 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: 88%
- Financing: US$49 million financed by Sberbank in 2012-2014 (principal balance as of 31 December 2017: US$42 million)

Century Buildings, Moscow – offices

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

- Land area: 0.85 ha
- Leasable area: 20,900 sqm
- Completed: Q1 2009
- Leasehold rights of land: 100%
- Occupancy rate: 64%
- Financing: US$39 million financed by Sberbank and Nordea bank in 2014 (principal balance as of 31 December 2017: US$33 million)

Tamiz, Moscow – offices

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

- Land area: 0.45 ha
- Leasable area: 11,740 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$49 million financed by Bank of Moscow in April 2014, (VTB nowdays) Covenrted during 2016 to RUB loan in the amount of US$ 40 million (principal balance as of 31 December 2017: US$46.3 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 2017: US$83 million)

Completed Residential Projects:

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

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

- Land area (Phase I): 11 ha
- Saleable area (Phase I): 4,120 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 66 houses have been sold;
- Completion: Phase I (77 townhouses and cottages) was completed in Q4, 2011

Chief Executive's Statement continued

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: 388,000 sqm
- Leasable area: 106,000 sqm
- Planned completion of total project: 2023
- Freehold rights: 100%

- Phases 1-3 sold and delivered:
  - Sales and construction of Phase IV, which consists approximately 62,311 sqm (1,244 apartments), was lunched in Q1 2015. The construction completed in Q4 2017, and to date 1,222 apartments were pre-sold representing 98% of total phase.
  - Sales and construction of Green Tower, which consists approximately 7,425 sqm (132 apartments), was lunched in Q4 2016. To date 70 apartments were pre-sold representing 53% of total phase.
  - Sales and construction of Phase V, which consists approximately 66,094 sqm (1,510 apartments), was lunched in Q2 2017. To date 380 apartments were pre-sold representing 25% of total phase.

- Sales:
  - Phase I: sold and delivered.
  - Phase II: sold and delivered .
  - Phase III: sold and delivered.
  - Phase IV: to date, 1,222 sale contracts have been executed. 580 apartment delivered.
  - Green Tower: to date, 70 sale contracts have been executed.
  - Phase V: to date, 380 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 for Phase IV construction was obtained from Sberbank in September 2014 to date the credit line was fully repaid
  - Credit line of RUB 3,750 million for Phase V construction was obtained from Sberbank in September 2017 (principal balance as of 31 December 2017: US$11 million)

Projects in Planning:

Triumph House, Kazan – retail

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

- Land area: 2.2 ha
- Leasable area: 18,500 sqm
- Freehold rights: 100%

Vernissage Mall, Yaroslavl – Phase II – retail

Land plot adjacent to the Vernissage Mall

- Land area: 16.5 ha
- Leasable area: 40,000 sqm
- 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
- 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%

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

12 March, 2018

Overview of Market Values as at 31st of December 2017

Property Name	Location	Portfolio Market Value as at 31 December 2017
Hydromashservice	Moscow	$25,700,000
MAG	Moscow	$31,900,000
Tamiz Building	Moscow	$19,400,000
Century Buildings	Moscow	$35,800,000
Triumph Mall	Saratov	$84,900,000
Vernissage Mall	Yaroslavl	$52,800,000
Western Residence	Perkhushkovo, Odintsovsky district, Moscow Region	$10,250,000
Triumph Park, Residential	Saint Petersburg	$78,900,000
Triumph Park, Commercial	Saint Petersburg	$11,200,000
Vernissage Mall, Phase 2	Yaroslavl	$1,900,000
Triumph House	Kazan	$1,800,000
Logistics Complex	Saratov	$1,500,000
Total		**$356,050,000**

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

Board of Directors & Senior Management

Shouky Oren
Independent Executive Director, Chairman of the Board, age 59

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, CPA, age 50

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, CPA, age 39

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 62

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

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

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

Independent Non-executive Director, age 47

Alexander Regenbogen has over 19 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 and investment support services. Main clients: real estate and financial institutions listed on Tel Aviv Stock Exchange and Warsaw Stock Exchange. In 2012 he received a mandate from DS-Apex Holdings LTD (one of Israel's leading capital markets investment houses) to incorporate in Romania a financial institution with full licenses and activities in the fields of asset management, mutual funds distribution, stock exchange brokerage, and investment banking. Between 2000 – 2006, he served in various top executive positions at Eurom Bank (current Bank Leumi Romania), including President of the Executive Committee. Mr. Regenbogen is a member of the Institute of Certified Public Accountants in Israel,and holds a MBA from ESLSCA Business School in Paris and a BA degree in Accounting and Economics from Tel Aviv University.

David Zvida

Non-executive Director, CPA, age 45

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 48

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 Distributions Ltd, Celebar Investments Ltd, 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 consolidated financial statements for the year ended 31 December 2017.

Country of Incorporation
Mirland Development Corporation Plc (hereinafter "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 Mirland Development Corporation Plc and its subsidiaries (hereinafter "the Group") continued their activities of property development, trading and investment. The Group will continue the same activities in the year 2018.

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 31 which shows a net income for the financial year of US$1.6m (2016: US$127.8m). The Consolidated Statement of Financial Position on pages 28 to 29 shows net assets of US$153.7m (2016: net assets of US$136.8m).

The Directors do not recommend the payment of a dividend.

Share Capital and Treasury Shares
During the year 2016 the Company performed share consolidation of its existing shares in a ratio of 1:20.

During the year 2017 the Company issued 19,352,000 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, 2017 are as follows:
Shouky Oren
Roman Rozental
Ze'ev Milbauer
Maria Despina Argyridou
David Zvida
Constantinos Pandelides
Alexander Regenbogen

On 10 April 2017 Shouky Oren was appointed as an Executive Director and on 18 April 2017 he was appointed as Chairman of the board.
On 10 April 2017 Ze'ev Milbauer was appointed as a Non-executive director.
On 10 April 2017 Maria Despina Argyridou was appointed as a Non-executive director

Directors' and Other Interests

The interests of the Directors in the shares of the Company as at 31 December 2017, with comparative figures as at 31 December 2016, are as follows:

Director	*Number of shares as at 31 December 2017	*Number of shares as at 31 December 2016
Shuki Oren	0	0
Roman Rozental	0	0
Ze'ev Milbauer	34,012	NA
Maria Despina Argyridou	0	0
David Zvida	0	0
Constantinos Pandelides	0	0
Alexander Regenbogen	0	0

* All amounts after share consolidation (1:20)

Details of Directors' share options are set out on Note 18 to the consolidated financial statements.

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 14 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.

Branches

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

Auditors

Ernst & Young Cyprus have expressed their willingness to continue in office as auditors to the Company and the 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

All material post balance sheet events are fully disclosed in Note 23.

Shouky Yehoshua Oren
Chairman of the Board
12 March, 2018

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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 28 to 72 and comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 24 to 25.

