18 March 2015

MIRLAND DEVELOPMENT CORPORATION PLC
("MirLand" / the "Company")

CONSOLIDATED REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

MirLand, one of the leading international residential and commercial property developers in Russia, announces results for the 12 months ended 31 December 2014.

Financial Highlights:

- Total revenues from investment properties up 18% to US$56.5 million (31 December 2013: US$47.8 million) due to an increase in income from yielding assets and full consolidation of the Vernissage Mall in Yaroslavl;
- Net operating income ("NOI") from investment properties (Company's share) up 12% to US$37.3 million (31 December 2013: US$33.4 million), mainly due to full consolidation of the Vernissage Mall in Yaroslavl and increase in income;
- Gross profit remains flat at US$39.1 million (31 December 2013: US$39.8 million);
- EBITDA down 8% to US$22.9 million (31 December 2013: US$24.9 million) due to a decrease in net income from residential projects;
- Loss of US$62.9 million (31 December 2013: net income of US$6.2 million) due to the ongoing impact of adverse conditions in the Russian economy, which resulted in the negative fair value adjustment of investment properties of approximately US$185.8 million following a decrease in projected NOI, a 1.5% increase to discount rates and 1% increase to CAP rates in the real estate market. In addition, the Company recorded net foreign exchange losses of US$175.9 million. This was partly offset by a positive fair value adjustment of investment properties of US$270.6 million following an appreciation of the US Dollar against the Rouble of approximately 72%, resulting in the nominal appreciation of commercial assets at the same rate;
- Total assets amounted to US$756.6 million, of which 89% are property and land assets (31 December 2013: US$893.2 million);
- Total equity of US$141.4 million (31 December 2013: US$331.7 million), equating to 19% of total assets;
- Net leverage stands at 56.9% of total assets (31 December 2013: 40.1%);
- The Company is continuing its discussions with the trustees of the Series A-F bondholders to agree a restructuring of its debt and will update the market in due course.

Operational Highlights

Residential:

Triumph Park, St. Petersburg

Sales rate remains high with prices of later phases increasing ahead of inflation:

- Phase I: All 510 apartments have been sold, representing income of approximately US$69 million, all of which was recognised during the period, in accordance with IFRS standards. An occupancy permit was received from the relevant authorities and delivery of apartments to owners has been completed;
- Phase II: Launched in Q3 2012. To date, 620 out of a total of 630 apartments (circa 98% of the scheme) have been sold, representing sales of approximately US$51.1 million. An occupancy permit was received from the relevant authorities and the handover of apartments to owners commenced during 2014 and is expected to complete in the first half of 2015;
- Phase III: Strong sales launch in Q4 2013, with an additional 867 apartments out of 1,346 pre-sold, totalling circa 64% of the scheme, representing sales of approximately US$63.5 million;
- Phase IV: Construction of 1,244 units commenced in Q3 2014, followed by the commencement of sales in Q1 2015. Approximately 82 units were pre-sold off plan during the initial two weeks of sales.

Western Residence, Perkhushkovo, Moscow

- Sales of a further 14 houses at our Western Residence development in Perkhushkovo, Moscow, have completed since 1 January 2014, taking the total number of units sold to 44 of the 77 houses in the scheme.

Retail:

- Satisfactory performance achieved despite pressures on rents and valuations during the fourth quarter with annual NOI from the Vernissage Mall and Triumph Mall up 14% (4% decrease in December 2013 like-for-like NOI) to US$22.4 million (2013: US$ 19.7 million);
- The construction of a circa. 15,000 sqm extension to the Vernissage Mall commenced during the period, with advanced negotiations currently underway with an international DIY retailer regarding the pre-sale of a built-to-suit unit.

Offices:

- Occupancy rates remain high at the MirLand Business Center, which stands at 86% leased. Like-for-like NOI up 10% to US$15.0 million.

Nigel Wright, Chairman, commented:

“Since last reporting to shareholders the Russian business environment has been adversely affected by a well-publicised series of events that were both unforeseeable and beyond our control. The combined effects of a major devaluation in the Rouble, economic sanctions, further reductions to oil prices, low growth and high inflation have damaged both the real estate sector and the business environment as a whole. Given this exceptional combination of factors our core business has proved remarkably resilient and our results at the operating level remain encouraging. Unfortunately, however, the economic events I refer to have had a major adverse impact on our portfolio valuations and bottom line profitability.

"The Russian economy remains challenging and is experiencing continued turbulence as a result of prevailing and continuing economic and geopolitical uncertainties. Despite stabilization measures taken by the Russian Government and the Central Bank, a combination of falling currency, rising inflation, low oil prices and the recent downgrades of the Russian Federation's sovereign credit rating suggests that the business environment generally and the economy as a whole will continue to suffer in 2015. The full impact of economic sanctions is unknown and their duration is uncertain. Furthermore we have no way of predicting either how far or for how long these adverse conditions will remain.

"We believe we have taken prudent steps to protect our business to the greatest extent possible but we cannot control the impact of outside factors, either political or economic, on our core activities. We continue to monitor the situation closely while evaluating the potential impact on the Group's cash flow and portfolio valuation. We believe we are capable of withstanding any foreseeable difficulties. Despite rising mortgage rates, our residential sales are holding up well as buyers continue to seek refuge from a falling Rouble in bricks and mortar. With regard to rental income, we anticipate some reductions in cash flow as tenants seek concessions but again we have factored this into our Business Plan. Long term, we remain positive about both our business and Russia as a whole but as outlined below we face a number of considerable challenges. Inevitably there will be continuing uncertainty at least in the short to medium term."

For further information, please contact:

MirLand Development Corporation plc	+7 495 787 4962
Roman Rozental, CEO	+7 499 130 31 09
roman@mirland-development.com	
Yevgeny Steklov, CFO	+7 903 628 24 50
yevgeny@mirland-development.com	
FTI Consulting	+44 20 3727 1000
Dido Laurimore /Ellie Sweeney	
dido.laurimore@fticonsulting.com	
ellie.sweeney@fticonsulting.com	
Investec Bank plc	+44 20 7597 4000
Jeremy Ellis / David Anderson	

Chairman's Statement

MirLand has delivered a positive operating performance during the 2014 financial year with further operational and financial milestones achieved across the business, despite having to navigate an increasingly challenging economic environment in Russia.

FINANCING

The challenging economic environment has had a substantial impact on the independent valuation of the Company’s real estate portfolio, which has been marked down in value by approximately 36% resulting in net leverage increasing substantially to 56.9% of total assets (31 December 2013: 40.1%). Total net borrowings amounted to US$430.1 million (31 December 2013: US$357.7 million).

Against this context and, further to the announcement on 25 January 2015, the Company is in negotiation with the trustees of the Series A-F bondholders to agree a restructuring of its debt which addresses the challenges posed by the current instability in the Russian economy for the benefit of all the Company's creditors and shareholders.

Discussions are continuing and, during this period, the Company has agreed not to undertake certain transactions which would involve incurring any material obligations without giving the Trustees the agreed prior notice (the “Interim Period”).

Furthermore, the Company's controlling shareholders, Jerusalem Economy Ltd., Industrial Buildings Corporation Ltd. and Darban Investments Ltd., as well as Dunchoille Holdings Ltd. (a subsidiary wholly owned by the Company), have undertaken that, during the Interim Period, no disposal will be made of any of the Company's debentures held by them, unless they give the Trustees prior written notice specifying the particulars of the transaction.

The Company will update the market further on this in due course.

During the 2014 financial year, and prior to the significant deterioration of the economic situation in Russia, MirLand had made good progress in successfully securing new bank financing or refinancing agreements. These new facilities were all secured on highly attractive terms, and were in line with our strategy of diversifying our funding sources whilst keeping long term leverage at a relatively low level. Further details are set out below:

1. In September 2014, the Company issued new debentures (Series F) in the total amount of NIS142.6 million (approximately US$39.2 million). The Series F debentures bear an annual fixed interest rate of 6.5% following increase of 1% due to the fact that they have been rated by Midroog at "B1 Negative". The debentures are repayable in five unequal annual payments; the first four payments are 5% of the principal amount and the fifth payment is 80% of the principal amount, payable on 31 December of each year from 2015 to 2019 (inclusive).
2. In September 2014, the Company successfully financed the fourth phase of 1,244 apartments at Triumph Park. Petra 8 LLC ("Petra"), a wholly owned subsidiary, entered into a loan agreement with SberBank, which also financed the previous three phases of this project. The loan agreement comprises a non-revolving credit line of up to US$87 million which will provide approximately 75% of the expected phase four construction costs, with the balance financed from sale proceeds. The loan fulfills the outstanding funding requirements for this latest phase of the project, and will be provided to Petra in tranches over the next three years, secured by way of mortgage, charge, pledge and other appropriate security interests for the benefit of the Bank. The Loan, which matures in four years, is in addition to three facilities previously granted by the Bank to Petra, the outstanding balance of which, to date, is approximately US$2.6 million.
3. In May 2014, a 51% owned subsidiary of the Company entered into a new non-revolving US$26 million refinancing loan agreement with Nordea Bank against Century, its 11,000 sqm office investment asset in Moscow. The loan, which bears an interest rate of LIBOR + 6.85%, is for a period of five years. The loan principal is to be paid in quarterly installments, with the last repayment representing 73% of the loan balance.
4. In April 2014, a 61% owned subsidiary of the Company replaced its existing US$11 million loan facility from Sberbank of Russia with a new US$18 million facility with a fixed interest rate of 7.7%, compared to LIBOR + 7.7% for the previous loan, with all other terms remaining unchanged.
5. On 20 March 2014, a subsidiary of the Company entered into a US$49 million loan agreement with the Bank of Moscow to refinance the Vernissage Mall project. The loan, which bears a fixed interest rate of 7.75%, is for a period of seven years, after which it will be possible to extend the period by three additional years. The loan principal is to be paid in quarterly installments, with the last repayment representing 49% of the loan balance. The refinancing follows the Company’s decision in December 2013 to acquire the remaining 49.5% of shares in the asset, consolidating its control of the project.

We are very pleased to have negotiated these new facilities, as detailed above, particularly in the context of high interest rates, and considering the levels to which rates have since moved.

The net proceeds of the Series F Bonds issuance, as well as loans obtained by subsidiaries, were applied for general working capital purposes and the repayment of certain financial liabilities including, inter alia, Bonds and loans provided to subsidiaries in Russia.

Following a sharp annual devaluation of 72% of the Russian Rouble against the US Dollar, the Company recorded an exceptional nominal revaluation gain of US$270.6 million and nominal foreign exchange loss of US$175.9 million in its 2014 annual profit and loss statement. This nominal revaluation gain and nominal foreign exchange loss had no impact on the Company's US Dollar denominated investment properties or loans provided to the Company's subsidiaries.

OPERATIONAL UPDATE

Despite the challenges in the market, operational progress continues to be in line with expectations. Good progress continues to be achieved in the pre-sale, build and delivery of Triumph Park in St. Petersburg, the Company’s BREEAM certified sustainable residential project. Construction of Phase II has now completed, ahead of schedule, with approximately 98% of the flats pre-sold and the handover of circa 290 flats now concluded. Sales have continued to complete at a strong pace on Phase III of the scheme, with 867 (65% of the scheme) apartments pre-sold in the first 15 months of the sales process. The Company continues to market and achieve sales prices on these later phases ahead of the rate of inflation, underpinning the strong levels of profitability for the project in Rouble terms.

The construction of Phase IV of the project, representing a further 1,244 units, commenced in Q3 2014 and the sales programme launched in the first quarter of 2015 with 82 flats pre-sold in the first 2 weeks of sales.

The Western Residence residential development scheme at Perkhushkovo, Moscow has also maintained momentum with 12 further houses sold since the beginning of 2014. This takes the number now sold to 44 of a total of 77 houses in the scheme.

Our Vernissage Mall and Triumph Mall assets remain over 97% let, with footfall high at both. The retail portfolio enjoyed a strong operating performance, with net operating income up 14% to US$22.4 million compared to 2013. We have commenced the construction of a circa 15,000 sqm extension to the Vernissage Mall, with advanced negotiations currently underway with an international DIY retailer regarding the pre-sale of a built-to-suit unit.

Occupancy at the MirLand Business Centre remains high at circa 86% of the total lettable area, which is in line with the market average.

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

Results

Total assets as at 31 December 2014 decreased by 15.3% to US$756.6 million, as compared to US$893.2 million as of 31 December 2013. Equity as at 31 December 2014 was US$141.4 million compared to US$331.7 million the preceding year.

Losses for the year amounted to US$62.9 million (31 December 2013: net income of US$6.2 million), due to the turmoil in the Russian market, which resulted in negative fair value adjustment of investment properties of approximately US$185.8 million following a decrease in projected NOI, a 1.5% increase to discount rates and 1% increase to CAP rates in the real estate market. In addition, the Company recorded net foreign exchange losses of US$149.4 million. This was partly offset by positive fair value adjustment of investment properties of US$270.6 million following an appreciation of the US Dollar against the Rouble of approximately 72%, resulting in the nominal appreciation of commercial assets at the same rate.

Over the period, net operating income (“NOI”) from investment properties increased by 12% to US$37.3 million (31 December 2013: US$33.4 million) due to decrease in operational expenses and full consolidation of Vernissage mall project.

