18 May 2016

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

UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2016

MirLand, one of the leading international residential and commercial property developers in Russia, announces its results for the three months ended 31 March 2016.

Financial Highlights:

- Net operating income (“NOI”) from investment properties of US$4.6 million (31 March 2015: US$6.6 million), mainly due to depreciation in the Russian Rouble quarterly average rate against the US Dollar and due to negative movement in the Russian real estate market;
- Gross profit remains positive at US$1.3 million (31 March 2015: US$6.4 million);
- EBITDA remains positive at US$1.2 million (31 March 2015: US$3.1 million);
- Loss of US$14.6 million (31 March 2015: loss of US$12 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$18.7 million, mainly due to the appreciation of the Russian Rouble against the US Dollar as of March 31 2016 and a decrease in projected NOI.
- Total assets amounted to US$602.5 million, of which 88% are property and land assets (31 December 2015: US$577.8 million);
- Total negative equity of US$27.3 million (31 December 2015: negative US$19.3 million);
- Net leverage stands at 81% of total assets (31 December 2015: 82.3%);
- The Company is continuing its discussions with the trustees of the Series A-F bondholders and its financing banks to agree a restructuring of its debt and will update the market in due course;
- Following the period end the Company announced that Saydam Salaheddin has replaced Nigel Wright as Chairman, following his decision to step down from the Board for personal reasons. Eliezer Fishman has also stepped down from the Board.

Operational Highlights

<u>Residential:</u>

Triumph Park, St. Petersburg

- Phase III: Sales momentum continuing with an additional 157 sales since 1 January 2016. In total 1,163 apartments out of 1,346 have been pre-sold, totalling circa 90% of the scheme and representing sales of approximately US$80 million;

- Phase IV: Sales momentum continuing with an additional 143 sales since 1 January 2016. In total 572 apartments out of 1,244 have been pre-sold, totalling circa 46% of the scheme and representing sales of approximately US$36.5 million;

Western Residence, Perkhushkovo, Moscow

- Sales of a further three houses at our Western Residence development in Perkhushkovo, Moscow, have completed since 1 January 2016, taking the total number of units sold to 55 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 quarterly average rate of the Russian Rouble against the US Dollar during the first quarter, with quarterly NOI of US$2.9 million from the Vernissage Mall and Triumph Mall compared to US$3.5 million last year;
- Occupancy rates remain high at circa 98%;

Offices:

- Occupancy rates slightly decreased at the MirLand Business Centre, and stand at 75% – in line with the market trend. NOI has reduced to US$1.8 million in the first quarter of 2016.

Roman Rozental, CEO commented:

“Political and economic headwinds continue to create a challenging operating environment for the Company and whilst we are taking appropriate management actions to address the issues, many of the difficulties are beyond the Company’s control. During the period we have continued to progress negotiations with both our Bondholders and our Russian domestic banks.”

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MirLand, one of the leading international residential and commercial property developers in Russia, today announces its results for the three months ended 31 March 2016.

FINANCING

The challenging economic environment has continued to have a substantial impact on the valuation of the Company's real estate portfolio, which saw its value marked down by approximately 33% during 2015. Encouragingly we have witnessed a slight improvement of approximately 3% during the first quarter of 2016, resulting in net leverage decreasing to 81% of total assets at 31 March 2016 from 82.3% at 31 December 2015. Total net borrowings amounted to US$487.7 million (31 December 2015: US$475.7 million).

The Company has been in negotiation with the trustees ("**Trustees**") of the Series A-F bonds (**"Bonds")** to agree a restructuring of its debt which addresses the challenges posed by the current instability in the Russian economy for the benefit of all the Company's creditors and shareholders.