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.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- 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 69 of the Auditors Law 2017 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 Ltd
Certified Public Accountants and Registered Auditors

12 March, 2018

Consolidated Statement of Financial Position

	Note	31 December 2017 US$000	31 December 2016 US$000
Current assets:			
Cash and cash equivalents		**19,480**	14,708
Trade receivables, net	5	**7,116**	3,084
Other receivables, net	6.a	**12,479**	7,283
VAT receivable		**3,887**	3,118
Inventories of apartments and buildings for sale under construction and real estate for construction	7	**191,126**	161,027
		234,088	**189,220**
Non-current assets:			
Investment properties	8	**250,500**	243,900
Investment properties under construction	9	**16,400**	13,900
Inventories of apartments and buildings for sale under construction and real estate for construction	7	**53,514**	54,978
VAT receivable	2.g	**440**	406
Fixed assets, net		**1,951**	837
Other long term receivables	6.b	**2,166**	2,996
Prepaid expenses		**459**	458
Deferred taxes	15	**15,508**	10,549
		340,938	**328,024**
Total assets		**575,026**	**517,244**

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

Consolidated Statement of Financial Position

	Note	31 December 2017 US$000	31 December 2016 US$000
Current liabilities:			
Long-term loans from banks which were classified as short-term	11	**15,960**	17,003
Current maturities of credit from banks and payable interest	11	**3,801**	3,428
Current maturities of debentures and payable interest	12	**-**	71
Credit from banks for financing of inventory of buildings under construction for sale	11	**9,591**	13,744
Liabilities resulting from options		**586**	-
Institutes (VAT)		**4,458**	1,772
Trade payables		**10,865**	6,939
Deposits from short term tenants	13	**2,754**	2,244
Advances from buyers	7	**116,475**	85,908
Other accounts payable		**2,030**	1,866
		166,520	132,975
Non-current liabilities:			
Long-term credit from banking corporations	11	**197,901**	196,962
Debentures	12	**33,082**	27,522
Other non-current liabilities	13	**8,746**	9,632
Deferred taxes	15	**15,098**	13,323
		254,827	247,439
Total liabilities		**421,347**	380,414
Equity attributable to share holders of the parent company:			
Share capital	16	**18,869**	14,998
Share premium		**385,285**	376,453
Capital reserve for share-based payment transactions	18	**13,138**	12,619
Capital reserve for transactions with controlling shareholders	20.b	**16,223**	16,223
Capital reserve for transactions with non-controlling interest	4	**17,067**	17,067
Foreign currency translation reserve		**(185,832)**	(187,814)
Accumulated deficit		**(111,071)**	(112,716)
Total equity attributable to share holders of the company:		**153,679**	136,830
Total equity		**153,679**	136,830
Total equity and liabilities		**575,026**	517,244

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

Date of approval of the financial statements

Shouky Oren
Chairman of the Board

Roman Rozental
CEO

Yevgeny Steklov
CFO

Consolidated Income Statement

	Note	31 December 2017 US$000	31 December 2016 US$000	31 December 2015 US$000
		(except for share and per share data)		
Rental income from investment properties		**32,097**	28,175	32,271
Revenues from sale of residential units	7	**42,090**	73,956	51,206
Revenues from management fees		**3,250**	2,707	2,808
Total revenues		**77,437**	104,838	86,285
Cost of sales and maintenance of residential units		**(36,431)**	(70,400)	(47,265)
Cost of maintenance and management	19.a	**(12,103)**	(10,733)	(11,310)
Gross profit before impairment adjustments		**28,903**	23,705	27,710
Reversal of (Impairment) of inventory of apartments and buildings under construction		**10,938**	(25,726)	(4,330)
Gross profit (loss)		**39,841**	(2,021)	23,380
General and administrative expenses	19.b	**(11,535)**	(12,580)	(12,578)
Debt settlement expenses		**-**	(1,545)	(2,276)
Marketing and sale expenses		**(3,309)**	(4,815)	(4,300)
Fair value adjustments of investment properties and investment properties under construction**	8, 9	**6,448**	(23,494)**	(135,375)**
Fair value adjustments of investment properties and investment properties under construction due to currency differentials with the USD:RUB**	8, 9	**(13,369)**	(48,773)**	79,223**
Other income (expense), net	19.d	**(1,830)**	(2,655)	(5,075)
Operating income (loss)		**16,246**	(95,883)	(57,001)
Financing income	19.c	**857**	223,402	271
Financing expenses	19.c	**(22,522)**	(36,740)	(35,035)
Net foreign exchange differences		**8,782**	42,820	(84,716)
Profit (loss) before taxes on income		**3,363**	133,599	(176,481)
(Taxes on income) tax benefit	15	**(1,718)**	(5,814)	19,004
Net income (loss)		**1,645**	127,785	(157,477)
Attributable to:				
Shareholders of the parent		**1,645**	130,149	(153,108)
Non-controlling interests		**-**	(2,364)	(4,369)
		1,645	127,785	(157,477)
Basic net earnings (loss) per share (US Dollars) attributable to shareholders of the parent	17	**0.02**	18.86	(*) (29.6)
Diluted net earnings (loss) per share, attributable to shareholders of the parent	17	**0.019**	18.80	(*) (29.6)

((*)Adjusted due to capital consolidation, see Note 17.
The accompanying notes are an integral part of the consolidated financial statements.
(**) The Company divided the fair value adjustments of investment properties and investment properties under construction to changes in real value and changes in the USD-RUB exchange rate differential.

Consolidated Statement of Comprehensive Income

	31 December 2017 US$000	31 December 2016 US$000	31 December 2015 US$000
Net income (loss)	**1,645**	127,785	(157,477)
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income classified or reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	**1,982**	9,224	(5,283)
Total other comprehensive income (loss)	**1,982**	9,224	(5,283)
Total comprehensive income (loss)	**3,627**	137,009	(162,760)
Attributable to:			
Shareholders of the parent	**3,627**	137,174	(154,104)
Non-controlling interests	**-**	(165)	(8,656)
	3,627	137,009	(162,760)

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 2017	14,998	376,453	12,619	16,223	17,067	(112,716)	(187,814)	136,830	–	136,830
Net profit (loss)	–	–	–	–	–	1,645	–	1,645	–	1,645
Other comprehensive profit	–	–	–	–	–	–	1,982	1,982	–	1,982
Total comprehensive profit	–	–	–	–	–	1,645	1,982	3,627	–	3,627
Share issuing (**)	3,871	8,832	–	–	–	–	–	12,703	–	12,703
Share-based payment	–	–	519	–	–	–	–	519	–	519
Balance as of 31 December 2017	**18,869**	**385,285**	**13,138**	**16,223**	**17,067**	**(111,071)**	**(185,832)**	**153,679**	**–**	**153,679**

(**) See Note 16.b.

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	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**	**12,586**	**16,223**	**17,067**	**(112,716)**	**(187,814)**	**136,830**		**136,830**

(*) See Note 4.
(**) See Note 16.b.

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 Cash Flows

	31 December 2017 US$000	31 December 2016 US$000	31 December 2015 US$000
Cash flows from operating activities:			
Net profit (loss)	**1,645**	127,785	(157,477)
Adjustments necessary to present cash flows from operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	**(3,223)**	4,890	(20,367)
Depreciation and amortisation	**227**	194	156
Finance expenses, net	**12,883**	(229,482)	119,480
Share-based payment	**519**	33	56
Fair value adjustment of investment properties and investment properties under construction, net	**6,921**	72,267	55,152
Gain from sale of investment property	**-**	–	1,000
	17,327	(152,098)	155,477
Working Capital adjustments:			
Impairment (reversal of impairment) of inventory	**(10,938)**	25,726	4,330
Impairment of financial assets	**-**	–	3,200
Decrease (increase) in trade receivables	**(4,410)**	1,407	(599)
Decrease (increase) in VAT receivable and others	**(975)**	287	(430)
Decrease (increase) in inventories of buildings for sale	**(5,599)**	36,927	(20,789)
Increase (decrease) in trade payables	**(1,421)**	(1,170)	1,603
Decrease (increase) in other accounts payable	**29,599**	(4,780)	3,997
	6,256	58,397	(8,688)
Interest paid	**(18,585)**	(18,780)	(21,301)
Interest received	**165**	86	217
Taxes paid	**(1,872)**	(638)	(1,229)
	(20,292)	(19,332)	(22,313)
Net cash flows generated from (used in) operating activities	**4,936**	14,752	(33,001)

