MirLand Development Corporation Plc

Annual Report and Accounts 2012

Contents

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

Who We Are

MirLand Development Corporation is one of the leading international residential and commercial property developers in Russia.

MirLand was established in 2004 as part of the Fishman Group, a global investment group with over US$2bn of combined annual income and a strong international track record of over 30 years of investing in, developing and managing real estate assets via public companies.

In December 2006, the Company successfully raised net US$293m through its IPO on the AIM market of the London Stock Exchange.

To date, the Company has successfully raised additional public debt of approximately US$200m through several bond issuances in Israel, providing it with greater financial flexibility and enhancing its ability to deliver its existing portfolio and pipeline of projects.

The Company enjoys modest net leverage of 41.8% of its total assets.

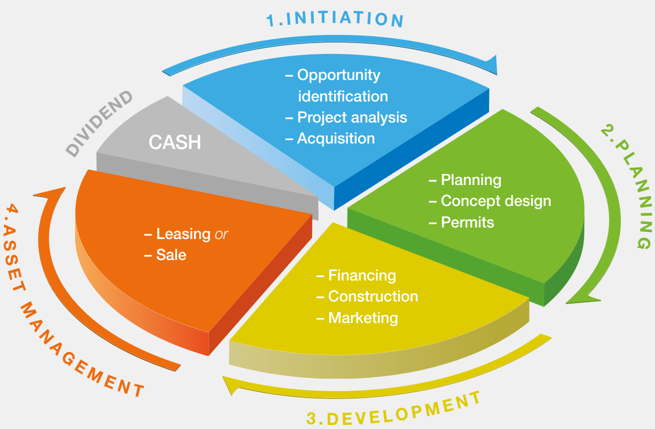
The Company currently owns 15 residential and commercial projects across Russia, with a total rentable/saleable area of approximately 1,380,076 sqm upon completion. Of these, six commercial projects are already yielding, and the two residential projects are generating income.

Our Business

MirLand has a comprehensive and integrated approach towards real estate development, as the Company is involved in the full life cycle of a project from its initiation to its successful completion, maximising the return on every asset.

OUR BUSINESS MODEL

EACH PROJECT COMPRISES KEY COMMON STAGES:



1 Initiation
We carefully choose plots of land with proper zoning or with a high probability of obtaining proper zoning for the future project, in order to reduce risk and shorten the time to market. We put great emphasis on analysing and understanding the potential of each project and aim to secure our land rights in an optimal way to ensure future success.

2 Planning
We select experienced international architects to undertake project planning and concept design in order to achieve high standards and efficient planning. Adding local architects to the team allows us to tailor our plans to the specific target market. Our team and consultants work closely with local authorities in order to obtain building permits on time and in accordance with local practice and our standards.

3 Development
- We develop our projects with experienced contractors that we choose carefully, putting great emphasis on their quality. The majority of contracts are on a turn-key basis, allowing us to hedge our expense level.
- We choose leading marketing agencies in order to secure the best mix of tenants in our commercial projects and optimal cash flow stream in our residential projects.
- We also work closely with international and Russian banks in order to secure and optimise the financing structure of each project.

4 Asset Management
We work to optimise our income upon completion of each property by maintaining appropriate strategies for each sector in our portfolio.

- Commercial projects are held to generate stable cash flow and are managed by professional companies. However, should the right opportunity arise, a commercial project might be sold, if we feel that it is the best way to generate maximum value from the property.
- Residential projects (apartments and houses) are sold to end buyers.

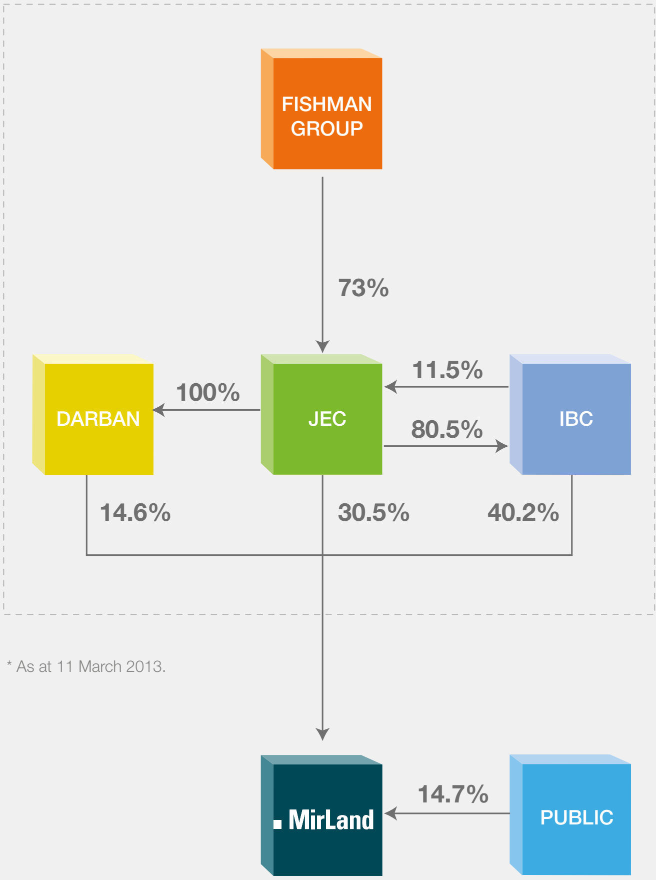
We believe that our full and integrated business model, together with the diversification of our portfolio, enables us to manage and control our risks in order to maximise returns to our shareholders.

MirLand is involved in the acquisition, development, construction, rental and sale of commercial and residential real estate in Russia.

OUR STRATEGY

- Maintain diversification of the portfolio between various sectors, locations and development stage
- Hold commercial properties for lease, unless compelling realisation opportunities arise
- Develop residential properties for sale
- Use diverse financing sources to accelerate business activity and growth
- Acquire new projects and developments according to availability of financial sources and market conditions

OUR CORPORATE STRUCTURE*



* As at 11 March 2013.

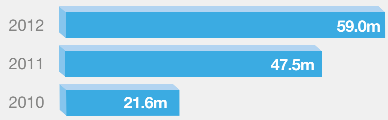
How We Performed in 2012

FINANCIAL HIGHLIGHTS

- **Total revenues up 24% to US$59.0m** (31 December 2011: US$47.5m) due to improved occupancy rates in yielding properties, rent indexation, the receipt of proceeds from a compromise agreement with Raiffeisen Bank, and income from house sales at the Western Residence project in Perkhushkovo.
- **Net operating income ("NOI") from investment properties up 44% to US$32.6m** (31 December 2011: US$22.7m), following improved occupancy across the portfolio (above 95% by the year end), increased income from rent indexation and reduced operating expenses.
- **EBITDA up 33% to US$10.6m** (31 December 2011: US$8.0m).
- **General and administrative expenses reduced by 10% to US$14.9m** (31 December 2011: US$16.6m).
- **Positive cash flow from operating activities of US$15.6m** (31 December 2011: negative cash flow of US$16.1m), supported by receipts from strong pre-sales of units at Triumph Park development.
- **Full year loss of US$42.3m** (31 December 2011: net income of US$28.5m) mainly due to onetime write-off of the Skyscraper project and currency fluctuations; appreciation of the Rouble against the US Dollar of approximately 6% resulted in nominal depreciation of commercial assets at the same rate. The nominal depreciation was compensated for by an increase in foreign currency translation reserve.
- **Total assets up 5% to US$773.2m at 31 December 2012** (31 December 2011: US$739.6m).

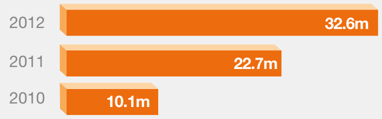
REVENUES FOR THE YEAR US$

US$**59.0m**



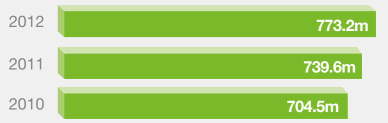
NET OPERATIONAL INCOME FOR THE YEAR US$

US$**32.6m**



TOTAL ASSETS US$

US$**773.2m**

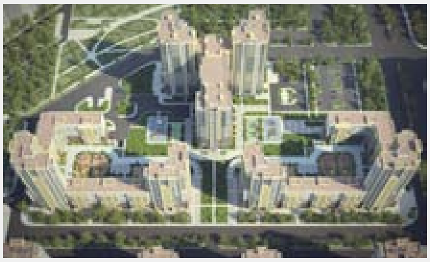


ADJUSTED NET ASSET VALUE US$

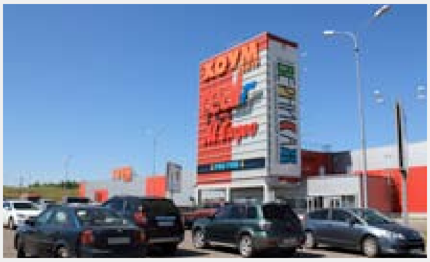
US$**554.8m**

- **Shareholders' equity US$317.3m at 31 December 2012, equating to 41% of total assets** (31 December 2011: US$347.1m).
- **Net leverage decreased to 41.8% of total assets** (31 December 2011: 43.9%). In January 2012, the Company repaid the remaining balance of Shareholders' loans amounting to approximately US$6.4m (including accumulated interest). Total net financial liabilities repayments amounted to approximately US$12m during the period.
- **Adjusted NAV US$544.8m** (31 December 2011: US$536.8m) and NAV per share of US$5.3 (31 December 2011: US$5.2). The growth in NAV (based on Cushman & Wakefield valuation) is attributable mainly to fair value increase of the St Petersburg project of approximately US$35.1m due to the significant progress achieved during the year in terms of sales, financing and construction, and to a net increase in the fair value of its commercial properties of approximately US$3.7m, due to improved occupancy, rent rates and market conditions. These increases were partially offset by the write-off of the Skyscraper project and growth in net liabilities.
- **Real Estate assets of US$716.4m** (31 December 2011: US$671.1m) representing 93% of total assets (31 December 2011: 91%), following further progress in the construction and delivery of Triumph Park.
- **Further diversification of funding sources:** US$47.5m construction credit line obtained for Phase II of Triumph Park project.
- The Company entered into a new non-revolving US$50m refinancing loan agreement with SberBank for two of its Moscow office investment assets, Hydro and MAG, comprising part of the MirLand Business Center.

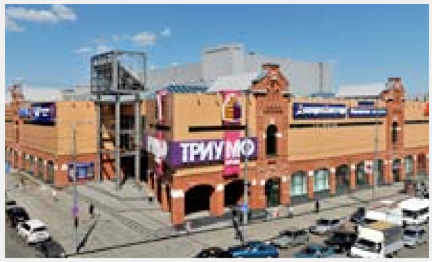
TRIUMPH PARK



VERNISSAGE MALL



TRIUMPH MALL



OPERATIONAL HIGHLIGHTS

- **Triumph Park in St Petersburg: further excellent progress at the Company's flagship project, supported by on-going high demand:**
  - Phase I: Launched in November 2011, 490 out of 510 apartments were pre-sold by the end of 2012, representing a projected income of approximately US$67m to be recognised in H1 2013 in accordance with IFRS standards;
  - Phase II: Launched in Q3 2012, 310 out of 630 units pre-sold, representing approximately 50% of the apartments available;
  - Phase III: In planning with sales campaign expected to launch in the last quarter of 2013;
  - Credit line agreement signed with SberBank to provide Ruble equivalent of US$47.5m of credit to cover the financing required for the construction of Phase II;
  - Triumph Park is the first green residential project in Russia, certified by BREEAM, the world's foremost environmental assessment method and rating system for buildings.

- **MirLand Business Center in Moscow:**
  - 98% average occupancy achieved across Hydro, MAG, Century Buildings and Tamiz office buildings;
  - Renovation of the fire-damaged MAG building #26 completed and the asset now fully let to a single tenant, increasing the leasable space across the portfolio by 7,300 sqm and generating more than US$3m of annual income;
  - Acquisition of an additional 10% of MirLand's jointly controlled entity Inomotor LLC, which owns an office building with a leasable area of approximately 11,000 sqm in the Century Buildings project, for a total consideration of US$1.5m in cash, taking the Company's interest to 61%.

- **100% occupancy preserved at Company's shopping centres** with both Triumph Mall in Saratov and Vernissage Mall in Yaroslavl continuing to enjoy high footfall.

- **Construction of Phase II of Vernissage Mall in Yaroslavl is in planning** with MirLand currently in negotiations with an anchor tenant.

Chairman's Statement

Nigel Wright
Chairman

The strong financial and operational progress during 2012 supports our confidence in our strategy, and we will continue to focus on progressing existing developments and achieving pre-sales of schemes, while actively asset managing our investment portfolio. The Russian real estate market has seen good levels of growth in recent years to become one of the leading markets in Europe, and we are confident that our strategy will continue to deliver value for shareholders as sentiment and activity levels improve.

MirLand has continued to deliver solid progress during the 2012 financial year with further operational and financial milestones achieved across the business, in accordance with our strategy

- To maximise returns from our existing assets;
- Successfully complete projects currently under construction; and
- Activate pipeline projects and selectively seek new projects subject to availability of appropriate funding and market demand.

The Russian economy continued to perform well during 2012 and this positively affected the Company's real estate portfolio through further sales and income secured through lettings.

As the liquidity in the lending market in Russia improved, MirLand was also able to secure new bank financing and refinancing for existing assets. What is clear, however, is that the measures the Company took during the financial crisis in 2008 and 2009, and the support received at that time from our principal shareholder, the Fishman Group, have left us well positioned to capitalise on opportunities to take advantage of growth and improving sentiment in the Russian macroeconomy and real estate arena.

2012 Operational Highlights

MirLand's clear strategy and high-quality portfolio has ensured the Company is well positioned to grow in this improving environment and this has been reflected in its performance for 2012.

- The Company has a diversified portfolio of assets comprising both residential and commercial projects in different stages of development, and the Company's existing land bank provides it with a platform for growth, subject to market conditions.
- The sales campaign launched in November 2011 for Phase I of the Triumph Park residential project in St Petersburg, has exceeded management's expectations with over 95% of total sold to date (490 at the year end). The sales and construction of Phase II, comprising 630 apartments, launched in Q3 2012, has also proved very successful, with approximately 50% of the apartments pre-sold to date.
- Our investment portfolio now comprises six high-quality, completed, income-producing investment properties: the Hydromashservice, MAG, Century and Tamiz office properties in Moscow and, in the retail sector, Vernissage Mall in Yaroslavl and the Triumph Mall in Saratov. Over 90% by value of the leasing agreements for the yielding assets are for long tenures (over three years) and denominated in US Dollars. Occupancy rates improved across the office segment of our income-producing investment properties and we reached full occupancy at both of the Company's retail projects.
- Phase I of the Western Residence project in Perkhushkovo was completed in October 2011 and the delivery of the houses to their new owners is under way. 25 out of a total of 77 houses have now been sold.

Financing

The past 12 months have seen an improvement in the domestic bank finance market in Russia and we have also witnessed some improvement in the public debt markets in the last few months.

The Company decreased its net leverage to 41.8% of total assets (31 December 2011: 43.9%). Total net borrowings amounted to US$323.1m (31 December 2011: US$324.7m). During the period approximately US$12m of net financial liabilities were repaid to the banks and bond holders.

The Company intends to continue to diversify its funding sources whilst obtaining bank financing in order to fund its planned development activities, as well as ensuring it is appropriately capitalised to enable it to make new acquisitions, where it sees opportunities to deliver value to shareholders.

MirLand is managing its development pipeline according to market conditions and the availability of cash resources. We have rephased our residential projects in Moscow and St Petersburg to increase our flexibility and to match it to the adjusted market demand. This will enable us to fund construction through a mix of pre-sales, advance payments and internally generated cash. Where we have ongoing commercial projects under construction, the Company's strategy is to enter into pre-lease agreements with high-quality tenants to ensure cash flow upon completion, as demonstrated by the Triumph Mall Project in Saratov, which was successfully delivered under difficult market conditions.

Results

Total assets as at 31 December 2012 increased by 4.5% to US$773.2m as compared to US$739.6m as of 31 December 2011. Equity as of 31 December 2012 was US$317.3m compared to US$347.1m the preceding year. The main reason for the decrease was the loss recorded for the year, principally caused by the one-time write-off of the Skyscraper project, which was partially offset by an increase in the foreign currency translation reserve due to weakening of the US Dollar against the Ruble.

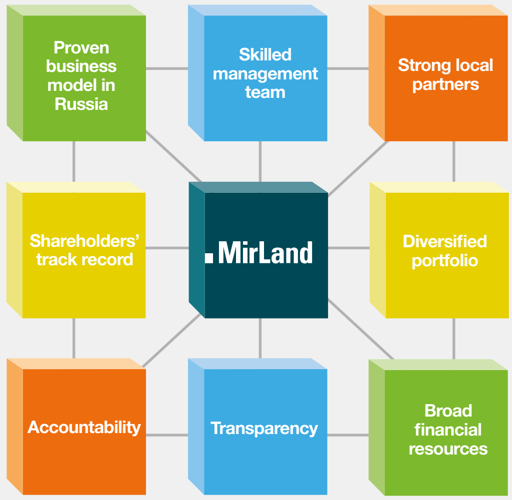
Over the period, net operating income ("NOI") from investment properties recorded an increase of 44% to US$32.6m (31 December 2011: US$22.7m) due to improved occupancy, reduced operating expenses and increased income from rent indexation.

The loss for the year was US$42.3m (31 December 2011: profit of US$28.5m), following the write-off of the Skyscraper project. Increased financing costs due to a lower capitalised interest, compensated for by an increase in the value of its yielding office and retail investment properties, as a result of improved market conditions and improved operational results, was also a factor. The loss was partially offset by improvement in the Company's operational results and net foreign exchange differences gain, following the weakening of the US Dollar against the Ruble.

MirLand's assets are externally valued semi-annually on 30 June and 31 December. The valuation is conducted by Cushman & Wakefield. As a result of market improvement, improved operational results and further investment by the Company during this period, the value of MirLand's portfolio (Company's share) increased by approximately 2% to US$868.0m at 31 December 2012 (31 December 2011: US$853.6m). Adjusted NAV, based on Cushman & Wakefield's valuation, was US$544.8m (31 December 2011: US$536.8m), an increase of 2%. The growth can be largely attributed to an increase in the valuation of the St Petersburg project due to the significant progress made during the year in terms of sales, construction and financing, as well as a net increase in the value of the Company's commercial portfolio helped by improved market conditions. The increase in value was offset by the write-off of our Skyscraper project.

We strongly believe in the quality of the assets in which the Company has invested and that this portfolio will deliver an attractive yield to our investors over the long term.

OUR COMPETITIVE STRENGTHS



Portfolio Development

In an improving business environment, MirLand's focus for 2012 was on delivery of projects already under construction, careful management of its income-producing investment properties in order to increase the occupancy rates, and the development of quality pipeline projects with strong demand, in the shortest time to market.

