16 November 2016

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

CONTINUED FOCUS ON OPERATIONAL PERFORMANCE

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

Financial Highlights:

- Net operating income (“NOI”) from the investment portfolio decreased to US$14.7 million (30 September 2015: US$17.6 million), mainly due to depreciation in the Russian Rouble’s average rate against the US Dollar and due to negative movement in the Russian real estate market;
- Gross profit of US$7.3 million (30 September 2015: US$19.8 million);
- EBITDA of US$5.2 million (30 September 2015: US$10.5 million);
- Loss of US$55.6 million (30 September 2015: loss of US$83.7 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$52.7 million, mainly due to the appreciation of the Russian Rouble against the US Dollar as of 30 September 2016 and a decrease in projected NOI;
- Total assets amounted to US$582.7 million, of which 91% are property and land assets (31 December 2015: US$577.8 million);
- Total negative equity of US$78.2 million (30 June 2016: negative US$29.4 million);
- Net leverage stands at 85% of total assets (30 June 2016: 78.5%).

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 a further 31 sales in the quarter taking total sales for the year to date to 260. In total, 1,303 apartments out of 1,346 have been pre-sold, equating to circa 97% of the scheme and representing sales of approximately US$90.5 million. The delivery of phase III commenced at the end of August 2016, and as of today, a total of 681 apartments have been delivered to residents. Total revenues recognised to date for Phase III are US$20.2 million.

- Phase IV: Sales momentum continues with an additional 168 apartment sales in the quarter taking total sales to 385 units since 1 January 2016. In total, 806 apartments out of 1,244 have been pre-sold, equating to circa 65% of the scheme and representing sales of approximately US$57.6 million.

Western Residence, Perkhushkovo, Moscow

- Continued progress has been achieved with a further three sales in the quarter taking sales completed since 1 January 2016 to 13 and the total number of units sold to 64 of the 77 houses within 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 at the beginning of the year with nine months NOI of US$9.2 million from the Vernissage Mall and Triumph Mall compared to US$10.4 million last year.
- Occupancy remains at approximately 98% (30 June 2016: 98%), up 3% on a like for like basis.

Offices:

- Occupancy rates showed a marginal decline at the MirLand Business Centre, standing at 69%. NOI has reduced to US$5.5 million in the first nine months of 2016.

Saydam Salaheddin , Chairman of Mirland, commented:

"Whilst the market is still experiencing economic difficulty, the last quarter has been characterised by continued stabilisation of the oil price and currency, and this is fuelling a moderate rebound in investor and tenant confidence in Russia.

"During this period, MirLand has again made further progress towards a full restructuring its bank and bond financing, which we hope to complete imminently. Our sales in our flagship St Petersburg project also continue to be resilient and generate positive cash flow. We are pleased with what has been achieved to date and the Company is in a stronger financial position than it has been for a while. Whilst recognising that a number of factors remain outside of the Company's control, I look to the future with optimism."

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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 reduce by approximately 6% during 2016 to US$532. Total net borrowings amounted to US$498.1 million (31 December 2015: US$475.7 million).

Bond Restructuring

During the Period the Company made further good progress towards delivering the new restructuring plan (the "Settlement Plan").

On 5 September 2016, the Company held a Bondholders meeting at which the Settlement Plan was approved by 96.3% of the Bondholders' votes.

On 5 September 2016, the Company held an EGM at which all resolutions, including approval of the Settlement Plan, were passed unanimously and subsequent to this the District Court of Paphos (Cyprus) approved the Settlement Plan.

On 7 November 2016, the Company confirmed that all conditions precedent to the Settlement Plan had been satisfied, except for Tel Aviv Stock Exchange ("TASE") and Israel Securities Authority approval for admission of the Company's securities to trading on TASE (the "Approvals").

The Company is making the necessary arrangements to launch the Subscription and the Open Offer, terms and conditions of which will be set out in the circular, which the Company intends to send to shareholders of the Company in due course.

The Settlement Plan is subject to a number of conditions precedent. Should any of these conditions not be satisfied in full or be waived by the Bondholders, the Settlement Plan may not become effective in accordance with its terms, therefore, as the Company will be in default under the terms of the Debentures, the Bondholders may commence insolvency proceedings against the Company.

The Company continues to work on completing all necessary actions to obtain the Approvals by the dates set out in the Settlement Plan, however, there may be some changes in the timetable which will be notified as appropriate.

The main principles of the Settlement Plan 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$7.7 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 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.

