17 August 2016

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2016

RESILIENT TRADING PERFORMANCE

MirLand, one of the leading international residential and commercial property developers in Russia, announces its results for the six months ended 30 June 2016.

Financial Highlights:

- Net operating income ("NOI") from the investment portfolio down to US$9.8 million (30 June 2015: US$13.5 million), mainly due to depreciation in the Russian Rouble average rate against the US Dollar and due to negative movement in the Russian real estate market;
- Gross profit of US$4.6 million (30 June 2015: US$12.8 million);
- EBITDA of US$5.8 million (30 June 2015: US$7.2 million);
- Loss of US$21.1 million (30 June 2015: loss of US$66.2 million) due to the ongoing impact of adverse conditions in the Russian economy, which resulted in the negative fair value adjustment of investment properties of approximately US$33.8 million, mainly due to the appreciation of the Russian Rouble against the US Dollar as of 30 June 2016 and a decrease in projected NOI;
- Total assets amounted to US$620.8 million, of which 89% are property and land assets (31 December 2015: US$577.8 million);
- Total negative equity of US$29.4 million (31 December 2015: negative US$19.3 million);
- Net leverage stands at 78.5% of total assets (31 December 2015: 82.3%);

Operational Highlights

<u>Residential:</u>

Triumph Park, St. Petersburg

Sales rates continue to remain high with prices in Russian Rouble of later phases increasing ahead of inflation:

- Phase III: Sales momentum continued with an additional 229 sales since 1 January 2016. In total 1,285 apartments out of 1,346 have been pre-sold, totalling circa 95% of the scheme and representing sales of approximately US$90.5 million; delivery is scheduled to commence in September 2016.
- Phase IV: Sales momentum continues with an additional 217 sales since 1 January 2016. In total 679 apartments out of 1,244 have been pre-sold, totalling circa 55% of the scheme and representing sales of approximately US$46.6 million;

Western Residence, Perkhushkovo, Moscow

- Sales of a further eight houses at our Western Residence development in Perkhushkovo, Moscow, have completed since 1 January 2016, taking the total number of units sold to 61 of the 77 houses in the scheme.

Retail:

- Satisfactory performance achieved despite pressures on rents and occupancy rates in addition to further depreciation of the average rate of the Russian Rouble against the US Dollar during the first half, with half year NOI of US$5.9 million from the Vernissage Mall and Triumph Mall compared to US$7.4 million last year;
- Occupancy increased to approximately 98% (30 June 2015: 90%);

Offices:

- Occupancy rates slightly decreased at the MirLand Business Centre and stand at 71%. NOI has reduced to US$3.9 million in the first half of 2016.

Saydam Salaheddin, Chairman, commented:

"Whilst the market is still vulnerable to political and economic headwinds, the last few months have been characterised by less volatility and a greater stabilisation of the currency, which has fed into investor confidence illustrated by an uptick in acquisition activity in Moscow.

"Alongside this, MirLand has made substantial progress in renegotiating its banking facilities and restructuring its bonds, following a very challenging period. We are pleased with what has been achieved to date, which reflect further steps towards getting the Company onto a firmer financial footing. Whilst still very early days, and recognising that a number of factors remain outside of the Company's control, I look to the future with cautious optimism."

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	

MirLand's progress during the first half year of 2016 reflects our core strategy to:

- Maximize returns from our existing assets;
- Successfully complete projects currently under construction; and
- To finalize the loan restructuring in Russia and to finalize the bond settlement with the bondholders.

FINANCIAL REVIEW

Balance Sheet

Our balance sheet remains resilient with total assets as at 30 June 2016 of US$620.8 million (31 December 2015: US$577.8 million). Total negative equity stood at US$29.4 million (31 December 2015: negative US$19.3 million) and net cash was US$15.9 million.

MirLand's assets are externally valued half-yearly on 30 June and 31 December by Cushman & Wakefield. Based on the 30 June 2016 valuation, investment properties and investment properties under construction increased in value to US$280.2 million as at 30 June 2016 (31 December 2015: US$279.2), mainly due to the appreciation of the Russian Rouble (compared to 31 December, 2015) against the US Dollar. In carrying out the valuations, no change was made to the discount and capitalisation rates by Cushman & Wakefield.

Inventories of buildings for sale increased from US$257.3 million as at 31 December 2015 to US$273.6 million (30 June 2016) mainly due to the appreciation of the Russian Rouble (compared to 31 December 2015) against the US Dollar and continued construction of phases III and IV of Triumph Park.

Equity and Liabilities

Total negative equity as at 30 June 2016 was US$29.4 million, including minority rights. This represents a decrease on the US$19.3 million reported at 31 December 2015 and was mainly caused by devaluation of the Russian Rouble against the US Dollar and the negative revaluation of the Company's properties.

Net Financial liabilities as at 30 June 2015 were US$487.1 million in comparison to US$466.5 million at 31 December 2015. As at 30 June 2016, net financial liabilities comprised 78.5% of MirLand's total assets.

Income Statement

Total income (income from the sale of inventories, revenues from rent and management fees) decreased 74% to US$17.3 million (H1 2014: US$66.2 million) primarily due to a decrease in income from the sale of residential units in Triumph Park due to the fact that delivery of phases I and II were finished during 2015 and delivery of phase III is yet to commence.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 30 June 2016 and has recognised the resulting movement in valuation through its income statement as fair value adjustments. The fair value negative adjustment during the period amounted to US$33.8 million (H1 2015: US$60.7 million) mainly due to the appreciation of the Russian Rouble against the US Dollar as of June 30 2016, which resulted in the negative fair value adjustment of investment properties of approximately US$34.8. There was also a positive fair value adjustment of investment properties of US$1 million.

The cost of maintenance and management of the Company's investment portfolio decreased from US$6.9 million in H1 2015 to US$4.7 million in H1 2016. This was due to the additional efficiency measures implemented by the Company, mainly in the office segment and the depreciation of the average rate of Russian Rouble against the US Dollar.