The Trustees of the Bondholders have proposed a restructuring of the Bonds as follows:

(a) approximately USD$180m of the debt owed to the Bondholders will be converted into equity in the Company, leaving approximately US$45m of outstanding bonds (the "**Remaining Debt**");

(b) Jerusalem Economic Ltd., Industrial Building Corporation Ltd. and Darban Investments Ltd. (the "**Majority Shareholders**") will be asked to commit to providing funding of US$25m in aggregate (including US$6 million which has previously been provided to the Company) in return for approximately a 40% interest in the Company's equity. Of this US$25 million, US$5 million is to be paid to the Bondholders (excluding the Majority Shareholders and members of the Fishman family) pro rata to their holdings of bonds in the Company;

(c) the Bondholders will have approximately a 60% interest in the Company's equity; and

(d) the Remaining Debt will remain unsecured and will be restructured on the following basis: (1) repayment of the Remaining Debt will commence in 2021 with three equal annual instalments, (2) the Remaining Debt will bear an annual interest of 1% which will start to be paid in December 2017, (3) the Company will have the right to repay the Remaining Debt at any time and at its sole discretion without incurring any fees or penalty, (4) there will be no limitation or restriction on the Company raising any additional secured debt and (5) events of default will only be in accordance with Israeli securities law.

The Bondholders of Series C-E, who represent the majority of Bondholders by value, have voted in favour of these principles. The Board is considering the above terms and negotiations are ongoing.

OPERATIONAL UPDATE

Sales Momentum at **Triumph Park,** St. Petersburg continues to remain strong. On Phase III, an additional 157 sales have taken place since 1 January 2016. In total 1,163 apartments out of 1,346 have been pre-sold, totalling circa 90% of the scheme and representing sales of approximately US$80 million. On phase IV there have been an additional 143 sales since 1 January 2016. In total 572 apartments here out of a total of 1,244 have been pre-sold, totalling circa 46% of the scheme and representing sales of approximately US$36.5 million;

The Western Residence residential development scheme at Perkhushkovo, Moscow has maintained sales momentum with a further three houses sold since the beginning of the year. This now takes the number sold to 55 of the total 77 houses in the scheme.

Our Vernissage Mall and Triumph Mall assets remain over 96% let, with footfall high at both.

Occupancy at the MirLand Business Centre remains high at circa 75% of the total lettable area, which is in line with the market average.

On account of the challenging economic environment, the Company has continued to provide certain discounts and limitation agreements on the exchange rate to its retail and office tenants. This together with record high quarterly average rate of the Russian Rouble against the US Dollar led to a substantial decrease in the Company’s NOI in the first quarter of 2016.

MARKET UPDATE

According to the World Bank, Russian GDP is expected to contract by 1.9% instead of 0.7 % as previously estimated for 2016.

The price of Urals oil reduced to an average of US$39.6/bbl in March 2016, the average price between January-May 2016 was US$35.84/bbl and the average price for the whole of 2015 was US$52.32/bbl. The Rouble/USD exchange rate was at 67.60 at the end of the first quarter 2016 and averaged 72.27 Rouble/USD between January and May 2016.

The Bank of Russia has kept its interest rate unchanged at 11% since the end of July 2015. The interest rate in Russia has averaged 6.66% from 2003 until 2015, reaching an all-time high of 17% in December 2014.

According to the Central Bank of Russia, the net capital outflow from Russia fell to US$5.9bn for January-February 2016, a fifth of the US$29.2bn outflow for the same period in 2015. In February, the CBR estimated that the outflow of capital from Russia in 2016 could fall to US$30bn-US$40bn if oil prices were in the range of US$25-US$35 per barrel.

Inflation in 1Q 2016 was at 7.3%, and the annual inflation forecast by the Ministry of Economics is 7.6%.

The unemployment rate was recorded at 6% in March 2016, up from 5.8% in 4Q15, the highest rate since January 2013.

Real Estate market

Capitalization rates in 1Q 2016 were the same as in 4Q 2015: offices 10.5%, prime retail 11% and warehouses 12.75%.