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

Consolidated Statement of Cash Flows continued

	31 December 2017 US$000	31 December 2016 US$000	31 December 2015 US$000
Cash flows from investing activities:			
Additions to investment properties	**(387)**	(243)	(1,778)
Additions to investment properties under construction	**(2,177)**	(1,908)	(2,852)
Proceeds from sale of investment property under construction	**-**	-	3,170
Net cash flows used in investing activities	**(2,564)**	(2,151)	(1,460)
Cash flows from financing activities:			
Receipt of loans from banks and others, net from origination costs	**14,451**	58,630	42,028
Repayment of loans from banks and others	**(26,159)**	(81,704)	(33,966)
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	**13,855**	-	-
Net cash flows generated from (used in) financing activities	**2,147**	(15,654)	10,100
Exchange differences on balances of cash and cash equivalents	**253**	1,505	(29)
Increase (Decrease) in cash and cash equivalents	**4,772**	(1,548)	(24,390)
Cash and cash equivalents at the beginning of the year	**14,708**	16,256	40,646
Cash and cash equivalents at the end of the year	**19,480**	14,708	16,256

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, office 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. Significant Events

The Company failed to meet the financial covenants, as stated in the loan agreements with Nordea Bank (hereinafter: the “Bank”). For further details also refer to Note 11b(3).

The Company issued debentures after the Reporting Date in order to raise money for the early repayment of the loan, for further details refer to Note 23.

c. Definitions:

In these financial statements:

The Company	Mirland Development Corporation Plc.
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, investment property under construction and liabilities resulting from options 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 of Israel.

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 December 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.

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. 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 exchange rate differences in these loans (with a deduction of the tax effect) are recognized in other comprehensive income as movement in foreign currency translation reserve.

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.

e. 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.

f. 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.

g. 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 11.5%.

h. 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.

i. 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.

j. 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.

k. 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:

a. 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.

b. Financial liabilities measured at fair value through profit or loss

Financial liabilities which are measured at their fair value through profit or loss include tradeable financial liabilities and financial liabilities designated as fair value through profit or loss at initial recognition. Financial liabilities which are classified as tradeable are done so in the event that they were purchased for sale within a short period. Profits or losses for tradeable liabilities are accounted for as a profit or loss.

Derivatives, including complex derivatives that have been dismantled, are classified as being tradeable unless they are intended to be used for effective hedging.

Liabilities may be designated upon them first being recognized at fair value in the income statement, subject to the terms set in IAS 39.

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.

I. 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.

m. 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.

n. 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.

o. 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.

p. 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. The reversal of such a loss is limited to the lower value of the amount of the impairment of the asset that was previously recognized (deducting depreciation or through amortization) or the recoverable value of the asset. With respect to assets that are recognized on a cost basis, reversing such a loss is reported as a profit or a loss.

q. 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.

r. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation as a result of a past event (legal or implicit) 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. When the Group estimates that part or all of the expense will be returned to the Company, e.g. through insurance coverage, the repayment will be recognized as a separate asset only at the time when certainty arises for repayment of the property. The expense will be recognized on the statement of income deducting the repayment of the expense.

Legal claims

Provisions for legal suits are recognized when the Group has a current or implicit legal obligation resulting from an event occurring in the past, when it is more likely than not that the Group will have an outflow of resources embodying economic benefits to settle the obligation and a reliable estimate can be made of the amount of the obligation.

s. 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.

t. 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.

u. 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).

v. 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.

w. Liabilities due to employee benefits

The Group offers a number of employee benefits:

1. Short Term Employee Benefits

Short term employee benefits are benefits which are expected to be fully awarded within 12 months after the annual reporting period in which the employees provide the relevant services. These benefits include salaries, annual leave days, sick days, recuperation and employer contributions to national insurance and are recognized as an expense together with the provision of the services. Liabilities for cash based bonuses or profit sharing programs are recognized when the Group has a legal or implicit obligation to pay such amount for the service that was previously provided by the employee and the amount can be reasonably estimated.

2. Post-Employment Benefits

These programs are typically financed through contributions to the pension funds and are classified as defined contribution plans as well as defined benefit plans.

The Group has defined contribution plans in accordance with Section 14 of the Severance Pay Law by which the Group makes ongoing fixed payments without having a legal or implicit obligation to make additional payments even in the event that the principal has not accrued adequate amounts to pay all the employee benefits relevant to the employee's ongoing service period and previous periods.

Contributions to defined contribution plans for severance pay or for pensions are recognized as an expense when the contribution is being made together with receipt of the employee's services.

x. Change in accounting policies

Amendments to IAS 7, Reporting Cash Flows, Additional Disclosures Concerning Financial Liabilities

The Company applies the amendments published by the IASB in January 2016 (hereinafter: the "Amendments"). 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, changes in rates of exchange and changes in the fair value as well as other items. See Note 14 C.

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

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

IFRS 15 (the "New Standard") was issued by the IASB in May 2014.

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.

The Company has elected to partially retroactively implement the New Standard when first applying the New Standard, without amending the comparative figures effective as of January 1, 2018.

The Company produces its income from two main sources: sale of residential apartments and income from rental fees and management fees.

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 examination of contracts of the Company with its customers, and based upon the provisions of the law and the relevant regulation - the Company, among other things including through taking advice from its legal advisers, evaluates that within the framework of the executed 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. This resulting from the entering of force of the amendment to the federal law no. FZ-214 as of 1 January 2017 regarding the manner of entering apartment sale agreements which, among other things, establishes that sale agreements are not able to be voided by the purchasers. Based on a legal opinion received by the Company, the inability to void agreements also applies to agreements entered into prior to the taking of force of the new law. On 6 March 2018, LSR – which is a large Russian operating real estate development company – published its 2017 financial statements in which it early adopted IFRS 15. As part of its early adoption, LSR established that the provisions of the new law FZ-214 do not apply to agreements that were executed prior to the entering of force of the law (namely prior to 1 January 2017). As a result of the above, the Company requires more time in order to achieve a final determination regarding the application of the new law, therefore as part of its financial statement disclosures, the Company will recognize income from long term sale agreements, based on the completion rate of the contract for all existing Company agreements, as they were first presented, based on the legal opinion received from the legal advisors, and will additionally provide a disclosure for the anticipated implications of the standard in the event that after further analysis the final position is indeed that agreements executed prior to 1 January 2017 are able to be voided and therefore such income cannot be recognized for the entire period based on the provisions of IFRS 15.

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 evaluates that the measurement unit will be the single apartment.

2. The measurement of the execution progress – in order to measure the execution progress, the Company has applied the input method with respect to the building in its entirety. Expenses that do not reflect the execution progress are not accounted for.

3. The existence of a material financing component in an agreement – in circumstances where long term advances (beyond one year) have been received, the Company accrues interest for such advances for the engagement period.

4. The Company's policy is to cease capitalizing finance of residential apartment inventory upon the first recognition of the income from the sale of the apartments.

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.

Below is a table which, at the Company's estimate, summarises the aggregate influence (in 000's of USD) of the adoption of the New Standard on the various sections of the Company's financials as of January 1, 2018 under the assumption that the New Standard also applies to agreements executed prior to 1 January 2017, as stated above:

Section	Current Policy	Expected change	After the impact of IFRS 15
Account receivables	7,116	3,608	10,724
Apartment and house inventory for sale and construction land	191,126	(134,514)	56,612
Deferred taxes	15,508	(2,593)	12,915
Advances from purchasers	(116,475)	108,296	(8,179)
Deferred commissions to sale agents	5,809	(4,660)	1,149
Total impact on the shareholders' equity	**103,084**	**(29,863)**	**73,221**

If it is determined that the New Standard does not apply to agreements executed prior to January 1, 2017, the impact on the shareholder's equity is expected to be decreased by approximately USD 6 million.