The Company's gross profit for the period decreased to US$4.6 million compared to US$15.7 million in the same period in 2015.

General and administrative expenses for the period decreased to US$5 million in comparison to US$5.4 million in the same period in 2015, mainly due to efficiency measures implemented by the Company.

Net financing costs for the period amounted to US$ (19.4) million in comparison to US$ (16.7) million in the same period of 2015. Foreign exchange differences resulted in a gain of US$30.8 million due to the appreciation of the Russian Rouble against the US Dollar of approximately 12%, compared to US$ (2.9) million in H1 2015.

A loss of US$21.1 million was recorded by the Company compared to a loss of US$66.8 million in H1 2015.

Net Asset Value

The Company's adjusted negative net asset value as at 30 June 2016 decreased 14.5% to US$35.6 million, compared to US$31 million as at December 2015. As of 30 June 2016, the portfolio was valued at US$413 million, of which MirLand's share is US$391.8 million (December 2014: US$394.9 million).

The valuation of each asset in MirLand's real estate portfolio as at 30 June 2016 is set out in the following table:

Ref.	City	Property Name and Address	Portfolio Market Value as of 30th of June 2016 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as of 30th of June 2016 (Rounded)	Total sqm of Land	Projected Net Leasable / Saleable Area in sqm upon Completion (excl. Parking)
001	Moscow	Hydromashservice	$32,500,000	100%	$32,500,000	12,237	16,696
002	Moscow	MAG	$37,100,000	100%	$37,100,000	21,940	18,535
003	Moscow Region	Western Residence, Perkhushkovo	$16,500,000	100%	$16,500,000	225,300	44,063
004	Saratov	Triumph Mall	$74,200,000	100%	$74,200,000	22,000	27,241
006	Saint Petersburg	Triumph Park, Residential	$116,300,000	100%	$116,300,000	326,651	411,413
007	Saint Petersburg	Triumph Park, Trade Center	$8,100,000	100%	$8,100,000	81,663	N/A
008	Yaroslavl	Vernissage Mall	$47,000,000	100%	$47,000,000	120,000	34,092
009	Yaroslavl	Phase II	$2,100,000	100%	$2,100,000	160,000	40,000
010	Moscow	Tamiz Building	$23,900,000	100%	$23,900,000	4,500	11,737
011	Moscow	Century Buildings	$47,800,000	51%/61%	$26,600,000	5,800	20,904
012	Kazan	Triumph House	$3,400,000	100%	$3,400,000	22,000	16,783
013	Saratov	Logistics Complex	$4,100,000	100%	$4,100,000	260,000	N/A
		Total	$413,000,000		$391,800,000		

The full valuation report is published on the Company's website (www.mirland-development.com).

We strongly believe in the quality of the assets owned by the Company and that the portfolio will deliver an attractive yield to our investors over the long term as the market improves.

FINANCING

The challenging economic environment has continued to have a substantial impact on the valuation of the Company's real estate portfolio. This saw the value marked down by approximately 33% during 2015, though a slight improvement in the Company's real estate portfolio resulted in a net leverage decrease to 78.5% of total assets as at 30 June 2016 from 82.3% as at 31 December 2015. Total net borrowings amounted to US$487.1 million (31 December 2015: US$475.7 million).

Bond Restructuring

During the Period the Company made further progress towards delivering the new restructuring plan (the "Settlement") and following discussions with the trustees of the Series A-F bondholders (the "Bondholders"), the Company announced on 11 August 2016 that the Settlement was approved by a majority of 96% of the par value of the bonds (Series A-F).

Given the required majority, pursuant to Cypriot Companies Law*, the Bondholders (Series A-F) have approved the Settlement with the Company.

The main principles of the Settlement are as follows:

1) Conversion of the full debt owed to the Bondholders into the following components:

    (a) approximately 80.5% of the Company's enlarged share capital (with the possibility of dilution by the issue of the Management Options (as defined below);
    (b) Issuance of a new bond series having a principal amount of USD$45 million (the "New Series").

2) The Controlling Companies agree to subscribe for up to US$14.1 million of new equity in the Company ("Equity Subscription") (including the capitalisation of the loan of US$6.1 million previously provided to the Company). The Equity Subscription is subject to clawback in respect of valid applications received from shareholders other than the Controlling Companies in respect of an open offer expected to be made by the Company.

3) Upon completion of the Settlement, the Company will issue to the relevant management options, representing, if exercised, 9% of the issued share capital of the Company on a fully diluted basis subject to certain vesting criteria (the "Management Options"). The Management Options' exercise price reflects the current valuation of the Company.

4) The primary terms that will apply to the New Series are as follows:

(a) the principal will be repaid through three (3) equal payments on 31 December of 2021, 2022 and 2023;

(b) the principal will bear an annual fixed interest rate of 1% which will accrue until December 2017 (PIK interest), without compound interest, and will start to be paid from December 2017; subsequently, interest will be paid to the Bondholders in an annual manner on 31 December of each calendar year;

(c) the Company will have the right to repay the New Series amount at any time and at its sole discretion without incurring any fees or penalty;

(d) the Company will not be obligated to any restriction and /or financial covenants and will be free from any limitations on the taking of loans and/or financial undertakings and granting any securities to guarantee such; and

(e) the right to demand the immediate repayment of the New Series will only be granted to the bondholders in the circumstances listed in Section 35I1 of the Israel Securities Law, 5728-1968 in accordance with and subject to the provisions of the new trust deed that will be adopted.

The aforesaid terms of the Settlement were approved by the board of directors of the Company and the Controlling Companies.

The completion of the Settlement is subject to various conditions, including the approval of certain resolutions by the Company's shareholders in a general meeting. There is no certainty that the conditions precedent set in the Settlement documents will be completed by the set deadlines, nor that that the Settlement will be completed.

The Company will now act to convene a meeting of the creditors and an extraordinary general meeting of the shareholders of the Company ("EGM") to consider and, if thought fit, to approve the Settlement Plan pursuant to a ruling of the Cypriot Court on 4 July 2016.