Refinancings

On 20 September 2016, the Company confirmed the completion of the debt settlement with Sberbank, which was one of the conditions of the Settlement Plan with the bondholders.

On 26 September 2016, a subsidiary of the Company which owns the rights and manages the Vernissage Mall project in Yaroslavl, Russia, signed an agreement with VTB Bank to amend the terms of the US$40 million loan that was provided by the Bank.

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. Strong sales demand has continued on Phase III of the scheme, with 1,303 apartments now pre-sold, representing 97% of the scheme. The Company is continuing to achieve sale prices in the 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 806 apartments representing 65% of the scheme now pre-sold.

The Western Residence residential development at Perkhushkovo, Moscow, has also maintained momentum with an additional three houses sold in the quarter taking the total number of houses sold since the beginning of 2016 to 13 Following these sales, 64 out of a total of 77 houses have been sold.

Occupancy at our Vernissage Mall and Triumph Mall assets remained constant from 30 June 2016 at circa 98%, which is a slight increase on the same period in 2015. Footfall remained high at both assets.

Occupancy at the MirLand Business Centre decreased in line with market conditions to approximately 69% of the total rentable area.

On 16 August 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 9 months of 2016 to US$14.7 million (30 September 2015: US$17.6 million) .

BOARD CHANGES

Following the period end, the Company announced the appointment of David Zvida as a non-executive director of the Company. Mr. Zvida is currently Chief Executive Officer of Jerusalem Economy Ltd., Industrial Building Corporation Ltd and Darban Investments Ltd, the majority shareholders of the Company.

He was previously a partner at Ernst & Young, prior to which he was Chief Financial Officer of Dankner Investments Ltd.

MARKET UPDATE

The Russian Ministry of Economics is now expecting GDP to contract by 0.6% in 2016 and grow by 1.2% in 2017. Inflation in Russia eased further to 6.4% YoY in September 2016. It is expected to slow to below 6.0% by the end of the year, in line with the CBR's forecast of 5%-6%, but it is still well above the Bank's 4% target. The unemployment rate remains low at 5.2% in 3Q16, and is expected to be around 6% by the year end.

Exchange rates have fluctuated between 75-62 RUB/USD in 2016 and were at 63.12 on 30 September 2016. As of the date of publication of this announcement the rate has not changed materially, standing at around 65.5 RUB to the USD.

Oil prices strengthened following OPEC's announcement of likely production cuts. In September, prices of Brent (the international marker) averaged US$46.2/bbl. As of the date of publication of this announcement the price was at US$42.8/bbl.

On 16 September 2016, the Central Bank of Russia cut the interest rate by half a percent to 10%. No additional changes are expected until the end of the year.

Net capital outflows from Russia decreased from US$48.1bn in 2015 to US$9.6bn. In 3Q16, the Central Bank recorded an outflow of capital of US$2.6 billion. The CBR expects the net capital outflow this year to be US$14bn, rising to US$18bn in 2017.

Real Estate market

Prime yields in the third quarter of 2016 remained the same as the previous two quarters, with 10.5% for offices, 11% for prime retail, and 12.75% for warehouses.

Investment volume in Russian commercial real estate in the year to 30 September 2016 was US$4bn (with US$1.46bn in 3Q16 compared to only US$173mn in 2Q16). The Cushman & Wakefield forecast for the whole of 2016 is US$4.5bn.

In 3Q16 foreign investments were absent from the investment market, making the total volume of foreign investments in the year to 30 September 2016 representing just 5% of total investments. Consistent with previous periods, Moscow attracted the majority of the investment with 87%, while only 6% was invested in commercial real estate in St. Petersburg, and 7% in the regions.

Offices

The 3Q16 total volume of investments in the office segment was US$1.05bn, representing approximately 72% of 3Q16 total investments.

3Q16 new construction of Class A offices was 30,000 sqm and Class B was 220,000 sqm. By the end of 2016, annual new construction volume is expected to reach 300,000 sqm (divided equally between Classes A and B). 3Q16 net absorption amounted to 445,000 sqm. The 3Q16 overall vacancy rate in Moscow was high at 17.3%, amounting to 2.8mn sqm of space of which 23.8% was Class A and 15.9% was Class B.

Rental rates for space averaged RUB29,000 per sqm per year (US$450) for Class A Space and RUB16,000 per sqm per year (US$242) for Class B, net of operating expenses and VAT.(average of US$302 pers sqm per year.

