

16 March 2016

MIRLAND DEVELOPMENT CORPORATION PLC
(“MirLand” / the “Company”)

CONSOLIDATED REPORT FOR THE
YEAR ENDED 31 DECEMBER 2015

MirLand, one of the leading international residential and commercial property developers in Russia, announces results for the 12 months ended 31 December 2015.

Financial Highlights:

- Total revenue remains flat at US\$86.3 million (31 December 2014: US\$86.3 million);
- Total revenue from investment properties down 38% to US\$35.1 million (31 December 2014: US\$56.5 million), mainly due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market;
- Net operating income (“NOI”) from investment properties (Company's share) down 41% to US\$22 million (31 December 2014: US\$37.3 million), mainly due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market;
- Gross profit down 44% to US\$21.8 million (31 December 2014: US\$39.1 million), also due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market;
- EBITDA down 69% to US\$7.2 million (31 December 2014: US\$22.9 million), mainly due to a decrease in the NOI from investment properties;
- Loss of US\$157.5 million (31 December 2014: loss of US\$62.9 million) due to the ongoing impact of adverse conditions in the Russian economy, which resulted in the negative fair value adjustment of investment properties of approximately US\$125 million following a decrease in projected NOI and occupancy rates . In addition, the Company recorded net foreign exchange losses of US\$84.7 million. This was partly offset by a positive fair value adjustment of investment properties of US\$79.2 million following an appreciation of the US Dollar against the Rouble of approximately 29.5%, resulting in the nominal appreciation of commercial assets at the same rate;
- Total assets amounted to US\$577.4 million, of which 90% are property and land assets (31 December 2014: US\$756.6 million);
- Total deficit of US\$19.3 million (31 December 2014: equity of US\$141.4 million);
- Net leverage stands at 82.3% of total assets (31 December 2014: 56.9%);
- The Company is continuing its discussions with the trustees of the Series A-F bondholders and its banks to agree a restructuring of its debt and will update the market in due course.

Operational Highlights

Residential:

Triumph Park, St. Petersburg

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

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

Western Residence, Perkhushkovo, Moscow

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

Retail:

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

Offices:

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

Nigel Wright, Chairman, commented:

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

“Accordingly, our future course will be dictated by the success of our renegotiations with both our Bondholders and our Russian domestic banks which are currently ongoing. We are determined to reach a solution which will benefit all key stakeholders. It would be premature to speculate on potential outcomes but I can say that we are in constructive dialogue with all key parties and have continued to date to enjoy the

support of our major shareholders. We will continue our unrelenting efforts to turn the situation around and continue to report all material developments as and when appropriate.

“I am encouraged that at the operational level MirLand continues to deliver strong sales in our major residential division but the underlying performance of our investment portfolio continues to suffer from unavoidable lease concessions and the very weak Rouble. We are hopeful that we may have reached the nadir of the Russian domestic economic performance but cannot be assured of this. In the meantime our management team is working around the clock on your behalf to deliver improved performance in the current year.”

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/Tom Gough	
dido.laurimore@fticonsulting.com	
ellie.sweeney@fticonsulting.com	
tom.gough@fticonsulting.com	
 Investec Bank plc	 +44 20 7597 4000
Jeremy Ellis / David Anderson	

Chairman's Statement

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

FINANCING

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

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

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

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

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

OPERATIONAL UPDATE

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

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

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

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

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

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

Results

Total assets as at 31 December 2015 decreased by 23.7% to US\$577.4 million, as compared to US\$756.6 million as of 31 December 2014. Equity as at 31 December 2015 was a negative US\$(19.3) million compared to US\$141.4 million the preceding year.

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

Over the period, net operating income ("NOI") from investment properties decreased by 41% to US\$22

million (31 December 2014: US\$37.3 million) mainly due to depreciation in the Russian Rouble against the US Dollar and due to negative movement in the Russian real estate market.

MirLand's assets are externally valued quarterly. The valuation is conducted by Cushman & Wakefield. As a result of the above mentioned financial crisis, the value of MirLand's portfolio (Company's share) decreased by approximately 33% to US\$393.5 million as at 31 December 2015 (31 December 2014: US\$589.5 million). Adjusted NAV, based on Cushman & Wakefield's valuation, became negative of US\$(31.1) million (31 December 2014: US\$164.6 million).

Portfolio Development

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

Residential

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

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

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

Phase I of the Western Residence project in Perkhushkovo (where 77 houses out of 163 are built) is being marketed to prospective buyers. To date, a total of 52 houses have been sold.

Retail

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

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

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

Offices

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

Dividend Policy

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

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

Our People

The Board of Directors and Senior Management team consist of dedicated individuals whose expertise has

proved invaluable throughout this year. They have recommended and implemented positive and necessary changes to the Business Plan in light of rapidly changing economic circumstances and been involved in key decisions throughout.

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

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

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

Controlling shareholders

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

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

Outlook

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

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

Nigel Wright
Chairman
16 March 2016

CHIEF EXECUTIVE'S STATEMENT

Russian Business Environment

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

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

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

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

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

The Central Bureau of Statistics in Russia (RosStat) reported that Russia's GDP growth decreased from 0.6% in 2014 to negative 3.8% in 2015, with the inflation rate increasing to 15.5% during the year. The main factors for inflation were the increase in the food prices and the sharp devaluation of the Rouble. The decrease in growth arose from weak domestic and external demand. The growth rate of retail sales decreased below 0 and amounted to (-9.7%) compared to 2.5% in 2014. The unemployment level in Russia remained relatively low (5.8%) during the year and was supported by a decrease in imports due to the sanctions imposed by the Russian government on products imported from the United States and European Union and from the weak currency that encouraged exports, which together encouraged the local activity.

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

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

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

Russian Real Estate Market

The scope of the investments in commercial real estate in Russian in 2015 decreased sharply to about USD 2.8 billion, a decline of 28% compared to 2014 (in dollar terms). This is considerably lower than the investments volume of USD 7.5-8 billion in 2011-2013. The sharp decline in the volume of investment is attributed to both the global macroeconomic environment and the macroeconomic environment in Russia. USD 1.2 billion of investments attributed to the office segment. The investments in the retail sector amounted to about USD 0.7 billion, and investments in assets in the logistics sector amounted to about USD 0.6 billion.