2. 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 deals with all three aspects relevant to financial instruments: classification and measurement, depreciation in value and hedge accounting.

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 two conditions 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.

Similarly, the New Standard includes a new model which is comprised of 3 stages for measuring the value of the financial debt instruments which are not measured at fair value in the statement of income and which are based on expected credit loss models. Each stage establishes the manner to measure the expected credit losses based on changes in the credit risk of the debt instrument. Similarly, this model allows for certain exemptions to short term financial assets such as accounts receivable.

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.

With respect to financial liabilities in which a fair value alternative has been chosen, the amount of the change in the fair value of the liabilities – which are attributable to changes in the entity's credit risk – shall be recognized in other comprehensive income. All other changes in fair value shall be recognized in the income statement.

The New Standard includes new requirements in connection with hedging accounting; however, it also allows for companies to continue to apply the provisions of AIS 39 with respect to hedging accounting. The New Standard has broadened the disclosure requirements with respect to the company's risk management activities.
The New Standard will be applied for annual periods beginning on January 1, 2018.

Other than with respect to hedge accounting, the provisions of the New Standard are to be applied retroactively, however, the comparative figures do not have to be restated. With regards to hedge accounting, the provisions of the New Standard are to be applied going forward other than for certain exceptions.

The Company intends on adopting the New Standard as of January 1, 2018 without amending any of the comparative figures, through presenting the total impact on the income statement (or other equity component, as appropriate).

As of the Reporting Date, the impact of the Standard on the Company's financial statements is expected to be as follows:

Classification and Measurement:
During 2016 the Company carried out a number of changes to the terms of the loans previously taken with such changes being treated as non-material changes. Therefore, the Company treated such changes in accordance with the principles of Section 7a of IAS 39, namely adjustment of effective interest, such that the amended cash-flow, capitalized with the new interest rate, will be equal to the value of the loans presented in the books prior to the change in terms. Pursuant to the New Standard, for such change the principles of Section 8a shall be applied, namely the capitalization of the updated cash flow after the change in terms, with the loans' original effective interest with the differential being presented at the date of the change as a profit or a loss. Since the provisions of 8a are to be applied retroactively, the impact of the above as of January 1, 2018 shall be an increase/decrease in the balance of liabilities by an amount of USD 10.5 million as well as an increase/decrease in the Company's profit by an amount of USD 10.5 million.

3. 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 New Standard shall be implemented from the annual period commencing on January 1, 2019 or thereafter. Early adoption is possible. At present the Company does not intend on early adoption of the New Standard.

The New Standard allows lessees to choose one of the following application methods:

a. Full retroactive application – in such event the impact of the implementation of the New Standard to the start of the earliest presented period shall be attributed to equity. Similarly, the Company will restate the comparative figures presented in the financial statements.

b. Partial retroactive application – in such event a restatement of comparative figures will not be required. The balance of liabilities shall be calculated through using the current capitalized interest rate as of the date of the initial implementation of the New Standard. With respect to the balance of the right to use assets, the Company may elect, on an individual leasing basis, to apply one of the following two alternatives:

- Recognition of the asset at the value of the liabilities that were recognized with certain adjustments.
- Recognition of the asset as if it had always been valued in accordance with the New Standard.

Any difference at the implementation date of the New Standard for the first time as a result of the partial implementation, if any, shall be attributed to equity.

The Company is currently examining the possible alternatives for the retroactive implementation of the New Standard. The Company estimates that the implementation of the New Standard is not expected to have a material impact on the financial statements.

4. 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 comprehensive 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 to be applied commencing on January 1, 2018. The Amendments are to be applied prospectively as of the period that they are first applied. When information is available with regards to previous periods, then the Amendments may be applied retrospectively. Adjustments incurred on the first date of implementation, if any shall be attributed to equity.

At the Company's estimation, after reviewing the impacts of the Amendments, their implementation is not expected to have a material influence on the Company's financial statements.

5. The Improvement Project of the International Standards for 2015-2017

In December 2017 the IASB published the following amendments as part of the improvement project for 2015-2017. The principle amendments are presented below:

Relevant standards | Principle amendments

IFRS 3 - The amendment clarifies that a partner in common activities who achieves control over the common activities and the common activities constitute a business (as defined in IFRS 3), shall measure the existing rights in the common activities at fair value.

IFRS 11 - The amendment clarifies that a party to common activities that first achieves common control in the activities shall not measure the former rights held in the common activities.

IAS 12 - The amendment clarifies that the company should recognize the tax implications resulting from the payment of a dividend in the profit or loss, total other profit or in the equity, based on the categorization of such transaction in the financial statement for such transaction or event which resulted in the profit which is to be distributed.

IAS 23 - The amendment clarifies that credit that is taken directly for the establishment of a fit asset shall be classified for the purpose of the capitalization of the credit costs for the other fit assets as the company's general credit, this being when the fit asset for which the credit was taken is ready for use or sale and provided that the credit has not yet been repaid.

The amendments shall be implemented from the annual periods commencing on January 1, 2019. Early adoption of each of the amendments individually is possibly through the provision of an appropriate disclosure.

6. IFRIC 23 – Treatment of uncertainty related to taxation of income

In June 2017, the IASB published IFRIC 23 – "Treatment of uncertainty related to taxation of income" (the "Directive"). The Directive clarifies the rules of measurement and recognition of assets or liabilities pursuant to the provisions of IAS 12 "Taxation of Income" in situations in which uncertainty exists with respect to taxation of income. The Directive relates and gives guidance to the review of a number of circumstances of uncertainty relating to the taxation of income, review of the treatment of the tax authorities, measuring the impacts of uncertainty connected to the taxation of income on the financial statements as well as the treatment of changes in the facts and circumstances of the uncertainty.

The Directive is to be applied to annual financial statements for the period commencing on January 1, 2019. Early adoption is possible. Upon first implementation, the Company shall apply the Directive in one of two ways:

a. Complete retrospective application without amending the comparative figures and attributing the accumulated influence a t the first implementation date to the opening balance of the profit.
b. Complete retrospective application including amendment of the comparative figures.

The Company is examining the possible effect of the Directive. At the same time, at this stage, it is unable to evaluate the quantitative effect on the financial statements, if any.

Note 4: Investments In Investees (Held Companies)

On June 22, 2016, the Company committed in an agreement for the purchasing of the entire holdings of the partners in the partner company holding the rights in the Century project 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.

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.

Note 5: Trade Receivables, net

Trade receivables:

	31 December 2017 US$000	31 December 2016 US$000
Trade receivables (1)	**7,954**	3,903
Provision for doubtful debts	**(838)**	(819)
	7,116	3,084

(1) See Note 7.d.

The decrease in value of trade receivables is treated through recording an allowance in doubtful debt.

Note 6: Other Receivables, Net

a. Other Receivables:

	31 December 2017 US$000	31 December 2016 US$000
Deferred sales commission	**5,809**	4,260
Advances to suppliers	**1,414**	969
Receivables for works in progress (1)	**3,418**	-
Income tax authorities	**702**	1,191
Other trade receivables	**1,136**	863
	12,479	7,283

b. Other Long-Term Receivables:

	31 December 2017 US$000	31 December 2016 US$000
Indemnification assets due to a liability to Yaroslavl municipality (2)	**2,166**	2,996
	2,166	2,996

(1) In the framework of the Company's project in Saint Petersburg as stated in Note 7, the Company undertook to establish a children's kindergarten for the local authority in consideration for receipt of the costs. The above amounts constitute the payment to the building contractor of the kindergarten.