Residential

MirLand has continued to make significant progress at its flagship residential led development, Triumph Park in St Petersburg. In September 2012, MirLand launched its sales campaign for Phase II of the scheme and has already pre-sold 310 out of 630 units, representing approximately 50% of the phase; the total net sellable area of Phase II of the project is approximately 32,600 sqm and there will be 1,500 sqm of retail space and two levels of underground parking providing 106 spaces. Completion of Phase II is planned for Q4 2014. Following the launch of the sales campaign, the Company entered into a new loan agreement with SberBank, which will provide a line of credit of approximately US$47.5m to finance the construction of Phase II.

In addition, Phase I has continued to receive strong interest with 490 apartments sold out of 510 by the end of the year, representing a projected income of approximately US$67.4m to be recognised in H1 2013, in accordance with IFRS standards.

Chairman's Statement Continued

The project offers high-quality and competitively priced housing in St Petersburg's strengthening residential market. Situated on a well located 40 hectare site, the project represents one of the few large-scale developments in the city in close proximity to major transport links. Furthermore, the development is the first eco-residential complex certified by BREEAM, the world's leading assessment organisation of green and sustainable construction, in St Petersburg. It will provide attractive features including ecologically friendly construction materials, energy-efficient design, reduced CO_2 emissions, water purification filters and high-speed eco lifts certified according to ISO 14001. The flexibility of the apartment mix both as to range of sizes and fit-out options is designed to appeal to a wide range of purchasers.

In Q4 2011, the construction of Phase I of the Western Residence project in Perkhushkovo (77 houses out of 163) was completed and the houses are now being handed over to the buyers. To date, a total of 25 houses have been sold.

Retail

The Company owns two retail projects located in large regional cities, which continue to prosper. Both are fully occupied and enjoy high footfall throughout the year.

As we aim to grow the retail segment of the portfolio, we are planning the construction of Phase II of the Vernissage Mall in Yaroslavl, and are currently in negotiations with an anchor tenant for the development. Additionally, Triumph House, a retail project in Kazan, is in advanced negotiations with a single tenant for a tailor-made theme store development which will be let on a long-term lease agreement.

Offices

The office segment of the portfolio comprises four high-quality, completed, income-producing investment properties – Hydromashservice, MAG, Century Bld and Tamiz – all located at the MirLand Business Center, providing quality office space in Moscow. Most of the leasing agreements in the yielding assets are for long tenures and denominated in US Dollars and have annual indexation. During the year, occupancy rates increased in all of our income-producing investment properties and we achieved an overall average occupancy rate of approximately 98% for our office properties.

As described in Note 22i of the Company's financial statements for the year ended 31 December 2012, in October 2008, Avtoprioritet, MirLand's jointly controlled entity, entered into a lease agreement with Raiffeisen Bank ("the Lessee") according to which the Lessee undertook to lease approximately 5,600 sqm for a period of 10 years. In December 2008, the Lessee announced that it had no intention of fulfilling the lease agreement. Following a sequence of legal claims filed by both parties in connection with the validity of the lease agreement, the Russian Supreme Court made a final ruling that the lease agreement is binding on both parties and the leased space was indeed transferred to the Lessee in accordance with the agreement. Following the Court ruling, Avtoprioritet has filed a number of monetary claims for different periods of the lease agreement and collected a total amount of US$7.6m to date. In April 2012, Avtoprioritet reached a final judicially approved settlement with the Lessee under which it collected an outstanding rent debt of US$6.4m and received a final compensation of US$8.6m for the remaining term of the lease (all amounts are excluding VAT). Currently, all the vacant space in this high-quality office property has been leased to several tenants with long-term agreements.

We have completed renovation works of the fire-damaged MAG building #26, and the renovated space has been leased to a single tenant under a long term agreement.

On 24 January 2013, Real Service LLC, which owns the Skyscraper development in Moscow, received a letter from the Department of Land Resources of the Moscow government notifying it of the termination of its lease agreement in connection with an area of 0.9 ha designated for the Skyscraper project, which will take effect within one month from the date of the letter. The Company fulfilled its right to file an objection to the lease termination. Cancellation of the lease will be subject to a hearing and the final verdict of such legal proceedings, which are currently being considered. Although the Company intends to take the necessary steps, as far as practicable, to defend its position with the authorities and, if relevant, recover compensation, the Board has determined it is appropriate to write-off the full amount of the book value.

Dividend Policy

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

Despite the improvements in the Russian economy, and the Company's results, the Board believes that it is appropriate to retain maximum flexibility to invest in the opportunities available to it and therefore the Board has determined that it is inappropriate to declare a dividend for the financial year ended 31 December 2012.

Our People

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

During the year we were pleased that Yevgeny Steklov joined the Board as Chief Financial Officer, following five years with the Company. Saydam Salaheddin also joined the Board as a Non-executive Director with a long and prominent career in international investment banking. He most recently worked for Renaissance Capital as a Managing Director and Global Head of Real Estate based in Moscow.

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

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

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

Outlook

2012 saw considerable progress across a number of our projects, most notably at Triumph Park, our flagship St Petersburg residential development, where over 95% of Phase I is now pre-sold and we have made a strong start to the sales process of Phase II, with approximately 50% already pre-sold. This, combined with asset management activity successfully growing income across the investment portfolio, resulted in strong revenue growth for the business of 24% year-on-year, in spite of the ongoing challenges of the economic environment. Our profitability was affected by the write-down of the value of our Skyscraper development project in Moscow, following notification that the Department of Land Resources intends to terminate the lease agreement for the site. We have filed an objection to the termination and legal proceedings are currently being considered, but this full write-down is a prudent response while the case is being decided.

We do not expect any material change in the Company's position as a result of the bail-out programme agreed between Cyprus and the Euro Group. The Company did not maintain substantial accounts in Cyprus and so the bail-out programme has not materially impacted on its financial position or its operations. Nevertheless, the Company will closely monitor potential risks associated with the bail-out agreement and potential changes in the tax environment in the future.

The strong financial and operational progress during 2012 supports our confidence in our strategy, and we will continue to focus on progressing existing developments and achieving pre-sales of schemes, while actively asset managing our investment portfolio. The Russian real estate market has seen good levels of growth in recent years to become one of the leading markets in Europe, and we are confident that our strategy will continue to deliver value for shareholders as sentiment and activity levels improve.

Nigel Wright Chairman
11 March 2013

Our Investment Strategy and Key Performance Indicators

MirLand's vision is to be a leading developer of real estate in Russia and, by following its strategy, the Company aims to enhance shareholder value and increase returns. The following metrics represent the key performance indicators used by the Company to evaluate its performance.

FOCUS ON THE SUCCESSFUL DEVELOPMENT OF PROJECTS

Strategic Principles

- Commitment to the successful and timely completion of portfolio projects at all development stages.

Achievements in 2012

- Triumph Park in St Petersburg, the flagship residential project Phase I and Phase II sales campaign successfully launched while under construction. Resulting in over 95% of Phase I sold (out of 510 apartments) and approximately 50% of Phase II, comprising 630 apartments, pre-sold to date.
- The delivery of the houses of Phase I of the Western Residence project in Perkhushkovo is under way, with 25 out of a total of 77 houses sold to date.
- Renovation works of the fire-damaged MAG building #26 completed and the renovated space has been leased to a single tenant under a long-term agreement.

FINANCING

Strategic Principles

- Use diverse financing sources to accelerate business activity and growth.

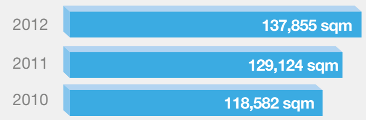
Achievements in 2012

- Refinancing two loan facilities totalling approximately US$50m (net proceeds of US$26m) with a leading Russian bank.
- Obtaining a construction credit line for Phase II of Triumph Park project in St Petersburg of approximately US$47m.
- The Company decreased its leverage to 41.8% of total assets (31 December 2011: 43.9%).
- During the period approximately US$12m of net financial liabilities were repaid to the banks and bond holders.

Key performance indicators

YIELDING AREAS SQM

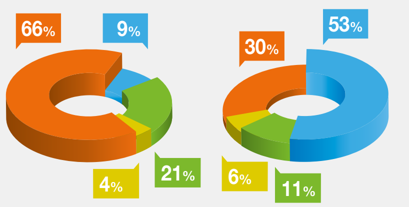
137,855 sqm



NET LEVERAGE OF TOTAL ASSETS

41.8%

DEVELOPMENT STAGE



BY AREA
- Yielding 9%
- Planning 21%
- Available for sale/ Construction 4%
- Land bank 66%

Total 1,380,076 sqm

BY VALUE
- Yielding 53%
- Planning 11%
- Available for sale/ Construction 6%
- Land bank 30%

Total US$962,600,000

MAINTAIN A DIVERSIFIED PORTFOLIO

Strategic Principles

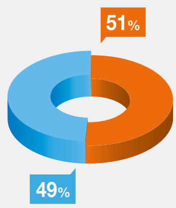
- Maximise opportunities while minimising risks through diversifying geographic location and segmentation.
- Maintain a mixed portfolio which holds both yielding and development projects from different sectors, with varying durations and phasing.
- Residential projects are built for sale; commercial projects are developed for investment and are retained for income generation.

Achievements in 2012

- Focus on generating income from residential projects along with maintaining high occupancy rates in yielding projects resulted in pre-sale of 800 apartments in Triumph Park project for total consideration of more than US$100m.
- Future commencement of construction of retail projects in the planning phase – Phase II of Vernissage Mall in Yaroslavl and Triumph House in Kazan.
- The Company's portfolio includes two residential projects, and 13 commercial projects including offices, retail and logistics.
- The Company's portfolio assets are spread across Russia: in Moscow, St Petersburg and a variety of large regional cities.

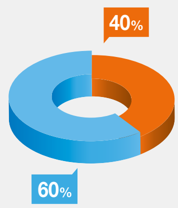
Key performance indicators

SEGMENTS SPREAD



BY AREA
- Residential 51%
- Commercial 49%

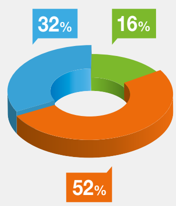
Total 1,380,076 sqm



BY VALUE
- Residential 40%
- Commercial 60%

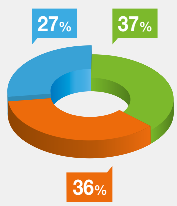
Total US$962,600,000

GEOGRAPHIC SPREAD



BY AREA
- Moscow 16%
- St Petersburg 52%
- Regions 32%

Total 1,380,076 sqm



BY VALUE
- Moscow 37%
- St Petersburg 36%
- Regions 27%

Total US$962,600,000

Our Investment Strategy and Key Performance Indicators Continued

GROW AND IMPROVE CORE BASE OF YIELDING PROPERTIES

Strategic Principles

- Improve operational results and increase occupancy of existing yielding assets.

Achievements in 2012

- 100% occupancy rate at Triumph Mall in Saratov
- 100% occupancy rate at Vernissage Mall in Yaroslavl
- Average occupancy rate of approximately 98% for all office projects in MirLand Business Center: Hydro, MAG, Century Buildings and Tamiz.

GENERATE VALUE THROUGH ACTIVE MANAGEMENT

Strategic Principles

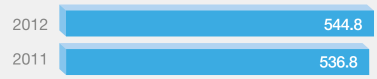
- Actively market assets before completion.
- Identify market opportunities to increase yields.
- Sell properties at the optimal time.
- Take advantage of diverse financing opportunities.

Achievements in 2012

- The value of MirLand's portfolio (Company's share) increased by approximately 2% to US$868.0m at 31 December 2012 (31 December 2011: US$853.6m).
- Adjusted NAV, based on Cushman & Wakefield's valuation, was US$544.8m (31 December 2011: US$536.8m), an increase of 2%.
- Significant progress made during the year in terms of sales, construction and financing, as well as a net increase in the value of the Company's commercial portfolio helped by improved market conditions. The increase in value was offset by the write-off of the Skyscraper project.

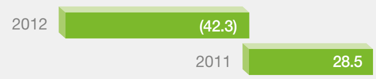
Key performance indicators

ADJUSTED NET ASSET VALUE US$M

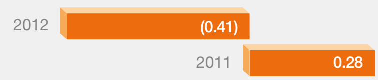


ADJUSTED NET ASSET VALUE PER SHARE US$

NET INCOME/LOSS US$M



NET INCOME/LOSS PER SHARE US$



ACQUIRE ATTRACTIVE SITES IN TARGETED LOCATIONS FOR FUTURE DEVELOPMENTS

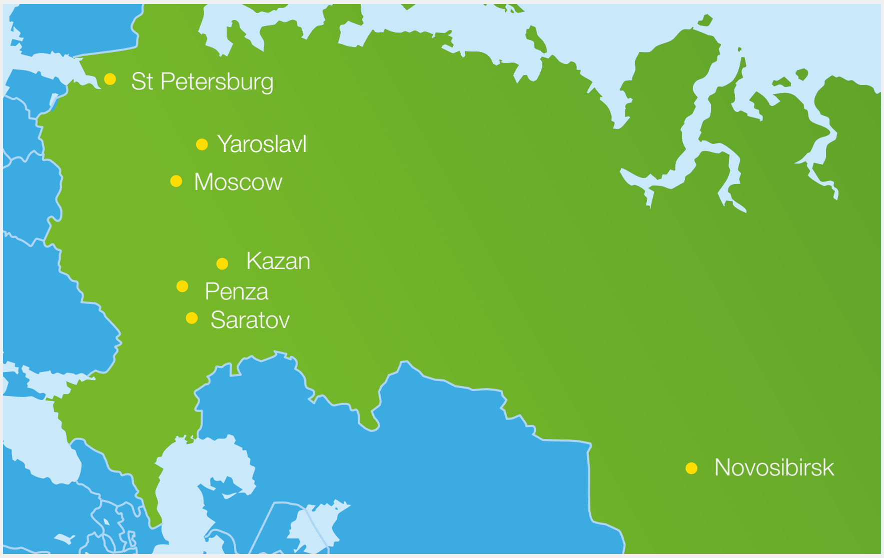
Strategic Principles

- Focus on high-quality developments which offer higher yields and capital growth.
- Invest in Moscow, St Petersburg and attractive regional cities which have more than 500,000 inhabitants.
- Invest in a variety of high-yielding sectors.
- Invest in yielding or development projects that can be delivered to market in a short time.

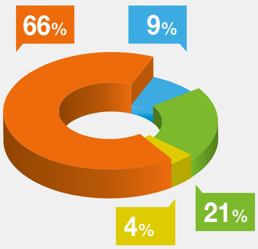
PRIORITIES FOR 2013

- Enhance construction and sales of residential units in Triumph Park and Western Residence projects.
- The increase of liquidity through strict cash flow management.
- Maintaining high occupancy levels in our yielding portfolio.
- Reduction of OPEX, G&A and other expenses.
- To continue our efforts to increase and diversify our financial resources including obtaining financing at the project level.
- Maintenance of our land bank portfolio for future development, which would be subject to availability of funds and market demand.

Portfolio at a Glance



DEVELOPMENT STAGE



BY AREA

- Yielding 9%
- Planning 21%
- Available for sale/ Construction 4%
- Land bank 66%

Total 1,380,076 sqm

Moscow and Moscow Region

Hydromashservice
Yielding | 16,696 sqm

MAG
Yielding | 18,534 sqm

Century Buildings
Yielding | 20,903 sqm

Tamiz
Yielding | 11,737 sqm

Skyscraper
In planning | 92,000 sqm

Western Residence
Completed: 20,399 sqm*
In planning | 36,477 sqm

*(excluding sold houses)

St Petersburg

Triumph Park
Under const. | 58,800 sqm
In planning | 560,890 sqm

Yaroslavl

Vernissage Mall
Yielding | 34,092 sqm

Vernissage Mall Phase II
In planning | 55,245 sqm

Saratov

Triumph Mall
Yielding | 27,231 sqm

Saratov Logistics
In planning | 104,000 sqm

Kazan

Triumph House
In planning | 31,470 sqm

Penza

Penza Shopping Centre
In planning | 18,024 sqm

Novosibirsk

Novosibirsk Logistics Centre
In planning | 180,000 sqm

Key
Retail
Offices
Residential
Logistics

Portfolio Focus Triumph Park

Triumph Park is a large-scale residential development in St Petersburg. First of its kind in Russia, designed according to the best practice of sustainability.

Триумф Парк
жилой эко-комплекс

WHERE DREAMS BECOME OPPORTUNITIES

Triumph Park is the Company's flagship project of a multi-phased development of a large-scale residential neighbourhood. The development is the first eco-residential complex in St Petersburg with low environmental impact built according to western standards. The flexibility of the apartment mix in terms of both the range of unit sizes and the fit-out options is designed to appeal to a wide range of purchasers.

The total net sellable area of the first phase of the project is approximately 26,200 sqm plus approximately 1,200 sqm of retail space and two levels of underground parking comprising 194 spaces. Completion of the first phase of the development is planned for Q2 2013.

The second phase comprises a total net sellable area of approximately 32,600 sqm. Its completion is planned for Q4 2014. Both phases are under construction and show high demand on the market.

On completion of the entire development, expected by 2019, Triumph Park will comprise 9,000 apartments, approximately 58,000 sqm of retail space, 60,000 sqm of offices and a variety of public amenities such as kindergartens, schools and parks.

Triumph Park will offer its residents a modern comfort lifestyle, a synergy of social neighbourhood, ecology and innovations.

Portfolio Focus Triumph Park Continued

Триумф Парк
жилой эко-комплекс

TRIUMPH PARK CREATES SUSTAINABILITY HISTORY IN RUSSIA

- Triumph Park development in St Petersburg has become the first residential project in Russia to be awarded a design-stage BREEAM certificate and only the second project to be BREEAM certified in the country.
- Triumph Park is a winner of Green Awards 2012, the Russian Federal competition on sustainable development and energy efficiency.
- Project's low-energy buildings will feature energy-efficient lifts, natural ventilation and will maximise the use of daylight within the apartments. It will also incorporate environmentally friendly building materials with high thermal performance, and over 95% of waste will be diverted from landfill.