The share of foreign investments in commercial real estate in 2015 reached 30% of the total investments, compared to about 20% in 2014.

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

The deterioration in the macroeconomic environment not only stopped the declining trend in the discount rates in all segments of commercial real estate in Russia, which took place from 2010 to 2013, but also led to an increase in the discount rate during 2014, especially in the fourth quarter, when the Central Bank of Russia raised the interest to 17%, together with the sharp decline in oil prices and the sharp devaluation of the Russian Rouble. The discount rates have risen to a rate of 11% in the office segment and decreased only by 0.5% in 2015, the retail sector reached a discount rate of 11% in 2014 and remained unchanged in 2015. The discount rate for logistics segment was at 13% in 2014 and declined by 0.25% in 2015.

The Office Sector

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

The main driving forces behind this expansion are increased employment in office jobs, entry of foreign investors and the general increase in corporate profits, which allowed them to upgrade their offices to Class A and B levels of finish. At the end of 2015, the market supply amounted to 16.7 million square meters, of which 3.8 million square meters are Class A offices and the rest are Class B. The total volume of office completions in 2015 reached 715,000 sq m, which is half the amount of 2014, when delivered volume was more than 1.4 million sq m.

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

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

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

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

The Retail Sector

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

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

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

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

The Residential Sector

The residential sector in Russia presents one of the best opportunities for growth due to the low level of living space per capita and what has been a slowly developing mortgage market. The average area per capita is circa 24 sqm and the mortgage market amounts to only small proportion of GDP, significantly lower than in western countries.

In 2015, there was a decline of 33% in mortgage volume compared to 2014. The estimated amount of circa 1.1bn RUB of mortgages were granted during 2015. The average lending rate in 4Q15 was at 12.3%, same as at the beginning of the year.

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

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

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

2014 was a record year in the field of residential construction in St. Petersburg, when about 2.9 million square meters were added to the market, and in 2015 there was a slight decrease of about 5%. In 2015, there was an increase of approximately 3% in house prices in ruble terms representing a decrease in

dollar terms. 97% of the apartments on the market are defined as a “mass market” and the average price increased by 2% in terms of Roubles, the remaining 3% are defined as “elite” and the price rose by about 3.6% in terms of rubles. The expectation for 2016 is that home prices will continue to rise though at a lower inflation forecast.

The Logistics Sector

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

The total stock of quality industrial space in Russia at the end of 2015 was 18.5 million sq m: 64% of which was in the Moscow region, 14% in St. Petersburg and by 4% in Yekaterinburg and Novosibirsk. The average volume of vacant space in Russian regions in 2015 was 3.8%, compared to 2.1% in 2014. Large trading companies were the main customers for quality industrial space in 2015. Their share in the total annual take-up was about 75% (retailers — 67.6%, distributors — 7.4%).

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

Strategy

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

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

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

prevailing market conditions. The Company uses revenues from yielding assets to diversify its income sources.

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

Portfolio

MirLand currently has 12 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\$393.5 million (MirLand's share) as at 31 December 2015, based on the Company's freehold/leasehold rights. This value represents a decrease of approximately 33% since 31 December 2014.

Yielding Projects:

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

Hydromashservice (Hydro), Moscow – offices

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

- Land area: 1.2 ha
- Leasable area: 16,700 sqm
- Completed: Q4 2008

- Leasehold rights of land: 100%
- Occupancy rate: 80%
- Financing: US\$20 million financed by Sberbank in September 2012 (principal balance as of 31 December 2015: US\$16.8 million)

MAG, Moscow – offices

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

- Land area: 2.2 ha
- Leasable area: 18,500 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 2015: US\$42.6 million)

Century Buildings, Moscow – offices

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

- Leasable area: 20,900 sqm
- Completed: Q1 2009
- Leasehold rights of land: 61%/51%
- Occupancy rate: 95%
- Financing: US\$39 million financed by Sberbank and Nordea bank in 2014 (principal balance as of 31 December 2014: US\$35.1 million)

Tamiz, Moscow – offices

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

- Leasable area: 11,700 sqm
- Completed: Q3, 2011
- Leasehold rights of land: 100%
- Occupancy rate: 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\$39.4 million).

Triumph Mall, Saratov – retail

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

- Land area: 2.2 ha

- Leasable area: 27,300 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\$82 million)

Completed Residential Projects:

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

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

- Land area (Phase I): 11 ha
- Saleable area (Phase I): 13,390 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 52 houses have been sold;
- Completion: Phase I (77 townhouses and cottages) was completed in Q4, 2011.

Project under construction:

Triumph Park, St. Petersburg – residential complex

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

- Land area: 41 ha
- Saleable area: 450, 000 sqm
- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2021
- Freehold rights: 100%
- Marketing:
 - Sales and construction of Phase III, which consists of approximately 61,800 sqm representing 1,346 apartments, was launched in September 2013.
 - Launch of sales of Phase IV, which will consist approximately 60,694 sqm representing 1,244 apartments, was in Q1 2015
- Sales:
 - Phase I: sold out and delivered.
 - Phase II: to date, 620 sold out and delivered.
 - Phase III: to date, 1,103 sale contracts have been executed;
 - Phase IV: to date, 479 sale contracts have been executed;
- Financing:
 - credit line of US\$96 million for Phase III construction was obtained from Sberbank in September 2013 (principal balance as of 31 December 2014: US\$7.5 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 2015: US\$17.4 million)

Projects in Planning:

Triumph House, Kazan - retail

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

- Land area: 2.2 ha
- Leasable area: 16,783 sqm
- Planned construction commencement: Q4 2016
- Planned completion: Q1 2018
- 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%

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

16 March 2016

FINANCIAL REVIEW

Revenues for 2015 were US\$86.2 million and losses were US\$157.4 million. Total Assets at 31 December 2015 amounted to US\$581.1 million and Equity amounted to US\$(19.3) million. The Company's adjusted net asset value was US\$(31.1) million. The Company's real estate assets were valued on 31 December 2015 at US\$415.2 million (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US\$393.5 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 decreased to US\$35.1 million from US\$56.5 million, representing a 38% decrease. This decrease is mainly caused by the continuous depreciation of the Russian Rouble. The Company's recognised income of US\$51.2 million from sale of inventory was due to the completion of handover residential units in Triumph Park Phase II and houses in the Western Residence project, to buyers.