MirLand's assets are externally valued semi-annually on 30 June and 31 December of each year. The valuation is conducted by Cushman & Wakefield. As a result of the above mentioned financial crisis, the value of MirLand's portfolio (Company’s share) decreased by approximately 33.1% to US$589.5 million as at 31 December 2014 (31 December 2013: US $880.7 million). Adjusted NAV, based on Cushman & Wakefield’s valuation, was US$164.6 million (31 December 2013: US$556.7 million), a decrease of 70.4%.

Portfolio Development

Despite the challenges of the Russian economy, MirLand’s focus for 2014 was to continue to deliver its flagship residential project already under construction, manage carefully its income-producing investment properties in order to decrease operational expenses, and execute its high quality pipeline of development projects. MirLand will continue to keep this strategy under review in light of macro-economic developments in Russia.

Residential

MirLand has continued to make significant progress at its flagship residential led development, Triumph Park in St. Petersburg. All 510 apartments have been sold in Phase I and Phase II launched in Q3 2012 with 620 out of a total of 630 apartments (circa 98% of the scheme) sold, representing sales of approximately US$51.1 million. An occupancy permit for Phase II was received from the relevant authorities and the handover of apartments to owners commenced during 2014 and is expected to complete in the first half of 2015. We saw strong sales in Phase III in Q4 2013, with an additional 867 apartments out of 1,346 pre-sold, totalling circa 64% of the scheme, representing sales of approximately US$63.5 million.

In Q3 2014 we commenced construction of 1,244 units at Phase IV followed by the commencement of sales in Q1 2015. Approximately 82 units were pre-sold off plan during the initial two weeks of sales.

The project offers high quality and competitively priced housing in St. Petersburg’s strengthening residential market. Situated on a 40 hectare site, the project represents one of the few large scale developments in the city in close proximity to major transport links. Furthermore, the development is the first eco-residential complex in St. Petersburg certified by BREEAM, the world's leading assessment organization of green and sustainable construction. It will provide attractive features including ecologically friendly construction materials, energy efficient design, reduced CO2 emissions, water purification filters and high speed eco lifts certified according to ISO 14001. The flexibility of the apartment mix in terms of both range of sizes and fit-out options is designed to appeal to a wide range of purchasers.

In Q4 2011 the construction of Phase I of the Western Residence project in Perkhushkovo (77 houses out of 163) was completed and the houses are now being marketed to prospective to the buyers. To date, a total of 44 houses have been sold.

Retail

The Company owns two retail projects located in large prosperous regional cities. Both are over 97% occupied and enjoy high footfall throughout the year.

As part of our strategy to grow the retail segment of the portfolio, we have now started the construction of Phase IIa of the Vernissage Mall (approximately 15,000 sqm) in Yaroslavl, which is being built-to-suit and under advanced negotiations to be sold in its entirety to an international DIY retailer. In addition, we are currently in negotiations with a single tenant for a tailor-made theme store development which will be let on a long term lease agreement at Triumph House, a retail project in Kazan.

Offices

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

Dividend Policy

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

In light of the challenges currently facing the Company, the Board has determined it inappropriate to declare a dividend for the financial year ended 31 December 2014.

Our People

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

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

Once again I would like to pay tribute to both my executive and non-executive Board colleagues and all our staff. Together they form the backbone of our business and I thank them for their continuing dedication, energy and achievement. Their efforts have ensured that the Company is well positioned to face the challenges of the future.

The Board of Directors and the management are fully committed to sound corporate governance. As in previous years, detailed information regarding our approach to governance issues, our internal controls and key team members will be provided in our Annual Report & Accounts.

Outlook

Since last reporting to shareholders the Russian business environment has been adversely affected by a well-publicised series of events that were both unforeseeable and beyond our control. The combined effects of a major devaluation in the Rouble, economic sanctions, further reductions to oil prices, low growth and high inflation have damaged both the real estate sector and the business environment as a whole. Given this exceptional combination of factors our core business has proved remarkably resilient and our results at the operating level remain encouraging. Unfortunately, however, the economic events I refer to have had a major adverse impact on our portfolio valuations and bottom line profitability.

The Russian economy remains challenging and is experiencing continued turbulence as a result of prevailing and continuing economic and geopolitical uncertainties. Despite stabilization measures taken by the Russian Government and the Central Bank, a combination of falling currency, rising inflation, low oil prices and the recent downgrades of the Russian Federation’s sovereign credit rating suggests that the business environment generally and the economy as a whole will continue to suffer in 2015. The full impact of economic sanctions is unknown and their duration is uncertain. Furthermore we have no way of predicting either how far or for how long these adverse conditions will remain.

We believe we have taken prudent steps to protect our business to the greatest extent possible but we cannot control the impact of outside factors, either political or economic, on our core activities. We continue to monitor the situation closely while evaluating the potential impact on the Group's cash flow and portfolio valuation. We believe we are capable of withstanding any foreseeable difficulties. Despite rising mortgage rates, our residential sales are holding up well as buyers continue to seek refuge from a falling Rouble in bricks and mortar. With regard to rental income, we anticipate some reductions in cash flow as tenants seek concessions but again we have factored this into our business plan. Long term, we remain positive about both our business and Russia as a whole but as outlined below we face a number of considerable challenges. Inevitably there will be continuing uncertainty at least in the short to medium term.

Nigel Wright
Chairman
18 March 2015

CHIEF EXECUTIVE'S STATEMENT

Russian Business Environment

Key economic indicators	2012	2013	2014
Population (millions)	143.0	143.3	143.7
GDP per capita (PPP, $)	23,700	24,298	24,764
GDP growth rate (%)	3.5	1.5	0.6
Inflation (%)	6.5	6.5	11.4
Unemployment rate	5.5	5.5	5.3
RUR/USD exchange rate	30.4	32.9	56.3
Sovereign Credit rating	BBB	BBB	BB+

In 2014 Russia faced two major events that negatively impacted its economy. The first was the military unrest in East Ukraine and annexation of Crimea by Russia that started in March and led to economic sanctions from the US and the EU against Russia. The second was the sharp decrease in oil prices that initiated in the middle of the year and led to an approximately 50% drop in the second half of 2014, while the oil sector represents 65% of Russia's total export revenues.

On the back of falling oil prices, increasing geopolitical tension and a surprise cut in the key policy rate by the Central Bank of Russia ("CBR") the value of the Rouble collapsed and has continued to slide since the middle of 2014. Measures taken by the Russian Government and the CBR's December key policy rate hike of 750 bps have helped to stabilize the Rouble. In January 2015, S&P downgraded Russia's sovereign credit rating to BB+ with negative outlook. Subsequently, the market reaction to the CBR's decision on 30 January 2015 to cut its policy rate by 200 bps was sharply negative and required the CBR to intervene with US$700 million to stabilize the Rouble. Therefore, at the beginning of 2015 the Rouble continued its devaluation against the US$ and against the dual currency basket. On 30 January, the government revealed an anti-crisis package of RUB2.3 trillion (approximately US$37 billion) which it plans to commit to support the economy.

Rosstat's preliminary estimate for Russia's 2014 real GDP growth stands at 0.6% while inflation increased to 11.4 % during the year, driven by high food inflation and the devaluation of the Rouble. This decline in growth from 1.3% in 2013 was due to weaker domestic and external demand. Consumption remained the main growth driver, yet its pace of expansion slowed to 1.5%, compared to 3.9% in 2013. Depressed investment demand was reflected in the contraction of fixed capital investment by 2.5%, while companies continued destocking. Growth was supported by stronger net exports due to the weaker Rouble. Manufacturing and financial services were the main growth contributors on the production side. On the upside, unemployment remained low during the year. A continued decline in imports due to political sanctions on Russia from the US and the EU, together with weak currency, are expected to support the consumption of indigenous goods whilst simultaneously boosting export performance as trade activity will become more attractive with a weak local currency.

Rosstat's January survey points to a worsening of business conditions across all major manufacturing industries, with the aggregate seasonally adjusted index falling to the lowest level since the 2009 crisis. The survey suggests that weak domestic demand and growing political uncertainty have become the two most important factors affecting investor confidence. This reflects Russia's balance of payments which deteriorated significantly in the fourth quarter of 2014, affected by a terms of trade shock and again accelerating capital outflows. Net capital outflows grew in in the fourth quarter to US$59.5 billion. For 2014, capital outflows in the amount of US$130.5 billion (7% of GDP) triggered the deterioration in the balance of payments and required the CBR to spend US$86.5 billion of its reserves, decreasing its reserve stock by 25.6% since the beginning of the year. The World Bank revised its Russia growth forecast for 2015 to -3.8%, based on a new oil price projection of US$53/bbl.

The 2014 federal budget deficit was the result of the measures to support the economy. The Ministry of Finance issued on 30 December 2014, RUB1 trillion (approximately US$16 billion) in treasury bonds to recapitalize the banking system. The overall budget deficit remained at the same level compared with 2013. This was largely the result of the Rouble depreciation, which boosted oil revenues and led to an increase in total government revenues to 20.4% of GDP from 19.7% of GDP a year before.

In spite of the economic challenges, Russia still has large foreign exchange reserves that amounted to US$ 385 billion at the end of 2014. These reserves will continue to support the balance of payments gap and help to stabilize the Rouble's devaluation. In addition, the reserves might also be used to support the Russian banking system as capital ratios are starting to deteriorate and liquidity support by some banks may be needed. However, the level of government debt, as a percentage of GDP remains low, at 32.5% at the end of 2014 (14% in 2013), which is still much lower than many OECD and other European countries.

Positive news came during February 2015 as a cease-fire in East Ukraine was declared. It is not yet clear what impact this cease-fire will have on the western sanctions regime and on the wider Russian economy should this agreement prove stable.

Russian Real Estate Market

In 2014 total volume invested in commercial real estate in Russia was back to 2010 levels and decreased sharply to US$4.1 billion, compared to 2011-2013 yearly investments which stood at US$7.5-8.1 billion. This decrease in investment volume is attributed to both the global and domestic macroeconomic environment and the forecast for 2015 is even lower. Foreign investment in real estate reduced to only 20% of total investment (34% in 2013) or US$0.8 billion (US$2.4 billion in 2013).

The macroeconomic environment also led to a sharp increase in capitalization rates during the year by 2.5% to 11% in the office sector, by 2.0% to 11% in the shopping centres sector and by 2% to 13% in the warehouse sector. This increase occurred mainly during the fourth quarter of the year as the CBR increased the interest rate to 17%, while trying to support the devaluation of the Rouble. However, these new capitalization rates do not fully reflect new financing terms, and therefore this outward movement may continue.

As with previous years, the office sector led the investments in Russian real estate with US$2.2 billion (54% of total investment), out of which US$2.0 billion was invested in Moscow and US$0.2 billion was invested in St. Petersburg. However, investments in this sector reduced by 37% relative to 2013. Other sectors demonstrated weaker performance with investment in the retail sector amounting to US$0.6 billion (down 77% from 2013) and investments in the warehouse sector of US$0.4 billion (down 74% from 2013).

The Office Sector

During 2014 most market indicators presented negative trends mainly due to a decrease in demand for office premises and a cycle peak of new construction. New construction added 1.4 million sqm to the market, representing a record high for the last five years of new development. However, the net absorption was only 300,000 sqm which is 4.5 times less than the new construction volume which entered the market. The volume of premises under construction remains high, however developers are tending to halt work on new projects.

Tenant requirements to reduce costs has led to rent reductions, space use efficiency and cancelation of expansion plans. The sharp Rouble depreciation initiated a trend of "dedollarization" of lease contracts, mainly in class B buildings. In class A buildings this trend is not so apparent, however landlords of these assets are prepared to become more flexible. Take-up during the year amounted to only 1.3 million sqm, on par with 2010 volumes, culminating a three year decrease in demand for the leasing and purchasing of space. Rental asking prices reduced principally towards the end of the year and were 30% lower in 4Q 2014 than in 4Q 2013.

The reduction in demand together with the significant supply of new buildings on the market has caused an increase in vacant space to 2.6 million sqm, while an additional 0.7 million sqm which will be delivered during 2015 is already being offered for lease. By the end of 2014, 17.2% of all existing office premises in Moscow (12% at the end of 2013) was vacant. Demand for class A office space fell more significantly resulting in a 31% vacancy level at year end, whereas class B offices present a lower 13% vacancy level.

The Retail Sector

Russia is the largest market in Europe and has the biggest retail turnover in EMEA with US$611.8 billion in 2013. While modern retail space only started being developed about 10 years ago, shopping has become a conventional cultural pastime for many. The majority of good quality projects are located in large cities, although in recent years developers have also increased their activity in cities with less than 500,000 people.

The economic downturn, devaluation and inflation influenced consumer spending during 2014 and the negative trend is expected to continue in 2015. Retail sales in Russia grew by only 1.9% during 2014 (3.9% in 2013) and real disposable income grew by just 1% (2% in 2013). This growth has been attributed to the strong consumption trend in November and December as the Rouble continued its devaluation and inflation expectations were on the rise. In addition to the decrease in real wages in December 2014, the increase in financing costs will reduce the consumer credit that fuelled spending in previous years.