Investment volume in 1Q 2016 amounted to US$1.9 bn (Rouble 142 bn), being 4.5 times higher than 1Q 2015. Taking into account the volume of deals in 1Q 2016 and current deals under negotiations, CBRE has upgraded its forecasts for the total volume of deals for 2016 to US$4.5 bn from US$2.8 bn. The share of foreign investments decreased to 4% (US$82mln) in 1Q 2016, from 30% in 2015. Moscow accounted for 67% of investments, 25% were in the regions and 8% in St. Petersburg.

Offices

In 1Q 2016 the total volume of investments in the office segment was US$1.04bn.

Completions for the 1Q 2016 were at the lowest quarterly value for the last 10 years and amounted to 63,000 sqm of new office space, which is 30% less than in 1Q 2015. It is estimated that in 2016 there will be no more than 0.5 million sqm of new starts, which is 40% less than was constructed in 2015 and almost three times less than in 2014.

Rental rates remained stable in 1Q 2016, at Rouble 19,000 – 25,000 / sqm /year for Class A, Rouble 13,000/ sqm / year for Class B, net of operating expenditure and VAT.

1Q 2016 the overall vacancy rate in Moscow was high at 19.3% (28.9% in Class A and 16.3% in Class B). The expected average vacancy rate for good quality offices in 2016 is circa 19%, and this is not likely to decrease significantly within the next two to three years.

Retail

US$95 million was invested in retail, out of total investment volume of US$1.9bn in 1Q 2016.

Despite the challenging economic conditions, 40 new retailers entered the Moscow market in 2015 with only 11 leaving. In 1Q 2016, eight new international brands opened their first store in Moscow and six announced their plans to enter the market during 2016, they were Walt Disney, Newby London, Lillapois, NYX, Hunkemöller and Undiz.

At the end of 1Q 2016 the average vacancy rate in prime Moscow shopping malls was 2.5% (2% in 4Q 2015) . This is forecast to increase to 3% by the end of 2016. Overall, however, the vacancy rate in Moscow for 1Q 2016 was 9.2%, down from 9.4% in 4Q 2015.

Residential

Circa Rouble 250 bn of mortgages were granted during 1Q 2016, which is 34% higher than 1Q 2015. The average lending rate in 1Q 2016 decreased to 12.1% compared to 12.3% in 4Q 2015.

In 1Q 2016, 51 new projects (20% less than 4Q 2015) providing circa 1.06 million sqm of space were delivered to the market, which is 7% less than 4Q 2015. 93% of the delivery (in '000 units) to the market attributed to the mass-market segment. As of 1Q 2016 there are 575 projects for sale in St. Petersburg which is 1.4% higher than 4Q 2015.

In 1Q 2016, mass market prices in Rouble remained at the same level as 4Q 2015 (economy class prices decreased by 0.3%) and demand amounted to 1.09m sqm, which is 6% lower than 4Q 2015, mostly focused on the mass market (1.02 million sqm).

Industrial

Total investment volume was US$202 million in 1Q 2016. New construction in the Moscow area accounted for 47,000 sqm of Class A industrial space, with no new construction in Class B.

The vacancy rate was 10% in Class A, and 8% in Class B, the same as 2015.

Class A rental rates decreased to Rouble 4,000/sqm from Rouble 4,150/sqm in 2015. Class B rental rates decreased to Rouble 3,700/sqm from Rouble 3,800/sqm in 2015.

BOARD CHANGES

Following the period end, at the Company's Annual General Meeting, MirLand announced that Nigel Wright, the Company's Chairman stepped down from the Board for personal reasons.

Following this change and with immediate effect, Saydam Salaheddin was appointed Chairman of the Board of Directors and Elias Eliades was appointed to the Audit Committee. Both Mr Salaheddin and Mr Eliades are existing Independent Non-executive Directors of the Company.

MirLand also announces that Eliezer Fishman stepped down as a Director of the Company with effect from the close of the AGM.

The Board of Directors of the Company would like to take this opportunity to thank Mr Wright and Mr Fishman for their significant contributions to the Company.