Retail

In 3Q16, US$296mn was invested in the retail segment, out of a total investment volume of US$1.46bn. Construction volumes saw 280,000 sqm in Moscow and 80,000 sqm in the Moscow region. 10 shopping centres with a total GLA of 456,000 sqm were opened in Russia in 3Q16 with more than half of the retail space delivered to the market in Moscow and the Moscow region.

In 3Q16 the average vacancy rate in prime Moscow shopping malls was 2.5%, unchanged from the previous period and is expected to close the year at 3%. The overall vacancy rate in Moscow in 3Q16 was 12%, the same as in 2Q16.

By the end of the 2016 calendar year, the average vacancy rate in Moscow shopping malls may increase to 13-14%, as the new projects are expected to open with high vacancy rates.

The prime rental rate indicator was RUB145,000 per sqm, which is unchanged. Rental payment as a percentage of turnover and fixed rental rate remain the most popular payment scheme.

Residential

Circa 905bn RUB of mortgages were granted in the first eight months of 2016, which is 37% higher than the same period in 2015.The average lending rate in 2016 was 12.7%

In 3Q16, 45 new projects were delivered to the housing market in St. Petersburg (42 in 2Q16) providing circa 655,000 sqm of space. 92.5% of the delivery (in ‘000 units) to the market was attributed to the mass-market segment. As of 3Q16 there are 448 projects offered in St. Petersburg (circa 1% lower than 2Q16).

In 3Q16 mass market prices in RUB increased by 1.7% compared to 2Q16 (economy class prices increased by 3.1%). 3Q16 demand amounted to 0.91mn sqm (8.2% higher than 2Q16).

Industrial

As of Q3 2016, the total stock of good quality industrial space in the Moscow region market reached 12.4mn sqm, of which Class A properties constitute 10.0mn sqm, and Class B properties account for 2.4mn sqm. During the first nine months of the year, circa 385,000 sqm of industrial space was put into operation, which is two times lower than the figure for the same period in 2015.

According to figures for Q3 2016, the vacancy rate in the Moscow market did not change significantly. At the end of the Q3 2016, the vacancy rate was 11.2% or 1.4mn sqm, of which 95,000 sqm is Class B. Due to the low level of new completions, the vacancy rate is expected to continue to decline.

The average rental rate for Class A warehouse space in Q3 2016 was within RUB3,700 –3,800 per sqm per per year for standard dry warehouses, and RUB3,000-3,500 per sqm per year for Class B.

Saydam Salaheddin	**Roman Rozental**
Chairman	**Chief Executive**
16 November 2016	**16 November 2016**

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 September		31 December
	2016	**2015**	**2015**
	Unaudited		**Audited**
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4,633	11,567	5,097
Restricted cash and short term investments	6,329	11,159	11,159
Trade receivables	3,353	2,999	2,274
Accounts receivables	9,335	9,254	7,885
VAT receivable	3,268	3,721	3,321
Inventories of buildings for sale	198,882	163,856	171,240
	225,800	202,556	200,976
NON-CURRENT ASSETS:			
Investment properties	250,000	312,700	260,200
Investment properties under construction	16,700	25,545	19,000
Inventories of buildings for sale	66,707	75,749	68,298
VAT receivable	378	306	290
Fixed assets, net	918	1,044	969
Other long term receivables	2,966	18,334	14,709
Prepaid expenses	455	509	455
Deferred taxes	18,746	12,823	12,944
	356,870	447,010	376,865
TOTAL ASSETS	582,670	649,566	577,841

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 September 2016	30 September 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	16,921	200,487	196,328
Current maturities of long-term credit from banks	3,671	18,842	19,575
Current maturities of debentures	158,659	80,114	115,672
Credit from banks for financing of inventory of buildings for sale	19,214	17,200	24,845
Government authorities	1,575	1,848	1,537
Long-term Debentures which classified for short-term	115,931	165,689	135,523
Trade payables	7,668	11,787	6,361
Deposits from tenants	2,014	1,932	2,033
Advances from buyers	113,309	70,542	73,783
Other accounts payable	1,355	736	845
Loan from the parent Company	3,848	-	-
	444,165	569,177	576,502
NON-CURRENT LIABILITIES:			
Long-term loans from banks	194,711	-	-
Other non-current liabilities	9,143	10,695	9,077
Deferred taxes	12,896	18,474	11,519
	216,750	29,169	20,596
TOTAL LIABILITIES	660,915	598,346	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	12,604	12,572	12,586
Capital reserve for transactions with controlling shareholders	16,224	8,556	10,556
Capital reserve for transaction with Non-controlling interests	17,067		
Foreign currency translation reserve	(188,891)	(177,958)	(175,193)
Accumulated deficit	(296,088)	(172,142)	(242,865)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(78,245)	31,867	(34,077)
Non-controlling interest	-	19,353	14,820
Total equity	(78,245)	51,220	(19,257)
TOTAL EQUITY AND LIABILITIES	582,670	649,566	577,841