Since the middle of 2014, demand for retail premises has decreased significantly. The main reasons for the decline are: the reduction in sales volumes due to import restrictions and high purchase prices, in addition to the high cost of imports and consequently retail prices which conflict against a decrease in purchasing power, and general future uncertainty. Tenants have consequently started to renegotiate their lease agreements due to a decline in sales expectations and growing economic uncertainty.

2014 was a record year for the construction of quality retail premises as 60 new shopping centres with a GLA of 2.1 million sqm were delivered in 49 cities across Russia. In Moscow, 14 new shopping centres were opened with 0.67 million sqm of GLA, including Avia Park which is the biggest mall in Europe. Outside Moscow, 46 shopping centres were delivered with 1.54 million sqm of GLA. The majority of these new centres had soft openings with low occupancy rates due to the slowing demand.

In light of the economic situation and the huge influx of new shopping centres, vacancy rates in existing shopping centres started to increase towards the end of the year, as the higher vacancy rates at new premises increased the competition.

The market situation has put downward pressure on leasing contracts. Many lease agreements have been transferred from US$ to Rouble. In addition, fixed rental prices are becoming less common as payments as a percentage of turnover is becoming an increasingly popular trend.

In Saratov, the market is young and not yet stabilized. The area of quality retail space is only 140 sqm per 1,000 inhabitants. In Yaroslavl, the retail sector has developed rapidly since 2004 and reached 300 sqm per 1,000 inhabitants. Almost all large retailers active in Russia, both local and international, are also active in Yaroslavl.

The Residential Sector

The residential sector in Russia presents one of the best opportunities for growth due to the low level of living space per capita and what has been a slowly developing mortgage market. The average area per capita is circa 24 sqm and the mortgage market amounts to only small proportion of GDP, significantly lower than in western countries. In 2014, approximately 1.1 million apartments comprising a total area of 81 million sqm were delivered in Russia, representing 15% growth over the year. Among the newly constructed apartments, 10.2% were built in the Moscow region, 4.1% were built in Moscow, and 4% were built is St. Petersburg.

2014 saw a record volume of residential schemes under development in St. Petersburg, with 3.3 million sqm under construction. Due to both economic instability and currency volatility there are concerns regarding the demand for new apartments, however it’s expected that high quality and well-designed projects will be less affected by the downturn, as evidenced by the 2008 financial crisis.

In December 2014, the residential market in St. Petersburg experienced a boom in demand. However, expectations for 2015 are that demand will be lower as a result of increased mortgage rates and decreasing purchasing power in light of the falling Rouble. During the year average selling prices of apartments in St. Petersburg increased by 9.4%. 60% of apartments were priced between 70-110 thousand Rouble per sqm, and 15% of apartments ranged between 110-130 thousand Rouble per sqm. Market expectations are that the prices will continue to increase by 5%-10%, which is lower than the expected rate of inflation.

As at the year-end, there are slightly more than 700 cottage settlements of all categories in the development stage in the Moscow region, as 120 of them can be referred to as concept development of business or prime class in comparison to our project. However, the development activity slowed down in 3Q 2014 due to the economic situation in Russia. Traditionally, the majority of demand has accounted for empty plots of land, however an increase in demand for town houses has recently been witnessed. Turnkey ready houses and town houses are on average 10%-30% more expensive than contracted land-plots. In 2014 demand shifted towards smaller properties which could accommodate a reduced budget..

Average price increases for apartments in Russia during 2014 were lower than the rate of inflation. In Moscow, prices increased by 8% and in St. Petersburg an average apartment price increased by just 5%. The mortgage market in Russia increased by 30% (2013 – 31%), however due to the sharp increase in the interest rate by the CBR at the end of 2014 it is not expected that mortgages will see any growth during 2015.

The Logistics Sector

Since early 2014, the market for warehouses in the Moscow region has become more favourable for tenants. In the first half of the year the supply of good quality space increased significantly which resulted in the growth of vacancy rates. Therefore, for the first time since 2011 tenants can now close deals on existing space, not only on warehouses under construction.

2014 presented record volumes of new construction that resulted in a 4% increase in vacancy rates in the Moscow region to 5% in class B and 7% in class A warehouses. Some near complete projects are expected to come to market in 2015.

In the regions, economic and political factors did not have such an affect on the market as in the Moscow region. As a result, regional demand during the year remained strong. During 2014, circa 1 million sqm of quality warehouse space was delivered across Russia (excluding Moscow). New construction activity is expected to continue, as there is a lack in supply of quality warehouses in many regions. In comparison to 2014, take-up increased by 29%, with 77% of transactions relating to new lease agreements, and 23% were purchase transactions.

The demand, especially from food retailers, is not satisfied in all Russian regions. In 2014 the most active companies in the regions were retailers (mainly food retail) with a 65% market share, industrial companies (primarily car components and industrial equipment production) with a 22% market share, and logistic players with a 13% market share.

In the regions, local developers make mainly Rouble denominated agreements, therefore, the Rouble devaluation did not have a significant affect on the market and average rents have remained relatively stable. Contrastingly, in the Moscow region, rents decreased by 25% due to the devaluation of the Rouble.

Strategy

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

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

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

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

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

- Use of diverse financing sources to accelerate business activity and growth: Equity, shareholders' loans, corporate loans (some of which have been guaranteed by our main shareholders), project financing and bond issuances are used to finance the Company's activities and projects.

- Enhancing business cooperation with local partners, especially in the regions: Having a local partner provides daily monitoring of the projects and thus a greater level of control over quality, costs and delivery for the Company. In addition, these relationships are expected to lead to future investment opportunities.

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

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

This strategy supports the Company’s position as one of the leading international real estate companies in Russia. The backing of the Company's main shareholders, together with the diversification of financial sources, enables MirLand to continue to develop and maintain its portfolio and help support it in its mission of creating value for its shareholders.

In addition, in the event that market conditions begin to improve and the availability of financing sources in Russia increases, the Company might consider increasing its portfolio when good opportunities arise, through acquisitions of new real estate assets, either yielding or development projects, that can be delivered in a short time to the market.

Portfolio
MirLand currently has 13 projects, six of which are yielding assets (offices in Moscow and regional retail), two project are under construction (Phase 2a of Vernissage Mall and Phase III and Phase IV of the Triumph Park project in St. Petersburg), two are completed residential projects (Phase I in Western Residence in Perkhushkovo and Triumph Park)) and three projects are at various stages of planning and in the process of obtaining permits (in addition to the Phase II of the Western Residence project in Perkhushkovo and phases V-VIII of the Triumph Park project in St. Petersburg).

The Company's portfolio has been valued by Cushman & Wakefield at US$589.5 million (MirLand's share) as at 31 December 2014, based on the Company’s freehold/leasehold rights. This value represents a decrease of approximately 33% since 31 December 2013.

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 2014: US$19.2 million)

MAG, Moscow – offices

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

- Land area: 2.2 ha
- Leasable area: 18,500 sqm
- Completed: Q4 2007
- Leasehold rights of land: 100%
- Occupancy rate: 78%
- Financing: US$49 million financed by Sberbank in 2012-2014 (principal balance as of 31 December 2014: US$45.3 million)

Century Buildings, Moscow – offices

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

- Leasable area: 20,900 sqm
- Completed: Q1 2009
- Leasehold rights of land: 61%/51%
- Occupancy rate: 95%
- Financing: US$39 million financed by Sberbank and Nordea bank in 2014 (principal balance as of 31 December 2014: US$37 million)

Tamiz, Moscow – offices

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

- Leasable area: 11,700 sqm
- Completed: Q3, 2011
- Leasehold rights of land: 100%
- Occupancy rate: 95%

Vernissage Mall, Yaroslavl – retail

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

- Land area: 12 ha
- Leasable area: 34,100 sqm
- Completed: Q2 2007
- Freehold rights: 100%
- Occupancy rate: 97%
- Financing: US$49 million financed by Bank of Moscow in April 2014 (principal balance as of 31 December 2014: US$44.2 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: 27,300 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 2014: US$87.3 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): 13,390 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 44 houses have been sold;
- Completion: Phase I (77 townhouses and cottages) was completed in Q4, 2011.

Project under construction:

Triumph Park, St. Petersburg – residential complex

Phased development of a residential neighbourhood which, upon completion, will comprise approximately 9,000 apartments, commercial and public areas with good accessibility to the city and its airport. The commercial areas will include offices and a commercial centre with underground parking. The public facilities will include kindergartens, a school and parks.

- Land area: 41 ha
- Saleable area: 560, 000 sqm
- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2021
- Freehold rights: 100%
- Marketing:
  - Sales and construction of Phase II, which consists of approximately 32,600 sqm representing 630 apartments, was launched in September 2012.
  - Sales and construction of Phase III, which consists of approximately 61,800 sqm representing1,346 apartments, was launched in September 2013.
  - Launch of sales of Phase IV, which will consist approximately 60,694 sqm representing1,244 apartments, was in Q1 2015
- Sales:
  - Phase I: sold out;
  - Phase II: to date, 620 sale contracts have been executed;
  - Phase III: to date, 867 sale contracts have been executed;
  - Phase IV: to date, 82 reservation contracts have been executed in the first two weeks of sales

- Financing:
  - credit line of US$41 million for Phase I construction was obtained from Sberbank in November 2011 and fully repaid;
  - credit line of US$47.5 million for Phase II construction was obtained from Sberbank in September 2012 and fully repaid;
  - credit line of US$96 million for Phase III construction was obtained from Sberbank in September 2013 (principal balance as of 31 December 2013: US$2.6 million)
  - credit line of US$87 million (conversion rate as of the signing date) for Phase IV construction was obtained from Sberbank in September 2014 (principal balance as of 31 December 2014: US$0.7 million)

Projects in Planning:

Big Box Complex, Yaroslavl – retail
Development of a retail complex adjacent to the Vernissage mall in Yaroslavl.

- Land area: 18 ha
- Leasable area: 55,000 sqm
- Planned construction commencement: Q1 2015 (Phase IIa)/ Q1 2016 (Phase IIb)
- Planned completion: Q4 2015 (Phase IIa)/ Q4 2017 (Phase IIb)
- Freehold rights: 100%

Triumph House, Kazan - retail
Development of home design and improvement centre at favourable location in the city

- Land area: 2.2 ha
- Leasable area: 16,783 sqm
- Planned construction commencement: Q2 2015
- Planned completion: Q4 2016
- Freehold rights: 100%

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

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

Novosibirsk – logistics
Phased development of a logistics centre in Novosibirsk, closely located to the federal highways and railways.

- Land area: 40.6 ha
- Leasable area: 180,000 sqm
- Leasehold rights: 100%
- Planned construction commencement: NA

- Planned completion: NA

Western Residence – Phase II, Perkhushkovo, Moscow region – residential
Development of 86 townhouses and cottages (out of 163) in the prestigious western outskirts of Moscow.

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

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
18 March 2015

FINANCIAL REVIEW

Revenues for 2014 were US$56.5 million and losses were US$62.9 million. Total Assets at 31 December 2014 amounted to US$756.6 million and Equity amounted to US$141.4 million. The Company's adjusted net asset value was US$164.9 million. The Company's real estate assets were valued on 31 December 2014 at US$621.6 million (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US$589.5 million.

Accounting Policy

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

Income Statement

The Company's revenues consist of rental income from investment properties, income from sales of residential units and fees from managing investment properties. Rental income and fees from investment properties increased to US$56.5 million from US$47.8 million, representing an 18% increase. This growth is mainly attributed to full consolidation of Vernissage mall following purchase of the partner's share and to management constant effort to decrease operational expenses of the Company. The Company's recognised income of US$29.8 million from sale of inventory was due to the start of handover of residential units in Triumph Park Phase II and houses in the Western Residence project, to buyers.

The cost of maintenance and management of the Company increased from US$17.4 million in 2013 to US$18.2 million in 2014, which was largely attributed to the full consolidation of the Vernissage mall project (presented on equity basis in 2013). Like for like assets recorded a decrease of approximately 14% due to efficiency measures performed by the management.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2014 and has recognized the resulting movement in valuation through its income statement as fair value adjustments of investment properties and investment properties under construction.

The Company's general administrative expenses for the period were US$13.0 million in comparison to US$13.3 million in 2012. The decrease of 2% is mainly attributed to a reduction in salaries and to decrease in professional services purchased by the Company.

Marketing expenses for the period were US$4.1 million in comparison to US$5.4 million in 2013, largely attributed to the recognition of the brokerage fees relating to Phase II of the Triumph Park project.

Net financing costs for the period amounted to US$35.4 million compared to US$31.4 million in 2013. The increase is explained by additional financing raised by the Company to expand its development activities and deliver further growth through its activities.

The tax gain recorded in 2014 was mainly attributed to the increase of a deferred tax asset in the Company's balance sheet, due to recognition of foreign exchange losses attributed mainly to the Triumph park project in St. Petersburg.

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

The loss for 2014 amounted to US$62.9 million in comparison to net profit of US$6.2 million in 2013. The loss is mainly attributed to the sharp decrease in value of the Company's investment assets.