The Company will make further announcements in relation to the Settlement in due course.

Notes:

*A majority consisting of more than 50% (of the par value) of the creditors present and voting at the meeting, either personally or by a representative.

Debt Settlement with Sberbank

Further to the announcement on 22 June 2016, the Company continues to progress with its Russian domestic banks towards completion of the agreements that were entered into. Full details on the current status are provided in Note 1 to the accounts. The Company will provide further announcements in due course.

OPERATIONAL UPDATE

Good progress continues to be achieved in the pre-sale, build and delivery of Triumph Park in St. Petersburg, the Company's BREEAM certified sustainable residential project. Sales have continued to be strong in Phase III of the scheme, with 1,285 (95% 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. Sales have continued to be strong in Phase IV of the scheme, with 679 (55% of the scheme) apartments now pre-sold.

The Western Residence residential development at Perkhushkovo, Moscow, has also maintained momentum with eight further houses sold since the beginning of 2016. This now takes the number sold to 61 of a total of 77 houses in the scheme.

Occupancy at our Vernissage Mall and Triumph Mall assets slightly increased to approximately 98%, and footfall remained high at both.

Occupancy at the MirLand Business Centre decreased in line with market conditions to approximately 71% of the total rentable area.

On August 16, 2016 the ratings agency, Standard & Poor's Maalot S&P Global. notified the Company that no changes were made to the Company's D rating.

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 led to an additional substantial decrease in its NOI in the first half of 2016.

BOARD CHANGES

During the period the Company announced the appointment of Constantinos Pantelides as an independent Non executive Director of the Company, who also sits on the Audit Committee. The Company previously announced that Nigel Wright, the Chairman had stepped down from his role and was replaced by Saydam Salaheddin. At the same time Eliezer Fishman also stepped down from the Board.

MARKET UPDATE

Russia’s economy contracted by 1.6% in 2Q16 (1.2% in 1Q16). According to the World Bank, it is estimated that the Russian economy will contract by 1.9% over the course of 2016.

Inflation in 2Q16 was at 7.5% (end of period), almost half of the high figure reported in the same period in the previous year (15.3%). Annual inflation for 2016 is forecast by the Ministry of Economics to be 7.6%.

Currency fluctuated between 60-82.45 Russian Rouble to US Dollar, from the beginning of the year, reaching an all-time high of 82.45 in January 2016. It was at 64.25 on 30 June 2016 and as of the date of publication of the announcement, there was no material change.

In recent months, the exchange rate dynamics appear to be linked less to oil price movements. Russia's Urals oil brand sold for an average of US$39.61 per barrel between January and June 2016, down 31% from an average of US$56.99 per barrel during the same period last year.

On 10 June 2016 the Central Bank of Russia announced its decision to cut its interest rate by 50 basis points to 10.50%. This is the first time that the Central Bank has lowered the interest rate in nearly a year and the recent cut has brought it to the level it was at before the emergency rate hike to 17.00% in December 2014.

The net capital outflow from Russia fell to US$10.5 billion in 1H16 from US$54 billion in the same period a year earlier, according to the Central Bank of Russia. The Russian Economic Development Ministry estimates that the net capital outflow will amount to around US$25 billion in 2016, a slowdown from the US$56.9bn in 2015.

The unemployment rate was 5.8% in June 2016, an increase from 5.4% in June 2015.

Real Estate market

Prime yields in 2Q2016 were 10.5% for offices, 11% for prime retail, and 12.75% for warehouses, which are unchanged from the previous quarter.

The total volume of investment in 1H16 in commercial real estate was US$2.5 billion, compared to US$1.3 billion in 1H15. With a volatile global and domestic economic environment, the forecast for 2016 is US$3.5 billion. The share of foreign investments was only 5% in 1H16 (US$120 million), mostly invested in warehouse properties.

Offices

The total volume of investment in the office segment was US$1.67 billion, approximately 67% of total investments.

Rental rates showed slight improvement in 1H16, at RUB32,000/sqm (US$502) for Class A offices and RUB15,000/sqm (US$213) for Class B offices, net of OPEX and VAT.

The average vacancy rate has increased to 17.9%: 31.4% in Class A offices (2015F – 33%), and 14.7% Class B offices (2015F – 16%). The net absorption is negative and signifies the lack of demand for new offices.

The 2Q16 overall vacancy rate in Moscow was high 18.7% (27.7% in Class A and 15.9% in Class B).

1H16 new construction by classes amounted to 30,000 sqm in Class A offices and 145,000 sqm in Class B classes. By the end of 2016, annual new construction volume is expected to reach 300,000 sqm (equal spread between Class A and Class B).

1H16 net absorption showed a positive trend and totalled in 215,000 sqm.

Retail

The first half of 2016 was characterised by a record low volume invested in retail - US$43 million (compared to US$196 million in the same period in 2015), out of $2.5 billion total investment volume.

In 1H16 nine new quality shopping centres were opened in Russia (only one of which was delivered in Moscow) compared to 13 openings in 1H15 (five of which were delivered in Moscow).

In 2Q16 the average vacancy rate in prime Moscow shopping malls was 2.5%, slightly higher than 2.2% in 2Q15. The 2016 forecast is 3%.

The total overall vacancy rate for Moscow quality retail stock in 2Q16 was 12%, compared to 9.2% in 1Q16 at 8%.

The prime rental rate indicator stood at RUB145,000/sqm, which was the same as 1Q16. The majority of lease agreements are still nominated in Russian Rouble. Rental payment as a percentage of turnover and fixed rental rate remained the most popular payment scheme. Rental conditions can change depending on the stage of development and level of occupancy.

Residential

The mortgage lending market is increasing, with approximately RUB554 billion (approximately US$8.63bn) of mortgages granted between January and May 2016, 40% higher than the same period in 2015.The average lending rate at the beginning of June 2016 was 13% (lower than 13.5% in May 2015).