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended 30 September		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	20,741	25,012	32,271
Revenues from sale of residential units	23,941	49,567	51,206
Revenues from management fees	1,961	2,180	2,808
Total revenues	46,643	76,759	86,285
Cost of sales and maintenance of residential units	23,103	44,740	47,265
Cost of maintenance and management	7,934	8,389	11,310
Gross profit before provision for impairment	15,606	23,630	27,710
Impairment of inventory	8,335	3,791	4,330
Gross profit	7,271	19,839	23,380
General and administrative expenses	7,615	8,010	12,578
Bond settlement expenses	887	1,673	2,276
Marketing expenses	2,054	3,913	4,300
Fair value adjustments of investment properties and investment properties under construction	(52,675)	(23,354)	(56,152)
Other expense (earnings), net	962	2,595	5,075
Operating income (loss)	(56,922)	(19,706)	(57,001)
Finance income	885	1,594	271
Finance expenses	(31,923)	(26,970)	(35,035)
Net foreign exchange differences	29,323	(51,396)	(84,716)
Profit (loss) before taxes on income	(58,637)	(96,478)	(176,481)
Taxes on income (tax benefit)	(3,050)	(12,801)	(19,004)
Net income (loss)	(55,587)	(83,677)	(157,477)
Attributable to:			
Equity holders of the parent	(53,223)	(82,385)	(153,108)
Non-controlling interests	(2,364)	(1,292)	(4,369)
	(55,587)	(83,677)	(157,477)
Basic and diluted net earnings (loss) per share (US Dollars) attributable to equity holders of the parent	(0.51)	(0.80)	(1.48)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended 30 September		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Net Income (loss)	(55,587)	(83,677)	(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	8,147	(6,592)	(5,283)
Total other comprehensive income (loss)	8,147	(6,592)	(5,283)
Total comprehensive income (loss)	(47,440)	(90,269)	(162,760)
Attributable to:			
Equity holders of the parent	(47,275)	(86,146)	(154,104)
Non-controlling interest	(165)	(4,123)	(8,656)
	(47,440)	(90,269)	(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	Capital reserve for transactions With Non-controlling interest	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 2016 (Audited)	1,036	359,803	12,586	10,556	-	(175,193)	(242,865)	(34,077)	14,820	(19,257)
Loss	-	-	-	-	-	-	(53,223)	(53,223)	(2,364)	(55,587)
Other comprehensive profit (loss)	-	-	-	-	-	5,948	-	5,948	2,199	8,147
Total comprehensive income (loss)	-	-	-	-	-	5,948	(53,223)	(47,275)	(165)	(47,440)
Transaction with Non-controlling interests	-	-	-	-	17,067	(19,646)	-	(2,579)	(14,655)	(17,234)
Transaction with controlling shareholders	-	-	-	5,668	-	-	-	5,668	-	5,668
Share-based payments (Note 19)	-	-	18	-	-	-	-	18	-	18
At 30 September 30, 2016 (Unaudited)	1,036	359,803	12,604	16,224	17,067	(188,891)	(296,088)	(78,245)	-	(78,245)

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 (Audited)	1,036	359,803	12,530	8,556	(174,197)	(89,757)	117,971	23,476	141,447
Net profit (loss) for the year	-	-	-	-	-	(82,385)	(82,385)	(1,292)	(83,677)
Other comprehensive loss	-	-	-	-	(3,761)	-	(3,761)	(2,831)	(6,592)
Total comprehensive income (loss)	-	-	-	-	(3,761)	(82,385)	(88,146)	(4,123)	(90,269)
Share-based payments	-	-	42	-	-	-	42	-	42
At 30 September 2015 (unaudited)	1,036	359,803	12,572	8,556	(177,958)	(172,142)	31,867	19,353	51,220