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

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

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

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

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

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

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

The loss for 2015 amounted to US\$157.9 million in comparison to a loss of US\$62.9 million in 2014. The loss is mainly attributed to the sharp decrease in value of the Company's investment assets.

Balance Sheet

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

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

Equity and Liabilities

Equity as at 31 December 2015 decreased to US\$(21.3) million from US\$141.4 million as at 31 December 2014. The decrease in equity from 2014 is ascribed mainly to the decrease in the value of company's real estate portfolio as described above.

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

Net Asset Value ("NAV")

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2015 at US\$415.2 million (for 100% rights from freehold/leasehold), of which MirLand's share is US\$393.5 million.

Overview of Portfolio Market Values as at 31 December 2015

Ref.	City	Property Name and Address	Portfolio Market Value as of 31st of December 2015	Percentage Owned by MirLand	MirLand Market Value as of 31st of December 2015 (Rounded)	Total sqm of Land	Projected Net Leasable / Saleable Area in sqm upon Completion (excl. Parking)	Market Value per sqm of Projected Net Leasable Area	Discount Rate	Projected Exit Capitalisation Rate for Commercial	Total Outstanding Investment (excl. VAT & Land for commercial properties and incl. VAT for residential projects)	Total Commercial Rental Income as of 2016 Market Rental Values (Assuming 100% Occupancy and Fully Completed)
001	Moscow	Hydromashservice, 2-Khutorskaya str., 38A	\$32,200,000	100%	\$32,200,000	12,237	16,696	\$1,929	14.00%	10.00%	Completed	\$4,395,000
002	Moscow	MAG, 2-Khutorskaya str., 38A	\$37,300,000	100%	\$37,300,000	21,940	18,535	\$2,012	14.00%	10.00%	Completed	\$4,487,000
003	Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	\$19,300,000	100%	\$19,300,000	225,300	44,063	\$438	15.50%	Residential	n/a	Residential
004	Saratov	Triumph Mall, 167 Zarubina street	\$72,000,000	100%	\$72,000,000	22,000	27,243	\$2,643	14.00%	11.50%	Completed	\$7,851,000
005	Saint Petersburg	Triumph Park, Residential	\$111,500,000	100%	\$111,500,000	326,651	325,059	\$343	20.00%	Residential	\$350,635,000	Residential
006	Saint Petersburg	Triumph Park, Commercial	\$8,200,000	100%	\$8,200,000	81,663	117,775	\$232	n/a	n/a	n/a	n/a
007	Yaroslavl	Vernissage Mall, Kalinina str.	\$48,400,000	100.0%	\$48,400,000	120,000	34,092	\$1,420	14.00%	11.50%	Completed	\$4,176,000
008	Yaroslavl	Phase II	\$2,500,000	100.0%	\$2,500,000	160,000	40,000	\$63	21.50%	11.50%	\$39,018,000	\$8,573,000
009	Moscow	Tamiz Building	\$24,700,000	100%	\$24,700,000	4,500	11,737	\$2,104	14.00%	10.00%	Completed	\$2,552,000
010	Moscow	Century Buildings	\$45,600,000	51%/61%	\$25,300,000	5,800	20,904	\$2,181	14.00%	10.00%	Completed	\$5,160,000
011	Kazan	Triumph House	\$4,300,000	100%	\$4,300,000	22,000	18,500	\$232	20.00%	11.00%	\$21,138,000	\$4,753,000
012	Saratov	Logistics Complex	\$4,000,000	100%	\$4,000,000	260,000	104,000	n/a	n/a	n/a	n/a	n/a
Total			\$410,000,000		\$389,700,000						\$410,800,000	\$41,900,000

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

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

Cash Flow

During 2015, the Company used US\$28.9 million for investment in real estate properties (including change in buildings for sale) in comparison to US\$85.7 million in 2014. Cash flow used in operating activities amounted to US\$31.2 million. Cash flow provided by financing activities amounted to US\$10.1 million.

Financial Strategy

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

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

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

Market Risks

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

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

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

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

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

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

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

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

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

Yevgeny Steklov
Chief Financial Officer
16 March 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

CONSOLIDATED INCOME STATEMENT

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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								
<u>At 1 January 2015</u>	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447
Loss	-	-	-	-	-	(153,108)	(153,108)	(4,369)	(157,477)
Other comprehensive profit (loss)	-	-	-	-	(996)	-	(996)	(4,287)	(5,283)
Total comprehensive income (loss)	-	-	-	-	(996)	(153,108)	(154,104)	(8,656)	(162,760)
Transaction with controlling shareholders	-	-	-	2,000	-	-	2,000	-	2,000
Share-based payments (Note 19)	-	-	56	-	-	-	56	-	56
<u>At 31 December 2015</u>	<u>1,036</u>	<u>359,803</u>	<u>12,586</u>	<u>10,556</u>	<u>(175,193)</u>	<u>(242,865)</u>	<u>(34,077)</u>	<u>14,820</u>	<u>(19,257)</u>

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								
<u>At 1 January 2014</u>	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
<u>At 31 December 2014</u>	<u>1,036</u>	<u>359,803</u>	<u>12,530</u>	<u>8,556</u>	<u>(174,197)</u>	<u>(89,757)</u>	<u>117,971</u>	<u>23,476</u>	<u>141,447</u>

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								
<u>At 1 January 2013</u>	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
<u>At 31 December 2013</u>	<u>1,036</u>	<u>359,803</u>	<u>12,396</u>	<u>8,556</u>	<u>(61,523)</u>	<u>(18,444)</u>	<u>301,824</u>	<u>29,893</u>	<u>331,717</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December		
		2015	2014	2013
		Unaudited	Audited	
		U.S. dollars in thousands		
(a)	<u>Cash generated from obtaining control in companies accounted for using the equity method:</u>			
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)	<u>Significant non-cash transactions:</u>			
	Obtaining control in companies accounted for using the equity method against offset of previously granted loans	-	-	600
	Additions to investment property and investment property under construction	-	-	83

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

NOTE 1:- GENERAL

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

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

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

- b.