LOCATION

- St Petersburg, a city with a population of five million people
- Well-developed residential district
- Easily accessible from downtown and main routes, located within a short walking distance to the underground public transportation station
- Well-developed infrastructure in the neighbourhood

MAIN CHARACTERISTICS

- 40 ha land plot
- Over 1 million sqm of quality residential and commercial areas
- The most demanded apartment mix, totalling over 9,000 apartments
- Underground parking, schools, kindergartens
- Closed secured eco-landscaped internal yards
- Energy-efficient, environmentally friendly eco-complex – water purification filters, low energy consumption, lifts, greenery on the roofs, etc
- BREEAM certification issued by BRE

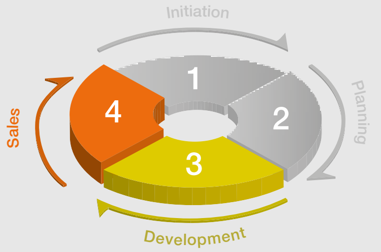
Triumph Park

PHASE 1

95 % SOLD

Number of apartments	**510**
Sellable area	**26,200 sqm**
Commercial area	**1,200 sqm**
Expected completion	**Q2 2013**

Project status:
Sales commencement: Q4 2011
Credit line signed for US$41m
Construction works in progress
Sales in final stages



PHASE 2

50 % SOLD

Number of apartments	**630**
Sellable area	**32,600 sqm**
Commercial area	**1,500 sqm**
Expected completion	**Q4 2014**

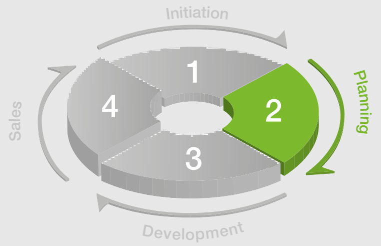
Project status:
Sales commencement: Q3 2012
Credit line signed for US$47.5m
Construction works in progress
50% pre-sold

PHASE 3

IN PLANNING

Number of apartments	**1,346**
Sellable area	**64,025 sqm**
Commercial area	**2,950 sqm**
Expected completion	**Q4 2015**

Project status:
Expected construction commencement in Q4 2013
Expected sales commencement in Q4 2013

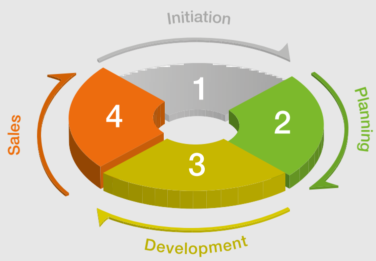


Portfolio

TRIUMPH PARK

9,000 APARTMENTS

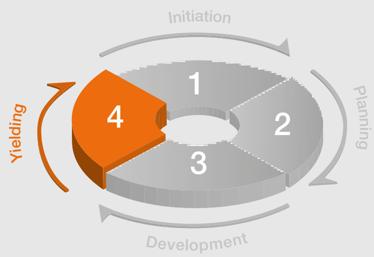
Location	**St Petersburg**
Land area	**41 ha**
Total saleable area	**630,900 sqm**
Leasable area	**117,775 sqm**
Planned completion	**Q4 2019**
Freehold rights	**100%**



TRIUMPH MALL

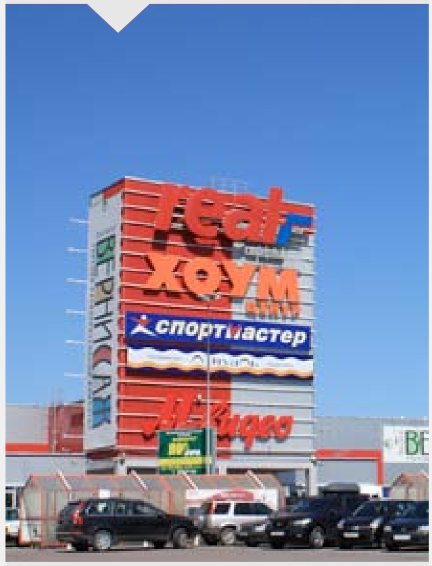
100% OCCUPIED

Location	**Saratov**
Land area	**2.2 ha**
Leasable area	**27,231 sqm**
Completed	**Q4 2010**
Freehold rights	**100%**

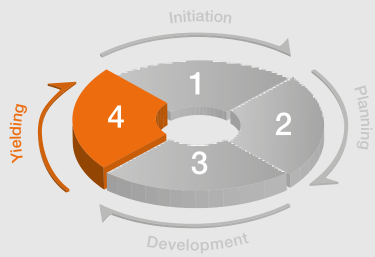


VERNISSAGE MALL

100% OCCUPIED



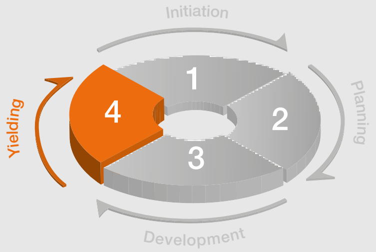
Location	**Yaroslavl**
Land area	**12 ha**
Leasable area	**34,092 sqm**
Completed	**Q2 2007**
Freehold rights	**50.5%**



HYDROMASHSERVICE

98% OCCUPIED

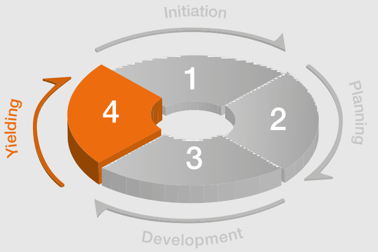
Location	**Moscow**
Land area	**1.2 ha**
Leasable area	**16,696 sqm**
Completed	**Q4 2008**
Leasehold rights of land	**100%**



MAG

98% OCCUPIED

Location	**Moscow**
Land area	**2.3 ha**
Leasable area	**18,534 sqm**
Completed	**Q4 2007**
Leasehold rights of land	**100%**

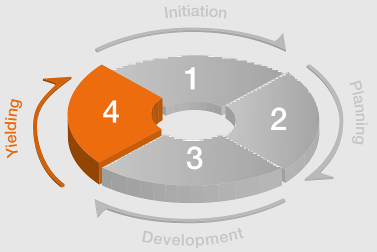


CENTURY BUILDINGS

99% OCCUPIED

Location	**Moscow**
Land area	**0.58 ha**
Leasable area	**20,903 sqm**
Completed	**Q1 2009**
Leasehold rights of land	**51%/61%***

* The project is comprised of two buildings.

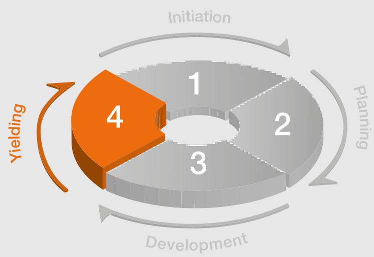


Portfolio Continued

TAMIZ

92% OCCUPIED

Location	**Moscow**
Land area	**0.45 ha**
Leasable area	**11,737 sqm**
Completed	**Q3 2011**
Leasehold	**100%**



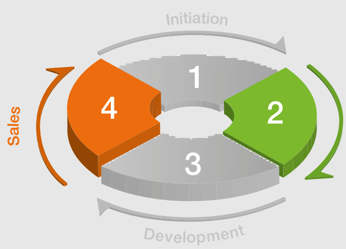
WESTERN RESIDENCE

163 HOUSES

Location	**Perkhushkovo**
Land area	**22.5 ha**
Saleable area*	**56,876 sqm**
Phase I completed	**Q4 2011**
Freehold	**100%**

Sales: 25 out of 77 houses were sold as of the date of this report.

* Excluding sold houses.

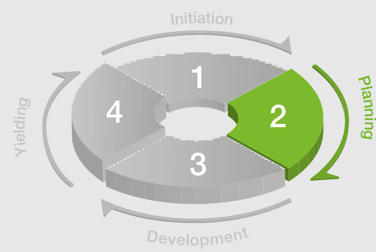


VERNISSAGE MALL PHASE II

55,245 SQM LEASABLE AREA

Location	**Yaroslavl**
Land area	**18 ha**
Leasable area	**55,245 sqm**
Planned commencement*	**Q3 2013**
Planned completion*	**Q1 2015**
Freehold	**50.5%**

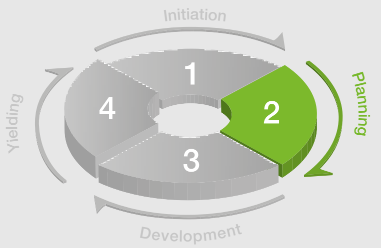
* Sub-phase I.



SKYSCRAPER

92,000
SQM LEASABLE AREA

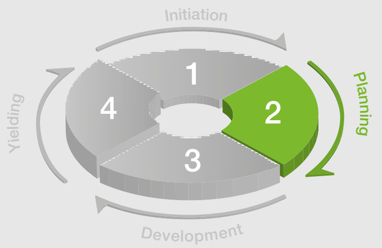
Location	**Moscow**
Land area	**0.9 ha**
Leasable area	**92,000 sqm**
Planned commencement	**N/A**
Planned completion	**N/A**



TRIUMPH HOUSE

31,470
SQM LEASABLE AREA

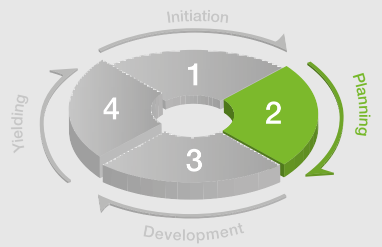
Location	**Kazan**
Land area	**2.2 ha**
Leasable area	**31,470 sqm**
Planned commencement	**Q1 2014**
Planned completion	**Q1 2016**
Freehold	**100%**



PENZA SHOPPING CENTRE

18,024
SQM LEASABLE AREA

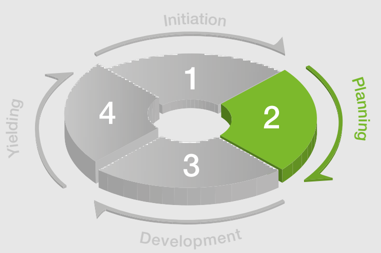
Location	**Penza**
Land area	**5.3 ha**
Leasable area	**18,024 sqm**
Planned commencement	**Q1 2015**
Planned completion	**Q4 2016**
Freehold	**100%**



SARATOV LOGISTICS

104,000
SQM LEASABLE AREA

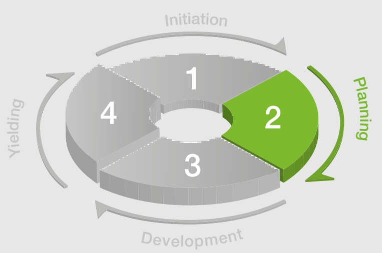
Location	**Saratov**
Land area	**26 ha**
Leasable area	**104,000 sqm**
Planned commencement	**Q2 2014**
Planned completion	**Q4 2016**
Freehold	**100%**



NOVOSIBIRSK LOGISTICS

180,000
SQM LEASABLE AREA

Location	**Novosibirsk**
Land area	**40.6 ha**
Leasable area	**180,000 sqm**
Planned commencement	**Q4 2014**
Planned completion	**Q3 2017**

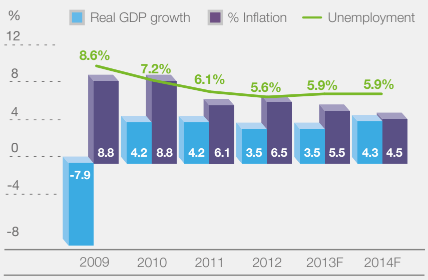


Our Markets

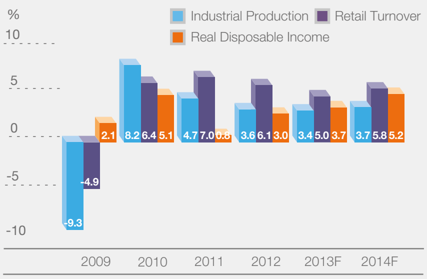
Russian Business Environment

Key economic indicators	2010	2011	**2012**
Population (millions)	142.9	142.9	**143.0**
GDP per capita (PPP, US$)	15,657	16,735	**17,697**
GDP growth rate (%)	4.0	4.2	**3.5**
Inflation (%)	8.8	6.1	**6.5**
Unemployment rate	7.6	6.1	**5.9**
RUR/US$ exchange rate	30.5	32.2	**30.4**
Sovereign credit rating	BBB	BBB	**BBB**

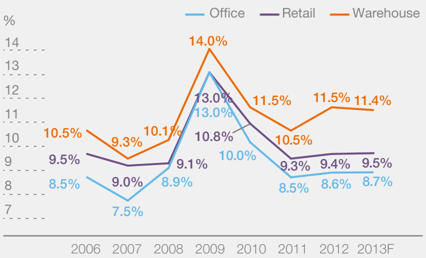
REAL GDP GROWTH, INFLATION AND UNEMPLOYMENT, %



INDUSTRIAL PRODUCTION, RETAIL TURNOVER AND REAL DISPOSABLE INCOME GROWTH, %



PRIME YIELDS, MOSCOW, %



Source: Rosstat, MED, CBR, C&W, Alfa Bank

The Russian economy performed well in the first half of 2012, growing by 4.5% despite the political disturbances of the presidential elections and weaker macroeconomic turbulence in the eurozone. All macroeconomic indicators were positive, with some achieving pre-crisis peak levels, although this growth was mainly attributed to high oil prices, which reached US$114 per barrel. In the second half of the year, the Russian economy slowed slightly, mainly due to rising inflation and weakening domestic and external demand affected by eurozone recession. On an annual perspective, the Russian economy showed moderate growth of 3.5%, inflation reached 6.5% compared to 6.1% in the previous year and the industrial output totalled 3.6% compared to 4.7% in 2011.

Unemployment reached a historical 20-year low of 5.9% at the year end, while real disposal income increased by 3% and retail turnover grew by 6.1% in year-on-year terms. Another positive indicator for the Russian economy was the significant decrease of the capital outflow from more than US$80bn in 2011 to approximately US$57bn in 2012.

In August 2012, Russia joined the WTO, completing a long accession process that started in 1993, and made a number of commitments, such as gradually lowering some of the import duties on agriculture and manufacturing and relaxing restrictions on foreign entities in the services sector. Russia will benefit from entering new markets and the liberalisation of international business by increasing foreign direct investment inflows.

As a part of its growing global co-operation, in May 2012, Russia became a member of the Nuclear Energy Agency of the OECD (Organisation for Economic Co-operation and Development), and is in the process of becoming a full member of the organisation.

Russian Real Estate Market

The Russian real estate market has demonstrated gradual growth, despite the uncertainty related to Russian political risks at the beginning of the year and anticipation of a second wave of crisis in Europe. Total investment volumes in 2012 accounted for US$7.4bn, (2011: US$7.6bn) with US$2.9bn and US$2.6bn invested in the office and retail sector respectively. The Russian investment market in 2012 was dominated by domestic investors; however, the market share of foreign investors increased by 14% compared to the previous year to reach 32%.

Moscow retained its third ranking position among the top European investment markets with 82% (US$6.1bn) of the total investment volume in 2012, of which US$2.8bn was invested in the office sector, US$1.4bn in the retail sector and the remainder in the hospitality and industrial sectors. 16% of the total investment volume was invested in St Petersburg and another 2% in the regions. The capitalisation rates in Moscow are stable at 8.75% for offices, 9.5% for retail and hospitality and 11.5% for industrial sectors.

The Central Bank of Russia increased the refinancing rate by 25 bps. Debt financing remained dominated by the local banks, with a modest contribution from foreign banks.

The Office Sector

In 2012, Moscow's office market showed some stability. By the end of the year, quality office stock totalled at 13.1 million sqm, and the construction level was moderate with the delivery of 33 new office buildings with a total rentable area of circa 550,000 sqm delivered to the market. At the end of 2012, new construction volumes reached 3.4 million sqm, increasing by 0.6 million sqm during the year. Despite the number of pipeline projects, the level of new delivered areas to the market is expected to remain approximately 500,000 sqm in the next two to three years.

Although high tenant activity was seen with take-up level of above two million sqm, the absorption level was in line with the new construction volume, comprising approximately 20% of the take-up and stabilising the market. Therefore, rental and occupancy rates remained stable, and have slightly improved for Class A offices year-on-year. The annual average rental rates for Class A offices increased by approximately 6.8%, totalling at US$790 per sqm, while the occupancy rate decreased slightly by 1.2% compared to the end of the previous year.

The Retail Sector

By the end of 2012, the retail market comprised more than 500 quality retail properties with a total GLA (gross leasable area) of 14.4 million sqm. The Moscow retail market share accounted for 24% (3.6 million sqm), St Petersburg's share was 14%, followed by Krasnodar and Ekaterinburg with approximately 4% each. New retail supply in 2012 totalled approximately 1.9 million sqm, comprising 58 shopping centres, out of which seven were located in Moscow. During the year, developers announced 50 new quality retail projects with total GLA of 2.2 million sqm, 10 of which will be developed in Moscow providing 1.2 million sqm GLA.

Moscow is leading the market with the highest share of new retail formats and highest number of international retailers looking to enter the market. However, of all the new completions more than 50% was delivered to regional cities. This shift to regional cities was one of the main trends witnessed in the Russian retail market over the past year.

Shopping centres are the most popular format of quality retail in Russia with 88% market share, followed by mixed-use complexes with 12% and outlet centres with less than 1%.

Moscow prime asking rental rates in 2012 increased from US$2,700 to US$3,800 per sqm per annum. In other Russian cities the rental rates are usually 30-60% below Moscow levels. The vacancy rate for quality shopping centres in Moscow remains less than 1% and the footfall has remained stable for the last two years.

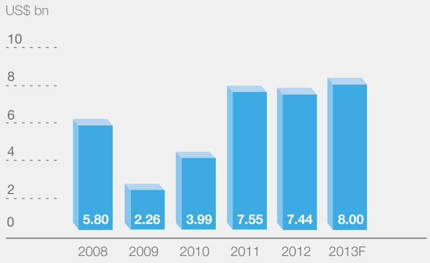
The Residential Sector

The residential sector in Russia presents one of the best opportunities for growth, due to low living space per capita and a slowly developing mortgage market. The average area per capita totals at circa 23 sqm and the mortgage market amounts to only 3% of GDP, significantly lower than western countries.

The residential sector in Moscow in 2012 benefited from the increased wealth of the population, resulting from an increase in wages and employment levels and leading to growing market demand. High demand led to price increases in Moscow and its outskirts and in St Petersburg. The average sale prices in Moscow and its outskirts increased by 6% and 10% respectively.

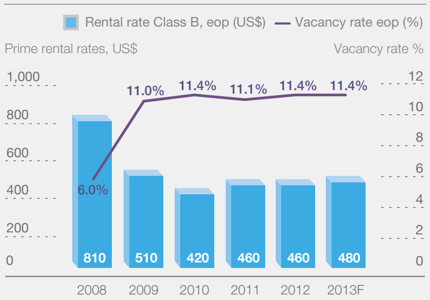
In St Petersburg, sale prices in the mass market segment increased by approximately 11% in the business segment by approximately 15.5%.

ACCUMULATED INVESTMENT VOLUME IN COMMERCIAL REAL ESTATE, US$BN



NEW CONSTRUCTION OF QUALITY RETAIL SPACE, 000 SQM

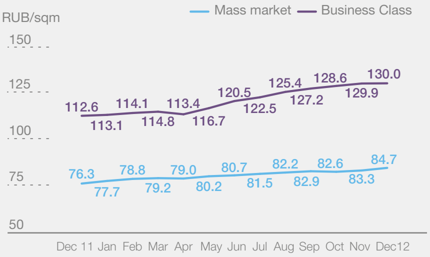
MOSCOW CLASS B VACANCIES AND RENTAL RATES



Source: Rosstat, MED, CBR, C&W, Alfa Bank

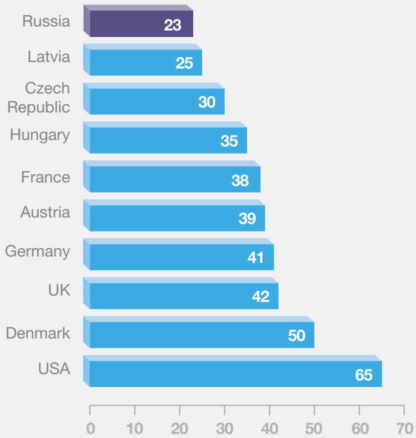
Our Markets Continued

PRIMARY RESIDENTIAL MARKET PRICES BY SECTORS, RUB/SQM



Source: Rosstat, AHML, Peterburgskaya Nedvizhimost

AVERAGE LIVING SPACE COMPARISON, SQM/CAPITA



The Logistics Sector

In 2012, Moscow region industrial market achieved its strongest results for the last five years in terms of new construction, volumes and take-up.