Balance Sheet

Total assets as at 31 December 2014 amounted to US$756.6 million in comparison to US$893.2 million in 2013, a decrease of 15.3%. The main reasons for the overall decrease were the decrease in cash and cash equivalents balance, decrease in a fair value of investment properties, compensated by continuing development of the Company’s residential projects which were financed through bank financing on the project level and apartment sales.

The Company's real estate portfolio amounted to US$673 million at the year end, and comprised 89% of the total assets, in comparison to US$807.4 million as at 31 December 2013 which comprised 90% of the total balance sheet.

Equity and Liabilities

Equity as at 31 December 2013 decreased to US$141.4 million from US$331.7 million as at 31 December 2013. The decrease in equity from 2013 ascribed mainly to the decrease in the value of company's real estate portfolio as described above. MirLand's equity comprises 19% of its total assets.

Net financial liabilities as at 31 December 2014 amounted to approximately 430.1 million compared to US$357.7 million as at 31 December 2013.

During 2014, further emphasis was made on diversifying the company’s funding sources by obtaining bank financing on the project level. In 2014, the following new bank loans were obtained:

Project	Bank	Loan type	Original amount (US$m)	Amount obtained as of 31.12.14 (US$m)	Balance as of 31.12.14 (US$m)
Century buildings, Moscow	Sberbank, Nordea	Refinance	39.0	39.0	37.0
Vernissage mall, Yaroslavl	Bank of Moscow	Refinance	49.0	49.0	44.2
Triumph Park, phase 4	SberBank	Construction	*87.5	7.8	2.6
			175.5	95.8	83.8

* Maximal availability, based on the exchange rate at the date of signing.

Net Asset Value ("NAV")

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2014 at US$621.6 million (for 100% rights from freehold/leasehold), of which MirLand's share is US$589.5 million.

Overview of Portfolio Market Values as at 31 December 2014

City	Property Name and Address	Portfolio Market Value as at 31st of December 2013 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as at 31st of December 2013 (Rounded)
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	$45,900,000	100%	$45,900,000
Moscow	MAG, 2-Khutorskaya str., 38A	$55,700,000	100%	$55,700,000
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	$31,000,000	100%	$31,000,000
Saratov	Triumph Mall, 167 Zarubina street	$96,500,000	100%	$96,500,000
St. Petersburg	Triumph Park, Residential	$176,000,000	100%	$176,000,000
St. Petersburg	Triumph Park, Trade Centre	$15,500,000	100%	$15,500,000
Yaroslavl	Vernissage Mall, Kalinina str.	$70,000,000	100%	$70,000,000
Yaroslavl	Phase II	$9,900,000	100%	$9,900,000
Moscow	Tamiz Building	$33,500,000	100%	$33,500,000
Moscow	Century Buildings	$72,300,000	51%/61%	$40,163,000
Kazan	Triumph House	$7,400,000	100%	$7,400,000
Saratov	Logistics Complex	$5,500,000	100%	$5,500,000
Novosibirsk	Logistics Complex	$2,400,000	100%	$2,400,000
Total		**$621,600,000**		**$589,463,000**

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

Based on the Cushman & Wakefield valuation as at December 2014, the Company's Adjusted NAV decreased to US$164.6 million (31 December 2013: US$556.7 million), a decrease of 70.4%. As a result, the NAV per share as at 31 December 2014 was US$1.6 in comparison to US$5.4 as at 31 December 2013.

Cash Flow

During 2014, the Company used US$85.7 million for investment in real estate properties (including change in buildings for sale) in comparison to US$50 million in 2013. Cash flow used in operating activities amounted to US$30.2 million. Cash flow provided by financing activities amounted to US$52.9 million.

Financial Strategy

In 2014, MirLand's activities were primarily financed by project bank loans, bonds issuances and by revenues from yielding and residential projects. The Company's policy is to limit its leverage to 66% of the gross value of its assets, including all development, trading and investment propertiesAs described above, the Company is in negotiation with the trustees of the Series A-F bondholders to agree a restructuring of its debt which addresses the challenges posed by the current instability in the Russian economy for the benefit of all the Company's creditors and shareholders.

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

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

Market Risks

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

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

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

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

Regulatory Risks: On 11 December 2013, the Law on Promotion of Competition and Reduction of Concentration (2013) (the "Concentration Law" or the "Law") was published in Israel where the Company's bonds are listed. The Law deals with a number of issues, including restrictions on control of reporting companies within pyramid holding structures and a ban on control by a second layer company of a company in a different layer, all as more thoroughly described in Section C of the Concentration Law. A company which, upon the date of publication of the Concentration Law, was a second layer company, and so long as it remains as such, is entitled to continue to control a company of a different layer (the: "Different Layer Company") for up to six years from the date of publication of the Concentration Law, if such a company controlled the "different layer" company prior to the publication (the "Intermediate Period"). During the Intermediate Period, special corporate governance rules shall apply, as set out in the Concentration Law.

On July 16th 2014 the Regulation on Promotion of Competition and Reduction of Concentration (Type of Companies that will not be regarded as Layer Companies and attribution of control directives') (2014) (the: "Regulation"). The Regulation define certain companies that will not be regarded as Layer Companies, since there is no public interest in determining such over such entities, for the purpose of the Intermediate Period provisions. The Intermediate Period provisions require that in Different Layer Companies, during the Intermediate Period, the majority of its directors will be independent according to the definition of the Law.

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

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

Yevgeny Steklov
Chief Financial Officer
18 March 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	
		2014	*) 2013
	Note	U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		40,646	66,154
Trade receivables		1,502	1,472
Accounts receivables	5a	6,530	7,277
VAT receivable	2i	4,438	4,147
Inventories of buildings for sale	6	169,297	180,157
Loans granted to companies accounted for at equity method		-	3,274
		222,413	262,481
NON-CURRENT ASSETS:			
Investment properties	7	383,800	*) 431,500
Investment properties under construction	8	30,800	*) 59,100
Inventories of buildings for sale	6	88,917	99,564
VAT receivable		314	415
Fixed assets, net		1,231	966
Other long term receivables	5b	18,558	2,496
Prepaid expenses		517	615
Deferred taxes	16	10,056	2,244
Investment in companies accounted for at equity method	4c	-	33,789
		534,193	630,689
TOTAL ASSETS		756,606	893,170

*) Restated. See Note 2z.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	
		2014	*) 2013
	Note	U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Long-term loans from banks which classified for short-term	1b,11	181,588	-
Credit from banks and others	10	-	19,635
Current maturities of long-term credit from banks	11	15,445	10,783
Current maturities of debentures	13	57,298	48,014
Credit from banks for financing of inventory of buildings for sale	11	3,300	9,730
Long-term Debentures which classified for short-term	13,1b	178,316	-
Trade payables		8,262	7,629
Deposits from tenants	14	2,762	4,090
Advances from buyers	6c,d	88,471	75,684
Other accounts payable		2,847	4,244
		538,289	179,809
NON-CURRENT LIABILITIES:			
Loans from banks and others	11	34,847	129,123
Debentures	13	-	206,606
Other non-current liabilities	14	12,562	5,113
Deferred taxes	16	29,461	*) 40,802
		76,870	381,644
TOTAL LIABILITIES		615,159	561,453
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:			
Issued capital	17	1,036	1,036
Share premium		359,803	359,803
Capital reserve for share-based payment transactions	19	12,530	12,396
Capital reserve for transactions with controlling shareholders	12	8,556	8,556
Foreign currency translation reserve		(174,197)	(61,523)
Accumulated deficit		(89,757)	(18,444)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		117,971	301,824
Non-controlling interest		23,476	29,893
Total equity		141,447	331,717
TOTAL EQUITY AND LIABILITIES		756,606	893,170

*) Restated. See Note 2z.

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

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2014	2013	2012
		U.S. dollars in thousands (except for share and per share data)		
Rental income from investment properties		52,525	46,255	32,231
Revenues from sale of residential units	6	29,796	56,050	8,079
Revenues from management fees		3,938	1,505	1,641
Total revenues		86,259	103,810	41,951
Cost of sales and maintenance of residential units		28,974	46,680	12,833
Cost of maintenance and management	20a	18,228	17,370	14,874
Gross profit before provision for impairment		39,057	39,760	14,244
Impairment of inventory		-	-	8,041
Gross profit		39,057	39,760	6,203
General and administrative expenses	20b	13,043	13,282	14,607
Marketing expenses		4,053	5,389	2,102
Fair value adjustments of investment properties and investment properties under construction	7,8	84,802	*) 55,212	*) (32,468)
Other expense, net	20d	1,992	1,086	1,832
Group's share in earnings of companies accounted for using the equity method and gain from obtaining control in company previously accounted for using the equity method	4c	4,009	7,591	6,340
Operating income (loss)		108,780	82,806	(38,466)
Finance income	20c	1,521	1,080	1,382
Finance expenses	20c	(36,942)	(32,445)	(24,941)
Net foreign exchange differences		(149,361)	(33,967)	19,892
Profit (loss) before taxes on income		(76,002)	17,474	(42,133)
Taxes on income (tax benefit)	16	(13,125)	*) 11,268	*) (169)
Net income (loss)		(62,877)	6,206	(42,302)
Attributable to:				
Equity holders of the parent		(71,313)	3,339	(42,302)
Non-controlling interests		8,436	2,867	-
		(62,877)	6,206	(42,302)
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	18	(0.69)	0.03	(0.41)

*) Restated. See Note 2z.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2014	*) 2013	2012
	U.S. dollars in thousands		
Net income (loss)	(62,877)	6,206	(42,302)
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Transfer of currency translation reserve to income statement for obtaining control in companies previously accounted for using the equity method	6,624	244	-
Exchange differences on translation of foreign operations	(130,853)	(19,451)	8,178
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	(3,298)	(2,562)	1,662
Total other comprehensive income (loss)	(127,527)	(21,769)	9,840
Total comprehensive income (loss)	(190,404)	(15,563)	(32,462)
Attributable to:			
Equity holders of the parent	(183,987)	(15,898)	(32,462)
Non-controlling interests	(6,417)	335	-
	(190,404)	(15,563)	(32,462)

*) Restated. See Note 2z.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium	Capital reserve for share-based payments	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Retained earnings (accumulated deficit)	Total equity
	U.S. dollars in thousands						
At 1 January 2012	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138
Loss	-	-	-	-	-	(42,302)	(42,302)
Other comprehensive income	-	-	-	-	9,840	-	9,840
Total comprehensive income (loss)	-	-	-	-	9,840	(42,302)	(32,462)
Equity component of transaction with controlling shareholders	-	-	-	1,826	-	-	1,826
Share-based payments	-	-	845	-	-	-	845
At 31 December 2012	1,036	359,803	12,186	8,391	(42,286)	(21,783)	317,347

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December		
	2014	*) 2013	2012
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net profit (loss)	(62,877)	6,206	(42,302)
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	(14,824)	*) 10,779	*) (209)
Depreciation and amortization	200	230	491
Finance expenses, net	184,783	65,332	3,667
Share-based payment	134	210	845
Fair value adjustment of investment properties and investment properties under construction, net	(84,802)	*) (55,212)	*) 32,468
Group's share in earnings of associates net from loss (gain) from obtaining control in company accounted for equity method	(4,009)	(7,347)	(6,340)
Gain from sale of investment property	-	(548)	-
	81,482	13,444	30,922
Working Capital adjustments:			
Decrease (increase) in trade receivables	1,879	2,491	(4,095)
Decrease (increase) in VAT receivable and others	(3,022)	(36)	2,991
Increase in inventories of buildings for sale	(78,763)	(16,767)	(32,544)
Increase (decrease) in trade payables	6,957	450	(59)
Increase in other accounts payable	62,724	5,558	70,319
	(10,225)	(8,304)	36,612
Interest paid	(36,730)	(28,247)	(23,851)
Interest received	231	430	4,291
Taxes paid	(2,046)	(344)	(629)
	(38,545)	(28,161)	(20,189)
Net cash flows generated from (used in) operating activities	(30,165)	(16,815)	5,043

*) Restated. See Note 2z.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December		
	2014	*) 2013	2012
	U.S. dollars in thousands		
Cash flows from investing activities:			
Acquisition of additional interest in jointly controlled entity	-	-	(1,500)
Additions to investment properties	(3,529)	(6,466)	(7,881)
Additions to investment properties under construction	(3,418)	(1,125)	(2,277)
Purchase of fixed assets	(625)	(389)	(279)
Settlement of restricted deposit, net	-	1,119	620
Repayment of loans granted to related parties	-	-	250
Loans granted to related parties	(10,684)	(890)	(1,630)
Proceeds from repayment of loans granted to companies accounted for using the equity method	-	-	12,088
Cash from obtaining control in companies previously accounted for using the equity method (a)	(21,140)	(2,914)	-
Proceeds from sale of investment property under construction	-	3,973	-
Net cash flows used in investing activities	(39,396)	(6,692)	(609)
Cash flows from financing activities:			
Issuance of debenture, net	39,152	125,267	-
Repayment of debentures	(32,211)	(28,685)	(26,456)
Receipt of loans from banks and others, net from origination costs	155,630	124,456	91,118
Repayment of loans from banks and others	(109,667)	(156,768)	(69,268)
Receipt of loans from shareholders	-	-	12,422
Repayment of loans from shareholders	-	-	(18,306)
Net cash flows generated from (used in) financing activities	52,904	64,270	(10,490)
Exchange differences on balances of cash and cash equivalents	(8,851)	(278)	249
Increase (decrease) in cash and cash equivalents	(25,508)	40,485	(5,807)
Cash and cash equivalents at the beginning of the year	66,154	25,669	32,333
Adjustment due to IFRS 11 implementation	-	-	(857)
Cash and cash equivalents at the end of the year	40,646	66,154	25,669

*) Restated. See Note 2z.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December		
	2014	*) 2013	2012
	Unaudited	Audited	
	U.S. dollars in thousands		
(a) Cash generated from obtaining control in companies accounted for using the equity method:			
The subsidiaries' assets and liabilities at date of sale:			
Working capital (excluding cash and cash equivalents)	136	2,793	-
Investment properties	(109,800)	(94,972)	-
Fixed assets, net	(313)	-	-
Other receivables	(49)	(71)	-
Deferred taxes	16,107	9,093	-
Loans from banks	21,419	10,849	-
Other non-current liabilities	12,700	866	-
Loans from related party	-	5,973	-
Indemnification assets	(5,737)	-	-
Foreign currency translation reserve	6,624	244	-
Non-controlling interests	-	29,558	-
Gain (Loss) from obtaining control in companies accounted for using the equity method	702	(244)	-
Investment in associate	33,727	35,997	-
Loans granted to associates	3,344	-	-
	(21,140)	86	-
(b) Significant non-cash transactions:			
Obtaining control in companies accounted for using the equity method against offset of previously granted loans	-	600	-
Additions to investment property and investment property under construction	-	83	5,121

*) Restated. See Note 2z.