(2) See Note 21.d

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 was completed and delivered in 2016 and 2017 (340 apartments were delivered in 2017). The fourth phase of 1,244 residential units was completed in 2017 and the delivery of the apartments commenced in the first quarter of 2018. The fifth phase and GT are currently being built.

In 2017 2 residential units in the Western Residence Project.

The following table includes data regarding the St. Petersburg project.

Inventory Delivered in Saint Petersburg

	Year building completed	Total apartments	Sold	2016	2017
Stage 3	2016	1,346	1,346	1,006	340
Stage 4	2017	1,244	1,211	-	Delivery to commence in first quarter 2018
Stage 5	2019	1,510	293	-	-
Green Tower	2019	132	65	-	-

As of the Reporting Date, the total advances received by the Company from purchasers amount to approx. USD116,152 thousands for the Saint Petersburg project and USD323 thousands for the Western Residence project.

b. Composition:

	31 December 2017 US$000	31 December 2016 US$000
St. Petersburg Project	**233,650**	203,998
Western Residence Project	**10,990**	12,007
	244,640	216,005

Current assets:

	31 December 2017 US$000	31 December 2016 US$000
Land	**17,079**	27,480
Construction costs (*)	**174,047**	133,547
	191,126	161,027

Non-current assets

	31 December 2017 US$000	31 December 2016 US$000
Land	**12,333**	12,265
Construction costs (*)	**41,181**	42,713
	53,514	54,978

(*) Including specific borrowing costs that were capitalized in the amount of approx. US$3.5 million for the year ended December 31, 2017 (approx. US$3,650 thousand for the year ended December 31, 2016)

During 2017, the Company recognized impairment with respect to the inventory in the Western Residence Project in Moscow in the amount of US$1.8 million and with respect to the inventory in the St. Petersburg Project, recognized a reversal of impairment (cancelling the impairment previously recorded) in the amount of US$12.8 million during the year, that being according to a valuation received from an external independent valuator.

c. On July 29, 2017, an amendment to the Russian Federal Law FZ-214 (the "Federal Law") was passed. The purpose of the Federal Law is to entrench in legislation the arrangements which apply to building companies (developers) with respect to the receipt of new building permits (commencing as of 1.7.2018) for the building of multi-floor buildings and/or residential buildings and provisions regarding the management of the money of the purchasers. The amendment to the Federal Law includes terms and limitations which apply to building developers including the obligation to establish a separate legal entity who has or whose parent company has three years' experience in large scale building projects, receipt of one permit for one residential building, transfer of money to a government fund to compensate purchasers in the event of insolvency, opening of bank accounts with banks that have been approved by the authorities, limitations on developer's expenses which are unrelated to building the project, financing limitations and the obligation to hold cash balances at the commencement of the building and more.

In general, the amendment to the Federal Law shall apply to projects who receive building permits after July 1, 2018.

True to December 31, 2017 the Company is acting to receiving building permits for stages 6-8 of the St. Petersburg project.

The Company is reviewing the detailed changes brought upon by the amendment to the Federal Law as well as its impacts upon the Company's subsidiary. It is likely that the amendment to the Federal Law will impact the subsidiary and the subsidiary will be required to implement them in the future phases of the project (phases 6-8), however, at the subsidiary's estimation, there is expected to be no material change to the value of the property.

d. On 21 June 2017, a subsidiary of the Company, owning the full rights in the Saint Petersburg Project entered an agreement with an independent third party (the "Purchaser") for the sale of a parcel of land totaling approx. 11 dunams in the Project for a total consideration of approx. Ruble 300 million (approx. USD 5.2 million based on the exchange rate as of the date of the transaction). On 13 July 2017, the rights in the Land were transferred to the Purchaser. In accordance with the terms of the sale, the consideration is to be paid in 13 installments, as follows: a) 5% of the consideration is to be paid upon signing against the provision of a confirmation from the Registrar of Pledges in Russia of the removal of the lien on the land; and b) 95% of the consideration is to be paid in 12 equal monthly installments commencing as of January 2018. The Company recognized an accounting profit of USD 1.4 million in its financial statements of September 30, 2017.

e. During the Reporting Period, the Company moved its offices to the facility of the St. Petersburg project and accordingly transferred a proportionate amount of approx. USD 1 million from inventory to fixed assets.

Note 8: Investment Properties

a. Composition and adjustment:

	31 December 2017 US$000	31 December 2016 US$000
Balance at 1 January	**243,900**	260,200
Changes during the year:		
Additions during the year	**475**	186
Fair value adjustments, net	**(7,610)**	(62,299)
Exchange rate differences	**13,735**	45,813
Balance at 31 December	**250,500**	243,900

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. The fair value is set on the basis of the estimated expected future income from such project, through using yield returns adjusted based on relevant material risks to the construction process, including building and rental risks which are higher than the current yields with respect to similar investment property which has been completed. The remaining expenses for the completion of the construction, with the addition of developer's profit, are being deducted from the future estimated income as said above.

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

	31 December 2017 US$000	31 December 2016 US$000
Office Properties		
Average lease fees per Sq. meter per annum (dollars)	**232**	225
Average proceeds adjusted to risks, serving for the capitalization of net positive cash flows (in %)	**14%**	14%
Available areas for lease (in %)	**24%**	29%
Rate of proceeds upon conceptual realization (in %)	**10%**	10%
Commercial Properties		
Average lease fees per Sq. meter per annum (dollars)	**215**	196
Average proceeds adjusted to risks, serving for the capitalization of net positive cash flows (in %)	**14%**	14%
Available areas for lease (in %)	**1.6%**	2%
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
Re-measurement, recognized as profit or loss	**7,305**	(14,915)
Additions during the year	**475**	-
Exchange rate differences	**7,520**	6,215
Balance at December 31, 2017	**137,700**	112,800

e. Real estate:

	31 December 2017 US$000	31 December 2016 US$000
Freehold	**137,700**	122,400
Leasehold	**112,800**	121,500
	250,500	243,900

The Group leases lands for periods of 11 to 38 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	**231,500**	**250,500**	278,400

Note 9: Investment Properties Under Construction

a. Composition and adjustments:

	2017 US$000	2016 US$000
Balance as at January 1, 2017	**13,900**	**19,000**
Changes during the year:		
Additions	**2,177**	**1,908**
Fair value adjustments, net	**689**	**(9,968)**
Exchange rate differences	**(366)**	**2,960**
Balance at 31 December, 2017	**16,400**	**13,900**

b. Fair value of investment properties under construction:
The comparative method was used in the evaluation of investment properties under construction, other than with respect to the commercial project in St. Petersburg which used the DCF method.

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, 2017	**12,300**	1,600
Re-measurement, recognized in profit or loss	**896**	(207)
Additions	**2,150**	27
Exchange rate differences	**(446)**	80
Balance at December 31, 2017	**14,900**	1,500

d. Real estate:

	31 December 2017 US$000	31 December 2016 US$000
Freehold	**16,400**	13,900

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 and liabilities as at 31 December, 2017:

		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, 2017**	-	-	112,800	112,800
Retail properties	**Dec. 31, 2017**	-	-	137,700	137,700
Investment properties under construction (Note 9):					
Logistics	**Dec. 31, 2017**	-	-	1,500	1,500
Retail properties	**Dec. 31, 2017**	-	-	14,900	14,900
Liabilities given according to the fair value- disclosure (Note 11):					
Long and short-term credit from banks	**Dec. 31, 2017**	-	-	222,851	222,851
Debentures	**Dec. 31, 2017**	37,157	-	-	37,157
Liabilities for share option warrants	**Dec. 31, 2017**	586	-	-	586

Quantitative disclosures fair value measurement hierarchy for assets and liabilities 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.