In 2Q16, 42 new projects were delivered in St. Petersburg to the market (6% less than 1Q16) with a total of 337,000 sqm (9.6% less than 2Q15), similar to the same period the previous year (373,000 sqm). 92% of delivery (in ‘000 units) to the market was attributed to the mass-market segment. As of 2Q16, there are 452 projects offered in St. Petersburg (1% lower than 1Q16)

Industrial

Total investment volume in the segment was US$40 million in 1H16, out of $2.5 billion of total investment volume.

Approximately 286,000 sqm of warehouse space was delivered in 1H16 (392,000 sqm in 1H15) in Moscow and the Moscow region. Around 500,000 sqm of industrial space is expected to be delivered by the end of 2016 (15% higher than annual completions in 2015).

Take-up in 2Q16 amounted to 157,000 sqm, compared to 188,000 sqm in 2Q15.

The 2Q16 vacancy rate was 10% in Class A and of 8% in Class B. 90% of the vacant space was marketed with Russian Rouble lease rates. The average lease length is less than five years.

Saydam Salaheddin	Roman Rozental
Chairman	Chief Executive
17 August 2016	17 August 2016

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June 2016	30 June 2015	31 December 2015
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4,638	17,883	5,097
Restricted cash and short term investments	11,259	11,159	11,159
Trade receivables	2,510	3,749	2,274
Accounts receivables	9,681	6,971	7,885
VAT receivable	3,171	4,742	3,321
Inventories of buildings for sale	202,264	167,538	171,240
	233,523	212,042	200,976
NON-CURRENT ASSETS:			
Investment properties	262,500	329,500	260,200
Investment properties under construction	17,700	34,700	19,000
Inventories of buildings for sale	71,335	84,750	68,298
VAT receivable	379	373	290
Fixed assets, net	989	1,239	969
Other long term receivables	15,244	18,874	14,709
Prepaid expenses	457	509	455
Deferred taxes	18,655	12,863	12,944
	387,259	482,808	376,865
TOTAL ASSETS	620,782	694,850	577,841

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June 2016	30 June 2015	31 December 2015
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Long-term loans from banks which classified for short-term	196,645	206,574	196,328
Current maturities of long-term credit from banks	18,451	16,555	19,575
Current maturities of debentures	148,752	76,870	115,672
Credit from banks for financing of inventory of buildings for sale	24,024	21,452	24,845
Long-term Debentures which classified for short-term	115,108	174,064	135,523
Trade payables	7,372	10,416	6,361
Deposits from tenants	2,090	1,765	2,033
Advances from buyers	110,550	71,909	73,783
Other accounts payable	2,027	2,471	2,382
Loan from parent company	2,233	-	-
	627,252	582,076	576,502
NON-CURRENT LIABILITIES:			
Other non-current liabilities	9,142	12,107	9,077
Deferred taxes	13,773	21,014	11,519
	22,915	33,121	20,596
TOTAL LIABILITIES	650,167	615,197	597,098
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:			
Issued capital	1,036	1,036	1,036
Share premium	359,803	359,803	359,803
Capital reserve for share-based payment transactions	12,598	12,559	12,586
Capital reserve for transactions with controlling shareholders	14,656	8,556	10,556
Foreign currency translation reserve	(170,275)	(170,433)	(175,193)
Accumulated deficit	(263,173)	(152,855)	(242,865)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(45,355)	58,666	(34,077)
Non-controlling interest	15,970	20,987	14,820
Total equity	(29,385)	79,653	(19,257)
TOTAL EQUITY AND LIABILITIES	620,782	694,850	577,841

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands (except earnings (loss) per share data)		
Rental income from investment properties	13,546	17,805	32,271
Revenues from sale of residential units	2,472	46,894	51,206
Revenues from management fees	1,257	1,499	2,808
Total revenues	17,275	66,198	86,285
Cost of sales and maintenance of residential units	3,210	43,534	47,265
Cost of maintenance and management	5,233	6,917	12,914
Gross profit before provision for impairment	8,832	15,747	26,106
Impairment of inventory	4,254	2,986	4,330
Gross profit	4,578	12,761	21,776
General and administrative expenses	5,050	5,412	12,578
Bond settlement expenses	402	1,444	2,276
Marketing expenses	765	2,954	4,300
Fair value adjustments of investment properties and investment properties under construction	(33,754)	(60,698)	(56,152)
Other expense (earnings), net	(379)	70	3,471
Operating income (loss)	(35,014)	(57,817)	(57,001)
Finance income	602	1,101	271
Finance expenses	(20,017)	(17,777)	(35,035)
Net foreign exchange differences	30,779	(2,943)	(84,716)
Profit (loss) before taxes on income	(23,650)	(77,436)	(176,481)
Taxes on income (tax benefit)	(2,545)	(11,239)	(19,004)
Net income (loss)	(21,105)	(66,197)	(157,477)
Attributable to:			
Equity holders of the parent	(20,308)	(63,098)	(153,108)
Non-controlling interests	(797)	(3,099)	(4,369)
	(21,105)	(66,197)	(157,477)
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	(0.2)	(0.60)	(1.48)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Net Income (loss)	(21,105)	(66,197)	(157,477)
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	6,865	4,374	(5,283)
Total other comprehensive income (loss)	6,865	4,374	(5,283)
Total comprehensive income (loss)	(14,240)	(61,823)	(162,760)
Attributable to:			
Equity holders of the parent	(15,390)	(59,334)	(154,104)
Non-controlling interest	1,150	(2,489)	(8,656)
	(14,240)	61,823	(162,760)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS 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
	Unaudited								
	U.S. dollars in thousands								
At 1 January 2016	1,036	359,803	12,586	10,556	(175,193)	(242,865)	(34,077)	14,820	(19,257)
Loss	-	-	-	-	-	(20,308)	(20,308)	(797)	(21,105)
Other comprehensive profit (loss)	-	-	-	-	4,918	-	4,918	1,947	6,865
Total comprehensive income (loss)	-	-	-	-	4,918	(20,308)	(15,390)	1,150	(14,240)
Transaction with controlling shareholders	-	-	-	4,100	-	-	4,100	-	4,100
Share-based payments (Note 19)	-	-	12	-	-	-	12	-	12
At 30 June 30, 2016	1,036	359,803	12,598	14,656	(170,275)	(263,173)	(45,355)	15,970	(29,385)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital	Share premium	Capital reserve for share-based payments	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Accumulated deficit	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
	U.S. dollars in thousands								
At 1 January 2015	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447
Net profit (loss) for the year	-	-	-	-	-	(63,098)	(63,098)	(3,099)	(66,197)
Other comprehensive loss	-	-	-	-	3,764	-	3,764	610	4,374
Total comprehensive income (loss)	-	-	-	-	3,764	(63,098)	(59,334)	(2,489)	(61,823)
Share-based payments (Note 19)	-	-	29	-	-	-	29	-	29
At 30 June 2015 (unaudited)	1,036	359,803	12,559	8,556	(170,433)	(152,855)	58,666	20,987	79,653