Roman Rozental
Chief Executive
18 May 2016

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March		31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3,298	28,311	5,097
Cash in escrow account	11,259	11,159	11,159
Trade receivables	2,772	2,540	2,274
Accounts receivables	8,729	6,302	7,885
VAT receivable	3,411	4,262	3,321
Inventories of buildings for sale	187,874	144,809	171,240
	217,343	197,383	200,976
NON-CURRENT ASSETS:			
Investment properties	261,800	361,300	260,200
Investment properties under construction	18,800	38,300	19,000
Inventories of buildings for sale	69,381	90,656	68,298
VAT receivable	330	316	290
Fixed assets, net	991	1,179	969
Other long term receivables	14,968	18,736	14,709
Prepaid expenses	455	510	455
Deferred taxes	18,416	10,815	12,944
	385,141	521,812	376,865
TOTAL ASSETS	602,484	719,195	577,841

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

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March		31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Long-term loans from banks which classified for short-term	196,594	212,659	196,328
Current maturities of long-term credit from banks	18,253	15,906	19,575
Current maturities of debentures	123,063	60,007	115,672
Credit from banks for financing of inventory of buildings for sale	24,076	9,437	24,845
Long-term Debentures which classified for short-term	140,319	173,787	135,523
Trade payables	7,788	6,715	6,361
Deposits from tenants	1,950	2,248	2,033
Advances from buyers	92,106	72,072	73,783
Other accounts payable	2,404	2,930	2,382
Loan from parent company	750	-	-

	607,303	555,761	576,502
NON-CURRENT LIABILITIES:			
Other non-current liabilities	9,098	11,959	9,077
Deferred taxes	13,359	27,761	11,519
	22,457	39,720	20,596
TOTAL LIABILITIES	629,760	595,481	597,098
EQUITY (DEFICIT IN 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	12,592	12,545	12,586
Capital reserve for transactions with controlling shareholders	12,556	8,556	10,556
Foreign currency translation reserve	(171,701)	(179,137)	(175,193)
Accumulated deficit	(257,456)	(102,430)	(242,865)
TOTAL EQUITY (DEFICIT IN EQUITY) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(43,170)	100,373	(34,077)
Non-controlling interest	15,894	23,341	14,820
Total equity (Deficit in equity)	(27,276)	123,714	(19,257)
TOTAL EQUITY (DEFICIT IN EQUITY) AND LIABILITIES	602,484	719,195	577,841

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

INTERIM CONSOLIDATED INCOME STATEMENTS

	Three months ended 31 March		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	6,483	8,623	32,271
Revenues from sale of residential units	499	29,843	51,206
Revenues from management fees	609	677	2,808
Total revenues	7,591	39,143	86,285
Cost of sales and maintenance of residential units	687	27,938	47,265
Cost of maintenance and management	2,454	3,726	12,914
Gross profit before provision for impairment	4,450	7,479	26,106
Impairment of inventory	3,151	1,086	4,330
Gross profit	1,299	6,393	21,776
General and administrative expenses	2,914	3,009	12,578
Bond settlement expenses	112	-	2,276
Marketing expenses	276	1,747	4,300
Fair value negative adjustments of investment properties and investment properties under construction	18,702	438	56,152
Other expense, net	(24)	21	3,471
Operating income (loss)	(20,681)	1,220	(57,001)
Finance income	304	550	271
Finance expenses	(8,943)	(8,632)	(35,035)
Net foreign exchange differences	11,596	(6,384)	(84,716)
Loss before taxes on income	(17,724)	(13,246)	(176,481)
Tax benefit	(3,062)	(1,269)	(19,004)
Loss	(14,662)	(11,977)	(157,477)
Attributable to:			
Equity holders of the parent	(14,591)	(12,673)	(153,108)
Non-controlling interests	(71)	696	(4,369)
	(14,662)	(11,977)	(157,477)
Basic and diluted loss per share (US Dollars) attributable to equity holders of the parent	(0.14)	(0.1)	(1.48)