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

After the reporting date and through the date of signing the financial statements there was appreciation of the Ruble in relation to the U.S. dollar by about 3%, RUB 70.5 per U.S.\$ 1. The continued devaluation of the Ruble in relation to the U.S. dollar is liable to have an adverse effect on the Company's equity.

2. In the course of 2015, the Company's management continued to hold negotiations with the trustees of the various series of bondholders and on March 30, 2015, June 22, 2015 and July 6, 2015, the Company reported the understandings reached with the trustees of the bondholders which include, among others, the deferral of the principal payments, the raising of the interest on all the bonds series, the obligations of the controlling shareholder in the Company and the allocation of shares and options to the bondholders and the controlling shareholders. On October 21, 2015, the Company issued a final settlement plan as agreed upon with the bondholders and on November 11, 2015 the plan was approved by the bondholders of the Company.

As detailed in the settlement plan, its implementation is subject to the fulfillment of various condition precedents on the dates stipulated in the plan, including obtaining the approval of the Cyprus Court for the plan, obtaining the TASE's approval and the approval of the Company's authorized entities.

NOTE 1:- GENERAL (Cont.)

In January 2015, the company deposited \$11.2 million in escrow account as was requested by the bondholders.

In December 2015, in a meeting held by the bondholders of the Company, the bondholders agreed to defer the date of fulfillment of the prerequisites to February 28, 2016.

On February 1, 2016, the Company met the bondholders trustees (series A-F) in order to review the implications of the sharp devaluation of the Ruble on the settlement plan as approved by the bondholders.

At this stage, no decisions have been reached in this subject.

In addition, in the course of 2015, the trustees of the various series of bondholders made several decisions, the latest of which in February 2016, to defer the principal and interest maturity dates to March 31, 2016.

Also, on June 17, 2015, the meeting of the bondholders of (series B) decided not to authorize the trustee to defer the principal and interest maturity dates any further.

On July 2, 2015, the TASE announced that the payments due to the bondholders of (series B) for interest and the partial redemption of the bondholders had not been received by the TASE Clearing House.

The trustee has the right to place the entire series of bondholders for immediate repayment if the Company fails to repay any amount owed to the bondholders within 45 days from the applicable maturity date. Moreover, according to the trust deeds of the other series of bondholders, placing another series of bondholders for immediate repayment represents grounds for placing the remaining series of bondholders based on the trust deed of the bondholders (series B).

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

As a result of the above, in its financial statements as of December 31, 2015 the Company classified bank loans in respect of which the financial covenants are not met in a total of approximately US\$ 197 million under current liabilities.

NOTE 1:- GENERAL (Cont.)

4. As of December 31, 2015, the Company has a working capital deficiency of approximately US\$ 375.5 million and a loss and comprehensive loss attributable to equity holders of the Company totaling approximately US\$ 153.1 million and US\$ 154.1 million for the year then ended, respectively. The Company also has negative cash flows from operating activities totaling approximately US\$ 33 million for the year ended December 31, 2015. In addition as of the date of the report the Company has cash and equivalent of approx. 18.4 Million. To the company's opinion the cash and cash equivalent balances are sufficient to cover the company's liabilities for period of 12 months from the date of signing of this Financial Statements. All of this under the assumption that during this period no payments will be made to the Bond holders and no loan principal payments will be made to part of the financing banks in Russia.

The Company continues to closely monitor the developments in the Russian economy, which are external to its operations and therefore not under its control, and is taking steps to minimize to the extent possible its exposure to the economic situation, among others by setting a maximum exchange rate for the lessees of the Company's assets and by holding negotiations with lending institutions in order to defer its maturity dates until the Company's financial position is stabilized.

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

c. Definitions:

In these financial statements:

The Company - Mirland Development Corporation Plc.

Parent Company - Jerusalem Economic Company Ltd.

The Group - Mirland Development Corporation Plc and its investees as listed below.

Subsidiaries - Companies over which the Company exercises control (as defined in IFRS 10) and whose financial statements are consolidated with those of the Company.

Jointly controlled- entities - Companies held by a number of entities, among which contractual agreement exists for joint control and whose financial statements are presented in equity method, according to IFRS 11.

Investees - Subsidiaries and joint controlled entities

Related parties - As defined in IAS 24 (revised)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

1. Measurement basis:

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

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

2. Basis of preparation of the financial statements:

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

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

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

b. The operating cycle:

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

c. Consolidated financial statements:

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

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.

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

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

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

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

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

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 the following conditions set in IFRS 9 are met:

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

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

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

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

NOTE 3:- BUSINESS COMBINATIONS

a. Business combination in 2014:

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

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

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
	<u>118,928</u>
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
	<u>58,120</u>
Net identifiable assets	60,808
Assignment of loans from related parties to the Company	2,614
Gain from obtaining control	<u>(7,326)</u>
Total acquisition cost	<u><u>56,096</u></u>

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	<u>(5,737)</u>
Total	<u><u>56,096</u></u>

Cash flow on the acquisition:

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

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

From the date of obtaining control, Inverton has contributed to the consolidated net income and the consolidated revenues for 2014 an amount of \$ 14,108 and \$ 9,864 thousands, respectively. 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	7,009
Investment properties	109,800
Other long-term receivables	2,119
	<u>118,928</u>
Loans from bank and others	21,419
Other liabilities	1,926
Deferred taxes	16,127
Other non-current liabilities	12,700
Loans from related parties	5,948
	<u>58,120</u>
Net identifiable assets	60,808
Conversion of related party loans	2,614
Profit	<u>(7,326)</u>
Total acquisition cost	<u><u>56,096</u></u>

NOTE 3:- BUSINESS COMBINATIONS (Cont.)Cost of acquisition

	<u>Fair value U.S. dollars in thousands</u>
Cash paid	31,149
Waiver of option (1%) previously granted to the sellers, at fair value	(5,737)
Fair value of existing investment on acquisition date	<u>30,684</u>
Total	<u><u>56,096</u></u>

Cash flow on the acquisition

Cash and cash equivalents in the Century Companies on acquisition date	7,009
Cash paid	<u>(28,149)</u>
Net cash	<u><u>(21,140)</u></u>

NOTE 4:- INTEREST IN INVESTEEES

- a. Investment in companies accounted for under the equity method:

	<u>2015 U.S. dollars in thousands</u>	<u>2014 U.S. dollars in thousands</u>
Balance as of January 1	-	33,789
<u>Changes during the year:</u>		
Obtaining control in companies previously accounted for using the equity method (1)	-	(33,727)
Groups share in earnings of companies accounted for using the equity method	-	3,290
Group's share of net other comprehensive income (loss) of companies accounted for using the equity method	<u>-</u>	<u>(3,352)</u>
Balance as of December 31	<u><u>-</u></u>	<u><u>-</u></u>

- (1) See Note 3.