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

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net profit	(21,105)	(66,197)	(157,477)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	(2,757)	(11,851)	(20,367)
Depreciation and amortization	103	82	156
Finance expenses (income), net	(11,365)	19,619	119,480
Share-based payment	12	29	56
Fair value adjustment of investment properties and investment properties under construction	33,754	60,698	55,152
Loss from sale of investment property	-	-	1,000
	19,747	68,577	155,477
Working Capital adjustments:			
Impairment of inventory	4,254	-	4,330
Impairment of financial assets	-	-	3,200
Decrease (increase) in trade receivables	(1,105)	(2,088)	(599)
Increase in VAT receivable and others	(8)	(1,200)	(430)
Decrease (increase) in inventories of buildings for sale	(11,811)	13,296	(20,789)
Increase (decrease) in trade payables	(879)	(147)	1,603
Increase (decrease) in other accounts payable	24,402	(18,035)	3,997
	14,853	(8,174)	(8,688)
Interest paid	(8,164)	(10,273)	(21,301)
Interest received	38	173	217
Taxes paid	(547)	(935)	(1,229)
	(8,673)	(11,035)	(22,313)
Net cash flows generated from (used in) operating activities	4,822	(16,829)	(33,001)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Additions to investment properties	(97)	-	(1,778)
Additions to investment properties under construction	(620)	(1,642)	(2,852)
Proceeds from sale if investment property	-	-	3,170
Net cash flows used in investing activities	(717)	(1,642)	(1,460)
Cash flows from financing activities:			
Receipt of loans from banks and others, net from origination costs	9,447	21,430	42,028
Repayment of loans from banks and others	(18,534)	(14,175)	(33,966)
Receipt of funds from controlling shareholders	4,100	-	2,038
Net cash flows generated from financing activities	(4,987)	7,255	10,100
Exchange differences on balances of cash and cash equivalents	523	(388)	(29)
Increase (Decrease) in cash and cash equivalents	(359)	(11,604)	(24,390)
Cash and cash equivalents at the beginning of the period	16,256	40,646	40,646
Cash and cash equivalents at the end of the period	15,897	29,042	16,256

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: GENERAL

a. These interim consolidated financial statements have been prepared in a condensed format as of 30 June 2016 and for the six-month period then ended ("**Interim Condensed Consolidated Financial Statements**"). These Interim Condensed Consolidated Financial Statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of 31 December 2015.

b. Further to the explanations stated in note 1b of the annual financial statements as of 31 December 2015 of the Company referring to the deterioration of the market condition in Russia, the negative trend continued also in 2016. The Russian economy continues to demonstrate a negative GDP growth, without any signs that may suggest a quick recovery of the Russian market. Notwithstanding that until June 30, 2016, the rate of the ruble increased by approx. 12% to a level of 64.3 ruble to dollar, and although the Central Bank of Russia later on reduced the inter-banking interest by 0.5% to 10.5%. there was no material changes in the Russian Ruble rate against the US Dollar r after the balance sheet date.

c. The updated bond restructuring plan and its approval in the preliminary general meetings (the "**Preliminary Meetings**") of the Bondholders

1. On July 19, 2016 and on August 1, 2016, the Company published the debt restructuring plan of the Company with its bondholders (Series A-F) (**"Bondholders"**) including, inter alia, the new trust deed and the proposed new articles of association (**"Updated Restructuring Plan"**);

   At the date of the execution of the Updated Restructuring Plan (**"Execution Date"**), following increase of the registered share capital of the Company (from USD 1,350,000 divided into 135 million shares with a nominal value of USD 0.01 per share to USD17,000,000 divided into 1,700,000,000 shares with a nominal value of USD 0.01 per share), as well as a share issuance to the shareholders, including the following actions, the outstanding debt of the Company owed to the Bondholders as of the Execution Date will be converted into shares detailed in sections (I)-(IV) below.

   Additionally, at the Execution Date, all existing Bonds will be delisted and become null and void, in such way that they will not grant their existing holders any rights whatsoever (including for payments that were due to be paid prior to the Execution Date but were not paid). Similarly, together with the voiding of the existing Bonds as above, the validity of the existing trust deeds and all rights granted by them to any party will expire.

I. Share issuance to the existing Bondholders

   The Company will issue shares of the Company, which will constitute 80.5% of the issued and outstanding share-capital of the Company (73.3% on a fully diluted basis including the Management Options as set by the Updated Restructuring Plan). Immediately after this issuance and that of all of the securities under the Updated Restructuring Plan (including the Management Options); the issued shares will be listed for trade, and will have equal to the existing shares of the Company

NOTE 1:- GENERAL (Cont.)

Payment of the nominal value of the issued shares will be carried out in consideration for the existing Bondholders of the existing debt for an amount equal to that required to be paid by law and/or by the articles of the TASE in exchange for the nominal value.