Note 11: Long-Term Credits from Banks

a. Composition:

	Weighted interest rate %	31 December 2017 US$000	31 December 2016 US$000
Loans from banks in US dollars with fixed interest rate	7%	**154,228**	157,082
Loans from banks in Ruble with variable interest rate	CBR(*)+4%	**46,214**	42,278
Loans from banks in Ruble with fixed interest rate	11.95%	**9,591**	13,744
Loans from banks in US dollars with variable interest rate	Libor(3M) + 6.85%	**17,220**	18,033
		227,253	231,137
With the deduction of -			
Current maturities		**(3,801)**	(3,428)
Credit from banks for financing inventory of buildings for sale under construction		**(9,591)**	(13,744)
Loans from banks which were classified as short term (**)		**(15,960)**	(17,003)
		197,901	196,962

(*) Interest set by the CBR - Central Bank of Russia. (7.75% as of 31 December 2017)
(**) As a result of non-compliance with financial covenants, as determined by the financing entity, see also Subsection b.3 below, the total presented loan does not include the amount of USD 1,260 thousands that has matured for payment.

b. Debt arrangement and change in loan terms with SberBank of Russia

1. Debt arrangement with SberBank of Russia

On September 20, 2016, the Company and its subsidiaries completed all the actions necessary, according to the debt settlement with SberBank of Russia (the **"Bank"**), for the completion and entering into validity of the agreement for the settlement of loans provided to them totaling approx. USD 160 million (the **"Loans")**. Accordingly, the payment schedules of the loans were amended in such a manner that approx. 81% on average of the balance of principal of the loans will be paid during the first quarter of 2026.

In addition, in all loans the interest rate was decreased to 7%. 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.

Within the framework of the debt settlement with the Bank, the covenants undertaken by the Subsidiaries have not been materially changed, 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. 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"**).

In December 2017, the Bank extended the exemption period given by it for the review of the financial covenants for an additional 12 months until 31 December 2018.

2. Debt Settlement and change in loan terms 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% (11.75% as of December 31, 2017) 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 monthly 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 any given 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, 2017, the Company complied with the financial covenants that were determined as part of the credit agreements.

3. Loan with Nordea Bank

Further to that stated in Note 1b of the Financial Statements, in December 2016, the bank and Company entered into an interim agreement in the course of which the scope of the quarterly payments to the bank were reduced for 4Q2016 as well as 1Q2017 and 2Q2017. The Company and bank are currently negotiating the terms of amendment of the loan agreement, inter alia, for the deferral of loan repayment dates. Together with this, in the event that the bank demands full repayment of the loan, in the opinion of Company management, the monies to be received from the sale of the asset which serves as a security for the loan and whose fair value as of 31 December 2017 stands at USD 20.2 million, together with the Company's existing cash balance (based on its solo reports) amounting to approx. USD 11.2 million as of 31 December 2017 are sufficient to finance repayment of the loan. Similarly, in the course of expanding the existing debenture series, part of the issuance consideration was deposited on trust for early repayment of the loan. See also Note 23.

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 484.4 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.

Note 12: 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 2017 Nominal value US$000	31 December 2017 Balance US$000	31 December 2016 Nominal value US$000	31 December 2016 Balance US$000
G	December 2016	1%	3 annual payments from December 31, 2021	45,000	Not linked	9.77%	**45,000**	**33,082**	45,000	27,593
								33,082		27,593

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

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"**).

Upon the execution of the settlement, the total of the debt to the holders of the Debentures (Series A-F) of the Company were replaced with the securities specified hereunder. In addition, upon the date of execution of the settlement, all the existing debentures were stricken out of trade and revoked.

The Effective Date for the execution of the settlement was set on December 22, 2016. On such date, 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.

According to the Settlement Plan, the Company increased its registered share capital.

The principles of the debenture settlement plan are as follows:

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 on the TASE. 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.

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). 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 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").

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, for information regarding the option terms see Note 18.

c. The accounting treatment of the debt settlement:

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 in the Company's 2016 Statement of Income, 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 2016 Statement of Income.

Note 13: OTHER NON-CURRENT LIABILITIES

	31 December 2017 US$000	31 December 2016 US$000
Advances of Lessees [1]	**7,124**	5,823
Less advances of short-term lessees	**(2,754)**	(2,244)
Liability toward the Yaroslavl Municipality (2)	**4,376**	6,053
	8,746	9,632

(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 21d.

Note 14: 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. 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 and New Israeli Shekels ("NIS") 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. The Group has balances in financial instruments, stated in Ruble, in the amount of approx. US$84.3 million, and financial instrument, stated in Shekel, amounting to approx. US$ 33.7 million.

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

	December 31 2017 US$000	December 31 2016 US$000
Increase of 5% in n market factor	**(2,232)**	(2,886)
Increase of 10% in market factor	**(4,464)**	(5,772)
Increase of 20% in market factor	**(8,928)**	(11,544)
Decrease of 5% in market factor	**2,070**	2,886
Decrease of 10% in market factor	**4,140**	5,772
Decrease of 20% in market factor	**8,280**	11,544

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

	December 31 2017 US$000	December 31 2016 US$000
Increase 5% in market factor	**(1,681)**	(1,263)
Decrease 5% in market factor	**1,681**	1,263

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.

3. Market Risk:
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes three types of risks: interest rate risk, currency risk and other price risks including, share price risk and bond price risks. The financial instruments affected by market risk include, loans and credit, deposits, liquid investments and derivative financial instruments.

4. 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.

24% of the Group's loans bear variable interest rates.

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

	Increase in the Market Factor	Impact on the Profit before Tax US$000
2017		
USD loans	1%	(175)
Ruble loans	1%	(463)
Total		(638)

2016		
USD loans	1%	(185)
Ruble loans	1%	(424)
Total		(609)

5. 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, leases and payment terms in the purchase contracts.

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 2017					
	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	**26,669**	**40,122**	**17,907**	**75,377**	**187,798**	**347,873**
Debenture holders	**495**	**495**	**495**	**17,340**	**33,189**	**52,014**
Accounts payable and credit balances	**12,595**	**–**	**–**	**–**	**–**	**12,595**
	39,759	**40,617**	**18,402**	**92,717**	**220,987**	**412,482**

	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

6. 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 2017 and 2016 is the amount of cash balances and cash equivalents, presented in the Statement of Financial Position.

b. Fair Value:

The following table specifies the balance in the financial statements and the fair value of groups of financial instruments, measured in the financial statements as at December 31, 2017 and 2016, not based on their fair value.