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

NOTE 1:- GENERAL

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

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

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

b. 1. During 2014, mainly in the second half of the year, the Russian economy was subject to sanctions imposed on it by the west and in the last quarter of 2014, the Russian economy experienced a serious deterioration which resulted, Inter Alia, in the weakening of Russian Rubal in relation to the U.S. dollar by about 72%. In the second half of 2014 and principally in December of that year, due to the decline in oil prices, the aggravation of the sanctions imposed by the West due to Geopolitical instability in the East Ukraine and the devaluation of the Russian Ruble, the Central Bank of Russia raised the interbank interest rate from 5.5% in January 2014 to 17%. International rating agencies (S&P Moody's and Fitch Ratings) gradually lowered Russia's credit rating to BB+/Baa3 with a negative outlook. After the balance sheet date through the date of signing the financial statements, the Ruble dropped another 9% in its value in relation to the U.S dollar. During February and March 2015 the Central Bank of Russia lowered the interbank interest to 14%.

2. On December 18, 2014, the trustees of the holders of the Company's debentures (series A-F) called for a meeting for obtaining reports from the Company's representatives regarding the developments in the Company's business affairs and for discussing and deciding on actions to be taken to protect the rights of the creditors.

On the same date and following the announcement of the trustees of the holders of the Company's debentures, the Company announced that in view of the fluctuations in the Russian markets, the scheduled meeting of the holders of debentures and their appeals to the Company, the Company's Board decided to defer the principal and interest payments to the holders of debentures (series A-B) which were due on December 31, 2014.

In addition on the same date, the rating agencies (S&P Maalot and Midroog) announced the lowering of the Company's rating to ilCC and B1 with negative outlooks, respectively, this among others, following the Company's announcement of deferring the debenture payments of December 2014.

NOTE 1:- GENERAL (Cont.)

In the meeting of holders of debentures held on December 22, 2014, the Company announced that it requires time until the general situation in Russia and the Company's specific business affairs become clear. In early January 2015, the Company announced the results of the voting of the holders of debentures (series A-F) which resolved to temporarily defer the maturity dates of the principal and interest payments to the holders of debentures (series A-B) to February 1, 2015 (as well as authorizing the trustee to extend this date by an overall 60-day period) subject to depositing $ 11 million in an escrow account in favor of the Company (reflecting the payment that was due in December 2014) and provided that the Company initiate an immediate, consecutive and intensive dialog with the trustees of the debentures (who have been authorized to negotiate with the Company for reaching an arrangement) and the Company will sign a Stand Still letter and subject to the signing of the stand still letter by controlling shareholders of the Company, Jerusalem Economic Corporation Ltd., and Industrial Buildings Ltd., as long as the amount of the deposit is held in trust account, they will not sell the bonds (series A and B) held Biden to a third party.

On January 22, 2015, the Company signed a "standstill commitment" towards the trustees and the holders of the debentures in which it undertook, among others, to the following principals according to the specified in the "standstill commitment": not to make any material payments to its financial creditors in respect of any debt, whether in or outside of Israel beyond the amortization schedule settled with them, but due notice trustees, not to make any payments to the controlling shareholders in the Company, not to dispose of any material assets, not to distribute any dividends only with a prior notice to the trustees and also other commitments as detailed in the "standstill commitment"

On January 26, 2015, February 9, 2015 and February 25, 2015, the trustee of the s (series A-B) decided to defer the maturity dates of the principal and interest payments to March 31, 2015.

On February 2, 2015, S&P announced another lowering of the Company's rating to D- with a negative outlook since the Company failed to meet its liabilities to the holders of debentures (series A and B) in the 30-day period following the original maturity date and given its intention to refinance the debt on the all the debenture series.

On February 10, 2015, the Company's Board decided to announce the deferral of payments to holders of all the series of debentures until negotiations with them are concluded.

On February 15, 2015 and February 25, 2015, the trustee of the debentures (series C) decided to defer the maturity dates of the interest payments to March 31, 2015.

The Company is negotiating with the trustees of the holders of the debentures in order to achieve a comprehensive arrangement.

As a result, the Company classified the outstanding debentures in an amount of $ 178.3 million as current liabilities in its financial statements as of December 31, 2014.

NOTE 1:- GENERAL (Cont.)

3. In the context of financing agreements with lending banks in Russia, certain financial covenants were determined with which the Company is not in compliance as of December 31, 2014 which include, among others, a certain LTV ratio, minimum occupancy rates and debt coverage and interest ratios. As a result, the Company classified in its financial statements as of December 31, 2014 loans from banks, in which the Company breaches its covenants, in an amount of $ 181.6 million as current liabilities.

4. The Group has a working capital deficiency of approximately $ 315.9 million as of December 31, 2014, a loss of approximately $ 62.9 million, total comprehensive loss of approximate $ 190.4 million for the year then ended and negative cash flows from operating activities of approximately $ 30.2 million for the year then ended. Moreover, during 2014 the equity attributable to parent company reduced by $ 183.9 million.

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

c. Definitions:

In these financial statements:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

1. Measurement basis:

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

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

2. Basis of preparation of the financial statements:

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

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

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

b. The operating cycle:

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

c. Consolidated financial statements:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

d. Business combinations and goodwill:

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

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

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

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss or in the statement of comprehensive income. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

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

e. Investments in associates:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Investments accounted for using the equity method:

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

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

The financial statements of the Company and of the associate or joint venture are prepared as of the same dates and periods. The accounting policies applied in the financial statements of the associate or the joint venture are uniform and consistent with the policies applied in the financial statements of the Group.

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

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

g. Functional and foreign currencies:

1. Functional currency and presentation currency:

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

2. Foreign currency transactions, assets and liabilities:

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

3. Index-linked monetary items:

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

g. Cash and cash equivalents:

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

h. Short-term deposits:

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

i. Long-term VAT receivable:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Allowance for doubtful accounts:

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

k. Inventories of buildings for sale:

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

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

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

l. Revenue recognition:

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

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

Rendering of services, including management fees:

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

Revenues from sale of residential apartments:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Rental income from operating lease:

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

m. Financial instruments:

1. *Financial assets:*

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

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

Loans and receivables:

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

2. *Financial liabilities:*

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

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

Financial liabilities measured at amortized cost:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. *Offsetting financial instruments:*

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

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

4. *Derecognition of financial instruments:*

a) *Financial assets:*

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

b) *Financial liabilities:*

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

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

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

5. *Impairment of financial assets:*

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial assets carried at amortized cost:

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

n. Leases:

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

The Group as lessee:

Operating leases:

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

The Group as lessor:

Operating leases:

Lease agreements where the Group does not actually transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases.
Initial direct costs incurred in respect of the lease agreement, except those relating to investment property which are carried to the Income Statement, are added to the carrying amount of the leased asset and recognized as an expense in parallel with the lease income. Lease income is recognized as revenue in the Income Statement on a straight-line basis over the lease term.

o. Fixed assets:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

p. Borrowing costs in respect of qualifying assets:

The Group capitalizes borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

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

q. Investment property and investment properties under construction:

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment property are included in profit or loss when they arise.

The fair value model is also applied to property under construction for future use as investment property when fair value can be reliably measured. However, when the fair value of the investment property is not reliably determinable due to the nature and scope of the project risks, the property is measured at cost less, if appropriate, any impairment losses, until the earlier of the date when fair value becomes reliably determinable or construction is completed.

Investment property is derecognized on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal.

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

r. Impairment of non-financial assets:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

s. Taxes on income:

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

1. Current income taxes:

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

2. Deferred income taxes:

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Provisions:

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

u. Share-based payment transactions:

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

Equity-settled transactions:

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

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

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

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

v. Earnings (loss) per share:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Fair value measurement:

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

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities,

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

x. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

1. Judgments:

Classification of leases:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Estimates and assumptions:

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

Investment property and investment property under development:

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

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

- Reliable measurement of fair value of investment property under construction:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

6. Are construction costs reliably determinable;
7. Is the value of the completed property reliably determinable.

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

Inventories of building for sale:

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

Deferred tax assets:

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

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

1. <u>IFRS 15, "Revenue from Contracts with Customers":</u>

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

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

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. IFRS 9, "Financial Instruments":

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

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

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

In July 2014, the IFRIC issued a resolution regarding the recognition of deferred taxes in respect of temporary differences relating to asset companies when an entity expects the reversal of the temporary difference to be in the form of sale of shares in the asset company rather than the sale of the asset itself. Based on said IFRIC resolution and given the provisions of IAS 12, the Company is required to recognize deferred taxes both with respect to inside differences arising from the gap between the asset tax base and its carrying amount and with respect to outside differences arising from the gap between the shares' tax base and the investor's share of the net assets of the investee in the consolidated financial statements.

Prior to the date of issuance of said resolution, according to the Company's accounting policy, it recorded deferred taxes in respect of temporary differences based on the tax implications and tax rate applicable to the sale of the shares in the asset company and not to the sale of the asset itself.

The effect of the change in accounting policy in view of the above IFRIC resolution on the Company's financial statements is as follows:

In the consolidated statements of financial position as of 31 December, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Non-current assets:			
Investment properties	397,683	33,817	431,500
Investment properties under construction	52,814	6,286	59,100
Non-current liabilities:			
Deferred taxes	699	40,103	40,802
Total Equity	331,717	-	331,717

In the consolidated statements of income for the year ended 31 December, 2013:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Fair value adjustments of investment properties and investment properties under construction, net	45,085	10,127	55,212
Taxes on income	(1,141)	(10,127)	(11,268)

In the consolidated statements of income for the nine months ended 31 December, 2012:

	As previously reported	Restatement	As currently presented
	U.S. dollars in thousands		
Fair value adjustments of investment properties and investment properties under construction, net	(31,554)	(914)	(32,468)
Taxes on income	(1,083)	914	(169)

NOTE 3:- BUSINESS COMBINATIONS

a. Business combination in 2014:

On December 23, 2013, the Company (via its subsidiary) signed an agreement ("the agreement") for the purchase of 49.5% of the shares of Inverton Enterprises Limited ("Inverton" and "the purchased shares", respectively) in which the Company holds 50.5% and which owns Global LLC from the partner in Inverton ("the seller").

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

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

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

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

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

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

Cost of acquisition:

	Fair value US dollars in thousands
Cash paid	31,149
Fair value of existing investment at acquisition date	30,684
Indemnification asset	(5,737)
Total	56,096

Cash flow on the acquisition:

Cash and cash equivalents in Inverton at the acquisition date	7,009
Cash paid during the period	(28,149)
Cash from obtaining control paid during the period	(21,140)
Cash paid during 2013, as advance	(3,000)
Net cash	(24,140)

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

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

b. Business combination in 2013:

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

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

	Fair value
	U.S. dollars in thousands
Cash and cash equivalents	86
Trade receivables	38
Other receivables	38
VAT receivables	254
Investment properties	85,760
Deferred taxes	119
Other long-term receivables	71
	86,366
Trade payables	(228)
Loans from bank and others	(12,854)
Government authorities	(111)
Deposits from tenants	(779)
Other non-current liabilities	(866)
Loans from related parties	(5,973)
	(20,811)
Net identifiable assets	65,555
Non-controlling interests	(29,558)
Total acquisition cost	35,997

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

Cost of acquisition

	Fair value U.S. dollars in thousands
Cash paid	-
Waiver of option (1%) previously granted to the sellers, at fair value	600
Fair value of existing investment on acquisition date	35,997
Total	36,597
Cash flow on the acquisition	
Cash and cash equivalents in the Century Companies on acquisition date	86
Cash paid	-
Net cash	86

NOTE 4:- INTEREST IN INVESTEES

a. Investment in companies accounted at equity method:

	2014	2013
	U.S. dollars in thousands	
Balance as of January 1	33,789	61,650
Changes during the year:		
Obtaining control in companies previously accounted for using the equity method (1)	(33,727)	(35,997)
Groups share in earnings of companies accounted for using the equity method	3,290	7,591
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	(3,352)	(2,455)
Balance for December 31	-	30,789
Advance paid for acquisition of subsidiary	-	3,000

(1) See Note 3.