The volume of new construction doubled the prior year's figures, reaching almost 720,000 sqm. The number of projects under development increased, as developers announced 1.2 million sqm to be completed in 2013. Taking into account that one of the distinctive features of the logistic sector is that construction is started after the preliminary lease or a forward sale has been achieved, most of the announced developments will be delivered to the market.

Demand in the sector increased by 50% and totalled 1.2 million sqm, while rental and vacancy rates remained stable. Retailers and logistics companies remained the main tenants for quality warehouse space with 40% and 22% of the market share respectively.

The volume of new construction completed in the regions was higher than in the previous year, totalling 320,000 sqm. More than a third of this was built in the industrial market of St Petersburg and the surrounding region, where a shortage in supply led to a 15-20% increase in rental rates.

Unlike in Moscow, tenant activity in the Russian regional industrial market was 35% lower than in the previous year, accounting for only 25,000 sqm, of which 40% of the transactions were conducted in St Petersburg. The most active players in the market were manufacturing and distribution companies, with 32% market share each. Rental rates in the Russian regional industrial market increased significantly by 12% on average, while vacancy rates declined.

Chief Executive's Statement

Roman Rozental
CEO

MirLand was established in 2004 as part of the Fishman Group to focus on value-enhancing acquisitions, construction, lease and sale of residential and commercial real estate in Russia. In December 2006, the Company executed an IPO on the AIM market of the London Stock Exchange. The Company's projects vary in their locations (major and regional cities), sectors (residential, office, retail and logistics), and status of development (from income-producing investment properties to land bank for future development). For most of MirLand's projects, a local management team is engaged and is responsible for the development and/or the ongoing management of the asset.

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

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

- Focus on the completion of existing projects: the Company aims for the timely delivery of projects while ensuring they are completed to a high standard. Marketing of all of the Company's commercial projects commences during their development phase.
- Portfolio diversification: to mitigate risk, the Company's portfolio is balanced between various sectors, locations and development stages.
  - Geographic location: investments are spread across Moscow, St Petersburg, and other major regional cities. Investment decisions are made following a detailed feasibility study and the close examination of local and national economic and demographic data, as well as the balance between supply and anticipated demand for international standard properties.
  - Real estate sector: the Company invests in a balanced mix of residential, retail, office and logistics, as well as mixed-use projects.
  - Development stage: The Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. The Company owns both yielding and development properties in order to obtain a relatively balanced spread in the use of working capital and demand for management's attention that can, at the same time, generate income flow from sales and yielding properties.
- Realisation of assets: the Company will continuously assess whether to retain yielding properties or realise their market value through disposal, depending on the opportunity and on prevailing market conditions. The Company uses revenues from yielding assets to diversify its income sources.
- Use of diverse financing sources to accelerate business activity and growth: equity, shareholders' loans, corporate loans (some of which have been guaranteed by our main shareholders), project financing and bond issuances are used to finance the Company's activities and projects.
- Enhancing business cooperation with local partners, especially in the regions: having a local partner provides better monitoring of the project, local know-how and thus a greater level of control over quality, costs and delivery of the project for the Company. In addition, such cooperation might lead to future investment opportunities.

The global financial turmoil, which had a significant impact on the Russian real estate market, has led the Company to adjust its operational focus to be more directed on managing its core activities and available financial resources.

Chief Executive's Statement Continued

This has been achieved through:

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

This strategy supports the Company's position as one of the leading international real estate companies in Russia.

The backing of the Company's main shareholders, together with the diversification of financial sources, enables MirLand to continue to develop and maintain its portfolio and help support it in its mission of creating value for its shareholders.

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

Portfolio

MirLand currently has 15 projects, six of which are yielding assets (offices in Moscow and regional retail), one project is under construction (Phase I and Phase II of the Triumph Park project in St Petersburg), one is a completed residential project (Phase I in Western Residence in Perkhushkovo) and six projects are at various stages of planning and in the process of obtaining permits (in addition to the Phase II of the Western Residence project in Perkhushkovo and phases III-VI of the Triumph Park project in St Petersburg).

The Company's portfolio has been valued by Cushman & Wakefield at US$868.0m (MirLand's share) as of 31 December 2012, based on the Company's freehold/leasehold rights. This value represents an increase of approximately 2% since 31 December 2011 and is mainly attributed to significant progress in the St Petersburg project in terms of sales, construction and financing, completion of projects and improvement in operational results of yielding properties. This increase was achieved despite the write-off of the Skyscraper project

Yielding Projects:

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

Hydromashservice (Hydro), Moscow – offices
Class B+ office complex. Part of the MirLand Business Center.

- Land area: 1.2 ha
- Leasable area: 16,700 sqm
- Completed: Q4 2008
- Leasehold rights of land: 100%
- Occupancy rate: 98%
- Financing: US$20m financed by Sberbank in September 2012 (principal balance as of 31 December 2012: US$20m)

MAG, Moscow – offices
Class B+ office complex. Part of the MirLand Business Center.

- Land area: 2.3 ha
- Leasable area: 18,500 sqm
- Completed: Q4 2007
- Leasehold rights of land: 100%
- Occupancy rate: 98%
- Financing: US$30m financed by Sberbank in September 2012 (principal balance as of 31 December 2012: US$30m)

Century Buildings, Moscow – offices
Two Class B+ office buildings. Part of the MirLand Business Center.

- Land area: 0.58 ha
- Leasable area: 20,900 sqm
- Completed: Q1 2009
- Leasehold rights of land: 61%/51%
- Occupancy rate: 99%
- Financing: US$14m financed by Sberbank in February 2011 (principal balance as of 31 December 2012: US$12.2m)

Tamiz, Moscow – offices
New class B+ office building. Part of the MirLand Business Center.

- Land area: 0.45 ha
- Leasable area: 11,700 sqm
- Completed: Q3, 2011
- Leasehold rights of land: 100%
- Occupancy rate: 92%

Vernissage Mall, Yaroslavl – retail
A western standard single floor shopping centre in Yaroslavl, located at the entrance road to Yaroslavl from Moscow.

- Land area: 12 ha
- Leasable area: 34,100 sqm
- Completed: Q2 2007
- Freehold rights: 50.5%
- Occupancy rate: 100%
- Financing: US$27m financed by Gazprom Bank in February 2011 (principal balance as of 31 December 2012: US$23.9m)

Triumph Mall, Saratov – retail
The first multi-storey retail and entertainment centre in Saratov. The complex is strategically located near the historical city centre.

- Land area: 2.2 ha
- Leasable area: 27,300 sqm
- Completed: Q4 2010
- Freehold rights: 100%
- Occupancy rate: 100%
- Financing: US$48.5m financed by the European Bank for Reconstruction and Development (EBRD) (principal balance as of 31 December 2012: US$37.3m)

Completed Residential Project:
Western Residence – Phase I, Perkhushkovo, Moscow region – residential complex
Development of 77 town houses and cottages (out of 163) in the prestigious western outskirts of Moscow, targeting the middle class segment.

- Land area (Phase I): 11 ha
- Saleable area (Phase I): 20,400 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 25 houses
- Completion of Phase I (77 town houses and cottages): Q4 2011
- Financing: US$25m was financed by Sberbank in December 2011 (principal balance as of 31 December 2012: US$22m)

Project Under Construction:
Triumph Park, St Petersburg – residential complex
Flagship phased development of a residential neighbourhood which, upon completion, will comprise approximately 9,000 apartments, commercial and public areas with good accessibility to the city and its airport. The commercial areas will include offices and a retail centre with underground parking. The public facilities will include kindergartens, a school and parks.

- Land area: 41 ha
- Saleable area: 630,900 sqm
- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2019
- Freehold rights: 100%
- Marketing:
  - Sales campaign for Phase I, which consists of approximately 26,200 sqm sellable space (510 apartments), was launched in November 2011;
  - Sales and construction of Phase II, which consists of approximately 32,600 sqm sellable space (630 apartments), was launched in September 2012;
  - Launch of sales and construction of Phase III, which will consist of approximately 65,000 sqm (1,350 apartments), is planned for Q4 2013
- Sales:
  - Phase I: to date, 490 sales contracts were executed;
  - Phase II: to date, 310 sales contracts were executed
- Financing:
  - Credit line of US$41m for Phase I construction was obtained from Sberbank in November 2011 (principal balance as of 31 December 2012: US$4.7m);
  - Credit line of US$47.5m for Phase II construction was obtained from Sberbank in September 2012 (principal balance as of 31 December 2012: US$3.0m)

Projects in Planning:
Vernissage Phase II, Yaroslavl – retail
Development of a retail complex adjacent to the Vernissage Mall in Yaroslavl.

- Land area: 18 ha
- Leasable area: 55,250 sqm
- Planned construction commencement: Q3 2013 (Phase I)/Q3 2014 (Phase II)
- Planned completion: Q1 2015 (Phase I)/ Q2 2016 (Phase II)
- Freehold rights: 50.5%

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

- Land area: 2.2 ha
- Leasable area: 26,300 sqm
- Sellable area: 5,200 sqm
- Planned construction commencement: Q1 2014
- Planned completion: Q1 2016
- Freehold rights: 100%

Shopping centre, Penza – retail
Development of a two-storey shopping centre in Penza in close proximity to a growing residential district.

- Land area: 5.3 ha
- Leasable area: 18,000 sqm
- Planned construction commencement: Q1 2015
- Planned completion: Q4 2016
- Freehold rights: 100%

Chief Executive's Statement Continued

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

- Land area: 26 ha
- Leasable area: 104,000 sqm
- Planned construction commencement: Q2 2014
- Planned completion: Q4 2016
- Freehold rights: 100%

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

- Land area: 40.6 ha
- Leasable area: 180,000 sqm
- Leasehold rights: 100%
- Planned construction commencement: Q4 2014
- Planned completion: Q3 2017

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

- Land area: 11.5 ha (Phase II)
- Saleable area: 36,477 sqm
- Freehold rights: 100%
- Planned construction commencement: Q1 2014
- Planned completion: Q3 2015

Skyscraper, Moscow – offices and retail*
A 47-storey Class A office and retail building with underground parking located at the Dmitrovskoye Shosse, adjacent to Moscow's third ring road. This prime location offers excellent accessibility.

- Land area: 0.9 ha
- Leasable area: 92,000 sqm
- Planned construction commencement: N/A
- Planned completion: N/A

* Regarding the cancellation of leasehold rights by Moscow municipality, see page 8 – Portfolio Development/Offices.

Outlook
We strongly believe in the quality of our portfolio projects and that our prudent and selective approach to their management and development will lead to an increase in long-term value for our shareholders.

I would like to thank our shareholders for their ongoing support of the Company, MirLand's management team for its dedication, and the Company's employees, who are responsible for the day-to-day activities. I am confident that this strong team will continue working through the challenging, fast-paced market to realise MirLand's long-term vision.

Roman Rozental
Chief Executive Officer
11 March 2013

Overview of Portfolio Market Values

as at 31 December 2012

City	Property name	Portfolio market value as at 31 December 2012 (rounded)	Percentage owned by MirLand	MirLand market value as at 31 December 2012 (rounded)
Moscow	Hydromashservice	US$71,300,000	100%	US$71,300,000
Moscow	MAG	US$81,800,000	100%	US$81,800,000
Moscow Region Perkhushkovo	Western Residence	US$63,200,000	100%	US$63,200,000
Saratov	Triumph Mall	US$121,400,000	100%	US$121,400,000
Moscow	Skyscraper	US$0	100%	US$0
St Petersburg	Triumph Park, Residential	US$320,300,000	100%	US$320,300,000
St Petersburg	Triumph Park, Retail	US$29,900,000	100%	US$29,900,000
Yaroslavl	Vernissage Mall Phase I	US$97,200,000	50.5%	US$49,100,000
Yaroslavl	Vernissage Mall Phase II	US$8,800,000	50.5%	US$4,400,000
Moscow	Tamiz	US$45,700,000	100%	US$45,700,000
Moscow	Century Buildings	US$95,000,000	51%/61%	US$52,850,000
Kazan	Triumph House	US$8,900,000	100%	US$8,900,000
Penza	Retail Centre	US$3,200,000	100%	US$3,200,000
Saratov	Logistics Complex	US$7,200,000	100%	US$7,200,000
Novosibirsk	Logistics Complex	US$8,700,000	100%	US$8,700,000
Total		US$962,600,000		US$868,000,000

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

Based on the Cushman & Wakefield valuation as at December 2012, the Company's adjusted NAV increased to US$544.8m (31 December 2011: US$536.8m). As a result, the NAV per share as at 31 December 2012 was US$5.3 in comparison to US$5.2 as at 31 December 2011.

Financial Review

Yevgeny Steklov
Chief Financial Officer

Revenues for 2012 were US$59.0m and the loss was US$42.3m. Total assets at 31 December 2012 amounted to US$773.2m and equity amounted to US$317.3m. The Company's adjusted net asset value was US$544.8m. The Company's real estate assets were valued on 31 December 2012 at US$962.6m (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US$868.0m.

Accounting Policy

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

Income statement

The Company's revenues consist of rental income from investment properties, income from sales of houses and fees from managing investment properties. Rental income and fees from investment properties increased to US$50.9m from US$43.6m, which is a 17% increase. This increase is attributed to increased occupancy in all yielding assets that reached an average figure of approximately 98%, helped by the improved market conditions that influenced the real estate sector in Russia. The Company recognised income of US$8.1m from sale of inventory due to the handover of houses in the Western Residence project in Perkhushkovo, to buyers.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2012 and has recognised the resulting movement in valuation through its income statement as fair value adjustments of investment properties and investment properties under construction. The loss of US$37.3m was based on net effect of the valuations of the Company's investment properties and investment properties under construction prepared by an independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards and was mainly driven by impairment of the Skyscraper project and devaluation of the US Dollar against the Russian Ruble, that were compensated by an increase in other yielding assets.

The cost of maintenance and management of the Company decreased from US$20.9m in 2011 to US$18.4m in 2012, which was largely attributed to the efficiency measures performed by the management and this is despite an increase in the rented out areas.

The Company's general administrative expenses for the period were US$14.9m in comparison to US$16.6m in 2011. The decrease is mainly attributed to cuts in professional and other services purchased by the Company.

Marketing expenses for the period were US$2.3m in comparison to US$2.6m in 2011.

Net financing costs for the period amounted to US$4.1m compared to US$22.2m in 2011. The decrease is explained by the weakening of the US Dollar versus the Russian Ruble, resulting in the net foreign exchange differences gain of US$21.7m, compensated by significantly lower capitalisation of interest due to progress in the Company's residential projects due to the construction progress of Phase I in St Petersburg and completion of Phase I of the Western Residence project.

Tax expense in 2012 amounted to US$1.9m compared to a tax benefit of US$12.3m in 2011. The tax income recorded in 2011 was mainly attributed to the creation of a deferred tax asset in the Company's balance sheet, due to increased feasibility of future profits attributed mainly to the Triumph Park project in St Petersburg.

MirLand is a resident of Cyprus for tax purposes and is subject to a 10% tax rate. MirLand's subsidiaries in Russia are subject to a 20% tax rate. Additional details are covered in Note 19 to the financial statements.

New bank loans obtained during 2012

Project	Bank	Loan Type	Original Amount (US$m)	**Balance as of 31 December 2012 (US$m)**
Hydromashservice*	Sberbank	Refinance	20.0	**20.1**
MAG*	SberBank	Refinance	30.0	**30.1**
Triumph Park, phase 2	SberBank	Construction	**47.5	**3.5**
			97.5	**53.7**

* Refinance of remaining balance of existing loan with lower interest and debt service.

** Maximal availability.

The loss for 2012 amounted to US$42.3m in comparison to net income of US$28.5m in 2011. The loss is mainly attributed to impairment of the Skyscraper project in the amount of US$36m and the Western Residence project in the amount of US$8m due to the lower than expected sales pace. This influence was partially compensated by increased occupancy rates and rent prices in commercial projects of the Company and the impact of net foreign exchange differences, due to the devaluation of the Russian Ruble versus the US Dollar during the year

Balance Sheet

Total assets as at 31 December 2012 amounted to US$773.2m in comparison to US$739.6m in 2011, an increase of 5%. The main reasons for the overall increase were the increase in the fair value of investment properties, and continuing development of the Company's residential projects that were financed through bank financing on the project level and apartment sales.

The Company's real estate portfolio amounted to US$716.4m at the year end and comprised 93% of the total assets, in comparison to US$671.1m as at 31 December 2011, which comprised 91% of the total balance sheet, the increase of 7% coming mainly from the increase of fair value of investment properties and investments made during the year.

Equity and Liabilities

Equity as at 31 December 2012 decreased to US$317.4m from US$347.1m as at 31 December 2011. The decrease in equity from 2011 ascribed mainly to the loss which was offset partially by the devaluation of the US Dollar versus the Ruble which led to increased foreign currency translation reserve. MirLand's equity comprises 41% of its total assets.

Net financial liabilities as at 31 December 2012 amounted to approximately US$323.1m compared to US$324.7m as at 31 December 2011.

In addition, short-term loans in the amount of approximately US$70m from banks are guaranteed by the Company's main shareholders; therefore, the Company assumes that these loans will revolve if necessary. For further details regarding loans from banks and shareholders please review Notes 12, 13, 15 and 16 of the financial statements.

The Company's series A to D bonds are rated ilBBB/+ by Ma'alot Standard & Poor's. The Company's series A, B and D bonds are rated ilBaa1/stable by Midrug (Moody's Israel affiliate rating agency), following a credit rating upgrade in February 2013.

During 2012, further emphasis was made on diversifying the Company's funding sources by obtaining bank financing on the project level. The table above shows new bank loans obtained in 2012.

Net Asset Value ("NAV")

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2012 at US$962.6m (for 100% rights from freehold/leasehold), of which MirLand's share is US$868.0m. The increase in value mainly attributed to the improvement in operational results of MirLand's yielding assets, significant progress made in sales, construction and financing of the Triumph Park residential project in St Petersburg and investments made during 2012 and happens despite the impairment of approximately US$36m of the Skyscraper project.

Cash Flow

During 2012, the Company used US$41.2m for investment in real estate properties (including change in buildings for sale) in comparison to US$39m in 2011. Cash flow provided by operating activities was positive for the first time and amounted to US$15.6m. Cash flow used in financing activities amounted to US$12.5m.

Financial Review Continued

Financial Strategy

In 2012, MirLand's activities were primarily financed by project bank loans and by revenues from yielding and residential projects. The Company's policy is to limit its leverage to 66% of the gross value of its assets, including all development, trading and investment properties. The Company continues to have modest net leverage at 41.8% of its assets.