NOTE 4:- INTEREST IN INVESTEES (Cont.)

- b. Summarized financial data of subsidiaries with material non-controlling interests:

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

	December 31,	
	2015	2014
	NIS in thousands	
Statement of financial position at reporting date (as presented in the subsidiary's financial statements):		
Current assets	2,443	4,288
Non-current assets	71,289	96,231
Current liabilities	(36,145)	(2,940)
Non-current liabilities	(5,625)	(46,062)
Total equity	31,962	51,517
Non-controlling interests	14,820	23,476
Total equity attributable to equity holders of the parent	17,142	28,041
The subsidiary's operating results (as presented in the subsidiary's financial statements):		
	Year ended December 31,	
	2015	2014
	NIS in thousands	
Revenues	5,489	9,509
Net income	(10,323)	18,062
Other comprehensive loss	(9,232)	(33,292)
Total comprehensive income (loss)	(19,555)	(15,230)
Net income attributable to :		
non-controlling interests	(4,369)	8,436
Equity holders of the parent	(5,954)	9,626
Total comprehensive income (loss) Attributable to :		
non-controlling interests	(8,656)	(6,417)
Equity holders of the parent	(10,899)	(8,813)

NOTE 4:- INTEREST IN INVESTEEES (Cont.)

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

NOTE 5:- TRADE AND OTHER RECEIVABLES, Net

a. Trade receivables:

	31 December	
	2015	2014
	U.S. dollars in thousands	
Trade receivables	2,768	1,502
Bad debt provision	(494)	-
	<u>2,274</u>	<u>1,502</u>

b. other receivables:

	31 December	
	2015	2014
	U.S. dollars in thousands	
Deferred sales commission	3,784	4,205
Advances to suppliers	895	572
Tax authorities	990	1,211
Other trade receivables	2,216	542
	<u>7,885</u>	<u>6,530</u>

NOTE 5:- TRADE AND OTHER RECEIVABLES, Net (Cont.)

c. Other long-term receivables:

	31 December	
	2015	2014
	U.S. dollars in thousands	
Loans granted to related parties (1)	11,697	14,190
Indemnification assets (2)	3,012	4,274
Others	-	94
	<u>14,709</u>	<u>18,558</u>

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

(2) See note 3a, 23g

NOTE 6:- INVENTORIES OF BUILDINGS FOR SALE

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

- b. Composition:

	31 December	
	2015	2014
	U.S. dollars in thousands	
St. Petersburg Project	217,586	218,557
Western Residence Project	21,952	39,657
	<u>239,538</u>	<u>258,214</u>

Current assets:

	31 December	
	2015	2014
	U.S. dollars in thousands	
Land	22,506	22,065
Construction costs	148,734	147,232
	<u>171,240</u>	<u>169,297</u>

Non-current assets:

	31 December	
	2015	2014
	U.S. dollars in thousands	
Land	16,446	21,396
Construction costs	51,852	67,521
	<u>68,298</u>	<u>88,917</u>

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

NOTE 7:- INVESTMENT PROPERTIES

a. Composition and adjustment:

	31 December	
	2015	2014
	U.S. dollars in thousands	
Balance at 1 January	383,800	431,500
Obtaining control (1)	-	109,800
Additions during the period	1,778	2,932
Classification to Investment properties under construction	(9,900)	-
Fair value adjustments, net	(42,326)	91,112
Exchange rate differences	(73,152)	(251,544)
Balance at 31 December	<u>260,200</u>	<u>383,800</u>

(1) See also Note 3.

Below is the detailed breakdown of the fair value adjustments:

Increase due to devaluation of the Rubble against the US dollar	73,152
Real decrease in fair value	<u>(115,478),</u>
Total decrease in fair value of investment property	<u>(42,326)</u>

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	234
		Vacancy rate	21%
		Average discount rate	14%
		Cap rate	10%
Retail property	DCF method	Rental value per sqm per year	190
		Vacancy rate	6%
		Average discount rate	14%
		Cap rate	11.5%

NOTE 7:- INVESTMENT PROPERTIES (Cont.)

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

	<u>Office properties</u>	<u>Retail property</u>
	<u>U.S. dollars in thousands</u>	
Balance at January 1, 2015	207,400	176,400
Fair value adjustments, net	(27,468)	(14,858)
Additions	-	1,778
Classification to Investment properties under construction	-	(9,900)
Real estate financing for construction investments		
Exchange rate differences	<u>(40,132)</u>	<u>(33,020)</u>
Balance at December 31, 2015	<u>139,800</u>	<u>120,400</u>

- (1) See note 3.