NOTE 4:- INTEREST IN INVESTEES (Cont.)

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

As of December 31, 2014 the Company holds 61% of the share on Inomotor and 51% of Avtoprioriet.

	December 31,	
	2014	2013
	NIS in thousands	
Statement of financial position at reporting date (as presented in the subsidiary's financial statements):		
Current assets	4,288	1,494
Non-current assets	96,231	83,875
Current liabilities	(2,940)	(2,597)
Non-current liabilities	(46,062)	(16,026)
Total equity	51,517	66,746
Non-controlling interests	23,476	29,893
Total equity attributable to equity holders of the parent	28,041	36,853

	Year ended December 31,	
	2014	2013
	NIS in thousands	
The subsidiary's operating results (as presented in the subsidiary's financial statements):		
Revenues	9,509	9,545
Net income	18,062	6,342
Other comprehensive loss	(33,292)	(5,028)
Total comprehensive income (loss)	(15,230)	1,314
Net income attributable to :		
non-controlling interests	8,436	2,867
Equity holders of the parent	9,626	3,475
Total comprehensive income (loss) Attributable to :		
non-controlling interests	(6,417)	335
Equity holders of the parent	(8,813)	979

NOTE 4:- INTEREST IN INVESTEES (Cont.)

	Year ended December 31,	
	2014	2013
	NIS in thousands	
The subsidiary's cash flows (as presented in the subsidiary's financial statements):		
From operating activities	116	2,455
From investing activities	(23,930)	-
From financing activities	27,115	(1,278)
Exchange differences on balances of cash	(372)	(63)
Net increase in cash and cash equivalents	2,929	1,114

NOTE 5:- TRADE AND OTHER RECEIVABLES

a. Trade and other receivables:

	31 December	
	2014	2013
	U.S. dollars in thousands	
Deferred sales commission	4,205	3,138
Advances to suppliers	572	2,905
Tax authorities	1,211	468
Other trade receivables	542	766
	6,530	7,277

b. Other long-term receivables:

	31 December	
	2014	2013
	U.S. dollars in thousands	
Loans granted to related parties (1)	14,190	2,496
Indemnification assets (2)	4,274	-
Others	94	-
	18,558	2,496

(1) See note 23a, 23b, 23g

(2) See note 3a, 23g

NOTE 6:- INVENTORIES OF BUILDINGS FOR SALE

a. The Group has two residential projects, one in Saint Petersburg, which is the largest project of the Group, and the other one is in Moskva Western Residence Project. The Group intends to build approximately 9,000 apartments in several phases. The first phase includes 510 apartments and was completed and delivered during 2013 and 2014. The construction of the second Phase, which includes 630 apartments, has completed during the last quarters of 2014, and the Group has started to deliver the apartment. The third phase includes 1,346 apartments and the fourth phase includes 1,244 apartments, those phases are under construction, and the sales of the apartments have been started.

b. Composition:

	31 December	
	2014	**2013**
	U.S. dollars in thousands	
St. Petersburg Project	218,557	212,306
Western Residence Project	39,657	67,415
	258,214	279,721

NOTE 6:- INVENTORIES OF BUILDINGS FOR SALE (Cont.)

Current assets:

	31 December 2014	31 December 2013
	U.S. dollars in thousands	
Land	22,065	29,273
Construction costs	147,232	150,884
	169,297	180,157

Non-current assets:

	31 December 2014	31 December 2013
	U.S. dollars in thousands	
Land	21,396	21,773
Construction costs	67,521	77,791
	88,917	99,564

b. This includes capitalized borrowing costs of approximately 2,782 thousand US dollars for the year ended 31 December, 2014 (in 2013 - 1,415 thousand US dollars).

NOTE 7:- INVESTMENT PROPERTIES

a. Composition and adjustment:

	31 December 2014	31 December 2013
	U.S. dollars in thousands	
Balance at 1 January	431,500	320,200
Obtaining control (1)	109,800	95,000
Additions during the period	2,932	1,267
Fair value adjustments, net	91,112	46,868
Exchange rate differences	(251,544)	(31,835)
Balance at 31 December	383,800	431,500

(1) See also Note 3.

Below is detail the influence on the fair value adjustments:

Increase due to devaluation of the Rubble with compare to US dollar	251,544
Real decrease in fair value	(160,432)
Total increase in fair value of investment property	91,112

NOTE 7:- INVESTMENT PROPERTIES (Cont.)

b. Fair value measurement of investment property:

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

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

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

Investment property	Valuation technique	Significant unobservable Inputs	Range (weighed average)
Office properties	DCF method	Rental value per sqm per year	317
		Vacancy rate	14%
		Average discount rate	14%
		Cap rate	10%
Retail property	DCF method	Rental value per sqm per year	334
		Vacancy rate	2%
		Average discount rate	14%
		Cap rate	11.5%

NOTE 7:- INVESTMENT PROPERTIES (Cont.)

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

	Office properties	Retail property
	U.S. dollars in thousands	
Balance at January 1, 2014	296,200	135,300
Fair value adjustments, net	51,605	39,507
Obtaining control in companies previously accounted for using the equity method (1)	-	109,800
Additions	-	2,932
Exchange rate differences	(140,405)	(111,139)
Balance at December 31, 2014	207,400	176,400

(1) See note 3.

Following the crisis in Russia, described in Note 1b., during the last quarter of 2014, multiple tenants asked to reduce the dollar rental fees. As part of coping with the situation, the subsidiaries held negotiations with the tenants for reduces in the rental fees. In those negotiations usually the Group sets ceiling to the rate of exchange. Reductions were given in specific manner and for limited periods (commonly for three months).

e. Land:

	December 31,	
	2014	2013
	U.S. dollars in thousands	
Freehold	176,400	135,300
Leasehold	207,400	296,200
	383,800	431,500

The Group leases lands for period of 15 to 42 years.

NOTE 8:- INVESTMENT PROPERTIES UNDER CONSTRUCTION

a. Composition and adjustments:

	2014	2013
	U.S. dollars in thousands	
At 1 January	59,100	57,900
Additions for the year	3,417	1,127
Disposal	-	(3,529)
Fair value adjustments, net	(6,310)	8,344
Exchange rate differences	(25,408)	(4,742)
At 31 December	30,800	59,100

Below is detailed the influence on the fair value adjustments:

Increase due to devaluation of the Rubble with compare to US dollar	25,408
Real decrease in fair value	(31,718)
Total decrease in fair value of investment property under construction	(6,310)

b. Fair value of investment property under construction:

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

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

Investment Property under construction	Valuation technique	Significant unobservable inputs	Range (weighed average)
Retail properties	DCF method	Estimated rental value per sqm (USD)	211
		Estimated costs per sqm (USD)	1,089
		Discount rate	17.5%-21.5%
		Average rate per sqm	248-441

NOTE 8:- INVESTMENT PROPERTIES UNDER CONSTRUCTION (Cont.)

d. Reconciliation of fair value:

	Retail properties	Logistic centers
	US dollars In thousand	
Balance at January 1, 2014	42,800	16,300
Fair value adjustments, net	(3,510)	(2,800)
Disposal	-	-
Additions	3,375	42
Exchange rate differences	(19,766)	(5,642)
Balance at December 31, 2014	22,900	7,900

e. Land:

	December 31,	
	2014	2013
	NIS in thousands	
Freehold	28,400	50,200
Leasehold (1)	2,400	8,900
	30,800	59,100

(1) The lease hold rights are according to lease agreement for 5 years, with option extend for additional 2 years.
The lease period is about to terminate on December 16, 2015. The Group intends to extend the lease agreement and to exercise its extended option.

f. On January 23, 2013, the Company received a letter, dated January 9, 2013, from the Department of Land Resources of the Moscow government notifying RealService of the termination of its lease agreement in connection with the Skyscraper project.

In February 2013, the Company filed an objection with the Moscow government, in which it stated that such termination of the lease agreement is unlawful due to the fact that there was no material breach of the agreement, and the inability to complete construction was due to delayed actions by the government itself. The objection of the Subsidiary was denied by the Moscow Government, based mainly on procedural arguments. Following the Subsidiary's rejection, the Subsidiary of the Company filed a law suit against the Moscow Government to cancel the above mentioned decision. On December 3, 2013, Moscow Arbitration Court passed an award that the Subsidiary's claims were rejected. On January 21, 2014 the Subsidiary has launched an appellate claim to a second level Court. On March 04, 2014, the second level Court left the resolution unchanged. After the Subsidiary has taken all reasonable actions in order to protect its position regarding the termination of the lease agreement, all of its claims were denied by all courts. On 16 December 2014 the Subsidiary signed documentation transferring the rights in the land to the government.
The Group has fully deducted the asset from its financial statements as of 2012.

NOTE 9:- MEASUREMENT FAIR VALUE

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

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December, 2014:

			Fair value measurement using		
	Date of valuation 31/12/2014	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		US dollars In thousand			
Assets measured at fair value:					
Investment property (Note 7)			-	-	
Office properties		176,400	-	-	176,400
Retail properties		207,400	-	-	207,400
Investment properties under construction (Note 8):					
Logistics Complex		15,300	-	-	15,300
Retail properties		15,300	-	-	15,300
Liabilities for which fair values are disclosed (Note 15):					
Long and short-term credit from banks		187,611	-	-	187,611
Debentures		67,645	67,645	-	-

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

NOTE 10:- SHORT-TERM CREDIT FROM BANKS

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

NOTE 11:- LONG-TERM CREDITS FROM BANKS

a. Composition:

	Weighted interest rate	December 31	
	%	2014	2013
		US dollars In thousand	
Loans from banks in US dollars with fixed interest rate (1)(2)(b)	8.4%	212,254	128,330
Loans from banks in Ruble with fixed interest rate (4)	11%	3,300	3,969
Loans from banks in US dollars with variable interest rate (3)(b)	Libor + 6.85%	19,626	17,337
		235,180	149,636
Current maturities		(15,445)	(10,783)
Credit from banks for financing inventory of buildings for sale		(3,300)	(9,730)
Loans from banks which classified for short term (*)		(181,588)	-
		34,847	129,123

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

(1) On March 30, 2014 the Group's sub-subsidiary Global 1 LLC entered into loan agreement with the Bank of Moscow ("the Bank"), pursuant to which the bank will provide credit to the sub-subsidiary up to the amount of $ 49 million for the purpose of refinancing of Vernissage Mall project. The loan is for the period of seven years, after which it will be possible to extend the loan period by three years. The loan principal is to be paid in quarterly installments, with the last payment representing 49% of the loan balance. The loan bears fixed annual interest rate of 7.75%, which is to be payable on quarterly basis.
The loan is secured by various mortgages, charges, pledge of lease area in Vernissage Mall, pledges and other customary security interests for the benefit of the bank.
In addition the company granted securities and a guarantee for the loan.
The Company undertook to maintain an LTV for the project of no more than 70% and an occupancy rate of more than 90%, in order to comply with the debt service coverage ratio, which shall be no less than 1.35.
As of December 31, 2014 the Company is not in compliance with the above financial covenants and accordingly classified the above loan to current liabilities.

(2) On March 14, 2014 the limited liability company Inomotor, a 61% owned subsidiary of the Company, has entered into the $ 18 million loan refinancing agreement with SberBank of Russia (the "Bank"). The loan bears a fixed annual interest rate of 7.7%, payable quarterly. The Loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 50% at the end of the term. The Company undertook to maintain an LTV of no more than 60%.

NOTE 11:- LOANS FROM BANKS (Cont.)

The Loan is secured by various mortgages, charges, pledge of the lease area in the project, pledges and other customary security interests for the benefit of the Bank and entered into by both Inomotor and the Company.
As of December 31, 2014 the Company is in compliance with the above financial covenant.

(3) On May 7, 2014 the limited liability company Avtoprioritet, a 51% owned subsidiary of the Company, has entered into the $ 26 million loan refinancing agreement with Nordea Bank (the "Bank"). The loan bears a variable annual interest rate of Libor + 6.85%, payable quarterly. The Loan will be repaid within five years through regular quarterly payments and a final balloon payment of 73% at the end of the term. The Company undertook to maintain an LTV of no more than 65% and DSCR of not less than 1.2.

The Loan is secured by various mortgages, charges, pledge of the lease area in the project, pledges and other customary security interests for the benefit of the Bank and entered into by both Avtoprioritet and the Company.
As of December 31, 2014 the Company is in compliance with the above financial covenants.

(4) On September 21, 2014, a wholly owned subsidiary Petra 8 LLC ("Petra") has entered into a new loan agreement with Sberbank of Russia (the "Bank"). The Bank will provide a non-revolving credit line of up to US$87 million (the "Loan") to finance the fourth phase of 1,244 apartments at MirLand's "Triumph Park" major residential development in St. Petersburg.