Typically, residential projects are constructed in phases, allowing the use of capital from pre-sales to finance ongoing development phases. However, during 2011 and 2012, the Company obtained construction loan facilities from Sberbank for the first and second phases of its flagship project, Triumph Park in St Petersburg, respectively

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

Market Risks

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

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

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

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

Yevgeny Steklov
Chief Financial Officer

11 March 2013

How We Manage Risks

The Company's activities in the Russian real estate market expose it to various risks; managing these risks demands preparedness, active involvement and risk mitigating actions.

The Company's experienced management and its comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's performance. The Audit Committee reviews and monitors, on a periodic basis, the exposure of the activity to various risks and the management mitigation actions related to these risks.

Market

Changes in the Russian economic and political environment

- Monitoring changes in the Russian environment through ongoing research from diverse sources.

Real estate market risks

- The Company's management has extensive experience in the real estate development sector, enabling it to deal with a changing market environment.
- The investment strategy is to maintain a diversified portfolio regarding geographical location, sector and stage of development.

Development

Dependence on contractors' and subcontractors' risks

- Contractors are thoroughly investigated before engagement.
- Contractors' operations are supervised and monitored by the senior management.

Planning, general construction and development risks

- The Company's partners and managers hold substantial knowledge of the Russian market.
- The Company works with international advisors and also benefits from their familiarity with the Russian market.
- The Company conducts bid processes that also require fixed prices.
- The Company purchases applicable insurance policies for all of its assets.

Financial

Foreign exchange risk

- The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US Dollars.

Interest rate risk

- The Company is looking into diversified financing tools such as hedging or fixed rate loans.

Credit risks

- Performance of ongoing credit evaluations of tenants, purchasers and contractors.
- Deposits and specific allowances from tenants.

Additional requirements for capital

- The Company is acting to diversify its financing resources through various markets and tools.

Board of Directors

Nigel Wright

Non-executive Director and Chairman, age 58

Nigel Wright has approximately 30 years' experience in the property, corporate finance and banking sectors. He was managing director of London & Henley Property Holdings Limited, a property investment and development company with a portfolio of retail and office property, and of First Residential Investment Limited, which developed around 1,800 residential properties throughout the UK. Nigel spent the first half of his career in banking and corporate finance with Grindlays Bank (now ANZ Group), Bank of America and UBS Phillips & Drew, before joining the board of Mountleigh Group, a UK real estate company, where he was responsible for corporate acquisitions and disposals, substantial property acquisitions and disposals, as well as general management and funding throughout the UK and Western Europe and investor relations. He was also managing director of E & F Securities, a private real estate and leisure investment vehicle with interests in the UK, France and USA.

Eyal Fishman

Non-executive Director and Chairman of the Investment Committee, age 43

Eyal Fishman has served as chief executive officer of various companies in the Fishman Group, including Megamart Sport Equipment Ltd, Celio Chains Israel, P.K.P Design Ltd and Fishman Chains Ltd, and served as chairman of the board of Fishman Retail Chains, a group of eight retail chains. Eyal is a member of the board of directors of Darban Investments Limited, one of the Company's significant shareholders, an office he has held for the past 15 years.

Roman Rozental

Chief Executive Officer, Certified Public Accountant, age 45

Roman Rozental has been the chief financial officer of several Israeli and international companies over the past decade and was the chief financial officer of the Filuet Company, an international logistics operator, with significant operations in Russia. Roman was previously a senior auditor for the Israeli affiliate of PricewaterhouseCoopers, leading a team of auditors, with overall responsibility for tax and audit services for international publicly traded companies.

Elias Eliades

Non-executive Director and Chairman of the Nomination Committee, age 65

Elias Eliades, who qualified as a lawyer in Cyprus, has extensive experience in the Cypriot civil service and government. He is currently the chairman of Pafilia Group, a property development company in Pafos, Cyprus. Before joining Pafilia Group in 1988, he was the Minister of Defence in Cyprus and, for three years, the Deputy Minister of Internal Affairs.

Yevgeny Steklov

Chief Financial Officer, Certified Public Accountant, age 34

Yevgeny Steklov has worked for the last five years in several financial positions in MirLand. He acquired vast experience in the real estate field through his tenure in Ernst & Young Israel. Graduated in Economics and Accounting and also has an MBA, both from Tel Aviv University. Born in Russia and is fluent in Russian, English and Hebrew.

Eliezer Fishman

Non-executive Director,
Certified Public Accountant, age 69

Eliezer Fishman has over 45 years' experience in the real estate sector and holds a majority interest in numerous Israeli companies ranging from real estate to communications to various industrial and commercial companies. Outside Israel, Eliezer is mainly involved, through his companies, in real estate. He is the chairman of several public companies and, together with his family and entities controlled by them, holds a controlling shareholding in MirLand.

Caroline Brown

Non-executive Director, Chairman of the Audit Committee, age 50

Caroline Brown has over 20 years' experience in corporate finance and the financial management of public companies. She has served as chief financial officer for two AIM-quoted companies and chaired the Audit Committee for London-listed WSP Group plc, a consulting engineering company active in the international real estate sector. She is a qualified accountant and a chartered director.

Steven Irwin Holm

Non-executive Director and Chairman of the Remuneration Committee, age 60

Steven Holm is a partner and chairman of real estate department at Levy Holm Pellegrino & Drath LLP, a law firm specialising in all aspects of commercial real estate and corporate law, including acquisition and sale of office buildings, hotels, apartment buildings, shopping centres and development sites. He is a member of the American, New York, District of Columbia and Georgia Bar Associations, and a member of the real estate finance committee in the New York State Bar Association.

Saydam Salaheddin

Independent Non-executive Director,
Lawyer, age 42

Saydam Salaheddin has over 15 years' experience in the investment banking sector. Until recently he was responsible for global Real Estate and Turkey at Renaissance Capital in Moscow, prior to which he spent 13 years at Credit Suisse in London and Moscow. Saydam began his career as a corporate lawyer in London in 1996, next joining Morgan Stanley and then Credit Suisse as an analyst. As a Director, Saydam became responsible for Eastern Europe, CIS and Turkey within the Real Estate group of Credit Suisse Europe and moved to Moscow in 2007.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2012.

Country of Incorporation
The Company was incorporated in Cyprus on 10 November 2004 as a private limited liability company in accordance with the Cyprus Companies Law, Cap. 113. On 27 November 2006, the Company was converted from a private company to a public company in accordance with the provisions of the Companies Law, Cap. 113.

Principal Activities
During the year the Group continued its activities of property development, trading and investment. It will continue the same activities in 2013.

The Group did not carry out any research and development activities during the year.

Review of Business Development and Prospects
Development of the Group's activities and its prospects are reviewed in the Chairman's statement on pages 6 to 9 and the Chief Executive's Statement on pages 25 to 28.

Results for the Year
The results of the Group are set out in the consolidated income statement on page 52 which shows a net income/(loss) for the financial year of US$(42.3)m (2011: US$28.5m). The statement of financial position on pages 50 and 51 shows net assets of US$317.3m (2011: US$347.1m).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2012.

Share Capital and Treasury Shares
There were no changes in the share capital of the Company during the year.

During the year, the Company did not make any acquisitions of its own shares either by itself directly or through persons acting on their own name but on the Company's behalf.

Directors
The Directors of the Company who served during the year are listed on pages 34 and 35.

On 14 May 2012, Mr Emil Budilovsky stepped down from his position as Chief Financial Officer and resigned from the Board of Directors Mr Yevgeny Steklov was appointed a Director and Chief Financial Officer in Mr Budilovsky's place.

On 13 September 2012, Mr Saydam Salaheddin was appointed to the Board as a Non-executive Director.

There were no other material changes in the assignment of responsibilities and remuneration of the Board.

Directors' and Other Interests

The interests of the Directors in the shares of the Company at 31 December 2012, with comparative figures as at 31 December 2011, are as follows:

Director	**Number of Shares as at 31 December 2012**	Number of Shares as at 31 December 2011
Nigel Wright	**20,050**	20,500
Roman Rozental	**0**	0
Yevgeny Steklov	**0**	0
Caroline Brown	**2,050**	2,050
Steven Holm	**48,000**	48,000
Eliezer Fishman*	**245,313**	210,500
Eyal Fishman*	**350,000**	350,000
Elias Eliades	**0**	0
Saydam Salaheddin	**0**	0

* Eliezer and Eyal Fishman held jointly 245,313 ordinary shares through an entity controlled by them and their family.

Details of Directors' share options are given on page 48.

In addition to the disclosures above, as at 11 March 2013, the Company was aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage Holding
Jerusalem Economy Ltd	31,551,701	30.47
Industrial Buildings Corporation Ltd	41,659,188	40.23
Darban Investments Ltd	15,123,747	14.60

Each of Jerusalem Economy Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd are controlled by the Fishman Group which is, in turn, controlled by Eliezer Fishman and certain members of his family, including Eyal Fishman.

The Company is not aware of any other interests amounting to 3% or more.

Directors' Interests in Significant Contracts

The Company's investment property in Moscow, Hydromashservice, has a lease in place with Home Centers, a private company controlled by Eliezer Fishman and certain members of his family, including Eyal Fishman. In addition, a lease is in place with Home Centers in relation to the Company's property in Yaroslavl. These leases are on standard commercial terms and were concluded on an arm's-length basis.

During 2012, the Company used from time to time and in accordance with the Group's needs, flight services provided by an airplane indirectly held by the Fishman Group; the total cost amounted to US$17,000. The terms of usage are reviewed from time to time by the audit committee to ensure that they are on an arm's-length basis.

During 2012, a subsidiary of the Company, Petra 8 LLC ("Petra 8") entered into an agreement to purchase fit-out services in connection with the delivery of the apartments being built by Petra 8 in St Petersburg at a standard that is higher than the base standard for an overall amount of approximately US$2m.

No other Directors were materially interested in any contract of significance.

Directors' Report Continued

Statement of Directors' Responsibilities

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period and comply with International Financial Reporting Standards (IFRS). The Directors are responsible for ensuring that applicable accounting standards have been followed and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements for the year ended 31 December 2012.

The Directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group. They are also responsible for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insurance of Directors

The Group maintains directors' and officers' liability insurance for MirLand's Directors in respect of their duties as Directors.

Financial Risk Management

The financial risks and uncertainties are stated in Note 14 of the consolidated financial statements. The Group is also exposed to other business risks which relate to the markets in which it operates. The Group monitors and manages these risks through various control mechanisms.

Charitable Donations

During the year, the Group made donations in the amount of US$32,000.

Health and Safety

The Company seeks to achieve the highest standards in respect of health and safety of employees, and the safety of tenants.

Branches

Heckbert 22 Group Financing Limited KFT, MirLand's Hungarian subsidiary, provides loans to operating subsidiaries of MirLand through a branch in Switzerland. Otherwise, the Group did not operate through any branches during the year.

Auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Ernst & Young Cyprus have expressed their willingness to continue in office as auditors to the Company and Group.
Resolutions to reappoint them as auditors to the Company and to fix their remuneration will be proposed at the next AGM.

Post-Balance Sheet Events

The significant post-balance sheet events are described in Note 24 of the consolidated financial statements.

Nigel James Wright
Chairman

11 March 2013

Corporate Social Responsibility

As an international developer in Russia, MirLand recognises its social responsibility.

Investors

We are committed to keeping our investors well informed of our business strategy and performance, both through our regular circulars and website and through personal meetings and presentations. The Company's CEO and CFO meet regularly with institutional shareholders and potential investors, in which the management introduced the Company's business strategy and updated investors regarding new developments.

Employees

The Company is committed to safeguarding the health, safety and welfare of its employees. Since the Company's incorporation, and except for a fire which occurred in 2010, no significant injuries, diseases or other dangerous occurrences have occurred in the Company. Our goal is to have a clean record. For that purpose the Company provides, and will continue to provide, health and safety education to its managers and employees.

Tenants

The Company is committed to preserving the excellent reputation and the high international building standards of the Fishman Group. In particular, the Company is committed to safeguarding the safety and maintaining the satisfaction of its tenants.

The Environment

The Company is committed to maintaining the international environmental standards of the Group, and considers regulatory compliance to be a minimum standard. A significant portion of management attention is dedicated to the monitoring of the Company's employees and contractors, and their adherence with regulatory and internal environmental standards. All property acquisitions are subject to an engineering study, which includes a thorough examination of the environmental impact of the project, and an audit of its energy and water consumption, waste management, water and air pollution, ozone depletion and other issues.

The Company's flagship project in St Petersburg is the first in Russia to be recognised by BREEAM which is the world's leading environmental assessment and rating system for buildings.

Charity

The Board has stated its intention to donate to communities in cities and neighbourhoods in which it holds and develops real estate projects or to other communities that may approach the Company with an appropriate request for a donation. In 2012, the Company made donations in the amount of US$32,000. As market conditions are improving the Company intends to continue its charity policy.

Corporate Governance Report

As the Company's shares are traded on AIM, MirLand is not required to comply with the UK Corporate Governance Code (formerly the Combined Code), nor to comply with the equivalent Corporate Governance regime of its country of incorporation, Cyprus. As stated in the Company's Admission Document, however, the Board of MirLand believes that it is essential to maintain the highest standards of Corporate Governance appropriate for a company of MirLand's size. Accordingly, a statement of how the principles of the UK Corporate Governance Code have been applied in the period since admission to AIM, and how it is intended they continue to be applied, is given below.

Board Composition, Roles and Independence

During the financial year, MirLand's Board comprised eight Directors until 13 September 2012, and nine Directors following the appointment of Saydam Salaheddin as a Non-executive Director. Emil Budilovsky stepped down as Chief Financial Officer and was replaced by Yevgeny Steklov on 14 May 2012.

The roles of Chairman and Chief Executive Officer are distinct. The principal differentiating factors in their respective responsibilities are:

Chairman

Reports to the Board
Only the Chief Executive Officer reports to him
Responsible for running the Board

Chief Executive Officer

Reports to the Chairman
All executive management report to him, directly or indirectly
Responsible for running the business
Responsible for implementing the Board's decisions

Committee membership will be continually reviewed to ensure the most appropriate composition for each committee based on the skills and experience of the Directors.

The UK Corporate Governance Code recommends that the Board of Directors of a listed company should include a balance of executive and Non-executive Directors (and, in particular, independent Non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking. The UK Corporate Governance Code states that the Board should determine whether a Director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board has considered the independence of its Non-executive Directors in line with the principles of the UK Corporate Governance Code (section B.1.1) and, following careful consideration, assessed the independence of the Non-executive Directors as follows:

Director	Determination	Notes
Nigel Wright (Chairman)	Independent	No section B.1.1 criteria apply
Caroline Brown	Independent	No section B.1.1 criteria apply
Steven Holm	Independent	No section B.1.1 criteria apply
Elias Eliades	Independent	No section B.1.1 criteria apply
Saydam Salaheddin	Independent	No section B.1.1 criteria apply
Eliezer Fishman	Not independent	Represents a significant shareholder
Eyal Fishman	Not independent	Represents a significant shareholder

Of MirLand's six Non-executive Directors (excluding the Chairman), four of the Non-executive Directors are considered by the Board to be independent.

Board Conduct

The Board meets at least four times each year, for the consideration of strategy and to monitor and evaluate the Group's performance and prospects.

The table below sets out the dates of the Board meetings held in 2012 and provides details of the Directors' attendance at each meeting.

	31 January 2012	23 February 2012	12 March 2012	14 May 2012	29 May 2012	13 August 2012	6 September 2012	26 October 2012	12 November 2012
Nigel Wright (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Caroline Brown	✗	✓	✓	✓	✓	✓	✓	✗	✓
Steven Holm	✓	✓	✓	✓	✓	✓	✓	✓	✓
Roman Rozental	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eliezer Fishman	✗	✓	✗	✗	✗	✗	✗	✗	✓
Eyal Fishman	✗	✓	✓	✓	✗	✓	✗	✗	✓
Elias Eliades	✓	✓	✓	✓	✓	✓	✗	✓	✓
Emil Budilovsky*	✓	✓	✓	✓	–	–	–	–	–
Yevgeny Steklov*	–	–	–	–	✓	✓	✓	✓	✓
Saydam Salaheddin*	–	–	–	–	–	–	–	✓	✓

* Mr Budilovsky stepped down as Chief Financial Officer on 14 May 2012 and was replaced by Mr Steklov. Mr Salaheddin was appointed as a Non-executive Director on 13 September 2012.

Further to the regular "ordinary" Board meetings, the Board will also meet (if necessary, by teleconference) to consider substantial transactions or issues as they arise. If any Director is unable to attend such meetings, the Chairman will seek to speak to any such Director in advance.

At each scheduled Board meeting, there is a formal schedule of matters reserved for the Board's attention which may include:

a) setting the overall strategy;
b) approving major transactions to the extent such are relevant;
c) establishing debt funding strategies, including gearing ratios and other financial risk strategies, such as hedging policies;
d) accounting policies; and
e) operational review.

An annual budget is produced, together with longer-term projections, which are presented to the Board for approval. At each meeting the Board discusses progress against the budget and monitors any variances. Where applicable, revisions are made to expected out-turn against which further progress can be monitored.

The Board also discusses in detail the projected financial impact of major proposed acquisitions and disposals, including their financing. All such proposed substantial investments are considered by all Directors.

The above will be subject to continual review and will be updated as appropriate to ensure that the most important matters affecting the business are dealt with by the main Board.

Board packs containing relevant financial and non-financial information are supplied to Directors in advance of each Board/committee meeting. Additional requests for information from Directors are met and Directors are entitled to table agenda items at Board meetings.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Non-executive Directors' terms of appointment entitle them to take independent professional advice as required, at the Company's expense.

Corporate Governance Report Continued

Retirement by Rotation and Re-election

Directors are, under the Company's Articles of Association, required to stand for re-election at intervals of no more than three years.

Under the provisions of the Company's Articles of Association, one-third of the Directors are required to retire by rotation each year and, accordingly, Elias Eliades, Eyal Fishman and Eliezer Fishman will retire by rotation and their re-appointment to the Board is subject to the approval of shareholders. The Board considers that the performance of these Directors has, since their appointment, been effective and that they have demonstrated commitment to their roles. Accordingly, it recommends the re-election of each of them.

Biographical details of the Directors are given on pages 34 and 35.

Relations with Shareholders

The Chief Executive Officer and the Chief Financial Officer meet regularly with institutional shareholders and analysts. Additional meetings are arranged to ensure open dialogue throughout the year. It is proposed that Non-executive Directors should also be available for such meetings, subject to institutional shareholder requests.

Press releases are issued throughout the year and the Company maintains a website (www.mirland-development.com) on which all press releases are posted and which also contains major corporate information. Additionally, this annual report, which is sent to all registered shareholders, contains extensive information about the Group's activities. Enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are welcomed.

The AGM is a key forum for communication with shareholders. All Directors will attend the AGM, and the chairmen of all committees will be available to answer questions. The notice of meeting and annual report and accounts will be sent out at least 20 working days before the meeting. Shareholders are encouraged to attend the AGM to discuss the progress of the Group.