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended 31 March		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Loss	(14,662)	(11,977)	(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	4,637	(5,771)	(5,283)
Total other comprehensive loss	4,637	(5,771)	(5,283)
Total comprehensive loss	(10,025)	(17,748)	(162,760)
Attributable to:			
Equity holders of the parent	(11,099)	(17,613)	(154,104)
Non-controlling interest	1,074	(135)	(8,656)
	(10,025)	(17,748)	(162,760)

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

INTERIM 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	-	-	-		-	(14,591)	(14,591)	(71)	(14,662)
Other comprehensive profit (loss)	-	-	-		3,492	-	3,492	1,145	4,637
Total comprehensive income (loss)	-	-	-	-	3,492	(14,591)	(11,099)	1,074	(10,025)
Transaction with controlling shareholders	-	-	-	2,000	-	-	2,000	-	2,000
Share-based payments (Note 19)	-	-	6	-	-	-	6		6
At 31 March 31, 2016	1,036	359,803	12,592	12,556	(171,701)	(257,456)	(43,170)	15,894	(27,276)

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

INTERIM 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 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	-	-	-	-	-	(12,673)	(12,673)	696	(11,977)
Other comprehensive loss	-	-	-	-	(4,940)	-	(4,940)	(831)	(5,771)
Total comprehensive income (loss)	-	-	-	-	(4,940)	(12,673)	(14,957)	(135)	(17,748)
Share-based payments	-	-	15	-	-	-	15	-	15
At 31 March 31, 2015	1,036	359,803	12,545	8,556	(179,137)	(102,430)	(179,137)	23,341	123,714

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

INTERIM 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 CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended 31 March		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Loss	(14,662)	(11,977)	(157,477)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	(3,199)	(1,598)	(20,367)
Depreciation and amortization	46	35	156
Finance expenses, net	(2,957)	14,466	119,480
Share-based payment	6	15	56
Fair value negative adjustment of investment properties and investment properties under construction, net	18,702	438	55,152
Gain from sale of investment property	-	-	1,000
	12,598	13,356	155,477
Working Capital adjustments:			
Impairment of inventory	3,151	1,086	4,330
Impairment of financial assets	-	-	3,200
increase in trade receivables	(560)	(597)	(599)
increase in VAT receivable and others	(320)	(623)	(430)
Decrease (increase) in inventories of buildings for sale	(4,715)	13,450	(20,789)
Increase (decrease) in trade payables	(545)	606	1,603
Increase (decrease) in other accounts payable	11,055	(12,498)	3,997
	8,066	1,424	(8,688)
Interest paid	(3,549)	(5,057)	(21,301)
Interest received	20	98	217
Taxes paid	(258)	(244)	(1,229)
	(3,787)	(5,203)	(22,313)
Net cash flows generated from (used in) operating activities	2,215	(2,400)	(33,001)

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended 31 March		Year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from investing activities:			
Additions to investment properties	(33)	-	(1,778)
Additions to investment properties under construction	(210)	(916)	(2,852)
Proceeds from sale of investment property under construction	-	-	3,170
Net cash flows used in investing activities	(243)	(916)	(1,460)
Cash flows from financing activities:			
Receipt of loans from banks and others, net from origination costs	3,596	8,908	42,028
Repayment of loans from banks and others	(9,841)	(6,884)	(33,966)
Receipt of funds from controlling shareholders	2,000		2,038
Net cash flows generated from (used in) financing activities	(4,245)	2,024	10,100
Exchange differences on balances of cash and cash equivalents	574	116	(29)
Decrease in cash and cash equivalents	(1,699)	(1,176)	(24,390)
Cash and cash equivalents at the beginning of the period	16,256	40,646	40,646
Cash and cash equivalents and restricted cash at the end of the period	14,557	39,470	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 31 March 2016 and for the three-month period then ended ("interim condensed consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of 31 December 2015 ("annual financial statements").

b. 1. Further to that stated in Note 1(b) to the annual financial statements regarding the further decline in the state of the Russian economy, the negative trend continued during 2016. However, through March 31st 2016, the Russian Ruble strengthened relative to the U.S. Dollar by approximately 8%, to a rate of 67.6 Ruble to the Dollar. Following the balance-sheet period, a further appreciation of the Ruble to the Dollar of approximately **3**% was recorded. The Russian economy continues to present a decline in GDP and there are no signs of a foreseeable recovery of the Russian market.