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

- e. Real estate:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<u>U.S. dollars in thousands</u>	
Freehold	<u>120,400</u>	<u>176,400</u>
Leasehold	<u>139,800</u>	<u>207,400</u>
	<u>260,200</u>	<u>383,800</u>

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

NOTE 8:- INVESTMENT PROPERTIES UNDER CONSTRUCTION

a. Composition and adjustments:

	2015	2014
	U.S. dollars in thousands	
At 1 January	30,800	59,100
Additions for the year	2,852	3,418
Disposal	(5,655)	-
Classification from Investment properties	9,900	-
Fair value adjustments, net	(12,826)	(6,310)
Exchange rate differences	(6,071)	(25,408)
At 31 December	<u>19,000</u>	<u>30,800</u>

Below is a detailed breakdown of the fair value adjustments:

Increase due to devaluation of the Rubble with compare to US dollar	6,071
Real decrease in fair value	<u>(18,897)</u>
Total decrease in fair value of investment property under construction	<u>(12,826)</u>

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)	20%-21.5%
		Estimated costs per sqm (USD)	210-164
		Discount rate	1,142-975
		Average rate per sqm	232-63

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

- d. Fair value movement of investment property under construction :

	Retail properties	Logistic centers
	US dollars	In thousand
Balance at January 1, 2015	22,900	7,900
Fair value adjustments, net	(10,367)	(2,459)
Classification from Investment properties	9,900	-
Disposal	(5,655)	-
Additions	2,833	19
Exchange rate differences	(4,611)	(1,460)
Balance at December 31, 2015	<u>15,000</u>	<u>4,000</u>

- e. Real estate:

	December 31,	
	2015	2014
	NIS in thousands	
Freehold	<u>19,000</u>	<u>28,400</u>
Leasehold (1)	<u>-</u>	<u>2,400</u>
	<u>19,000</u>	<u>30,800</u>

- (1) The lease hold rights are according to lease agreement for 5 years, with option extend for additional 2 years.

The leasehold rights period was terminated on December 16, 2015. The Company returned the land to the municipal authority.

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

NOTE 9:- MEASUREMENT OF FAIR VALUE

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

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

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

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

NOTE 10:- SHORT-TERM CREDIT FROM BANKS

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

NOTE 11:- LONG-TERM CREDITS FROM BANKS

a. Composition:

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

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

b. Financial covenants:

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

NOTE 11:- LOANS FROM BANKS (Cont.)

As of December 31, 2015, some of the Group's subsidiaries did not complied with most of the financial covenants that were determined as part of the credit agreements. Therefore, the Company reclassified its loans from the bank in the amount of 181.6 million US dollars and presented them as of the reporting date under current liabilities.

c. Pledges and securities:

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

d. The maturity dates of long-term loans:

	31 December	
	2015	2014
	U.S. dollars in thousands	
First year - current liabilities	45,810	24,630
Second year	19,910	17,560
Third year	21,970	19,917
Fourth year and after	161,569	184,961
	249,259	247,068
Origination costs	(8,511)	(11,888)
	<u>240,748</u>	<u>235,180</u>

NOTE 12:- LOANS AND GUARANTEES FROM SHAREHOLDERS

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

NOTE 13:- BONDS

a. Composition

Series	Date of issuance	Nominal interest	Maturity date	Nominal value on date of issuance	Linkage terms (principal and interest)	Effective annual interest rate	December 31, 2015		December 31, 2014	
							Amount of	Balance	Amount of	Balance
				bonds	U.S. dollars in thousands	bondholders	U.S. dollars in thousands			
				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	4,304	13,087	4,108
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	18,512	68,225	18,036
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	36,560	119,224	34,269
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	44,563	155,288	42,125
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	107,409	382,400	99,693
F b)	September 2014	5.5% (*) 6.5%	5 annual payments beginning September 30, 2015	39,656	Not linked	6.94%	144,389	39,847	144,389	37,383
								251,195		235,614

(*) Following the lowering of the rating mentioned in note 1b, the annual interest rate on the bondholders (series C-D) increased by 0.5% per annum and on the bondholders (series E-F) is 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:- BONDS (Cont.)

b.

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

c. Regarding the settlement being formulated between the Company and the trustees of the bondholders and negotiations for its implementation, see Note 1b.

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

	<u>Less than one year</u>	<u>1 to 2 years</u>	<u>2 to 3 Years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
	<u>U.S. dollars in thousands</u>						
Series A	3,918	-	-	-	-	-	3,918
Series B	17,542	-	-	-	-	-	17,542
Series C	32,553	-	-	-	-	-	32,553
Series D	27,952	13,976	-	-	-	-	41,928
Series E	9,800	22,050	22,050	22,050	22,050	-	98,000
Series F	3,700	1,850	1,850	29,603	-	-	37,003
	<u>95,465</u>	<u>37,876</u>	<u>23,900</u>	<u>51,653</u>	<u>22,050</u>	<u>-</u>	<u>230,944</u>
Discount							<u>707</u>
Total							<u>*231,651</u>

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

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

NOTE 14:- OTHER NON-CURRENT LIABILITIES

	31 December	
	2015	2014
	U.S. dollars in thousands	
Deposits from tenants (1)	5,021	6,707
Less short-term deposits from tenants	(2,033)	(2,780)
Liability to Yaroslavl municipality (2)	6,089	8,635
	<u>9,077</u>	<u>12,562</u>

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

(2) See Note 23g.

NOTE 15:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

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

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

1. Foreign currency risk:

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

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

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

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

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

	2015	2014
	Effect on profit (loss) before tax	
	U.S. dollars in thousands	
Increase of 5% in U.S. dollar/Ruble	(1,455)	(11,647)
Increase of 10% in U.S. dollar/Ruble	(2,910)	(23,294)
Increase of 20% in U.S. dollar/Ruble	(5,820)	(46,588)
Decrease of 5% in U.S. dollar/Ruble	1,455	11,647
Decrease of 10% in U.S. dollar/Ruble	2,910	23,294
Decrease of 20% in U.S. dollar/Ruble	5,820	46,588

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

	2015	2014
	Effect on profit (loss)	
	before tax	
	U.S. dollars in thousands	
Increase 5% in U.S. dollar/NIS	(11,073)	(10,296)
Decrease 5% in U.S. dollar/NIS	11,073	10,296

2. Credit risk:

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Following the crisis in Russia, and devaluation of the Russian Rubble compared to the US dollar, as described in Note 1b, the Company is negotiate with its customers and allowed specific reduction for limited periods, in order to allow its customer to be able pay their rental fees.

3. Interest rate risk:

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

The Group has loans from banks and issued bonds.

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

8% of the Company's loans bear floating interest rates.