The Loan will provide approximately 75% of the expected fourth phase construction cost, with the balance financed from sale proceeds, and fulfils the outstanding funding requirement for this latest phase of the project. It will be provided to Petra in tranches over the next three years, and will be secured by way of mortgage, charge, pledge and other appropriate security interests for the benefit of the Bank and entered into by Petra and the Company.

The Loan principal will be available for 35 months and the Loan will mature in four years.

The Loan bears a fixed Ruble annual interest rate of 11.9% and is to be paid quarterly, in addition to other fees set out in the loan agreement, and is in addition to three facilities previously granted by the Bank to Petra, the outstanding balance of which, to date, is approximately $ 5 million.

b. Financial covenants:

According to the agreements for the credit lines from banks in Russia, the Company's subsidiaries were required to meet several financial covenants, including a Loan to Value Ratio (LTV) of 70% and a Debt Service Coverage Ratio (DSCR) that varies from between 120% and 130%.

NOTE 11:- LOANS FROM BANKS (Cont.)

As of December 31, 2014, part of the Group's subsidiaries is not complied with all of the financial covenants that were determined as part of the credit agreements. Therefore, the Company classified its loans from the bank in the amount of 181.6 million US dollars and presented them as of the reporting date under current liabilities.

c. Pledges and securities:

The Company's subsidiaries pledged their rights in the projects and the income stemming from the aforesaid financed projects. The balance of the secured properties as of 31 December 2014 is amounted to approximately 602 million US dollars. Furthermore, in some cases the Group pledged its shares in the subsidiaries which own the projects in favor of the banks, as aforesaid.

d. The maturity dates of long-term loans:

	31 December	
	2014	2013
	U.S. dollars in thousands	
First year - current liabilities	24,630	23,465
Second year	17,560	10,517
Third year	19,917	12,223
Fourth year and after	184,961	110,693
	247,068	156,898
Origination costs	(11,888)	(7,262)
	235,180	149,636

NOTE 12:- LOANS AND GUARANTEES FROM SHAREHOLDERS

During September 2008, the main shareholders of the Company (companies that are part of Fishman Group) granted guarantees in favor of certain banks that secured lines of credit to the Company that were granted to the Company from banks. During 2014 the Company repaid its obligation to the banks (see also Note 10).

NOTE 13:- DEBENTURES

a. Composition

Series	Date of issuance	Nominal interest	Maturity date	Nominal value on date of issuance	Linkage terms (principal and interest)	Effective annual interest rate	December 31, 2014 Amount of debentures	December 31, 2014 Balance	December 31, 2013 Amount of debentures	December 31, 2013 Balance
				U.S. dollars in thousands			In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
A	December 2007	6.5%	6 equal annual payments beginning December 31,2010	10,085	Israel CPI	6.19%	13,087	4,108	13,087	4,483
B	December 2007	LIBOR +2.75%	6 equal annual payments beginning December 31,2010	52,626	U.S. dollar exchange rate	5.15%	68,225	18,036	68,292	17,611
C	August 2010 February 2011	8.5% (*) 9%	5 equal annual payments beginning August 31,2012	79,803	Israel CPI	5.59%-8.88%	119,224	34,269	178,835	57,860
D	August 2010 February 2011/May 2013	6% (*) 6.5%	4 equal annual payments beginning November 30, 2014	56,586	Israel CPI	6.16%-7.86%	155,288	42,125	207,051	62,921
E	July 2013 December 2013	7.21% (*) 8.21%	5 annual payments beginning May 31, 2016	107,429	Not linked	6.29% -7.59%	382,400	99,693	382,400	111,745
F b)	September 2014	5.5% (*) 6.5%	5 annual payments beginning September 30, 2015	39,656	Not linked	6.94%	144,389	37,383	-	-
								235,614		254,620

(*) Following the lowering of the rating mention in note 1b, the annual interest rate on the debentures (series C-D) increased by 0.5% per annum and on the debentures (series E-F) increased by 1% per annum from December 18, 2014 and until the date that the Company's rating is raised back to BBB or above.

NOTE 13:- DEBENTURES (Cont.)

b. On September 16, 2014, the Company issued new debentures (Series F) in the total amount of NIS 144.4 million (approximately 39.7 million US dollars). The debentures (Series F) bear fixed annual interest of 5.5%.
Bonds are due September 2019, with 5% repaid every September from 2015 to 2018, with the remaining 80% due in September 2019.
The effective interest rate of the new debentures is 5.97%.

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

a) The Company's equity shall be higher than 140 million US dollars during the period of two consecutive quarters,
b) The ratio of Company's net debt in consolidated financial statements to net CAP shall not exceed 75% during the period of two consecutive quarters.

In case the ratio of debt in consolidated financial statements to net CAP will be higher than 65%, the annual interest rate will be adjusted.

As of December 31, 2014 the Company is not in compliance with the above financial covenants and accordingly classified the above debentures to current liabilities. (See also note 1b).

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

d. The expected maturities as of December 31, 2014:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	U.S. dollars in thousands						
Series A	3,971	-	-	-	-	-	3,971
Series B	17,543	-	-	-	-	-	17,543
Series C	16,495	16,495	-	-	-	-	32,990
Series D	14,149	14,149	14,149	-	-	-	42,447
Series E	-	9,833	22,124	22,124	22,124	22,124	98,329
Series F	-	1,856	1,856	1,856	1,856	29,702	37,126
	52,158	42,333	38,129	23,980	23,980	51,826	232,406
Premium							287
Total							232,693

*) Not including interest accrued, in the amount of 2,291 thousands US dollars as of 31 December, 2014 which is part of current maturities of long-term loans from banks and debentures.

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

NOTE 14:- OTHER NON-CURRENT LIABILITIES

	31 December	
	2014	2013
	U.S. dollars in thousands	
Deposits from tenants (1)	6,707	9,203
Less short-term deposits from tenants	(2,780)	(4,090)
Liability to Yaroslavl municipality (2)	8,635	-
	12,562	5,113

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

NOTE 15:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

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

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

1. <u>Foreign currency risk:</u>

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

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

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

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

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

	2014	2013
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase of 5% in U.S. dollar/Ruble	(11,647)	(7,161)
Increase of 10% in U.S. dollar/Ruble	(23,294)	(14,322)
Increase of 20% in U.S. dollar/Ruble	(46,588)	(28,644)
Decrease of 5% in U.S. dollar/Ruble	11,647	7,161
Decrease of 10% in U.S. dollar/Ruble	23,294	14,322
Decrease of 20% in U.S. dollar/Ruble	46,588	28,644

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

	2014	2013
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase 5% in U.S. dollar/NIS	(10,296)	(14,038)
Decrease 5% in U.S. dollar/NIS	10,296	14,038

2. Credit risk:

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

3. Interest rate risk:

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

The Group has loans from banks and issued debentures.

These balances bear variable interest and therefore expose the Group to cash flow risk in respect of increase in interest rates.

22% of the Company's loans bear floating interest rates.

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

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

	2014	2013
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase 1% in interest	(377)	(533)
Decrease 1% in interest	377	533

4. Liquidity risk exposure:

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

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

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

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

	31 December 2013					
	Less than one year	1 to 2 Years	2 to 3 Years	3 to 4 years	> 5 years	Total
	U.S. dollars in thousands					
Loans from banks and others	35,476	21,004	21,805	22,121	111,516	211,922
Debentures	62,713	59,769	56,446	47,881	82,407	309,216
Credits from banks	20,056	-	-	-	-	20,056
Accounts payable	8,912	-	-	-	-	8,912
	127,157	80,773	78,251	70,002	193,923	550,106

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

5. Financial instruments and cash deposits:

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

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2014 and 2013 is the amount of cash balance.

6. Israeli Consumer Price Index risk:

a) The Series A, C and D Bonds issued by the Company are linked to the Israeli Consumer Price Index ("CPI"). The total amount of financial instruments which are linked to CPI is 80,502 thousand US dollars and 125,264 thousand US dollars as of 31 December 2014 and 31 December 2013, respectively.

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

	2014	2013
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase 0.2% in CPI	(1,610)	(1,253)
Decrease 0. 2% in CPI	1,610	1,253

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

b. Fair value of financial instruments:

Set out below is a comparison by category of carrying amounts and fair values of all the financial instruments of the Group as of 31 December, 2013 and 31 December, 2012:

	31 December 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	U.S. dollars in thousands			
Financial liabilities				
Long and short-term loans (1)	226,461	187,611	139,318	145,264
Debentures (series A) (2)	4,108	1,181	4,483	4,666
Debentures (series B) (2)	18,036	6,663	17,611	18,180
Debentures (series C) (2)	34,269	9,764	57,860	62,296
Debentures (series D) (2)	42,124	11,891	62,921	62,114
Debentures (series E) (2)	99,693	27,483	111,745	114,808
Debentures (series F) (2)	37,384	10,663	-	-

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

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

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

- Fair value of the quoted notes and bonds is based on price quotations at the reporting date.

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Bank loans	DCF	Discount rate	14.2%

NOTE 16:- INCOME TAX

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

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

b. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December		31 December		
	2014	2013	2014	2013	2012
	U.S. dollars in thousands				
Deferred tax liabilities:					
Investment property and Investment property under construction	(59,822)	(62,198)	(19,429)	(14,355)	4,327
Inventory of buildings	(4,454)	(15,452)	6,021	220	221
Deferred tax assets:					
Carry forward tax losses	44,871	39,092	28,317	3,354	(4,170)
Deferred tax expenses (income)			14,909	(10,781)	378
Deferred tax, net	(19,405)	(38,558)			

1. The deferred taxes are calculated at the average tax rate of 20% (2013 - 20%) based on the tax rates that are expected to apply at the time they are realized.

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

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

3. The new legislation of the transfer prices became valid starts from January 1, 2012, which allow the authority perform adjustments to the income for tax, in relation to related party transactions which their prices different from the fair value.
   Under this legislation, the tax burden had been transferred to the companies.
   The Group believes it will be able to prove that the related party transactions were made on market terms.

NOTE 16:- INCOME TAX (Cont.)

c. Tax expense (tax benefit):

	Year ended 31 December		
	2014	2013	2012
	U.S. dollars in thousands		
Current income tax	1,784	487	547
Deferred taxes	(14,909)	10,781	(378)
Tax expense (tax benefit) in income statement	(13,125)	11,268	169

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

	Year ended 31 December		
	2014	2013	2012
	U.S. dollars in thousands		
Income (loss) before tax expense	(76,002)	17,474	(42,133)
Tax at the statutory tax rate in Russia (20%)	(15,200)	3,495	(8,427)
Increase (decrease) in respect of:			
Effect of different tax rate in Cyprus (12.5%) and Hungary (19%)	1,653	3,010	2,924
Earnings of companies accounted for at equity method for which deferred tax were not recorded	(658)	(1,518)	(1,268)
Inter-company expenses for which deferred tax liabilities were recorded	(11,768)	(1,526)	246
Losses for which deferred tax assets were not recorded	11,374	6,363	6,769
Expenses not recognized for tax purposes	1,313	1,325	-
Others	161	119	(75)
Income tax expense (tax benefit)	(13,125)	11,268	169

(*) See also Note 16 b2

e. Losses carried forward:

The tax losses carried forward by the Group companies' amount to approximately 224.5 million US dollars. Deferred tax assets amounting to 44.9 million US dollars have been recognized.
Deferred tax assets in the total amount of 11.4 million US dollars, on tax losses carried forward in the amount approximately 57 million US dollars, were not recorded.

NOTE 17:- EQUITY

a. Composition of issued capital:

	31 December 2014	31 December 2013
	U.S. dollars	
Authorized shares of $ 0.01 par value each	1,350,000	1,350,000
Issued and fully paid shares of $ 0.01 par value each	1,035,580	1,035,580

b. Accompanying rights to shares

The shares are traded in the AIM London stock exchange.

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

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

c. Dividend distribution policy:

Since its establishment, the Company has not distributed a dividend to its shareholders. The distribution of dividends by the Company is dependent on the financial performance and position of the Company, its equity and its working capital requirements. On November 27, 2006, the Company's board of directors adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Following is data about the ratio of net debt to adjusted capital in 2014 which the Company required to comply under the issuance of debenture F during 2014, see also Note 13b.:

Ratio of net debt to adjusted capital:

	December 31, 2014
	US in thousands
Total debt reported in the financial statements	615,159
Less - cash and cash equivalents	(40,646)
Net debt	574,513
Total equity reported in the financial statements	117,971
Add - owners' loans	-
Less - foreign currency translation reserve	174,197
Adjusted capital	292,168
Ratio of net debt to adjusted capital	1.97

NOTE 17:- EQUITY (Cont.)