Separate votes will be held for each proposed resolution, including the approval of the Remuneration Committee report, and a proxy count is given in each case.

Investment Committee

On Admission, MirLand formed an Investment Committee. The committee is chaired by Eyal Fishman; its other members are Nigel Wright and Steven Holm.

Its role is to monitor and approve the investment decisions made by the Company's management and it is responsible for, among others, the Company's real estate and financial investment policy, evaluation of the Company's real estate portfolio, the review and approval of substantial real estate transactions, including acquisition, sale and lease agreements, and for reviewing and reporting to the Board on all potential investments into, and disposals from, the portfolio.

At appropriate times, the Chief Executive Officer prepares and submits an asset evaluation for review by the Investment Committee. This is accompanied by a report including information on all transactions under consideration or that have been approved or executed since the previous report. The Investment Committee is also responsible for making recommendations of changes to the Company's business plan.

During the year, there was one meeting of the Investment Committee held on 12 March 2012 which was attended by all of the members. This meeting was also attended by Yevgeny Steklov and Roman Rozental.

Nomination Committee

The Nomination Committee consists of three Non-executive Directors. The committee is chaired by Elias Eliades and its other two members are Nigel Wright and Eyal Fishman. The terms of reference of the Nomination Committee are available on the Group's website and principally relate to preparing selection criteria and appointment procedures for members of the Board and reviewing on a regular basis the structure, size and composition of the Board. The committee will also consider future appointments in respect of the Board's composition as well as make recommendations regarding the membership of the Audit and Remuneration Committees.

During the course of the year, the committee was tasked with seeking appropriate candidates for two Board positions. The position of Chief Financial Officer fell vacant during the year due to the resignation of Emil Budilovsky and the committee also continued its search for an additional Independent Non-executive Director. Both vacancies were discussed and considered at length and suitable candidates were identified for both roles. Yevgeny Steklov, previously Finance Director of the Group, was nominated by the committee for the position of Chief Financial Officer.

The committee identified Saydam Salaheddin, a former investment banker with wide-ranging experience of both finance and real estate, as a suitable candidate for the position of Independent Non-executive Director. As Mr Salaheddin had previously advised MirLand on its IPO in 2006 and was known to the members of the committee, the committee did not feel it was necessary to appoint an external search consultancy or to advertise in order to fill the vacancy of Independent Non-executive Director.

Both nominations were approved by the Board, with Mr Steklov's appointment becoming effective on 14 May 2012 and Mr Salaheddin's on 13 September 2012.

Attendance at the meetings of the Nomination Committee held in 2012 is shown below.

	14 May 2012	13 August 2012
Eyal Fishman (member)	✓	✓
Nigel Wright (member)	✓	✓
Elias Eliades (member)	✓	✓

Internal Controls

The Board has overall responsibility for the Group's internal control and effectiveness in safeguarding the assets of the Group. Internal control systems are designed to reflect the particular type of business and operations risks and to identify and manage risks, but not entirely all risks to which the business is exposed. As a result internal controls can only provide a reasonable, but not absolute, assurance against material misstatements or loss.

The processes used by the Board to review the effectiveness of the internal controls are through the Audit Committee, internal audit function and the executive management reporting to the Board on a regular basis where business plans, budgets and authorisation limits for the approval of significant expenditure, including investments, are appraised and agreed.

The Board also seeks to ensure that there is a proper organisational and management structure across the Group with clear responsibilities and accountability. The Board is also at liberty to engage independent professional advice on risk assessment matters.

Corporate Governance Report Continued

Audit Committee

In addition to ongoing discussions that are held between the Chairman of the Audit Committee and the Chief Financial Officer of the Company, the Audit Committee formally meets at least four times each year, before each Board meeting, reporting any relevant matters to the Board where appropriate. Attendance of the individual Directors, who all served on the committee or attended its meetings throughout the year, is shown below. The Audit Committee comprised two independent Non-executive Directors until the appointment of Saydam Salaheddin on 13 September 2012 at which point the audit committee comprised of three independent Non-executive Directors. Caroline Brown has the particular recent, relevant financial experience recommended by the UK Corporate Governance Code.

	12 March 2012	13/14 May** 2012	8/13 August** 2012	8/12 November** 2012
Caroline Brown (member)	✓	✓	✓	✓
Steven Holm (member)	✓	✓	✓	✓
Saydam Salaheddin (member)*	–	–	–	✓
Nigel Wright (member)	✓	✓	✓	–
Roman Rozental	✓	✓	✓	✓
Emil Budilovsky*	✓	✓	–	–
Yevgeny Steklov*	–	–	✓	✓

* Emil Budilovsky ceased to be a Director on 14 May 2012
Yevgeny Steklov became a Director on 14 May 2012
Saydam Salaheddin became a Director and member of the Audit Committee on 13 September 2012
** These meetings were adjourned on the first date shown and reconvened on the latter date.

The Audit Committee adheres to detailed terms of reference, which are available for inspection on the Group's website. The Audit Committee must consider, among other matters:

i) the integrity of the financial statements of the Company, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems;

ii) auditors' reports; and

iii) the terms of appointment and remuneration of the auditor.

The committee supervises and monitors, and advises the Board on, risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and a number of other audit-related issues.

The Company's CFO is invited to attend meetings of the committee. Once each year the Audit Committee meets with management without the auditors present, and also the auditors without management present.

Internal Audit

The Company's internal audit function is outsourced to a certified accountant in Cyprus who was nominated by the Audit Committee and approved by the Board. Baker Tilly Klitou and Partners Limited were nominated to be the internal auditors of the Company in October 2007. The internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the Audit Committee and the Board and is available for any meetings of the Audit Committee or Board. Baker Tilly Klitou and Partners filed its reports for 2012 in the months of March, May, August and November 2012.

Going Concern

After making enquiries, including the review of future anticipated cash flows and banking covenants, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Share Dealing Code

The Company has adopted a share dealing code for the members of the Board and certain employees which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules) and the Company will take all reasonable steps to ensure compliance with such code by the members of the Board and any applicable employees.

Controlling Shareholders

The Company's founder shareholders, Jerusalem Economy Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd have effective control of the Company. The Board is satisfied that MirLand is capable of carrying on its business independently of these founder shareholders. To ensure that all transactions and relationships between the parties are at arm's length and on a normal commercial basis, the Company has entered into a relationship agreement with the founder shareholders. If a conflict of interest arises between the founder shareholders and the Company, no Director who is deemed to be related to the founder shareholders will take part in the Board's decisions on the matter. Currently, these Directors are Eliezer Fishman and Eyal Fishman.

The Board has adopted a code for small related party transactions whereby related party transactions of less than 1% on the class costs may be entered into by management, subject to a procedure supervised by the Audit Committee.

Remuneration Committee and Directors' Remuneration Report

This report, in accordance with usual practice, will be put to shareholders for approval at the AGM. Ernst & Young LLP have audited certain parts of this report where indicated.

Remuneration Committee

The Remuneration Committee comprises three independent Non-executive Directors and meets at least twice each year. The Remuneration Committee is chaired by Steven Holm; the other members are Caroline Brown and Nigel Wright. The Remuneration Committee determines and reviews, among other matters, the remuneration of Executive Directors and any share incentive plans of the Company. In addition, the Remuneration Committee will prepare an annual report on the remuneration policies of the Company. The committee's terms of reference are available on the Group's website. Attendance at the meetings of the Remuneration Committee held in 2012 is shown below:

	31 January 2012	12 March 2012	14 May 2012	12 November 2012
Steven Holm (member)	✓	✓	✓	✓
Caroline Brown (member)	✗	✓	✓	✓
Nigel Wright (member)	✓	✓	✓	✓

Remuneration Policy

MirLand's remuneration policy is designed to attract, motivate and retain high-calibre individuals to enable the Group to operate strategically for the continued benefit of shareholders, over the long term. The committee aims to provide Executive Directors and senior managers with packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Group's strategic objectives and enhance shareholder value. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

The remuneration of Non-executive Directors is a matter for the Chairman and the Executive Directors. No Director or manager may be involved in any decisions as to his/her own remuneration.

Within the framework of the agreed remuneration policy the committee determines the remuneration package of the Chairman, the Executive Directors and other senior managers, including the size of, and the performance conditions applying to, awards made under the Company's cash bonus, and share option schemes. The committee also advises the Board on employee benefit structure throughout the Group. The Chief Executive Officer and the Chief Financial Officer may provide advice to the Remuneration Committee as necessary (save in respect of their own remuneration).

Service Contracts and Letters of Appointment

The Executive Directors have rolling service contracts which may be terminated on six-months' notice. There are provisions for earlier termination by the Company in certain specific circumstances.

Each Non-executive Director has specific terms of reference. Their letters of appointment provide for termination by either side on three months' notice. The letters of appointment contain no entitlement of compensation for early termination.

Details of the contract dates and notice periods are set out below:

	Contract date*	Notice period
Nigel Wright	27 November 2006	3 months
Yevgeny Steklov	14 May 2012	6 months
Roman Rozental	16 October 2009	6 months
Caroline Brown	27 November 2006	3 months
Steven Holm	17 November 2008	3 months
Eliezer Fishman	27 November 2006	3 months
Eyal Fishman	27 November 2006	3 months
Elias Eliades	11 September 2007	3 months
Saydam Salaheddin	13 September 2012	3 months

Other than salary and benefits in relation to the notice period described in the table, there are no other terms in any of the contracts which would give rise to compensation payable for early termination, or any other liability of the Company.

* On 14 May 2012, each Non-executive Director entered into new agreements extending their appointments as Non-executive Directors for a further three-year term from their previous contract expiry dates.

Other Directorships

Eliezer Fishman is chairman of each of Jerusalem Economy Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd, and Eyal Fishman is a Director of Jerusalem Economy Ltd and Darban Investments Ltd, all founder shareholders and substantial shareholders of the Company. Although there are no current conflicts of interest, it is possible that the fiduciary duties owed by these Directors to the founder shareholders may give rise to conflicts of interest with the duties they owe to the Group.

Non-Performance Related Remuneration

Basic salaries and benefits are reviewed by the Remuneration Committee annually and approved by the Board. Automatic increases are by reference to cost of living, responsibilities and market rates for all employees and are performed at the same time of year. Executive Directors, along with other senior members of staff, receive a car allowance. Executive Directors are entitled to senior employees insurance.

The Chairman's and Non-executive Directors' fees are reviewed on a bi-annual basis by the entire Board.

Pensions

Directors are not entitled to pension plans.

Performance Related Remuneration

MirLand does not grant performance related remuneration.

The auditors have audited the following parts of the Remuneration Report:

Directors' Remuneration

Chairman and Executive Directors	Nigel Wright US$	Roman Rozental US$	Yevgeny[1] Steklov US$	Emil[1] Budilovsky US$	Total US$
Non-performance related remuneration					
Salary and fees	152,167	418,597	176,955	77,805	825,524
Other taxable benefits	–	90,806	25,463	99,000	215,269
Share incentive plan	–	289,980	–	–	289,980
Total remuneration for the year ended 31 December 2012	**152,167**	**799,383**	**202,418**	**176,805**	**1,330,773**
Total remuneration for the year ended 31 December 2011	153,130	1,443,798	–	198,000	1,749,928

Non-executive Directors	Caroline Brown US$	Eliezer Fishman US$	Eyal Fishman US$	Elias Eliades US$	Steven Holm US$	Saydam Salaheddin[2] US$	Moshe Morag[3] US$	Total US$
Non-performance related remuneration								
Salary and fees	82,424	–	82,424	69,743	95,104	22,763	–	352,458
Other taxable benefits	–	–	–	–	–	–	–	–
Share incentive plan	–	–	–	–	–	–	–	–
Total remuneration for the year ended 31 December 2012	**82,424**	**–**	**82,424**	**69,743**	**95,104**	**22,763**	**–**	**352,458**
Total remuneration for the year ended 31 December 2011	82,945	–	82,945	70,184	95,706	–	234,761	566,541

1 Mr Budilovsky served as an Executive Director until 14 May 2012, when he was replaced by Mr Stelkov, also on 14 May 2012.
2 Mr Salaheddin was appointed as a Non-executive Director on 13 September 2012.
3 Mr Morag stepped down from his position as a Non-executive Director on 30 June 2011.

Remuneration Committee and Directors' Remuneration Report Continued

Details of share awards and options are included below.

Directors' Share Options

Director	Number of options	Number vested as at 31.12.2012	Exercise price of options GBP
Nigel Wright	0	N/A	N/A
Roman Rozental	1,122,995	1,122,995	2.5/2.3
Emil Budilovsky*	0	N/A	N/A
Yevgeny Steklov*	0	N/A	N/A
Caroline Brown	0	N/A	N/A
Steven Holm	0	N/A	N/A
Eliezer Fishman	0	N/A	N/A
Eyal Fishman	0	N/A	N/A
Elias Eliades	0	N/A	N/A
Saydam Salaheddin*	0	N/A	N/A

* Mr Budilovsky stepped down as an Executive Director on 14 May 2012 and was replaced by Mr Steklov. Mr Salaheddin was appointed as a Non-executive Director on 13 September 2012.

Share Price Performance

On behalf of the Board

Steven Holm
Chairman of the Remuneration Committee

11 March 2013

Independent Auditors' Report to the Members of MirLand Development Corporation Plc

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of MirLand Development Corporation Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Charis Stylianou
Certified Public Accountant
and Registered Auditor

for and on behalf of
Ernst & Young Cyprus Limited
Certified Public Accountants and
Registered Auditors

Limassol
11 March 2013

Consolidated Statement of Financial Position

	Note	31 December 2012 US$000	31 December 2011 US$000
Assets			
Current assets:			
Cash and cash equivalents		**26,685**	32,333
Restricted bank deposits		**1,119**	1,739
Trade receivables		**2,713**	4,568
Other receivables	4	**3,509**	2,780
VAT receivable	2i	**5,111**	7,393
Loans to related parties	8	**3,665**	–
Inventories of buildings for sale	5	**190,821**	157,772
		233,623	206,585
Non-current assets:			
Investment properties	6	**396,865**	363,569
Investment properties under construction	7	**51,552**	82,703
Inventories of buildings for sale	5	**79,100**	67,062
Loans to related parties	8	**–**	10,611
VAT receivable	2i	**226**	317
Fixed assets, net		**1,015**	1,190
Other long-term receivables	22a,b	**3,038**	2,851
Prepaid expenses		**5,362**	1,802
Deferred taxes	15	**2,437**	2,915
		539,595	533,020
Total assets		**773,218**	739,605

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

	Note	31 December 2012 US$000	31 December 2011 US$000
Equity and Liabilities			
Current liabilities:			
Credit from banks	9	**68,523**	66,992
Current maturities of long-term loans from banks and debentures	10,12	**53,792**	40,962
Credit from banks for financing of inventory of buildings for sale	10	**15,655**	24,218
Loans from shareholders	11	**–**	6,402
Government authorities		**3,677**	3,981
Trade payables		**7,463**	9,135
Deposits from tenants	13	**3,636**	3,831
Advances from buyers	5c,d	**77,321**	7,099
Other accounts payable		**2,346**	1,871
		232,413	164,491
Non-current liabilities:			
Loans from banks and others	10	**98,751**	79,960
Debentures	12	**114,169**	138,488
Other non-current liabilities	13	**10,538**	9,528
		223,458	227,976
Total liabilities		**455,871**	392,467
Equity attributable to equity holders of the parent:			
Issued capital	16	**1,036**	1,036
Share premium		**359,803**	359,803
Capital reserve for share-based payment transactions	18	**12,186**	11,341
Capital reserve for transactions with controlling shareholders	11	**8,391**	6,565
Foreign currency translation reserve		**(42,286)**	(52,126)
Retained earnings (accumulated deficit)		**(21,783)**	20,519
Total equity		**317,347**	347,138
Total equity and liabilities		**773,218**	739,605

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

Consolidated Income Statement

	Note	**Year ended 31 December 2012 US$000**	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Rental income from investment properties		**47,267**	39,679	17,239
Income from sale of inventories		**8,079**	3,932	1,078
Revenues from managing fees		**3,689**	3,922	3,267
Total revenues		**59,035**	47,533	21,584
Cost of sales of inventories		**(12,833)**	(6,279)	(1,370)
Cost of maintenance and management	19a	**(18,396)**	(20,915)	(10,356)
Gross profit before deduction		**27,806**	20,339	9,858
Impairment of inventory of buildings for sale	5	**(8,041)**	–	–
Gross profit		**19,765**	20,339	9,858
General and administrative expenses	19b	**(14,898)**	(16,583)	(14,944)
Marketing expenses		**(2,291)**	(2,593)	(1,231)
Fair value adjustments of investment properties and investment properties under construction	6,7	**(37,258)**	33,485	29,822
Other expense, net	19d	**(1,664)**	3,849	2,973
Operating income (loss)		**(36,346)**	38,497	26,478
Finance income	19c	**1,007**	2,141	5,234
Finance costs	19c	**(26,760)**	(18,031)	(5,047)
Net foreign exchange differences		**21,675**	(6,349)	(1,025)
Profit (loss) before taxes on income		**(40,424)**	16,258	25,640
Taxes on income (tax benefit)	15	**1,878**	(12,267)	2,485
Net income (loss)		**(42,302)**	28,525	23,155
Basic and diluted net earnings (loss) per share (US Dollars)	17	**(0.41)**	0.28	0.22

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

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Net income (loss)	**(42,302)**	28,525	23,155
Other comprehensive income (loss) (net of tax effect)			
Transfer of translation reserve to income statement as a result of sale of jointly controlled entity	**–**	–	815
Exchange differences on translation of foreign operations	**9,840**	(26,530)	(3,258)
Total other comprehensive income (loss)	**9,840**	(26,530)	(2,443)
Total comprehensive income (loss)	**(32,462)**	1,995	20,712

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

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Parent								
	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Currency translation reserve	Retained earnings (accumulated deficit)	Total	Non-controlling interests	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 January 2010	1,036	359,803	9,974	2,702	(23,153)	(31,186)	319,176	25	319,201
Net income (loss) for the year	–	–	–	–	–	23,180	23,180	(25)	23,155
Other comprehensive loss	–	–	–	–	(2,443)	–	(2,443)	–	(2,443)
Total comprehensive income (loss), net	–	–	–	–	(2,443)	23,180	20,737	(25)	20,712
Equity component of transaction with controlling shareholders	–	–	–	505	–	–	505	–	505
Share-based payment transactions	–	–	605	–	–	–	605	–	605
At 31 December 2010	1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023	–	341,023
At 1 January 2011	1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023		
Net income for the year	–	–	–	–	–	28,525	28,525		
Other comprehensive loss	–	–	–	–	(26,530)	–	(26,530)		
Total comprehensive income (loss), net	–	–	–	–	(26,530)	28,525	1,995		
Equity component of transaction with controlling shareholders	–	–	–	3,358	–	–	3,358		
Share-based payment transactions	–	–	762	–	-	–	762		
At 31 December 2011	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138		
At 1 January 2012	1,036	359,803	11,341	6,565	(52,126)	20,519	347,138		
Net loss for the year	–	–	–	–	–	(42,302)	(42,302)		
Other comprehensive income	–	–	–	–	9,840	–	9,840		
Total comprehensive income (loss), net					9,840	(42,302)	(32,462)		
Equity component of transaction with controlling shareholders(1)	–	–	–	1,826	–	–	1,826		
Share-based payment transactions	–	–	845	–	–	–	845		
At 31 December 2012	**1,036**	**359,803**	**12,186**	**8,391**	**(42,286)**	**(21,783)**	**317,347**		

(1) See also Note 11.