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

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

	2015	2014
	Effect on profit (loss)	
	before tax	
	U.S. dollars in thousands	
Increase 1% in interest rate	(374)	(377)
Decrease 1% in interest rate	374	377

4. Liquidity risk exposure:

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

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

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

	31 December 2015					
	Less than 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	64,361	35,345	35,755	82,562	95,796	313,819
Bondholders	125,989	47,293	30,476	56,296	22,957	283,011
Accounts payable	7,206	-	6,090	-	-	13,296
	<u>197,556</u>	<u>82,638</u>	<u>72,321</u>	<u>138,858</u>	<u>118,753</u>	<u>610,126</u>

	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
Bonds	71,044	55,711	47,587	30,578	79,518	284,438
Accounts payable	9,240	-	8,635	-	-	17,875
	<u>123,611</u>	<u>90,166</u>	<u>91,571</u>	<u>66,341</u>	<u>258,754</u>	<u>630,443</u>

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 2015 and 2014 is the amount of cash balances as presented in this report.

6. Israeli Consumer Price Index risk:

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

	2015	2014
	Effect on profit (loss)	
	before tax	
	U.S. dollars in thousands	
Increase 2% in CPI	<u>(1,709)</u>	<u>(1,610)</u>
Decrease 2% in CPI	<u>1,709</u>	<u>1,610</u>

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, 2014 and 31 December, 2015:

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

(1) Level 3 according to fair value hierarchy.

(2) Level 1 according to fair value hierarchy.

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

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

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

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

NOTE 16:- INCOME TAX

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

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

- b. Deferred taxes:

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

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

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

NOTE 16:- INCOME TAX (Cont.)

- c. Tax expense (tax benefit):

	Year ended 31 December		
	2015	2014	2013
	U.S. dollars in thousands		
Current income tax	1,161	1,784	487
Deferred taxes	(20,165)	(14,909)	10,781
Tax expense (tax benefit) in income statement	<u>(19,004)</u>	<u>(13,125)</u>	<u>11,268</u>

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

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

(*) See also Note 16 b2

- e. Losses carried forward:

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

Deferred tax assets in the total amount of 29.3million US dollars, on tax losses carried forward in the amount approximately 157.5million US dollars, were not recorded.

NOTE 17:- EQUITY

- a. Composition of issued capital:

	31 December	
	2015	2014
	U.S. dollars	
Authorized shares of \$ 0.01 par value each	<u>1,350,000</u>	<u>1,350,000</u>
Issued and fully paid shares of \$ 0.01 par value each	<u>1,035,580</u>	<u>1,035,580</u>

- b. Accompanying rights to shares

The shares are traded in the AIM London stock exchange.

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

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

- c. Dividend distribution policy:

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

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

Ratio of net debt to adjusted capital:

	December 31, 2015
	US in thousands
Total debt reported in the financial statements	491,943
Less - cash and cash equivalents	<u>(16,256)</u>
Net debt	<u>475,687</u>
Total equity reported in the financial statements	(34,077)
Less - foreign currency translation reserve	<u>175,193</u>
Adjusted capital	<u>141,116</u>
Ratio of net debt to adjusted capital	<u>3.37</u>

NOTE 17:- EQUITY (Cont.)

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

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

d. Reserve from transaction with controlling shareholder:

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

e. Group's capital management:

The Group's capital management objectives are:

1. To maintain healthy capital ratios in order to support its business activity and 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		
	2015	2014	2013
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	<u>103,558</u>	<u>103,558</u>	<u>103,558</u>
Income (loss) used for computing basic and diluted earnings per share (in thousands of U.S. dollars) (attributable to parent company)	<u>(153,108)</u>	<u>(71,313)</u>	<u>3,339</u>

NOTE 19:- SHARE-BASED PAYMENTS

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

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

- b. On November 2009 the Company's board approved the update of the exercise price of 1,946,524 Share Option granted to certain officers of the Company and its subsidiary to 2.5 GBP per option, pursuant to an ESOP adopted by the Board on November 2006.
- c. On 2 December 2010, the Company granted Mr. Rozental, who was appointed, at that time, as the Company's CEO, additional Share Options for 673,797 Ordinary shares of the Company. The options expired on 1 December 2015.
- d. On 11 November, 2013 the Board of Directors of the Company resolved numerous resolutions in connection with un-registered options ("options") which are exercisable into Company's shares that are traded on the AIM in London, as follows:
1. To re-issue 449,198 options exercisable into 449,198 shares at an exercise price of 2.50 GBP per option, to Mr. Roman Rozental, CEO of the Company, in lieu of 449,148 options which were previously issued to Mr. Rozental.

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

Year ended		
31 December,		
2015	2014	2013
U.S. dollars in thousands		
<u>56</u>	<u>134</u>	<u>210</u>

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:

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

- i. The weighted average remaining contractual life for the share options outstanding as at 31 December 2015 is one and a half years.
- j. Measurement of the fair value of equity-settled share options:

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

NOTE 20:- ADDITIONAL DETAILS REGARDING PROFIT AND LOSS

- a. Cost of maintenance and management:

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

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

b. General and administrative expenses:

	Year ended 31 December,		
	2015	2014	2013
	U.S. dollars in thousands		
Salaries (1)	5,606	6,860	7,591
Office maintenance	1,951	2,099	1,494
Professional fees	2,519	2,545	2,772
Traveling expenses	434	636	554
Bad debt provision	494	-	-
Depreciation	156	200	230
Other costs	1,418	703	641
	<u>12,578</u>	<u>13,043</u>	<u>13,282</u>
(1) Includes cost of share-based payment	<u>56</u>	<u>134</u>	<u>210</u>

c. Finance costs and income:

Finance income:

	Year ended 31 December,		
	2015	2014	2013
	U.S. dollars in thousands		
Interest income from cash and cash equivalents and restricted deposits	271	323	51
Interest income from loans provided	-	1,198	1,029
	<u>271</u>	<u>1,521</u>	<u>1,080</u>

Finance expenses:

	Year ended 31 December,		
	2015	2014	2013
	U.S. dollars in thousands		
Interest expenses - loans from banks	(18,168)	(20,864)	(15,677)
Interest expenses - bondholders	(16,380)	(16,716)	(14,486)
Net capitalized interest expenses	1,276	2,782	1,415
Bank charges and others	(1,167)	(1,900)	(3,301)
Effect of discounting of long-term receivables	(596)	(244)	(396)
	<u>(35,035)</u>	<u>(36,942)</u>	<u>(32,445)</u>