2. As a result of the further decline of the Russian economy, as explained above, at the end of 2015, the Company approached the trustees of the bondholders (series A-F) on February 1st 2016 with the purpose of assessing the implications of the decline of the feasibility of the restructuring program as was previously approved by the bondholders. On April 14th 2016, the Company reported that the bondholders of series C, D and E which represent the majority in value of the bondholders, have resolved to authorize the trustees of such series to enter negotiations with the Company in order to amend the restructuring program based on the following principles:

1. Approximately USD$180m of the debt owed to the Bondholders will be converted into equity in the Company, leaving approximately US$45m of outstanding bonds (the “Remaining Debt“);

2. The Controlling Shareholders will be asked to commit to providing funding of US$25m in aggregate (including US$6 million that has previously been provided to the Company) in return for approximately a 40% interest in the Company’s equity. Of this US$25 million, US$5 million is to be paid to the Bondholders (excluding the Majority Shareholders and members of the Fishman family) pro rata to their holdings of bonds in the Company;

3.The Bondholders will have approximately a 60% interest in the Company’s equity; and

4. The Remaining Debt will remain unsecured and will be restructured on the following basis: (1) repayment of the Remaining Debt will commence in 2021 with three equal annual instalments, (2) the Remaining Debt will bear an annual interest of 1% which will start to be paid in December 2017, (3) the Company will have the right to repay the Remaining Debt at any time and at its sole discretion without incurring any fees or penalty, (4) there will be no limitation or restriction on the Company raising any additional secured debt and (5) events of default will only be in accordance with Israeli securities law.

5. Bonds held by the Controlling Shareholders and the Fishman family will not be subordinated to the existing bonds held by other bondholders (other than that specified in subsection 2 above). The bonds of the Company, held by subsidiaries of the Company will be written off;

In parallel, on April 14th 2016 the Company announced that the bondholders of series A, B and F resolved to not authorize the trustee to enter negotiations based on the above principles.

Additionally, in the period prior to the publication of the financial statements, the trustees of the bondholders of series E and F resolved to defer the dates of repayment of the principal and interest to June 30th 2016 and to defer the final maturity date and interest of series A and B to June 5th 2016.

Similarly, on May 1st 2016, the Company announced that it had received a total of $ 6.1 million from the controlling shareholder companies. the receipt of the funds by the Company is an advance provided by the controlling shareholder companies as part of the original re-settlement plan as was approved but not completed.

3. Certain financing agreements with lending banks in Russia contain various financial covenants which as of March 31st 2016, the Company is largely not in compliance. These include, inter alia, a certain LTV ratio, minimum occupancy rates and debt coverage and interest ratios. As of the day of this report the Company is in default of $ 1.25 million out of a total of $ 4 million that was due to a financing bank which financed three yielding projects of the company in Russia. The Company is in negotiations with the financing bank in order to formulate a new framework for the payment of loans provided by it (approximately $ 214.8 million).

   As a result, the Company classified in its financial statements of March 31st 2016, loans from lending banks, in which the Company is in breach of its covenants, an amount of $ 196.6 million as current liabilities.

4. The Company has a working capital deficiency of approximately $ 390 million as of March 31, 2016, a loss attributable to the shareholders of approximately $ 14.6 million for the quarter then ended and a total loss of approximately $ 11.1 million for the quarter then ended. Similarly, for the quarter ending on 31 March 2016 there was a capital reduction attributable to the shareholders of the Company of a total of $ 9.1 million, such that true to 31 March 2016 negative capital attributable to the shareholders of approximately $ 43.2 million. Similarly, the Company has capital balances to the date of signing of this statement of $ 14.6 million. In the view of Company management, the cash balances available to the Company provide adequate coverage for the Company's obligations for a 12 month period from the date of signing the financial statements, presuming neither payments to the bondholders are executed nor principal payments to some of the financing banks in Russia during the said period.