As mentioned in Note 1b and following the crisis in Russia and the devaluation of the Russian Rubble in compare to the US dollar, the total equity attributable to equity holders of the parent reduced during 2014, and mostly in fourth quarter of the year, at the amount of 183.8 million US dollar.
As a result, the Company is incompliance in the above financial covenant.

d. Reserve from transaction with controlling shareholder:

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

e. Group's capital management:

The Group's capital management objectives are:

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

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

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

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

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

NOTE 18:- EARNINGS (LOSS) PER SHARE

	Year ended 31 December		
	2014	2013	2012
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	103,558	103,558	103,558
Income (loss) used for computing basic and diluted earnings per share (in thousands of U.S. dollars) (attributable to parent company)	(71,313)	3,339	(42,302)

NOTE 19:- SHARE-BASED PAYMENTS

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

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

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

c. On 2 December 2010, the Company granted Mr. Rozental, who was appointed, at that time, as the Company's CEO, additional Share Options for 673,797 Ordinary shares of the Company. The exercise price is 2.30 GBP per share and the options are exercisable until 1 December 2015.

d. On March 12, 2012, the Company's RemCo approved the extension of the exercise period of 1,122,995 options, previously granted by the Company, to 19 March 2014, and updated the exercise price of those options from 4.8 GBP per share to exercise price of 3.5 GBP per share. As of the reporting date, the options expired.

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

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

NOTE 19:- SHARE-BASED PAYMENTS (Cont.)

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

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

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

f. On November 10, 2014 the Company's Board of Directors resolved, by way of a new issuance, the extension of the expiration date of 374,332 options by additional two years until December 19, 2016 which the Company issued in the past to its service provider, and as such, the exercise price of such options from 3.5 Pounds per share to an exercise price of 2.85 Pounds per share.
According to IFRS 2, the value of granted options was measured by independent appraiser and amounted to 11 thousands US dollars.

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

Year ended 31 December,		
2014	**2013**	**2012**
U.S. dollars in thousands		
134	210	845

NOTE 19:- SHARE-BASED PAYMENTS (Cont.)

h. Movement during the year:

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

	2014		2013	
	Number	Waep	Number	Waep
Outstanding at 1 January	2,879,071	4.7	3,743,316	4.4
Granted during the year	-		258,750	4.2
Expired during the year	1,122,995	5.5	1,122,995	4.1
Outstanding 31 December	1,756,077	3.8	2,879,071	4.7
Exercisable at 31 December	1,583,577	3.8	2,620,321	4.8

i. The weighted average remaining contractual life for the share options outstanding as at 31 December 2014 is one and a half years.

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

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

NOTE 20:- ADDITIONAL DETAILS REGARDING PROFIT AND LOSS

a. Cost of maintenance and management:

	Year ended 31 December,		
	2014	2013	2012
	U.S. dollars in thousands		
Maintenance of property	10,642	10,858	9,762
Land lease payments	809	909	673
Management fees	1,422	1,243	815
Property tax on investment property	5,355	4,360	3,624
	18,228	17,370	14,874

NOTE 20:- ADDITIONAL DETAILS REGARDING PROFIT AND LOSS (Cont.)

b. General and administrative expenses:

	Year ended 31 December,		
	2014	2013	2012
	U.S. dollars in thousands		
Salaries (1)	6,860	7,591	7,376
Office maintenance	2,099	1,494	1,677
Professional fees	2,545	2,772	3,413
Traveling expenses	544	554	589
Depreciation	200	230	491
Other costs (2)	795	641	1,061
	13,043	13,282	14,607
(1) Includes cost of share-based payment	134	210	290
(2) Includes cost of share-based payment	-	-	555

c. Finance costs and income:

Finance income:

	Year ended 31 December,		
	2014	2013	2012
	U.S. dollars in thousands		
Interest income from cash and cash equivalents and restricted deposits	323	51	9
Interest income from loans provided	1,198	1,029	1,115
Effect of discounting of long-term receivables	-	-	258
	1,521	1,080	1,382

Finance expenses:

	Year ended 31 December,		
	2014	2013	2012
	U.S. dollars in thousands		
Interest expenses - loans from banks	(20,864)	(15,677)	(13,156)
Interest expenses- loans from shareholders	-	-	(117)
Interest expenses - debentures	(16,716)	(14,486)	(11,876)
Net capitalized interest expenses	2,782	1,415	2,201
Bank charges and others	(1,900)	(3,301)	(1,993)
Effect of discounting of long-term receivables	(244)	(396)	-
	(36,942)	(32,445)	(24,941)

NOTE 20:- ADDITIONAL DETAILS REGARDING PROFIT AND LOSS (Cont.)

d. Other income (expenses):

	Year ended 31 December,		
	2014	2013	2012
	U.S. dollars in thousands		
Change in provision regarding service providers (see Note 23a and b)	(3,485)	(1,390)	(1,881)
Update of liability to Yaroslavl municipality	1,493	-	-
Gain from sale of investment property under construction	-	548	-
Other	-	(244)	49
	(1,992)	(1,086)	(1,832)

NOTE 21:- RELATED PARTIES

a. Transactions with related parties:

	Year ended 31 December,		
	2014	2013	2012
	U.S. dollars in thousands		
Interest income from related parties	1,198	701	1,115
Interest paid to shareholders (1) (2)	518	756	2,714
Private jet expenses	-	42	17

(1) Regarding loans from shareholders, see Note 12.

(2) Includes interest expenses of debenture which are held by the shareholders of the Company.

b. Balances with related parties:

	31 December	
	2014	2013
	U.S. dollars in thousands	
Debentures held by shareholders	12,297	14,707
Guarantees provided and benefits received regarding loans from majority shareholders (Note12)	-	165

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

NOTE 21:- RELATED PARTIES (Cont.)

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

	Year ended 31 December,		
	2014	2013	2012
	U.S. dollars in thousands		
Salaries	1,090	1,003	904
Share-based payments	134	210	290
	1,224	1,213	1,194

e. The Company provided guarantees in favor of its subsidiaries' financing banks at the amount of 235.2 million UD dollars.

NOTE 22:- AGREEMENTS WITH RELATED PARTIES

a. Global 1, a company accounted for at equity method, which owns a commercial center in Yaroslavl, has entered into a lease agreement with Home Centers LLC ("Home Center"), a company controlled by the Fishman family, the controlling shareholders of the Company. The area leased to Home Center covers 6,703 sq.m. the minimal lease fees are 138 US dollars per sq.m. and the lease period, assuming the exercise of all of the option periods contained therein, is 25 years. The terms of the agreements are in accordance with market conditions. In May 2014, the subsidiary of the Company entered into an agreement with Home Center under which the subsidiary has the right for early termination lease agreement without compensation, except for the facilities which are inseparable of the property that were purchased from Home Center, and Home Center may stay in the store until the entry of a new tenant.
As of September 2014 the lease agreement states maximum dollar-ruble rate similar to the agreed agreements with other tenants.
As of 01.01.2015 a new short-term lease agreement were signed whereby Home Center will pay the subsidiary of the Company 4% of its business cycle, plus holding costs until the entry of a new tenant.
According to this agreement the subsidiary of the Company has the right for termination with 2 week notice without compensation.

b. Hydro leases offices to Home Centre with an overall area of approximately 652 sq.m. used for office purposes. The monthly lease fee is approximately 20 thousand US dollars. The lease period terminated on June 30, 2014. The engagement is in accordance with market conditions.

NOTE 23:- COMMITMENTS AND CONTINGENCIES

a. On January 4, 2013 subsidiaries that holds the offices project of the Company, entered into a new management service agreement which replaces the previous agreement between two parties, with TMJK HOLDINGS LTD, a Cypriot company owned by Mr. Michael Krichevsky and FADIDA HOLDINGS LTD., a Cypriot company owned by Mr. Ofer Fadida ("Service Providers") according to which they will provide management services to Hydro such as management of rental agreements, marketing of the empty spaces, office maintenance and etc.

b. In return for the management services pursuant to the above agreement, Service Providers will be entitled to receive: a) 10% of the current income net of any expenses including investments and financial expenses ("Projects Commission"); b) 2% of the lease fees actually received by the subsidiaries from its tenants.

In accordance with description in section a and b above, the balance of the provision for service provider as of December 31, 2014, is at the amount of 5 million US dollar (as of December 31, 2015 is at the amount of 4.9 million US dollar). The Company paid until December 31, 2014 on advances for those liabilities at the amount of 8.6 million US dollar (in 2013 – 7.4 million US dollar).

c. A subsidiary of the Company, Petra 8 LLC ("Petra"), entered into an agreement with a third party, which is not related to the Company, pursuant to which it will provide various professional services to Petra in connection with the receipt of the approvals and permits that are required for the project. Pursuant to the provisions of the agreement, as revised from time-to-time in the supplementary agreements, in consideration of the aforesaid services, Petra 8 will pay an amount that is equal to 2.5% of Petra 8's profit (net) stemming from project's realization. The consideration will be paid on dates and at rates detailed in the agreement, pursuant to which advances were paid on account of the aforesaid consideration in the amount of approximately 4 million US dollars (according to a mechanism for the settling of accounts that was determined in the agreements), until the financial statements date.

NOTE 23:- COMMITMENTS AND CONTINGENCIES (Cont.)

d. In addition Petra entered into an agreement with another third party according to which such third party provides services which include supervision and 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 70 thousands US dollars.

Petra has entered on September 2012 into an agreement with another management company for the purpose of developing the third phase of the Project for a monthly consideration of 41 thousands US dollars.

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

Future minimum lease payments as of 31 December 2014 are as follows:

	U.S. dollars in thousands
First year	600
After one year but no more than five years	2,395
More than five years	7,523
Total	10,518

f. Expected rental income:

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

The minimum rental income is as follows:

	31 December 2014
	U.S. dollars in thousands
First year	33,840
Second year until five years	64,417
More than five years	5,912
	104,179

g. A subsidiary of the company, which owns a plot of land in Yaroslavl, has entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the built area on said land. The Group has recorded a provision regarding this agreement (See Note 3).

i. Petra - 8 is engaged with local marketing company for the marketing of the project for commissions at the amount of 4-5%, in respect of specific goals achievement and in accordance with the terms specify in the agreement.

NOTE 23:- COMMITMENTS AND CONTINGENCIES (Cont.)

j. Petra - 8 has engaged with local contractor for the construction of the third phase in Petra project, for 800 dollar per mater.

k. Charges:

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

NOTE 24:- SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

NOTE 24:- SEGMENT INFORMATION (Cont.)

	Commercial	Residential	Total
	U.S. dollars in thousands		
Year ended 31 December 2013:			
Segment revenues	47,760	56,050	103,810
Segment results	88,689	2,925	91,614
Unallocated expenses			(8,808)
Finance expenses, net			(65,332)
Income before taxes on income			17,474

	Commercial	Residential	Total
	U.S. dollars in thousands		
Year ended 31 December 2012:			
Segment revenues	33,872	8,079	41,951
Segment results	(11,493)	(16,789)	(28,282)
Unallocated expenses			(10,353)
Finance expenses, net			(3,667)
Loss before taxes on income			(42,302)

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

NOTE 24:- SEGMENT INFORMATION (Cont.)

	Year ended 31 December 2013		
	Commercial	Residential	Total
	U.S. dollars in thousands		
Assets:			
Segments assets	548,488	299,775	848,263
Unallocated assets			44,907
Total assets			893,170
Liabilities:			
Segments liabilities	192,238	92,867	285,105
Unallocated liabilities			276,348
Total liabilities			561,453

NOTE 25:- SUBSEQUENT EVENTS

1. On January 1, 2015, the results of a meeting between the holders of bonds A and B regarding the deferral of payments were published. For details, see Company's reports dated 1.1.2015.
2. On January 7, 2015, the results of meetings between the holders of bonds C- F regarding the trustee certification for negotiations with the Company were published. For details, see the Company's reports dated 07.01.2015.
3. On January 8, 2015, the Company reported that the amount of the deposit ($ 11 million) was deposited in trust. For details see immediate report dated 8.1.2015
4. On January 22, 2015, the Company signed a letter of commitment for an interim period (stand-still) as a result of the bondholders meetings. For details, see the Company's immediate report dated 26.1.2015
5. On February 2, 2015, S & P lowered the rating of the Company and Bonds A- D of the Company to rate D due to non-payment of its obligations in a timely manner. For details, see immediate report dated 2.2.2015.
6. On February 10, 2015 the Company announced the suspension of all payments to any Bond Series of the Company before talking with the bondholders. For details see immediate report dated 10.2.2015.
7. On February 11, 2015 the Trustees of bonds C to F reported that a meetings were held on December 22, 2014 as required by the provisions of Section 8.2 of the Deed of Trust Bonds (Series C) and (Series D) and as required by the provisions of Article 7.2 of the Deed of Trust Bonds (Series E) and (Series F) of the Company. For details see immediate report dated 1.2.2015.
8. On February 15, 2015, the results of a meeting of the bondholders of Series C regarding the decline of payment on February 11, 2015 were published. For details see immediate report dated 15.2.2015.
9. On the 9th and 10th of March, 2015 the bondholders of Series A were summoned to meetings March 12, 2015 regarding the deferment of payment. For details, see reports of 9 and 10 March 2015.
10. On March 10, 2015 the bondholders of Series A were invited to a meeting on Friday March 19, 2015 regarding, among other things, to discuss the progress and the reduction in the settlement although no meeting will be convened for the purpose of immediate repayment. For details see immediate report dated 10.3.2015.
11. On March 12, 2015 a meeting of the bondholder of Series F was set for March 17, 2015 in order to discuss the situation. For details see immediate report dated 12.3.2015.

NOTE 26:- DATE OF APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors approved these consolidated financial statements for issue on 16 March 2015.

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