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

- d. Other income (expenses):

	Year ended 31 December,		
	2015	2014	2013
	U.S. dollars in thousands		
Change in provision regarding service providers (see Note 23a and b)	(600)	(3,485)	(1,390)
Adjustment of liability to Yaroslavl municipality	1,285	1,493	-
Gain from sale of investment property under construction	-	-	548
Impairment of financial assets	(3,200)	-	-
Other	(956)	-	(244)
	<u>(3,471)</u>	<u>(1,992)</u>	<u>(1,086)</u>

NOTE 21:- RELATED PARTIES

- a. Transactions with related parties:

	Year ended 31 December,		
	2015	2014	2013
	U.S. dollars in thousands		
Interest income from related parties	-	1,198	701
Interest paid to shareholders (1) (2)	<u>599</u>	<u>518</u>	<u>756</u>
Private jet expenses	<u>-</u>	<u>-</u>	<u>42</u>

(1) Regarding loans from shareholders, see Note 11.

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

- b. Balances with related parties:

	31 December	
	2015	2014
	U.S. dollars in thousands	
Bondholders held by shareholders	<u>12,888</u>	<u>12,297</u>
Capital reserve for transaction with controlling owner	<u>2,000</u>	<u>-</u>

- 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,		
	2015	2014	2013
	U.S. dollars in thousands		
Salaries	754	1,090	1,003
Share-based payments	56	134	210
	<u>810</u>	<u>1,224</u>	<u>1,213</u>

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

NOTE 22:- AGREEMENTS WITH RELATED PARTIES

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

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

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

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

NOTE 23:- COMMITMENTS AND CONTINGENCIES

- a. On 1 July 2005, Hydro (subsidiaries of the Company) and FIN, entered into a management service agreement for an indefinite period. FIN is a Russian company whose controlling shareholder also serves as the CEO of Hydro.

In return for the management services provided by FIN pursuant to the above agreement, FIN will be entitled to receive: a) 10% of the projects income net of any expenses including investments and financial expenses ("Projects Commission") as well as 10% of the net profits from sale of the project after completion; b) 2% of the lease fees actually received by Hydro from its tenants.

On January 4, 2013 the Company entered into a new management service agreement with two Cypriot companies owned by the previous affiliates of FIN ("Service Providers") substituting the above mentioned management service agreement. The new management service agreement is entered into for a term of 2 years with an option to extend its term by additional one year term. Each of the parties has the right to terminate the agreement with one year advance termination notice without derogating from the Service Providers right to the Project Commission. According to the new management service agreement, the Company has the discretion to extend to any of the Service Providers companies, on account of the abovementioned consideration a monthly advance payment in the amount of 70 thousand US dollars with regard to both Hydro and MAG Projects. See also sub section b below. The advance amount will bear annual interest at the rate of 11%. It was further agreed that the direct expenses of hiring additional employees for providing the said management services will be paid by the Company.

- b. In February 2006, MAG and FIN entered into a management service agreement. The terms of the agreement are identical to Hydro's engagement with FIN, see 'a' above. On January 2013 this management service agreement has been substituted with the management service agreement detailed in sub section a above.

In accordance with description in section a and b above, the balance of the provision for service provider as of December 31, 2015, is at the amount of 4.4 million US dollar (as of December 31, 2014 is at the amount of 5 million US dollar). The Company paid until December 31, 2015 on advances for those liabilities at the amount of 9.4 million US dollar (in 2014 – 8.6 million US dollar). The above amounts are offset from each other in the financial statements.

Similarly, a subsidiary of the Company has granted loans to the service provides for an amount totaling approximately 11 million US dollar for 2014. These loans bear an annual interest rate of 11% and were given for a period of two years.

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

NOTE 23:- COMMITMENTS AND CONTINGENCIES (Cont.)

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

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

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

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

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

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

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

	<u>U.S. dollars in thousands</u>
First year	462
After one year but no more than five years	1,849
More than five years	<u>5,345</u>
<u>Total</u>	<u><u>7,656</u></u>

NOTE 23:- COMMITMENTS AND CONTINGENCIES (Cont.)

- e. Expected rental income:

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

The minimum rental income is as follows:

	31 December 2015
	U.S. dollars in thousands
First year	23,021
Second year until five years	51,419
More than five years	39,710
	<u>114,150</u>

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

- g. 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 loss and certain assets and liability information regarding the Group's operating segments.

	Commercial	Residential	Total
	U.S. dollars in thousands		
Year ended 31 December 2015:			
Segment revenues	<u>35,079</u>	<u>51,206</u>	<u>86,285</u>
Segment results	<u>(36,035)</u>	<u>(8,256)</u>	<u>(44,291)</u>
Unallocated expenses			(12,710)
Finance expenses, net			(119,480)
loss before taxes on income			<u>(176,481)</u>

NOTE 24:- SEGMENT INFORMATION (Cont.)

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

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

	<u>Year ended</u>		
	<u>31 December 2015</u>		
	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>U.S. dollars in thousands</u>		
<u>Assets:</u>			
Segments assets	291,377	248,494	539,871
Unallocated assets			<u>37,970</u>
Total assets			<u>577,841</u>
<u>Liabilities:</u>			
Segments liabilities	228,986	104,368	333,354
Unallocated liabilities			<u>263,744</u>
Total liabilities			<u>597,098</u>

NOTE 24:- SEGMENT INFORMATION (Cont.)

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

NOTE 25:- SUBSEQUENT EVENTS

On January 3, 2016, the Company reported the termination of service of Caroline Brown as a Company director.

On February 1, 2016, the Company announced that it has held a meeting with the trustees of the bondholders holders (Series A-F) in which it requested to update them and jointly explore the ramifications of the recent sharp fall of the Ruble on the settlement agreement as approved by the bondholders at the 'preliminary meetings' held on 22 October, 2015.

On February 21, 2016, trustees of the holders of bondholders (Series A and B) announced the deferral of the principal and interest payments to 31.3.16.
[to be updated in the course of further developments]

NOTE 26:- DATE OF APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors approved these consolidated financial statements for issue on 14 March 2015.

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