NOTE 1:- GENERAL (Cont.)

The Company continues to closely monitor the economic developments in Russia which are external to the Group and beyond its control and is continuing taking steps, to the extent possible, to minimize its exposure to the economic situation. These measures include, among others, the establishment of a maximum exchange rate to tenants of the Company's properties and conducting negotiations with financing bodies for the purpose of postponing the dates of payment of the loans until the stabilization of the economic situation.

As a result of the continued negotiations with the bondholders and the fact that a new settlement agreement has not been reached with the bondholders, the Company will presumably continue to defer payments to the banks financing its activities in Russia.

In view of all of the aforementioned, there is a material uncertainty that may cast significant doubt as to the Group's ability to continue to operate as a going concern. The financial statements do not include any adjustments to the carrying amounts of assets and liabilities and their classification which might be required if the Company is unable to continue to operate as a going concern.

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 ("Interim Financial Reporting").

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 March 31, 2016:

	Carrying amount	Fair Value
	U.S. dollars in thousands	
Financial liabilities:		
Debentures (series A)	4,481	1,007
Debentures (series B)	18,688	6,891
Debentures (series C)	38,239	7,604
Debentures (series D)	46,513	9,570
Debentures (series E)	113,477	23,253
Debentures (series F)	41,984	9,125
	263,382	57,450

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		
Three months ended 31 March 2016:	U.S. dollars in thousands		
Segment revenues	7,092	499	7,591
Segment results	(14,695)	(4,397)	(19,092)
Unallocated income			(1,589)
Finance costs, net			2,957
Profit before taxes on income			(17,724)

NOTE 4:- SEGMENTS (Cont.)

	Commercial	Residential	Total
		Unaudited	
Three months ended 31 March 2015:		U.S. dollars in thousands	
Segment revenues	9,300	29,843	39,143
Segment results	4,577	(1,214)	3,633
Unallocated income			(2,143)
Finance costs, net			(14,466)
Profit before taxes on income			(13,246)

	Commercial	Residential	Total
		U.S. dollars in thousands	
Year ended 31 December 2015:			
Segment revenues	35,079	51,206	86,285
Segment results	(38,298)	(8,256)	(46,554)
Unallocated expenses			(10,447)
Finance expenses, net			(119,480)
Loss before taxes on income			(176,481)

NOTE 5: - MATIRIAL EVENTS DURING THE PERIOD

On February 15, 2016 the Company Board approved the receipt of a further advance of $ 2 million from the controlling shareholder companies. The advance is part of the future payments that the Company is supposed to receive in accordance with the proposed settlement agreement between the Company and its holders of debentures. No interest amount was set for the loan and no repayment date has yet been set. The loan is valued at fair market rate. In light of the fact that the accrued interest of the loan is valued as a negligible amount and the benefit from the controlling shareholders is valued at $ 2 and was recorded in the equity as Capital reserve for transactions with controlling shareholders.

NOTE 6: - SUBSEQUENT EVENTS

1. On the 10th of April 2016, at the general meeting of the holders of debentures of the Company (Series A-F), a report was given by the Company's representatives regarding the Company's financial state, including an update on the status of negotiations with the financing bank in Russia, as well as the Company's assessment, including a timeline of events in the case that a new framework between the financing bank in Russia and the Company for the payment of loans provided by it has not been achieved, as well as a report by representatives of the Company and the holders of debentures' representatives and the trustees, regarding the actions from the date of the holders of debentures' meetings held on 18.10.2015 until the date of the meetings.
2. On the 14th of April, 2016, the Company reported that Clal Insurance Company Ltd. ("Clal") has been a substantial shareholder of the Company as of 31.1.2013, the date that the Company became aware of Clal's status as a substantial shareholder was the 14th of April 2016.

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