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

	Nine months ended 30 September		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net profit	(55,587)	(83,677)	(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	(3,602)	(13,140)	(20,367)
Depreciation and amortization	147	132	156
Finance expenses (income), net	1,715	76,772	119,480
Share-based payment	18	42	56
Fair value adjustment of investment properties and investment properties under construction	52,675	23,354	55,152
Loss from sale of investment property	-	-	1,000
	50,953	87,160	155,477
Working Capital adjustments:			
Impairment of inventory	8,335	-	4,330
Impairment of financial assets	-	-	3,200
Decrease (increase) in trade receivables	(1,077)	(936)	(599)
Increase in VAT receivable and others	(63)	(635)	(430)
Decrease (increase) in inventories of buildings for sale	(1,768)	1,251	(20,789)
Increase (decrease) in trade payables	(1,082)	537	1,603
Increase (decrease) in other accounts payable	25,560	(5,815)	3,997
	29,905	(5,598)	(8,688)
Interest paid	(12,854)	(15,648)	(21,301)
Interest received	45	201	217
Taxes paid	(573)	(936)	(1,229)
	(13,382)	(16,383)	(22,313)
Net cash flows generated from (used in) operating activities	11,889	(18,498)	(33,001)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended 30 September		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	(1,472)	(2,511)	(2,852)
Proceeds from sale of investment property	-	3,170	3,170
Net cash flows used (Generated) in (from) investing activities	(1,569)	659	(1,460)
Cash flows from financing activities:			
Receipt of loans from banks and others, net from origination costs	54,794	25,233	42,028
Repayment of loans from banks and others	(71,628)	(23,518)	(33,966)
Purchase of Non-controlling interests	(4,678)	-	-
Receipt of funds from controlling shareholders	5,668	-	2,038
Net cash flows generated from financing activities	(15,852)	1,705	10,100
Exchange differences on balances of cash and cash equivalents	230	(1,786)	(29)
Increase (Decrease) in cash and cash equivalents	(5,294)	(17,920)	(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	10,962	22,726	16,256

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

NOTE 1: GENERAL

a. These interim consolidated financial statements have been prepared in a condensed format as of 30 September 2016 and for the nine-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 indicating a speedy recovery of the Russian market. Notwithstanding the fact that to period ending September 30, 2016, the ruble/dollar rate increased by approximately. 15% to a level of 63 Ruble to Dollar, and although the Central Bank of Russia subsequently reduced the inter-bank interest to 10%. There were no material changes in the Russian Ruble rate against the US Dollar after the balance sheet date.

c. The updated bond restructuring plan and its approval in the general meetings (the "**General 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 an 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, the following actions will be executed, such that the outstanding debt of the Company owing 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 manner that they will no longer 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. <u>Share issuance to the existing Bondholders</u>

   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 rights to the existing shares of the Company

NOTE 1:- GENERAL (Cont.)

Payment of the nominal value of the issued shares will be in consideration for the waiving of the existing debt by the existing Bondholders 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 compound 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, at the Company's discretion and in accordance with the terms of all applicable laws) to purchase Company shares at the price of the share issuance to the shareholders (" The issuance to the 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 controlling 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, and holdings of 17.6% on a fully diluted basis.

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.

On November 16, the Company's Board of Directors approved the grants for the Company management with condition precedent that Updated Restructuring Plan will become effective.

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 current 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 by the authorized organs of the Company in accordance with Cypriot Companies Law, to the extent required under Cypriot Law; -Fulfilled
(2) Approval by the Israel Securities Authority and the TASE of the amendment shelf prospectus of the Company;
(3) Approval by 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 by the general meeting of the existing Bondholders for the execution of the Updated Restructuring Plan in accordance with Cypriot law;- Fulfilled
(5) Approval by the authorized Cypriot Court of the Updated Restructuring Plan;- Fulfilled

NOTE 1:- GENERAL (Cont.)

(6) Approval by the general meeting of the shareholders of the Company of the Updated Restructuring Plan, in accordance with Cypriot Law;- Fulfilled

(7) Approval by the Tax Authority of 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) were 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);- Fulfilled

(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;- Fulfilled

(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 controlling 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.

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 favor 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 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).

NOTE 1:- GENERAL (Cont.)

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.

4. On 19 August, 2016, the Company convened the general meeting of the creditors of the Company as well as the general meeting of the shareholders of the Company for the purpose of approving the Updated Restructuring Plan of the Company with its Bondholders (Series A-F) (respectively, the "**General Meetings**" and the "**Restructuring Plan**"). The General Meetings were held on 5 September in the registered offices of the Company in Cyprus, in the course of which the Restructuring Plan was approved as follows:
   (a) The general meeting of the bondholders of the Company approved of the Restructuring Plan by way of a majority of 96.3% of the value of the bonds of the Company;
   (b) The general meeting of the shareholders of the Company approved of the Restructuring Plan by way of a majority of 100% of the shareholders present and participating in the vote. In this context, the Company did not receive any opposition from the shareholders for the approval of the Restructuring Plan.