II. Issuance of new Bonds

At the Execution Date, the Company will issue Bonds (Series G) to the existing Bondholders of the Company (the "**New Bond Series**" or "**Bonds (Series G)**"), of which their principal will be a total amount, paid in New Israeli Shekels of USD 45 million dollars, set at the representative rate of the Shekel to the Dollar as set in the Updated Restructuring Plan, and will be repaid in three (3) equal payments, each on the 11^{th} of December of 2021, 2022 and 2023. The principal of the Bonds (Series G) will bear an annual interest rate of 1%, which will accrue until December 2017 (PIK Interest), without any compouned interest, and will be paid at this date, subsequent to which, it shall be paid to the Bondholders (Series G) in an annual payment, on the 11^{th} of December of each calendar year. Principal and interest of the Bonds (Series G) will not be linked to any index or index basis (including currency) whatsoever. Bonds (Series G) will not be secured by any guarantees or pledges whatsoever.

III. Financing by the Controlling Companies

The Company will offer to all of its shareholders (either as a single offer to all shareholders or in separate offers, public and/or private, based on the discretion of the Company and in accordance with the terms of all applicable laws) to purchase Company shares at the price of the share issuance to the main shareholders. The Company is eligible to determine that the consideration for the shares issued in the issuances to the shareholders that will be paid to it at the Execution Date.

To the extent that in the course of the issuance to the shareholders, the Company raises an amount less than the amount raised by the shares issued to the shareholders, then at the Execution Date, the Company will issue additional Company shares to the main shareholder companies of the Company in consideration for the amount of the issuance differential (at the price per share as set in the issuance to the shareholders.

In the course of the Updated Restructuring Plan, the main shareholder companies will finance an amount of USD 14.1 million to the Company (of which USD 6.1 million has already been provided). In exchange for the said capital inflow, the controlling shareholder companies will be entitled to approximately 19.5% of the share capital of the Company.

NOTE 1:- GENERAL (Cont.)

IV. Issuance of Securities to the Company Management

At the Execution Date, call option notes (non-tradable) for the purchase of Company shares, will be issued to the management of the Company in

accordance with an allocation set by the Company, for no consideration, which will constitute, presuming their exercise, up to nine percent (9%) of the issued and paid share capital of the Company, immediately after their issuance and the issuance of all of the shares under the Updated Restructuring Plan (including the issuances of the issued shares) (the "**Management Options**").

The terms of securities options will be determined by the Board and shall include, inter alia, the following conditions: (a) the vesting date; (B) the exercise price of each option, which is set to USD 1.5 cents per share, subject to adjustments; (C) the exercise period; (D) the rights of offerees for adjustments when granting the options as customary to grant stock options to officers of public companies in Israel; (E) the procedures for the exercise and expiration of options at the time of dismissal or resignation of the offeree.

V. Amending the Company's Articles; Company Board

At the Execution Date, notice for a general meeting of the shareholders of the Company will be given by which the Company shareholders, after the completion of the issuances in accordance with the provisions of this plan will participate, and have on its agenda the approval of the change of the present articles with the new articles (as attached to the Updated Restructuring Plan) and the appointment of two external directors and an independent director.

VI. Conditions Precedent

(1) Approval of the authorized organs of the Company in accordance with Cypriot Companies Law, to the extent required under Cypriot Law;
(2) Approval of the Israel Securities Authority and the TASE for the amendment shelf prospectus of the Company;
(3) Approval of the TASE to list all of the Company's shares for trade, including approval for the issuance and listing for trade of the securities which will be issued under the Updated Restructuring Plan as detailed in sections I-IV above;
(4) Approval of the general meeting of the existing Bondholders for the execution of the Updated Restructuring Plan in accordance with Cypriot law;
(5) RApproval of the authorized Cypriot Court of the Updated Restructuring Plan;
(6) Approval of the general meeting of the shareholders of the Company to the Updated Restructuring Plan, in accordance with Cypriot Law;

(7) Approval of the Tax Authority to the Updated Restructuring Plan which will be published prior to the date of the Preliminary Meetings of the existing Bondholders – fulfilled;

(8) Increasing the registered share capital of the Company as detailed in section C.1 above;

(9) By 11 August 2016, the results of the Preliminary Meetings of the Bondholders (Series A-F) will be received, by which, in accordance with the results of the voting at the Preliminary Meetings, the required majority necessary for the approval of the Updated Restructuring Plan at the creditors meeting in Cyprus, in accordance with the cast of voting mechanism as approved by the Tel-Aviv District Court in its decision on 3 August 2015 in the motion for the granting of instructions submitted by the trustees on 22 July 2015 (court reference: 46418-07-15);

(10) Agreements between Sberbank of Russia and four subsidies of the Company will be signed, completed and taken effect, with regards to loans provided by the bank to them totaling approximately USD 160 million and which will constitute an amendment to the existing loan documents between the bank and the companies;

(11) The absence of any judicial order preventing the execution of the Updated Restructuring Plan;

(12) The publication of a letter of undertaking by the main shareholder companies of the Company on MAGNA prior to the date of the Preliminary Meetings of the existing Bondholders – fulfilled;

If the conditions precedent are not fulfilled (other than the conditions for the approval of the Preliminary Meetings – which have been fulfilled as of date) by 30 November 2016 (or any other date agreed upon by the parties), the Updated Restructuring Plan may become null and void by the Company, the trustees or the main shareholder companies by way of written notice to the other parties.

2. In the course of the Preliminary Meetings of the Bondholders, held separately for each bond series on 9 August 2016, it was resolved by the Bondholders (Series C-F) to approve of the Updated Restructuring Plan (including the new trust deed) with a majority comprising of more than 75% of the nominal value of each series; while at the Preliminary Meetings of the Bondholders (Series A-B), the threshold of more than 75% of the nominal value of each series required for its approval was not achieved.

In the course of the Preliminary Meetings of the Bondholders (Series A) 62.2% of the participants voted in favour and 37.8 voted against the Updated Restructuring Plan; in the course of the Preliminary Meetings of the Bondholders (Series B) 51.97% of the participants voted in favour and 48.03% voted against the Updated R estructuring Plan.