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

Consolidated Statement of Cash Flows

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Cash flows from operating activities:			
Net income (loss)	**(42,302)**	28,525	23,155
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	**536**	(13,482)	1,610
Depreciation and amortisation	**497**	467	610
Finance costs (income), net	**4,078**	22,239	606
Share-based payment	**845**	762	605
Fair value adjustment of investment properties and investment properties under construction	**37,258**	(33,485)	(29,822)
Fair value adjustment and loss from sale of financial derivative	**–**	–	232
Gain from sale of jointly controlled entity	**–**	–	(3,159)
	43,214	(23,499)	(29,318)
Working capital adjustments:			
Increase in trade receivables	**(1,556)**	(5,547)	(256)
Decrease in VAT receivable and others	**3,029**	23,708	(2,729)
Increase in inventories of buildings for sale	**(32,544)**	(21,759)	(25,990)
Increase (decrease) in trade payables	**(134)**	165	–
Increase (decrease) in other accounts payable	**70,057**	6,612	6,726
	38,852	3,179	(22,249)
Interest paid	**(25,724)**	(23,370)	(11,647)
Interest received	**2,102**	20	86
Taxes paid	**(629)**	(948)	(218)
Taxes received	**–**	22	–
	(24,251)	(24,276)	(11,779)
Net cash flows generated from (used in) operating activities	**15,213**	(16,071)	(40,191)

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

Consolidated Statement of Cash Flows Continued

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Cash flows from investing activities:			
Acquisition of additional interest in jointly controlled entity	**(1,500)**	–	–
Additions to investment properties	**(8,818)**	(6,365)	(15,281)
Additions to investment properties under construction	**(2,277)**	(8,742)	(24,196)
Purchase of fixed assets	**(279)**	(349)	(872)
Proceeds from the sale of fixed assets	**–**	–	33
Proceeds from sale of jointly controlled entity(1)	**–**	–	18,069
Investment in restricted deposit	**620**	(1,739)	–
Proceeds from repayment of loans granted	**5,590**	9,408	3,398
Loans granted to related party	**(2,007)**	(980)	–
Net cash flows used in investing activities	**(8,671)**	(8,767)	(18,849)
Cash flows from financing activities:			
Receipt of loans from banks	**91,118**	47,696	2,868
Issuance of debentures, net	**–**	54,104	70,024
Repayment of debentures	**(26,456)**	(10,768)	(10,823)
Receipt of loans from shareholders	**12,422**	–	5,000
Repayment of loans from shareholders	**(18,306)**	(36,843)	(10,000)
Repayment of other loans	**–**	–	(1,837)
Repayment of loans from banks	**(71,266)**	(6,206)	(5,900)
Proceeds from sale of financial derivative	**–**	–	1,443
Net cash flows generated from (used in) financing activities	**(12,488)**	47,983	50,775
Exchange differences on balances of cash and cash equivalents	**298**	(1,786)	(1,732)
Increase (decrease) in cash and cash equivalents	**(5,648)**	21,359	(9,997)
Cash and cash equivalents at the beginning of the year	**32,333**	10,974	20,971
Cash and cash equivalents at the end of the year	**26,685**	32,333	10,974
(1) Proceeds from sale of jointly controlled entity:			
Investment property under construction	**–**	–	15,545
Trade and other receivables	**–**	–	180
Foreign currency translation reserve	**–**	–	(815)
Gain from sale of jointly controlled entity, net	**–**	–	3,159
	–	–	18,069

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

Notes to the Consolidated Financial Statements

Note 1 General

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

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

The principal activities of the Company and its subsidiaries ("the Group"), which did not change from last year, are investment and development of residential and commercial real estate assets in Russia.

b. During 2012, the Company recorded a loss from fair value adjustment in the Skyscraper project which is presented in the financial statements as part of investment properties under construction in the amount of approximately US$40.3m. For further details, see also Note 7d.

c. Based on management plans and as reflected in the Group's forecasted cash flows, the Group expects to finance its activities in 2013 among others by obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 31 December 2012 amounting to approximately US$50m, and by generating revenues from sales of building projects that are expected to be completed during 2013.

In addition, the Group's short-term loans from banks amounting to approximately US$70m are secured by non-cancellable guarantees of the controlling shareholders until the full repayment of the loans.

Based on the above, management believes the Group will be able to meet all of its financial obligations.

d. Definitions:

In these financial statements:

The Company	MirLand Development Corporation Plc.
The Group	MirLand Development Corporation Plc and its investees as listed below.
Subsidiaries	Companies over which the Company exercises control (as defined in IAS 27R) and whose financial statements are consolidated with those of the Company.
Jointly controlled entities	Companies held by a number of entities, among which contractual agreement exists for joint control and whose financial statements are consolidated with the financial statements of the Company according to the proportionate consolidation method.
Investees	Subsidiaries and jointly controlled entities.
Parent	JEC
Ultimate controlling shareholder	Fishman family (Fishman Group).
Related parties	As defined in IAS 24 (revised).

Notes to the Consolidated Financial Statements Continued

Note 2 Significant Accounting Policies

a. Basis of presentation of the financial statements:
The accounting policies adopted are consistent with those of the previous financial years, except as described below:

1. Measurement basis:

The Group's financial statements have been prepared on a cost basis, except for the following that have been measured at fair value:

Investment property;
Investment property under construction;
Shareholders' guarantees

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

2. Basis of preparation of the financial statements:

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

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

b. The operating cycle:
The Group's normal operating cycle exceeds one year and may generally last four years. Accordingly, the current assets include items that are held and are expected to be realised by the end of the Group's normal operating cycle.

c. Consolidated financial statements:
The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests of subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

Note 2 Significant Accounting Policies continued

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

Direct acquisition costs are carried to the income statement as incurred.

Upon the acquisition of a business, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date, including separation of embedded derivatives from the host contract of the acquiree.

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

e. Investments in jointly controlled entity:
The consolidated financial statements comprise the financial statements of a jointly controlled entity where the shareholders have a contractual arrangement that establishes joint control and which is consolidated in the Group's accounts using the proportionate consolidation method. The Company combines in its consolidated financial statements its share of the assets, liabilities, income and expenses of the jointly controlled entity with similar items in its financial statements. Significant intragroup balances and transactions and gains or losses resulting from transactions between the Group and the jointly controlled entity are eliminated to the extent of the interest in the jointly controlled entity.

Upon loss of joint control by the Group, any retained investment is recognised and measured at fair value. The difference between the carrying amount of the former company under joint control as of the date on which joint control ceases and the aggregate fair value of any remaining investment and the consideration from disposal is recognised in profit or loss. If the Group has significant influence over the remaining investment, it is as accounted for as an investment in an associate.

Notes to the Consolidated Financial Statements Continued

Note 2 Significant Accounting Policies continued

f. Functional and foreign currencies:

1. Functional currency and presentation currency:
The financial statements are presented in thousands of US Dollars.

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

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

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

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and are accounted for as part of the investment and accordingly, the exchange rate differences from these loans and the exchange rate differences from a foreign currency financial instrument that represents a hedge of net investment in foreign operation are recognised (net of their tax effect) as other comprehensive income (loss) under "adjustments arising from translating financial statements" and "reserve for hedges", respectively.

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

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

3. Index-linked monetary items:
Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalised to qualifying assets, are recognised in profit or loss.

g. Cash and cash equivalents:

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

Note 2 Significant Accounting Policies continued

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

i. Long-term VAT receivable:
Long-term VAT receivable represents VAT which was paid upon the purchase of land and during the construction of the projects and is stated at its estimated present value using a discount rate of 8%.

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

k. Inventories of buildings for sale:
Cost of inventories of buildings and apartments for sale comprises identifiable direct costs of land such as taxes, fees and duties and construction costs. The Company also capitalises borrowing costs as part of the cost of inventories of buildings and apartments for sale from the period in which the Company commenced development of the land. The capitalised costs are expensed along with the other costs of the project when revenues are recognised.

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

l. Revenue recognition:
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be reliably measured. In cases where the Group acts as agent or broker without bearing any of the risks and rewards derived from the transaction, revenue is presented on a net basis. In contrast, if the Group acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis. The revenue is measured at fair value of the amount of the transaction, net of discount. The following specific recognition criteria must also be met before revenue is recognised:

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

Rendering of services, including management fees: Revenue from the rendering of services is recognised by reference to the stage of completion as of the reporting date. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.
Interest income: Interest income is recognised on a cumulative basis using the effective interest rate method.
Revenues from sale of residential apartments:

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

Notes to the Consolidated Financial Statements Continued

Note 2 Significant Accounting Policies continued

m. Financial instruments:

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

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

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

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

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

Financial liabilities measured at amortised cost:

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

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

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

If the Group transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset or transfers control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

Note 2 Significant Accounting Policies continued

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

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

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification, is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognised in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognised on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Group takes into account both quantitative and qualitative considerations.

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

Financial assets carried at amortised cost: There is objective evidence of impairment of debt instruments, loans and receivables and held-to-maturity investments carried at amortised cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

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

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

The Group as lessor:
Operating leases: Lease agreements where the Group does not actually transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases.

Initial direct costs incurred in respect of the lease agreement, except those relating to investment property which are carried to the income statement, are added to the carrying amount of the leased asset and recognised as an expense in parallel with the lease income. Lease income is recognised as revenue in the income statement on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements Continued

Note 2 Significant Accounting Policies continued

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

Depreciation is calculated on a straight-line basis over the useful life of the asset at annual rates of 10-20%.

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

p. Borrowing costs in respect of qualifying assets:
The Group capitalises borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

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

The amount of borrowing costs capitalised in the reported period includes specific borrowing costs and general borrowing costs based on a weighted capitalisation rate.

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

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

Investment property is derecognised on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of the disposal.

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

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

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

Note 2 Significant Accounting Policies continued

s. Taxes on income:

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

1. Current income taxes:

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

2. Deferred income taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilised. Also, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognised are reassessed and deferred tax assets are recognised to the extent that their recoverability has become probable.

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

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

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

The Group did not record deferred taxes in respect of temporary differences arising from changes in the fair value of investment properties in view of management's intention to sell the companies holding these assets rather than the assets themselves (see also Note 15).

t. Provisions:

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

Notes to the Consolidated Financial Statements Continued

Note 2 Significant Accounting Policies continued

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

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

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

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

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

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

w. Significant accounting judgements, estimates and assumptions used in the preparation of the financial statements:
In the process of applying the significant accounting policies, the Group has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

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

Share-based payment transactions: Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

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

Note 2 Significant Accounting Policies continued

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

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

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

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

Deferred taxes in respect of asset entities: In cases where the Group holds single asset entities and the Group's intention is to realise the shares of single asset entities and not the asset itself, the Group does not record deferred taxes in respect of the temporary differences relating to the asset. Nonetheless, the Group measures the fair value of the single asset entities' shares taking into account said tax implications. As to the change in the Cyprus-Russia tax treaty, see Note 15b.

Transactions with controlling shareholder: The Company received a long-term loan with non-market conditions from a controlling shareholder and a guarantee on a bank loan without charging a fee from a controlling shareholder. The Company accounts for these transactions as contribution from shareholders and recognises them immediately pursuant to IAS 39 and, accordingly, the amount of contribution that is carried to equity reflects the difference between the fair value of the liability and the consideration received. In determining the compensation, the Company is required to evaluate the market conditions that existed when the transaction was made, including the market terms of a similar guarantee had it been given by an unrelated third party. Further details are given in Note 11.

x. Disclosure of new IFRSs in the period prior to their adoption:
IAS 1 – Presentation of Financial Statements: In June 2011, the IASB issued an amendment to IAS 1 ("the Amendment") which provides guidance for the presentation of other comprehensive income. According to the amendment, items which may be reclassified to profit or loss in a future period (such as upon derecognition or recovery) should be presented separately from items that will never be reclassified to profit or loss.

The amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on 1 January 2013, or thereafter. The Group will adopt the amendment in its financial statements starting from the amendment's effective date in 2013.

IAS 32 – Financial Instruments: Presentation and IFRS 7 – Financial Instruments: Disclosure: The IASB issued certain amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off").

Notes to the Consolidated Financial Statements Continued

Note 2 Significant Accounting Policies continued

The IASB also issued amendments to IFRS 7 ("the amendments to IFRS 7") regarding the offsetting of financial assets and liabilities.

The amendments to IAS 32 are to be applied retrospectively commencing from the financial statements for periods beginning on 1 January 2014, or thereafter. The amendments to IFRS 7 are to be applied retrospectively commencing from the financial statements for periods beginning on 1 January 2013, or thereafter.

The Group estimates that the amendments to IAS 32 are not expected to have a material impact on its financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the Group's financial statements.

IFRS 9 – Financial Instruments:
1. The IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("the Standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortised cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

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

The Standard is effective commencing from 1 January 2015. Earlier application is permitted.

2. The IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

The amendments are effective commencing from 1 January 2015. Earlier application is permitted provided that the Group also adopts the provisions of the Standard regarding the classification and measurement of financial assets.

The Group believes that the Standard is not expected to have a material effect on the financial statements.

Note 2 Significant Accounting Policies continued

IFRS 10, IFRS 11, IFRS 12, IFRS 13 – Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Fair Value Measurement: The IASB issued four new Standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" ("the new Standards") and IFRS 13, "Fair Value Measurement", and amended two existing Standards, IAS 27R (Revised 2011), "Separate Financial Statements", and IAS 28R (Revised 2011), "Investments in Associates and Joint Ventures".

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on 1 January 2013 or thereafter.

The main provisions of the Standards and their expected effects on the Group are as follows:

IFRS 10 – Consolidated Financial Statements: IFRS 10 supersedes IAS 27 regarding the accounting treatment in respect of consolidated financial statements.

According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return. According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive.

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27, which permits a choice between two consolidation models – the de facto control model and the legal control model.

The Group believes that the adoption of IFRS 10 is not expected to have a material effect on the financial statements.

IFRS 11 – Joint Arrangements: IFRS 11 supersedes IAS 31 regarding the accounting treatment of interests in joint ventures and SIC 13 regarding the interpretation of the accounting treatment of non-monetary contributions by venturers. IFRS 11 distinguishes between two types of joint arrangements:

Joint ventures, in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are only accounted for under the equity method, and joint operations, in which the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement and are therefore accounted for in proportion to their relative share of the joint operation as determined in the joint arrangement, similar to the current accounting treatment for proportionate consolidation.

IFRS 11 is to be applied retrospectively in financial statements for annual periods commencing on 1 January 2013, or thereafter.

The Group believes that the adoption of IFRS 11 is not expected to have a material effect on the net profit of the Group for the years ended 31 December 2012, 2011 and 2010. The Group estimates that the effect of IFRS 11 is expected to be a decrease in rental income in the amount of approximately US$13,395,000, US$14,379,000 and US$9,357,000 as of 31 December 2012, 31 December 2011 and 1 January 2010, respectively.

Notes to the Consolidated Financial Statements Continued

Note 2 Significant Accounting Policies continued

IFRS 12 – Disclosure of Interests in Other Entities: IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the disclosure requirements to include the judgements and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Group's financial statements upon initial adoption of IFRS 12.

IFRS 13 – Fair Value Measurement: IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. The new disclosures are to be applied prospectively and they do not apply to comparative figures.

The Appropriate Disclosures Will Be Included In The Group's Financial Statements Upon Initial Adoption Of IFRS 13.

Note 3 Interest in Jointly Controlled Entities

a. The following is a list of the fully consolidated subsidiaries:

Name of company	Country of incorporation	Activity	% of holding
Hydromashservice Llc ("Hydro")	Russia	Lease of buildings	100
Mashinostroenie & Hydravlika Ojsc ("Mag")	Russia	Lease of buildings	100
Creativecom Llc ("Creative")	Russia	Constructing residential projects	100
Petra 8 Llc ("Petra")	Russia	Constructing residential projects	100
Realservice Llc ("Realservice")	Russia	Constructing commercial projects	100
Investisionno Ipotechnaya Kompania Ltd.)"lik")	Russia	Constructing commercial projects	100
Mall Project Co. Ltd. ("Mall Project")	Cyprus	Holding company	100
Gasconade Holding Ltd	Cyprus	Holding company	100
Laykapark Trading Ltd	Cyprus	Holding company	100
Dunchoille Holdings Ltd	Cyprus	Holding and financing company	100
MirLand Management Limited	Cyprus	Consulting	100
MirLand Management Rus Llc	Russia	Consulting	100
Heckbert 22 Group Financing Limited Kft	Hungary	Financing company	100
Israrussia Services Ltd. ("Irs")	Israel	Consulting	100
Tamiz Llc	Russia	Constructing commercial projects	100
Design Project Llc	Russia	Constructing commercial projects	100
Ttm Llc	Russia	Constructing commercial projects	100
Liga 45 Llc	Russia	Constructing commercial projects	100
Windeatts Limited	Cyprus	Consulting	100
Polus Invest Llc	Russia	Constructing commercial projects	100
MirLand Novosibirsk Llc	Russia	Lease of buildings	100

Note 3 Interest in Jointly Controlled Entities continued

List of jointly controlled entities:

Name of company	Country of incorporation	Activity	% of holding
Inverton Enterprises Llc	Cyprus	Holding company	50.5
Astraestate & Co. Limited Partnership (“Astra”)	Cyprus	Partnership for holding a company, erecting commercial projects and lease of buildings	50
Winta Holdings Ltd	Cyprus	Limited partner in partnership for holding a company, erecting commercial projects and lease of buildings	50
Global 1 Llc)”Global”)	Russia	Lease of commercial property	50.5
Inomotor Llc	Russia	Lease of buildings	61 (1)
Avtoprioritet Llc	Russia	Lease of buildings	51
Mall Mortgage Ltd	Cyprus	Financing company	50.5

(1) On 30 March 2012, the Company acquired from its partner a 10% additional interest in shares of jointly controlled entity (“Inomotor”) for a total consideration of US$1.5m in addition to a US$1m loan bearing an annual 10% interest extended to the said partner. As a result, the Company holds 61% of the interest in Inomotor as of the reporting date, subject to the 1% option granted to the partner notice of its exercise has been served but not consummated. As of the reporting date, the joint venture agreement between the parties was not amended, as a result of this acquisition, thus the Group accounts for the investment in Inomotor using the proportionate consolidation method. On 4 January 2013, the Company signed an amendment to the joint venture agreement, see also Note 24.

b. The Group’s share of the assets and liabilities as of 31 December 2012 and 2011 and income and expenses of the jointly controlled entities for the years ended 31 December 2012, 2011 and 2010, which are proportionally consolidated in the consolidated financial statements, are as follows:

	31 December 2012 US$000	31 December 2011 US$000
Share of the joint ventures’ statement of financial position:		
Current assets	**2,632**	8,002
Non-current assets	**95,178**	91,498
Current liabilities	**(4,455)**	(6,061)
Non-current liabilities	**(25,522)**	(36,823)
Net assets	**67,833**	56,616

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Share of the joint ventures’ revenue, expenses and profit:			
Revenue(1)	**17,083**	14,379	9,357
Cost of maintenance and management	**(3,520)**	(3,817)	(2,886)
Administrative expenses	**(479)**	(186)	(486)
Fair value adjustments of investment properties and investment properties under construction	**(5,704)**	11,221	10,542
Finance costs	**(417)**	(5,494)	(4,437)
Other income	**–**	–	2,796
Income before taxes on income	**6,963**	16,103	14,886
Taxes on income	**(795)**	–	–
Net income	**6,168**	16,103	14,886

(1) Including income from lease agreement termination in the amount of US$3,688,000.