5. On 11 October 2016, the Cypriot court approved the Restructuring Plan.

d. **Debt settlements with the financing banks in Russia**

1. On 20 September, 2016, the debt settlement agreement between the Company and Sberbank of Russia took effect (the "**Debt Settlement**" and "**Bank**" respectively), this is subsequent to the fulfillment of certain conditions precedent as defined between the parties. Within the framework of the terms of the Debt Settlement, the debt repayment schedule has been amended, the existing interest rate of all of the loans has been reduced, and the financial covenants that the subsidiary companies are obligated to fulfill have not been changed with the exception of a financial covenant relating to the debt service coverage. Furthermore: (i) it was agreed that the subsidiaries will be exempt from fulfilling the financial covenants set by the loan agreements with the bank until the period ending 31 December 2017; (ii) any failure to fulfill such covenants will not result in any further sanctions; and (iii) besides for the fact that at present failure to maintain the financial covenants do not constitute grounds for immediate repayment.

NOTE 1:- GENERAL (Cont.)

Principles of the Debt Settlement with Sberbank of Russia

On July 8, 2016 the Company received five agreements that were signed by the Bank 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 provided by the Bank (the "Agreements") amounting as of the date of this Report to a total of approximately. 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).

On 20 September, 2016, the Company and Subsidiaries completed all actions necessary in order for the debt settlement to take effect.

The payment schedules was 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. The guarantee provided on behalf of the Company to the Bank together with the provision of the loans will also apply to the amended terms of the loans as set by the terms of the Debt Settlement, as said.

NOTE 1:- GENERAL (Cont.)

The Agreement establishes a Cash Sweep mechanism for the payment of the principal of the loan. Such that, in the event that in any particular quarter the NOI less: 1) Taxes; 2) General & administration expenses 3) Marketing expenses 4) Debt Service + 5%, is a positive number (the “Surplus Balance”), the entire Surplus Balance will be transferred for payment of the principal of the loan in the subsequent quarter.

In the course of completing the Debt Settlement with the Bank, the financial covenants that the Subsidiaries are obligated to fulfill have not been changed with the exception of a financial covenant relating to the debt service coverage (as defined in the Debt Settlement with the Bank, as completed) which will be no less than 1.1 rather than 1.2 as set until now and with the exception that a breach of convents will not cause and event of default.

It was additionally agreed upon, that until the period ending 31.12.2017, the Subsidiaries will be exempt from fulfilling the financial covenants set in the loan agreements with the Bank (the “**Exemption Period**”) and that such failure will not incur any sanction. The Subsidiaries also have the option to extend the Exemption Period based on the sole discretion of the Bank. Failure to fulfill the financial covenants after the Exemption Period, to the extent that no extension is granted by the Bank, will grant the Bank the right to apply penalties in amounts that are not material (“**Agreed Penalty**”). Payment if the penalty to the bank in accordance with the Debt settlement with the bank will be the only remedy for the breach of covenants and in any case will not be considered as an event of default.

As a result of that stated above, the Company no longer classifies its “loans from banks” in its financial statements as current assets, of which it has never previously fulfilled the financial covenants.

The Company has reviewed International Financial Rule Standard 39 regarding the recognition and measurement of financial instruments in relation to the changes in the loan terms as said. The Company has carried out a qualitative and quantitative analysis and reached the conclusion that the changes in the terms as said do not constitute a material change, and accordingly the existing loan has not been written down.

2. On 26 September 2016, the subsidiary of the Company being the owner of the rights and manager of the Vernissage Project, signed an agreement with the Russian bank financing its operations (the “Financing Bank”) changing the terms of the provided loan and restructuring such terms afresh (the “Agreement”), whose balance, as of 30 September 2016 stands at approximately USD 40 million. The principle terms of the Agreement are as follows:

    a. The loan which was provided in USD will be fully converted to the local currency (Ruble), on a rate set by the USD/Ruble representative exchange rate on the execution date of the Agreement;

NOTE 1:- GENERAL (Cont.)