3. In accordance with the ruling of the Tel-Aviv District Court of 3 August 2015, in a motion submitted by the trustees of the Bondholders regarding the classification of

the votes in the Preliminary Meetings in Israel, the trustees for the Bond Series (C-F) which approved of the Updated Restructuring Plan will vote in favour of the Updated Restructuring Plan at the creditors meetings scheduled to be held in Cyprus for the entire nominal value of each of these series; whereas the trustees for each Series (A-B) which did not approve of the Updated Restructuring Plan by way of the necessary

NOTE 1:- GENERAL (Cont.)

majority, will split the participating votes (for and against) in accordance with the voting divide achieved at the Preliminary Meetings of each of the Bond Series (A-B).

In light of the above, after examination of the outcome of the Preliminary Meetings, the Updated Restructuring Plan was approved by way of a majority of 96% of the nominal value of all of the Bond Series (A-F). In considering the required majority necessary for the approved of the Updated Restructuring Plan in Cyprus (a majority of more than 50% (of the value of the debt) of the creditors present and voting at the meeting, either directly or through proxy or appointment), the necessary majority required for the approval of the Updated Restructuring Plan in Cyprus was achieved

in accordance with the mechanism set in the motion for granting instructions, and, in effect the Bondholders approved of the Updated Restructuring Plan of the Company.

Every Bondholder, from all series has the opportunity to exercise their right to separate themselves from the collective vote of their series and to vote against the trustee of their series in the course of the creditors meeting in Cyprus.

4. Within the framework of the funding agreements with the lending banks in Russia, certain financial covenants were set, which as of June 30, 2016 the Company fails to meet most of which, among others, a requirement for a LTV ratio, a requirement for minimum occupation rates and debt and interest coverage ratios. As of the date of signature of the statements, the Company failed to pay an amount of approx. USD 6.2 million to the funding bank within a framework of four yielding projects of the Company.

   In consequence of that stated above, in its financial statements, as at June 30, 2016, the Company classifies loans from banking corporations, in respect of which it fails to meet the financial covenants, according to a total of USD196.6 million, within the framework of its current liabilities.

   On July 8, 2016 the Company received five agreements that were signed by the ‘Bank’ (as defined below) with four subsidiaries of the Company: Mashinostroenie & Hydravlika OJSC ("**MAG**"), Investisionno Ipotechnaya Kompania LLC., ("**IIK**"), Hydromashservice LLC. ("**Hydro**") and Inomotor LLC. ("**Ino**") (hereinafter jointly: the "**Subsidiaries**") pertaining to the settlement of loans that were placed in their favor by the Bank (the "**Agreements**") amounting as of the date of this Report to a total of approx. USUSD 160 million (the "**Loans**"). The Agreements constitute an amendment to the Loan Agreements (as defined in the Agreements) with the Bank, committed by the Subsidiaries, comprised of two stages (including certain conditions precedent) whose principals are specified hereunder:

Stage A: The payment schedules with respect to the payment of principal in three out of five of the loans, in which there was an arrear in the payment of principal, were amended in such a manner that the payments of principal in these loans were

deferred to August and September 2016. The arrears in the payments of principal, as extended, will not constitute a breach of the Loan Agreements with the Bank. In addition, the payments schedule in reference of the loan which is not in arrears will be amended and the payment of principal was deferred for payment to September 28, 2016. Upon the signature date of the Agreements, the annual interest rate, which would apply to part of the loans, was slightly decreased. In addition, it was determined that any early payment of the loans shall not entail any fine, commission, compensation and/or an additional payment due to such early payment.

Stage B: the payment schedules will be amended in such a manner that on average, approximately 81% of the balance of the principal of the loans will be paid during the first quarter of 2026, and its balance shall be paid each and every quarter during the period until that date. Moreover, there will be an additional decrease in the interest rate in all the loans. The aforementioned shall apply to the extent that the Company shall meet the terms set in the agreement, including, among other things: (a) the Company will hold each of the subsidiaries by means of a designated Cypriot company under full ownership of the Company (the "**Cypriot Companies**"). The holdings of the Company in the Cypriot Companies will be pledged in favor of the bank, as per the Cypriot Law, in order to assure the payment of the loans of the subsidiaries to the Bank (jointly and severally); (b) A cross default mechanism will be implemented such that each of the subsidiaries will be obligated that in any event whereby the ratio in a certain project between the income with the deduction of operative expenses (including tax expenses) and the debt service (payment of principal and interest) (the "**Debt Service Ratio**") shall exceed 1.05, a method of transferring funds shall apply, calculated above the Debt Service (the "**Surplus**") for subsidiaries, where the ratio is under the Debt Service Ratio. In the event of Surplus in the Debt Service Ratio in all the loans, the balance of funds shall serve for an early payment of the balance of principal of the loans' (c) in reference of the St. Petersburg Project (the "**St. Petersburg Project**") under proprietorship of Petra-8 LLC ("**Petra**"), a fully owned subsidiary of the Company, Petra will be obligated to pledge in favor of the Bank 60% of the cash flow, emerging from the sale of apartments and commercial areas under construction, in respect of which population form was received (which were not sold, as yet) and will utilize said amount for payment of the principal of the loan with respect to the St. Petersburg Project (the "**Petra Loan**"). After full payment of the Petra Loan and to the extent that there are still funds for this purpose out of the aforementioned amounts, they will serve for payment of the principal of the loans of the Subsidiaries.