	31 December 2017		31 December 2016	
	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)]	**227,253**	**233,787**	235,453	233,947
Debentures (series G)	**33,082**	**37,157**	27,593	29,703

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

(1) Including credit from banking corporations for building inventory under construction

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	7.35%

c. Changes in liabilities from financing activities

	Balance as of 1 Jan 2017 US$000	Cash Flow US$000	Influence of the Exchange Rate US$000	NPV and interest amounts US$000	Influence on the Fair Value US$000	Balance as of 31 Dec 2017 US$000
Loans from banking corporations	231,137	(11,708)	3,156	4,668	-	227,253
Debentures	27,593	(510)	3,118	2,881	-	33,082
Derivatives	-	1,152	81	-	(647)	586
Total liabilities from financing activities	258,730	(11,066)	6,355	7,549	(647)	260,921

Note 15: 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 - The corporate tax rate in Hungary decreased is 9% from January 1, 2017.
Israel - The corporate tax rate in Israel is 24% from 2017.

b. Deferred taxes:

	Statements of financial position		Income statements		
	31 December 2017 US$000	31 December 2016 US$000	**31 December 2017 US$000**	31 December 2016 US$000	31 December 2015 US$000
Deferred tax liabilities:					
Investment property and Investment property under construction	**(26,308)**	(25,800)	**851**	15,556	13,011
Inventory of buildings	**-**	(926)	**892**	5,772	(155)
Deferred tax assets:					
Buildings for sale inventory	**2,623**	-	**2,594**	-	-
Carry forward tax losses	**24,095**	23,952	**(1,114)**	(26,313)	7,309
Deferred tax expenses (income)	**-**	-	**3,223**	(4,985)	20,165
Deferred tax, net	**410**	(2,774)			

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

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000
Non-current assets	**15,508**	10,549
Non-current liabilities	**(15,098)**	(13,323)
	410	(2,774)

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. The new version of the treaty entered validity from 1.1.2017.

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.

3. Transfer pricing: the rules of transfer pricing will apply to cross border transactions with related parties, including financing arrangements and the provisions of guarantees etc. Similarly, with regards to transactions within Russia, such will also be subject to transfer pricing principles in the event that the value of such transactions is greater than 1 billion Rubles in one calendar year. It should be pointed out that the transfer pricing rules shall also apply to transactions with unrelated parties when one of the parties to the transaction is registered as an off-shore entity (in this regard it should be pointed out that Cyprus and Hungary are not considered to be off-shore states).

In the course of the 2012 legislation, among other things, the burden of proof was shifted from the tax authorities to the companies. In the Company's view, it is able to prove that related party transactions that it has engaged in have been performed at market rates. Due to the uncertainty and lack of practical experience with respect to the new legislation, the Russian tax authorities are likely to dispute the price level set by the Group for such transactions and may determine that the Company is obligated to pay additional tax. At the estimation of the Company's management, transactions in which the Company engages third parties are performed at market rates.

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 have bene 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 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Current taxes	**4,941**	830	1,161
Deferred taxes	**(3,223)**	4,984	(20,165)
	1,718	5,814	(19,004)

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 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Profit (loss) before taxes on income	**3,663**	133,599	(176,481)
Tax (tax benefit) calculated according to the statutory tax rate in Russia (20%)	**733**	26,720	(35,296)
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%)	**765**	2,154	2,631
Earnings of companies accounted for under the equity method for which deferred tax were not recorded	**-**	-	-
Inter-company expenses for which deferred tax liabilities were recorded	**663**	3,210	(6,106)
Losses for tax purposes for which deferred tax assets were not recorded	**2,623**	23,570	17,216
Profits generated from losses that no deferred tax assets were previously recorded for them	**(3,293)**	(7,298)	-
Expenses not recognized for tax purposes	**246**	692	2,462
Others	**(19)**	3	89
Taxes on income (tax benefit)	**1,718**	5,814	(19,004)

e. Losses carried forward for tax purposes

The total loss carried forward by the Company (including subsidiaries), as of December 31, 2017, is approx. US$ 282.2 million In consequence of this forwarded loss, deferred taxes of approx. US$ 24 million was recognised.

Deferred tax assets in total amount of approx. US $32.4 million with respect to forwarded losses in the amount of US$ 162.2 million were not recorded due to unexpected utilisation thereof.

Note 16: 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$0.20 n.v. each for 2017	**40,000**	18,869
Ordinary Shares of US$0.20 n.v. each for 2016	**17,000**	14,998

Movements in the share capital

1. During the year, the registered share capital was increased by 115,000,000 ordinary shares of US$0.20 n.v. each (US$23 million).
2. The paid and issued share capital:

	No. of shares	Nominal Value (USD)
Balance as of 1 January 2016	**103,558,005**	1,035,580
Share issuance at US$0.01 nominal value	**188,906,755**	1,889,068
Share consolidation 20 to 1	**(277,841,522)**	-
	14,623,238	2,924,648
Share issuance at US$0.20 nominal value	**60,367,726**	12,073,545
Balance as of 31 December 2016	**74,990,964**	14,998,193
Share issuance	**19,352,000**	3,870,400
Balance as of 31 December 2017	**94,342,964**	18,868,593

b. On June 3, 2017, the Company published a shelf offering report for a public share issuance and 2 series of options (tradeable) – Series A and Series B – which are exercisable into Company shares. Such was achieved through a uniform tender offer, under the shelf offering report published on July 3, 2017 under the Company's shelf prospectus dated August 27, 2015 whose validity was extended until August 28, 2018. According to the results of the public offering as published on July 4, 2017 the Company issued 19,352,000 regular shares holding a nominal value of USD 0.2 each together with 7,740,800 Options (Series A) and 5,805,600 Options (Series B). Options (Series A) and Options (Series B) have an exercise price of NIS 3.8 and NIS 4.2 respectively (not indexed or subject to adjustments as detailed in the shelf offering report), prior to July 4, 2019 and July 4, 2020 respectively. The immediate consideration (net) received by the Company for such was approx. USD 13.9 million. (An amount of USD 12.7 million on account of the shares and USD 1.2 million on account of the options).

c. 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 12.
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.

d. 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.

e. 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 14.

f. 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 creating a yield to the shareholders, investors and other interested parties.
2. Achieving return on capital to shareholders through pricing correctly rent levels 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 dependency.

Note 17: Earnings (Loss) Per Share

	For the year ended December 31, 2017		For the year ended December 31, 2016		For the year ended December 31, 2015	
	Weighted quantity of shares 000	Profit attributed to shareholders of the Company US$000	Weighted quantity of shares (*) 000	Loss attributed to shareholders of the Company US$000	Weighted quantity of shares (*) 000	Loss attributed to shareholders of the Company US$000
Quantity of shares and net profit (loss)	**84,534**	1,645	6,899	130,149	5,178	(153,108)
For the calculation of the basic diluted net profit (loss)	**88,018**	1,645	6,922	130,181	5,178	(153,108)

After adjustment for the consolidation of shares.

Note 18: Share-Based Payments

a. As stated in Note 12b, 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. Such allotment was also approved by the general meeting of the shareholders.

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 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 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Total expenditure recognized from share based transactions	**519**	33	56

c. 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, 2017		For the year ended December 31, 2016		For the year ended December 31, 2015	
	No. of options (*)	**WAEP US$**	**No. of options (*)**	**WAEP US$**	**No. of options (*)**	**WAEP US$**
Options for shares at the beginning of the year	**7,452,086**	**3.11**	54,114	3.92	87,804	3.8
Options for shares granted during the year	**-**	**-**	7,416,689	0.3	-	-
Options for shares expired during the year	**(22,460)**	**3.11**	(18,717)	3.5	(33,690)	3.45
Options for shares at the end of the year.	**7,429,626**	**0.3**	7,452,086	0.55	54,114	3.92
Options for shares exercisable by the end of the year.	**1,854,172**	**0.3**	35,397	3.11	49,801	3.93

(*) After adjustment for capital consolidation.