b. 97% of the principal of the loan will be deferred to one payment to be paid in the 3rd quarter of 2021. 2% of the principal of the loan will be repaid in two equal payments in the first and second quarter of 2021 and the remaining 1% will be paid in quarterly repayments (in portions equal to 0.02%-0.11%) in the period ending 31.12.2020;

c. The loan's annual interest rate will be the Russian Central Bank rate + 4%, (14% as of the day of this report) and in any event will be not greater than 18.75% per annum (the "**Fixed Interest**"). The interest will be repaid on a monthly basis. Notwithstanding that said, the subsidiary will not be required to pay the current interest payments for amounts greater than 8% per annum (the "**Paid Interest**"), with regard to all amounts stemming from the differential between the Fixed Interest and the Paid Interest (the "**Interest Gap**"), such amounts shall be added to the loan principal (totaling 97%) and will be repaid together with it in one payment in the third quarter of 2021. Until the date of such payment, as said, the Interest Gap will be added to the loan principal and will accrue interest in accordance with the terms of the loan. In this context it should be clarified that the deferment of the payment of the Interest Gap and its non-current payment will not constitute a breach of the obligations of the subsidiary and/or grounds for immediate repayment;

d. The Agreement establishes a Cash Sweep mechanism for the payment of the principal of the loan. Such that, in the event that in any particular quarter the EBITDA less: 1) Taxes; 2) Costs of maintaining the project asset – Capital Expenditure; 3) Debt Service + 10%, is a positive number (the "**Surplus Balance**"), the entire Surplus Balance will be transferred for payment of the principal of the loan in the subsequent quarter.

   Additionally, the subsidiary has committed to maintain financial covenants for the entire loan period, having the following principles: a) minimum project income, to be determined on a quarterly basis, commencing with a minimum threshold of 65 million Ruble (approximately. USD 1 million) from the third quarter of 2016 and increasing to 85 million Ruble (approximately ... USD 2.1 million) at the end of 2020; b) maintain a positive net asset value (NAV) for the period of the Agreement commencing from 1 July 2016; c) EBITDA in 2016 of no less than 250 million Ruble (approximately . USD 3.4 million) and increasing to 310 million Ruble (approximately. USD 8.5 million) in 2020; d) a debt service coverage higher than 1.1; e) maintaining a loan-to-value (LTV) – (1) in the first 12-24 months after signing the Agreement, not greater than 100%; (2) after 24 months after signing the Agreement – no greater than 70%; in the course of the first 12 months the Company will be exempt from this regard; e) The occupancy rate of the project, during the entire loan period will be no less than 90%.

NOTE 1:- GENERAL (Cont.)

The Company has reviewed International Financial Rule Standard 39 regarding the recognition and measurement of financial instruments in relation to the changes in the loan terms as said. The Company has carried out a qualitative and quantitative analysis and reached the conclusion that the changes in the terms as said constitute a material change, and accordingly the existing loans have been written down and a new loan has been recognized in accordance with the fair value on the date of the change of the terms. Accordingly, the Company has recognized costs of approximately USD 480 thousands in its financial statements.

Failure to comply with financial covenants

The Company has classified in its Financial Statements as of 30 September 2016 a bank loan in which the Company fails to fulfill its financial covenants, totaling USD 16.9 million, with Nordea Bank to its current liabilities. The Company is in negotiations with the bank regarding the terms of the loan.

e. The Company has a negative working capital in total of approximately. 218.4 million as at September 30, 2016, a loss related to the shareholders of the Company in the amount of approximately . USD 53.2 million for the 9 months period ending on same date, and an inclusive loss related to the shareholders of the Company in the amount of approximately. USD 32.9 million for the 9 months period ending on same date. Furthermore, during the 9 months period ending on September 30, 2016, there was a decrease in the capital related to the shareholders of the Company in the amount of USD 44.2 million, whereby as of September 30, 2016, the Company has a negative capital related to the shareholders of the Company in total of approximately . USD 78.2 million. Furthermore, the Company has cash balances available to it in the amount of USD 11 million (of which USD 6.3 million is held on trust)., Management is of the opinion that such amount is sufficient to cover the Company’s liabilities for a 12 month period from the date of signing the financial statements, under the assumption that no payments to the Bondholders 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 and in light of the fact the Updated Restructuring Plan is still conditional to several condition precedents 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 September 30, 2016:

	Carrying amount	Fair Value
	U.S. dollars in thousands	
Financial liabilities:		
Debentures (series A)	4,679	871
Debentures (series B)	19,154	4,539
Debentures (series C)	40,297	8,087
Debentures (series D)	48,807	9,707
Debentures (series E)	118,237	23,323
Debentures (series F)	43,510	8,703
	274,684	55,230

The fair value of the Bonds is measured based on quoted market prices, according to Level 1 of the fair value hierarchy.
The loans balance in the financial statement as of 30 September 2016 is not materially different from its fair value.