5. The Company has a negative working capital in total of approx. USD393.7 million as at June 30, 2016, a loss related to the shareholders of the Company in the amount of approx. USD20.3 million for the 6 months period ending on same date, and also an inclusive loss related to the shareholders of the Company in the amount of approx. USD15.4 million for the 6 months period ending on same date. Furthermore, during the 6 months period ending on June 30, 2016, there was a decrease in the capital related to the shareholders of the Company in the amount of USD11.3 million, whereby as of June 30, 2016, the Company has a negative capital related to the

NOTE 1:- GENERAL (Cont.)

shareholders of the Company in total of approx. USD45.4 million. Furthermore, the Company has cash balances available to it, which are sufficient to cover its liabilities for a 12 month period from the date of signing the financial statements, under the assumption that no payments to the Debentures Holders will be made and no payment of principal to part of the funding banks in Russia will be executed during said period.

The Company continues to examine at close the developments in the economic condition of Russia, developments which are external to the operations of the Company and independent of them. It continues to act in order to narrow down its exposure to the economic conditions to the extent possible, inter alia, by setting

maximum exchange rates to lessees of assets of the Company and holding negotiations with funding banks, in order to defer the payment dates of loans until the economic situation stabilizes.

In light of all that is stated above, there are significant doubts as to the continuance of operation of the Company as a going concern. The financial statements do not include any adjustments with respect to the values of assets and liabilities, as well as the classification thereof, which could be necessary if the Company shall not be able to continue operating as a going concern.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim financial statements:

The interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standard IAS 34.

b. New standards, interpretations and amendments adopted by the Company:

The significant accounting policies and methods of computation followed in the preparation of the Interim Condensed Consolidated Financial Statements are identical to those followed in the preparation of the latest annual financial statements.

NOTE 3:- FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair values of financial instruments as of June 30, 2016:

	Carrying amount	Fair Value
	U.S. dollars in thousands	
Financial liabilities:		
Debentures (series A)	4,500	1,021
Debentures (series B)	18,862	6,042
Debentures (series C)	38,572	6,200
Debentures (series D)	46,817	7,187
Debentures (series E)	113,302	17,400
Debentures (series F)	41,807	7,674
	263,860	45,524

The fair value of the Bonds is measured based on quoted market prices, according to Level 1 of the fair value hierarchy.

There is no material change in the fair value of bank loans in compare to the value presented in the annual financial statements.

NOTE 4:- SEGMENTS

	Commercial	Residential	Total
		Unaudited	
Six months ended 30 June 2016:		U.S. dollars in thousands	
Segment revenues	14,803	2,472	17,275
Segment results	(24,322)	(7,086)	(31,408)
Unallocated income			(3,606)
Finance costs, net			11,364
Loss before taxes on income			(23,650)

	Commercial	Residential	Total
		Unaudited	
Six months ended 30 June 2015:		U.S. dollars in thousands	
Segment revenues	19,304	46,894	66,198
Segment results	(48,709)	(4,379)	(53,088)
Unallocated income			(4,729)
Finance costs, net			(19,619)
Loss before taxes on income			(77,436)

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

NOTE 5: - EVENTS DURING THE PERIOD

1. Changes to the Company's Office Holders and Directors

On May 17, 2016, the Company announced that Mr. Saydam Salaheddin was appointed as the Chairman of the Company; and similarly that Messrs. Nigel James Wright and Eliezer Fishman ceased to serve as Company chairman and director, respectively. In light of the termination of his service to the Company on 16 May 2016, Mr. Eliezer Fishman has ceased to be a related party to the Company.

2. On 21 June 2016, Decision No. 524 of the Saint Petersburg Government took effect – "**Rules For The Use Of Ground And Site Developments**". The decision is detailed over more than 350 pages and it deals with zoning restrictions in the city of Saint Petersburg. At this stage, the Company identifies two primary changes relating to: (a) the limitations on the permissible height of a building; and – (b) the lowering of the permissible building space utilization. The decision allows for a transition period for the application of the new rules to be held until 31 December 2018. At the end of the transition period, a committee will be established and charged with an analysis of each situation and will be authorized to approve of certain exceptions from the building height restriction.

To date, the Company is reviewing the decision of the Saint Petersburg government and its implications on the subsidiary of the Company owning a residential building project in the city if any.

3. Engagement of the Company in the acquisition of partnership rights in a project in Moscow, Russia

In the course of negotiations held between the Company and SberBank (the "**Bank**") for the purpose of formulating a new framework for the payment of loans provided by it to the Company as explained in Note 1.B.4, which to date stands at a total of USD 160 million, the Company is required to purchase the full ownership rights in the century project in Moscow (the "**Century Project**"), this is, among other reasons, for the purpose of creating a pledge in favor of the Bank over the rights in the portion of the Century Project financed by the Bank. The Company entered into an agreement to that affect on 22 June 2016.

The agreement for the purchase of the full ownership rights in consideration of a total of USD 8 million, of which the net consideration to be paid by the Company in the purchase transaction will total approximately USD 4.75 million after offsetting the balance of the partners obligation to the Company (the "**Purchase Transaction**"). Subject to the closing of the Purchase Transaction, the Company will hold 100% of the companies and rights in the Century Project, whereby the Company's rights in part of the Century Project, as financed by the Bank, will be pledged in favor of the Bank, as part of the debt restructuring.

The consideration as set by the Purchase Transaction is expected to be approximately 7% above the estimated value of the Century Project based on a valuation carried out on 31 March 2016, to the extent that the Purchase Transaction is completed, the Company is expected to report a loss of approximately USD 0.5 million in its financial statements.

NOTE 5: - MATERIAL EVENTS DURING THE PERIOD (Cont.)

This agreement is subject to certain conditions precedent required for the closing, including the completion of the debt restructuring between the Bank and the Company and receipt of the Bank's approval of the Purchase Transaction.

NOTE 6: - SUBSEQUENT EVENTS

1. On July 4, 2016, Mr. Constantinos Pandelides ceased to serve as an independent director with the Company.
2. On July 7, 2016, the Company notified that the following individuals ceased to be interested parties of the Company: (a) Mr. Ronit Fishman-Ophir; (b) Mrs. Anat Manipaz; (c) CDK Financing and Investment Ltd.; (d) Powercard (2000) Ltd.; (e) The assets of Fishman Family Ltd.;

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