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

e. 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 19: Additional Details Of Profit And Loss Items

a. Cost of maintenance and management of leased assets:

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Cost of maintenance of property	**8,434**	8,100	7,130
Cost of land lease	**585**	398	510
Management fees	**692**	587	815
Property tax on investment property	**2,392**	1,648	2,855
	12,103	10,733	11,310

b. General and administrative expenses:

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Salaries and auxiliary payments (1)	**6,774**	5,593	5,606
Office maintenance	**1,227**	1,528	1,951
Professional fees	**1,822**	2,984	2,519
Overseas traveling expenses	**465**	466	434
Doubtful debts provision	**95**	341	494
Depreciation	**227**	194	156
Other costs	**925**	1,474	1,418
	11,535	12,580	12,578
(1) Includes cost of share-based payment	**519**	33	56

c. Financing income and expenses:

Finance income:

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Profit resulting from the settlement with the debenture holders (1)	**-**	222,472	-
Profit from options	**566**	-	-
Interest income from deposits with banks	**291**	95	271
Interest income from loans given to third parties	**-**	835	-
	857	223,402	271

(1) See also Note 12.

Finance expenses:

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Interest expenses due to loans from banking corporations.	**(19,122)**	(19,013)	(18,168)
Interest expenses due to debentures	**(2,881)**	(18,298)	(16,380)
Capitalized interest	**-**	1,563	1,276
Banking and other commissions	**(153)**	(539)	(1,167)
Expenses of presentation of institutes according to their fair value	**(366)**	(453)	(596)
	(22,522)	(36,740)	(35,035)

d. Other expenses, net:

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Updating the provision regarding a service provider	-	744	(600)
Adjustment of the liability to Yaroslavl municipality (see Note 21d)	847	18	1,285
Impairment of financial assets	-	(318)	(3,200)
Other	(2,677)	(3,099)	(2,560)
	(1,830)	(2,655)	(5,075)

Note 20: Related Parties

a. Transactions with related parties and interested parties:

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Interest expenses to shareholders and related parties (1)	–	–	599

(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 2017 US$000	31 December 2016 US$000
Capital reserve for transaction with shareholders	16,223	16,223

c. For details regarding agreements with related parties and interested parties, see also Note 4.

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

	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Short term benefits	825	1,007	754
Share-based payments	454	28	56
	1,279	1,035	810

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

Note 21: Contingent Obligations, Guarantees, Commitments And Pledges

a. A subsidiary of the Company – Petra 8 LLC ("Petra 8") entered the following agreements:

1. An agreement with a third party according to which such third party provides Petra 8 with various professional services regarding receipt of the necessary permits and approvals for the project. Under the terms of the agreement, as amended from time to time in the supplementary agreements, in consideration for such services, Petra 8 is to pay an amount equal to 2.5% of Petra 8's net profits, resulting from the sale of the project's rights. The consideration as said, shall be paid on the dates and in the amounts detailed in the agreement, with the parties achieving certain arrangements between themselves for the payment of certain advances on account of such consideration (based on an accounting mechanism included in the agreements), which, as of the Reporting Date amounts to a total of approx. USD 4 million, which is capitalized based on the cost of inventory recorded in the books.

2. 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.

3. An agreement with another management company for the purpose of developing the phases of the project for a monthly consideration of US$41 thousands.

4. 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.

5. 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. $868 per meter, according to the dollar-ruble rate of exchange, as at December 31, 2017).

6. An agreement with a third party contractor for the construction of the fifth phase in Petra project, for a fixed price of 50 thousand ruble per meter (approx. $900 per meter, according to the dollar-ruble rate of exchange, as at December 31, 2017).

b. The Group entered into commercial lease agreements with respect to its real estate. These leases have a term of 11-38 years with a renewal option.

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

	31 December 2017 **US$000**	31 December 2016 **US$000**
First year	**585**	411
Second year and up to five years	**2,339**	1,643
More than five years	**5,593**	8,962
Total	**8,517**	11,016

c. Expected rental income:

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

The expected rental income from existing agreements is as follows:

	31 December 2017 US$000
First year	**22,231**
Second year until five years	**57,695**
More than five years	**39,790**
	119,716

d. A consolidated subsidiary of the Group, which owns 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 2016, 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. After receiving the letter, a notice stating the municipality's demands was sent to the former partner.

e. 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.

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,2017:			
Income			
Total income	**35,347**	**42,090**	**77,437**
Segment results	**12,052**	**8,918**	**20,970**
Unallocated expenses			**(4,724)**
Operating profit			**16,246**
Financing expenses, net			**(12,883)**
Profit before taxes on income			**3,363**

	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 expenses, 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 2017			
Assets:			
Segments assets	**281,446**	**265,014**	**546,460**
Unallocated assets			**28,566**
Total assets			**575,026**
Liabilities:			
Segments liabilities	**230,849**	**139,933**	**370,782**
Unallocated liabilities			**50,265**
Total liabilities			**421,047**

	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 23: Subsequent Events

Private Debenture Offering (Series G), through expanding a series

a. On December 4, 2017, the Company accepted a private offer from a number of investors to buy, through a private offering, Company Debentures (Series G), through expanding an existing series that is listed for trade (the "Private Offering") in exchange for consideration of 72.6 agorot for each NIS 1 face value and in total consideration (gross) of approx. USD 69 million.

b. The issuance of the additional debentures was contingent on the fulfillment of a number of terms as detailed below.
The issuance of the additional debentures was contingent, among other things, on the execution of an agreement for payment of an existing debt which includes an undertaking of the financing party to act to release the asset pledged in its favor, subject to the completion of the debt repayment agreement and all of its provisions.

On February 14, 2018 the Company accepted the investor's offers to purchase the additional debentures having a total nominal value of NIS 14,051,000. Effectively, the total number of debentures (Series G) that are to be issued as part of the Private Offering shall be a face value of NIS 109,051,000 (the "Additional Debentures"), and in total, after completion of the Private Offering and all of its terms, the total scope of the debentures shall be a face value of a total amount of NIS 280,816,000. Due to the non-completion of the Private Offering prior to the ex-interest date, the price of the Additional Debentures has been amended to 71.5 agorot per NIS 1 face value and the (gross) consideration for the issuance of the Additional Debentures under the Private Offering has been increased to USD 78 million.

Additionally, the manner that the Private Offering is to be executed shall differ in a number of ways to that detailed in the offering report, as follows: (1) entering a loan repayment agreement with the financing party (the "Loan Repayment Transaction") shall not be a condition precedent to completing the Private Offering; (2) upon the completion of all of the remaining Conditions Precedent – (1) approx. NIS 53 million out of the Issuance Consideration, net, shall be deposited in the Company's lawyer's trust account, to be held on trust for the Company and debenture holders and shall be released to the Company upon the earlier of: (a) executing the Loan Repayment Transaction; (b) April 30, 2019. Upon completion of the Loan Repayment Transaction, as stated, the Company shall act to pledge the released asset as stated above in favor of the debenture holders; (b) the balance of the amounts received from the issuance consideration, net, shall be released to the Company for its ongoing activities, in the Company's sole discretion.

c. On February 20, 2018 all conditions precedent necessary for the Private Offering and its terms to take effect were achieved. As a result, Additional Debentures were issued to the institutional investors, the trust deed was amended and the Issuance Consideration was transferred to the Company and trustee pursuant to the terms.

Shareholders' Information

Financial Calendar

Annual General Meeting	June 2018
Announcement of 2018 first quarter results	May 2018
Announcement of 2018 interim results	August 2018
Announcement of 2018 third quarter results	November 2018

Share Price

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

Price at 31 December 2017	NIS 2.15
Lowest price during the year	NIS 1.81
Highest price during the year	NIS 3.68
Average	NIS 2.5

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 Gurman & Co., Advocates
Derech Menachem Begin 23, Tel Aviv-Yafo, 66183

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Real Estate Consultants

Cushman & Wakefield, Moscow
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Notes

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