NOTE 4:- SEGMENTS

	Commercial	Residential	Total
	Unaudited		
Nine months ended 30 September 2016:	U.S. dollars in thousands		
Segment revenues	22,702	23,941	46,643
Segment results	(39,733)	(12,262)	(51,995)
Unallocated income			(4,927)
Finance costs, net			(1,715)
Loss before taxes on income			(58,637)

NOTE 4:- SEGMENTS (Cont.)

	Commercial	Residential	Total
		Unaudited	
Nine months ended 30 September 2015:		U.S. dollars in thousands	
Segment revenues	27,192	49,567	76,759
Segment results	(8,390)	(4,724)	(13,114)
Unallocated expenses			(6,592)
Finance costs, net			(76,772)
Loss before taxes on income			(96,478)

	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. 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.

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

2. <u>Engagement of the Company in the acquisition of partners rights in a project in Moscow, Russia</u>

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 1D, , The Company was required to provide a pledge in favor of the Bank over the rights in the part of the Century Project financed by the Bank. This obligated the company to purchase the full ownership rights in the Century project in Moscow (the "**Century Project**"), The Company entered into an agreement to that effect 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 4.7 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.

On 21 September 2016, the sale of the full rights of the owners in the Century Project was completed. This resulted from the completion of the Debt Settlement with the Bank as explained in note 1D above. And the full rights of the project were transfer to the Company.

As a result of the transaction, as said, the Company has carried out a classification of equity principal from the foreign currency translation differential liabilities of USD 19,646 thousands and equity principal from transactions with non-controlling rights for a total of USD 17,067 thousands. The impact of the said transaction on the relatable capital to the Company shareholders is a deduction in the capital of the Company of an amount equal to USD 2,579 thousands.

3. On 29 September 2016, the Company announced that for the purpose of financing its current operations, the Company requests an additional USD 2 million (the "**Required Amount**"). In accordance with Section 12.2 of the Settlement Agreement (a provision that took effect with the approval of the bondholders), the Company requested the controlling shareholder companies finance an amount equal to their portion of 19.5% of the required amount totaling approximately USD 0.4 million, and requested the remaining balance equal to USD 1.6 million, from the trust funds deposited with Yad-Am Trustees (2011) Ltd. (the "**Trustee**") in accordance with the letter of commitment signed by the Company and the trustees of the Bondholders (the Standstill). In October 2016, an amount of USD 1.6 million of the trust funds was received.

4. In the course of the preceding 3 and 9 month period, the Company has recognized an impairment in the value of the inventory in the Moscow and St Petersburg projects totaling USD 8.3 million and USD 4.1 respectively, this impairment recorded based on the valuations received from an independent external valuator.

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

5. During the period of 9 months ended 30 September, 2016 the Company received an additional amount from the controlling shareholder companies totaling USD 5.6 million. The balance has no set interest amount and no repayment date has been set. The balance is set at fair value. In light of the calculated interest, the fair value of the loan is not set at a material amount, and accordingly, an amount of USD 5.6 million has been allocated to the equity as a "Capital reserve for transactions with controlling shareholders".

6. On 18 May 2016, a letter was received from the Yaroslavl municipality concerning the Company's liability to the municipality. For this liability the company has adequate provision.

NOTE 6: - SUBSEQUENT EVENTS

1. On October 19, 2016 the Company's Board of Directors adopted the Company's 2016 Global Incentive Plan.

2. On November 7, 2016, Mr. David Zvida was appointed as a director in the company.

3. On November 13, 2016 the Tel-Aviv Stock Exchange announced that trading of debentures (Series A and B) of the Company will not be renewed, following the announcement of the trustee for debentures (Series A and B) of the company to technically postpone the final redemption date of the debentures (Series A and B) of the Company to the 30/11/2016. The Stock Exchange decision regarding this said technical delay will apply until the results of a re-meeting of bondholders (Series A and B) of the Company, which will take place without actually convening on 20/11/2016. After receiving the results of the meetings and depending on the results received, the Tel-Aviv Stock Exchange shall examine the resumption of trade in debentures (Series A and B) of the company .On November 14, the Company's Board of Directors approved the grants for the Company management with condition precedent that Updated Restructuring Plan will become effective.

4. On November 14, 2016 the Board of Directors approved the allocation to the management of the Company of Option Certificates (none tradable) to purchase shares of the Company which constitute, assuming they are exercised, 9% percent of the share capital of the Company immediately after the issuance and allocation of all shares on the basis of the Arrangement Plan (including the allocation of issued shares, as defined in the Arrangement Plan). Said allocation of options to Company management is contingent upon the entry into force of the Arrangement Plan.

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