See also Note 22(g).

Notes to the Consolidated Financial Statements Continued

Note 4 Other Receivables

	31 December 2012 US$000	31 December 2011 US$000
Prepayments to suppliers	**2,410**	1,500
Government authorities	**521**	473
Other receivables	**578**	807
	3,509	2,780

Note 5 Inventories of Buildings for Sale

a. Composition:

Current assets:

	31 December 2012 US$000	31 December 2011 US$000
Land	**29,035**	38,428
Construction costs	**169,827**	119,344
Impairment of inventory	**(8,041)**	–
	190,821	157,772

Non-current assets:

	31 December 2012 US$000	31 December 2011 US$000
Land	**24,138**	18,005
Construction costs	**54,962**	49,057
	79,100	67,062

b. This includes capitalised borrowing costs of approximately US$2,929,000 for the year ended 31 December 2012 and approximately US$9,990,000 for the year ended 31 December 2011.

c. During the period, a Company's subsidiary entered into agreements regarding the sale of three units of town houses and three cottages in a residential project located near Moscow for the total consideration of US$3.8m.

Note 5 Inventories of Buildings for Sale continued

The total number of town houses and cottages sold since the beginning of the marketing is 11 and 14 units respectively and the total consideration received for town houses and cottages sold amounted to US$16.3m. As of the reporting date the advances received from buyers amount to US$1.9m. During 2012, 12 units were transferred to the buyers. As a result, revenues in the total amount of US$8m are recorded in the income statements.

During the period, based on an external valuation, the Company recorded an impairment of the project in the total amount of US$8m.

d. During the period, a Company's subsidiary entered into agreements regarding the sale of 614 residential units, in a project located in St Petersburg. The Group received advances from buyers from these sales in a total amount of US$75.4m. These residential units have not been transferred to the buyers yet.

Note 6 Investment Properties

a. Composition:

	31 December 2012 US$000	31 December 2011 US$000
Balance at 1 January	**363,569**	306,257
Purchases during the year[(1)]	**3,410**	–
Additions for the year	**8,329**	3,181
Transfer from investment properties under construction	**–**	42,982
Fair value adjustments	**168**	30,409
Exchange rate differences	**21,389**	(19,260)
Balance at 31 December	**396,865**	363,569

(1) See also Note 3a(1).

b. In assessing cash flows, their inherent risk is taken into account. In computing the fair value, the valuators used a discount rate of 12.5%.

c. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes have not been recorded, but were taken into consideration while determining the fair value of the investment property. The management is of the opinion that the actual amount of the reduction may be significantly lower due to the economic benefits to which the buyer is entitled upon the sale of shares. See also Note 15b.

Notes to the Consolidated Financial Statements Continued

Note 7 Investment Properties under Construction

a. Composition:

	2012 US$000	2011 US$000
At 1 January	**82,703**	121,364
Additions for the year	**2,277**	8,487
Transfer to investment properties	**–**	(42,982)
Fair value adjustments	**(37,426)**	3,076
Exchange rate differences	**3,998**	(7,242)
At 31 December	**51,552**	82,703

b. In computing the fair value, the valuators used a discount rate of 21-25%.

c. Regarding the management's intention to sell the investment property in a "share realisation deal" refer to Note 6c.

On 12 December 2011, the Federal Law No. 427-FZ was signed, amending the Federal Law "On the Enactment of the Russian Federation Land Code" and certain other legislative acts (the "New Law"). The New Law became effective on 1 April 2012.

The amendments stipulate that local authorities located in Moscow or St Petersburg may unilaterally terminate lease contracts entered into prior to 1 January 2011, for the purpose of construction of an immovable property, if the contractual obligations on construction of a property have not been duly performed according to the term of the lease.

On 24 January 2013, an indirect subsidiary of the Company – Real Service LLC, which holds the leasehold rights to a project known as the "Skyscraper" in Moscow, received a letter, from the Department of Land Resources of the Moscow government, notifying it of the termination of its lease agreement in connection with an area of 0.9 Ha leased to Real Service (the "Lease Agreement").

The letter stipulates that termination of the lease agreement will take effect following the expiration of a period of one month from the date of the letter. The letter further states that the subsidiary has the right to file an objection to the lease termination within a period of one month from the date of the letter. Cancellation of the lease will be subject to a hearing and the final verdict of such legal proceedings.

During February 2013, Real Service filed an objection to the letter, claiming that the lease agreement had been terminated unlawfully by the Moscow government since any alleged breach of its terms has been due to the actions and omissions on the part of the Moscow government itself denying Real Service a construction permit. Real Service is determined to take these actions that it deems fit to defend its position, including any such legal actions and claims for compensation that may be available to it. As of the date of this report, Real Service has not received any reply to the objection filed by it. At this stage, the Company is unable to determine the likelihood of its success in those actions.

As a result, the Group recorded a loss from fair value adjustments in the amount of approximately US$40.3m, which reflects full impairment of the project's value as of the beginning of 2012.

Note 8 Loans to Related Parties

The Group granted during 2007, 2008 and 2009, loans of approximately US$55m to Century Companies for the purpose of investing in the project buildings and the repayment of former debts to third parties. The loans bear an 11% annual interest rate and are expected to be repaid from the subsidiaries' future profits. During 2012, the Century Companies repaid the total amount of approximately US$7m (including interest accrued).

The outstanding amount will be repaid during the next 12 months.

Note 9 Credit from Banks

The bank loans bear annual interest rates of LIBOR plus 2% to 4.15%. During September 2008, the Company's main shareholders (companies that are part of the Fishman Group) reinstated guarantees in favour of certain bank institutions that granted the Group lines of credit. See also Note 11.

These loans were classified as short-term loans due to the fact that, according to the loan agreements, the bank may demand repayment of the loans at any time.

Note 10 Loans from Banks and Others

a. Composition:

	Interest rate %	**December 31 2012 US$000**	December 31 2011 US$000
Loans from banks with fixed interest rate	9.25-12.3	**70,282**	41,266
Loans from banks with variable interest rate	Libor + 3.5-7.7	**66,790**	73,606
Loans from others		**997**	915
		138,069	115,787
Deduction of current maturities		**23,663**	11,609
Deduction of credit from banks for financing inventory of buildings		**15,655**	24,218
		98,751	79,960

(1) During September 2012 the wholly owned subsidiaries of the Company "Machine-Building & Hydraulics" ("MAG") and "Hydromashservice" ("Hydro") ("the Subsidiaries") have entered into a loan agreement with SberBank of Russia (the "Bank") for the provision of a line of credit of US$50m as follows: MAG – US$30m; Hydro – US$20m (the "Loan").

The Loan will bear a fixed interest rate of 9.5% payable quarterly. The Loan will be repaid within seven years through regular quarterly payments and a final balloon payment of 50% at the end of the term, in 2019.

For information regarding financial covenants, see clause b.

(2) In November 2012, a wholly owned subsidiary, Petra 8 LLC (the "Subsidiary"), entered into a loan agreement with the "Bank". According to the loan agreement, the Bank will provide the Subsidiary with a line of credit in Russian rubles equivalent to US$47.5m (the "Ruble Loan") to finance construction of the second phase of the Subsidiary's residential project in St Petersburg ("The Project").

The Ruble Loan bears an interest rate of 12.3% and will mature in three years. Starting October 2014 (inclusive) it will be repaid in monthly instalments in accordance with the terms of the Loan, and through to the end of the three-year term. The loan will be partly repaid from the Subsidiary's sale of residential units, commercial space, and parking spaces.

To secure the Ruble Loan, the Company and the Subsidiary have pledged the following securities to the Bank: the Company's full interest in the Subsidiary, the Subsidiary's rights in 260 dunams, out of 400 dunams, of the Project's land plots, a future pledge on the Project's completed apartments, a future pledge on the receivables from the sale of the Project, and a guarantee from the Company for repayment of any outstanding debt owed by the Subsidiary.

Notes to the Consolidated Financial Statements Continued

Note 10 Loans from Banks and Others continued

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

As of 31 December 2012, the Group's subsidiaries complied with all of the financial covenants that were determined.

c. Pledges and securities:
The Company's subsidiaries pledged their rights in the projects and the income stemming from the aforesaid financed projects. Furthermore, in some cases the Group pledged its shares in the subsidiaries which own the projects in favour of the banks, as aforesaid.

d. The maturity dates of long-term loans:

	31 December 2012 US$000	31 December 2011 US$000
First year – current liabilities	**23,663**	11,608
Second year	**24,266**	16,085
Third year	**9,399**	23,578
Fourth year and after	**80,741**	64,517
	138,069	115,788

Note 11 Loans and Guarantees From Shareholders

a. During September 2008, the main shareholders of the Company (companies that are part of the Fishman Group) granted guarantees in favour of certain banks that secured lines of credit to the Company in the aggregate amount of approximately US$70m that were granted to the Company from banks. The aforementioned guarantees are renewed annually.

As of 31 December 2012, the Group measures the fair value of those benefits received from shareholders and recorded as capital reserve and expense in the total amount of US$3,358,000 for the year ended 31 December 2012 (2011: US$505,000). On 31 December 2012, the Group measured the guarantees value based on the yield of the Group's bonds with the required amendments. As a result, the Group recorded an additional capital reserve in a total amount of US$1,826,000.

b. During 2010, the Company signed a loan framework agreement for the total amount of US$5m, with its major shareholders. Those loans matured on 14 April 2012, and an bore interest rate of 15% per annum. During 2012, the Company repaid shareholder's loans in a total amount of approximately US$6.4m (including accumulated interest).

Note 12 Debentures

a. Composition

	Date of Insurance	Nominal interest %	Maturity date	Nominal value on date of insurance US$000	Linkage terms (principal and Insurance)	Effective annual interest rate %	**31 December 2012** Amount of debentures in thousands	Balance US$000	31 December 2011 Amount of debentures in thousands	Balance US$000
Series A	Dec 07	6.5	6 equal semiannual payments beginning 31 December 2010	10,085	Israel CPI	6.19	**19,630**	**6,152**	26,173	7,897
Series B	Dec 07	LIBOR +2.75	6 equal semiannual payments beginning 31 December 2010	52,626	US$ exchange rate	5.15	**102,437**	**26,449**	136,583	35,308
Series C	Aug 10 Feb 11	8.5	5 equal semiannual payments beginning 31 August 2012	79,099	Israel CPI	4.85-8.88	**238,447**	**70,512**	298,059	85,098
Series D	Aug 10 Feb 11	6	4 equal semiannual payments beginning 30 November 2014	59,096	Israel CPI	5.86-6.27	**147,051**	**41,185**	146,701	39,538

b. The expected maturities after the reporting date for the year ended 31 December 2012:

	Less than one year US$000	**One to two years US$000**	**Two to three years US$000**	**Three to four years US$000**	**Four to five years US$000**	**More than five years US$000**	**Total US$000**
Series A*	**2,035**	**2,035**	**2,035**	**–**	**–**	**–**	**6,105**
Series B*	**8,771**	**8,771**	**8,771**	**–**	**–**	**–**	**26,313**
Series C*	**16,792**	**16,792**	**16,792**	**16,792**	**–**	**–**	**67,168**
Series D*	**–**	**10,309**	**10,309**	**10,309**	**10,309**	**–**	**41,236**
	27,598	**37,907**	**37,907**	**27,101**	**10,309**	**–**	**140,822**
Premium							**1,367**
Total							**142,189**

* Not including interest accrued, in the amount of US$2,109 as of 31 December 2012, which is part of current maturities of long-term loans from banks and debentures.

c. Debentures held by related parties are disclosed in Note 20b.

Notes to the Consolidated Financial Statements Continued

Note 13 Other Non-Current Liabilities

	31 December 2012 US$000	31 December 2011 US$000
Deposits from tenants(1)	**8,013**	7,011
Less short-term deposits from tenants	**(3,636)**	(3,831)
Provision regarding an agreement with government authorities (see Note 22f)	**5,211**	5,379
Other(2)	**950**	969
	10,538	9,528

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

(2) On 31 December 2007, the Company signed a memorandum of understanding with two private companies ("the Sellers") to purchase 51% of the shares held by the Sellers in the companies Inomotor LLC and Avtoprioritet ("the Century Companies"), both incorporated under Russian law.

The Company granted the Sellers the right to purchase 1% of the share capital of Century Companies, in return for a nominal amount.

During December 2011, the Sellers notified the Company of the exercise of the option. Up until the balance sheet date the option exercise has not been consummated.

The Company recorded in its financial statements provisions in the amount of US$950,000 and US$969,000 as of 31 December 2012 and 2011, respectively, which reflect the option values as at those dates.

With respect to agreements signed with the seller after the balance sheet date, see Note 24.

Note 14 Financial Instruments

a. Financial risk factors:

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

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

The parameters that the Group used in performing the sensitivity tests are:

Ruble/US Dollar exchange rate, NIS/US Dollar exchange rate changes in interest rates and CPI changes.

The changes that were examined in the relevant risk variables were chosen by management assessment regarding possible changes in those risk variables.

Note 14 Financial Instruments continued

For long-term loans which bear variable interest rate, the sensitivity examination was performed only for the variable interest component. The sensitivity of the debentures to interest rates was calculated based on the maturity dated of the debentures.

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

The following table represents the sensitivity to a reasonably possible change in the US Dollar/Ruble exchange rates in the year 2012:

	2012 Effect on profit (loss) before tax US$000	2011 Effect on profit (loss) before tax US$000
Increase of 5% in US Dollar/Ruble	**(5,419)**	(4,681)
Decrease of 5% in US Dollar/Ruble	**5,419**	4,681

The following table represents the sensitivity to a reasonable possible change in US Dollars/NIS exchange rates in the year 2012:

	2012 Effect on profit (loss) before tax US$000	2011 Effect on profit (loss) before tax US$000
Increase 5% in US Dollar/NIS	**(5,892)**	(6,630)
Decrease 5% in US Dollar/NIS	**5,892**	6,630

2. Credit risk: The Group performs ongoing evaluations of the prospects of collecting debts of customers and buyers and, if necessary, it records a provision in the books reflecting the losses anticipated by management. The Group is also exposed to credit risk in respect of receivables, cash equivalents, deposits and other financial assets (including loans provided).

Notes to the Consolidated Financial Statements Continued

Note 14 Financial Instruments continued

3. Interest rate risk: In December 2007, and in August and November 2010, the Group issued debentures (see Note 12). These balances bear variable interest and therefore expose the Group to cash flow risk in respect of increase in interest rates.

65% of the Company's loans bear floating interest rates.

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

	2012 Effect on profit (loss) before tax US$000	2011 Effect on profit (loss) before tax US$000
Increase 1% in interest	**(1,629)**	(1,752)
Decrease 1% in interest	**1,629**	1,752

4. Liquidity risk exposure: The main liquidity risk of the Group arises from the issue of debentures. See also Note 12.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	31 December 2012					
	Less than 1 year US$000	**One to two years US$000**	**Two to three years US$000**	**Three to four years US$000**	**More than five years US$000**	**Total US$000**
Loans from banks and others	**33,613**	**32,427**	**15,956**	**22,846**	**75,366**	**180,208**
Debentures	**37,036**	**45,500**	**43,036**	**29,765**	**10,928**	**166,265**
Credits from banks	**73,041**	**–**	**–**	**–**	**–**	**73,041**
Accounts payable	**15,960**	**–**	**–**	**–**	**–**	**15,960**
	159,650	**77,927**	**58,992**	**52,611**	**86,294**	**435,474**

	31 December 2011					
	Less than 1 year US$000	One to two years US$000	Two to three years US$000	Three to four years US$000	More than five years US$000	Total US$000
Loans from banks and others	18,608	22,777	29,128	11,805	32,416	114,734
Loans from shareholders	6,402	–	–	–	–	6,402
Debentures	40,868	38,768	47,225	44,491	40,654	212,006
Credits from banks	71,486	–	–	–	–	71,486
Accounts payable	14,988	–	–	–	–	14,988
	152,352	61,545	76,353	56,296	73,070	419,616

Note 14 Financial Instruments continued

5. Israeli Consumer Price Index risk:

a) The Series A, C and D Bonds issued by the Company are linked to the Israeli Consumer Price Index ("CPI"). The total amount of financial instruments which are linked to CPI is US$117,849,000 and US$132,533,000 as of 31 December 2012 and 31 December 2011, respectively.

b) The table below represents sensitivity to a reasonable possible change in CPI in the year 2012:

	2012 Effect on profit (loss) before tax US$000	2011 Effect on profit (loss) before tax US$000
Increase 0.2% in CPI	**(1,178)**	(1,336)
Decrease 0.2% in CPI	**1,178**	1,366

b. Fair value of financial instruments:

Set out below is a comparison by category of carrying amounts and fair values of all the financial instruments of the Group as of 31 December 2012 and 31 December 2011:

	31 December 2012		31 December 2011	
	Carrying amount US$000	**Fair value US$000**	Carrying amount US$000	Fair value US$000
Financial liabilities				
Long- and short-term loans	**70,282**	**69,899**	45,093	43,824
Debentures (series A)	**6,152**	**6,070**	7,897	7,396
Debentures (series B)	**26,449**	**25,795**	35,308	30,441
Debentures (series C)	**70,512**	**70,065**	85,098	79,768
Debentures (series D)	**41,185**	**38,612**	39,538	33,394

Notes to the Consolidated Financial Statements Continued

Note 14 Financial Instruments continued

c. Linkage terms of financial instruments:

Linkage terms of financial assets:

31 December 2012:

	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Cash and cash equivalents	**1,972**	**24,713**	**–**	**26,685**
Restricted deposits	**1,119**	**–**	**–**	**1,119**
Loans and receivables	**8,832**	**1,162**	**–**	**9,994**
	11,923	**25,875**	**–**	**37,798**

31 December 2011:

	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Cash and cash equivalents	22,098	10,164	71	32,333
Restricted deposits	1,739	–	–	1,739
Loans and receivables	17,988	460	–	18, 448
	41,825	10,624	71	52,520

Linkage terms of financial liabilities:

31 December 2012:

	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Trade and other payables	**7,463**	**5,211**	**–**	**12,674**
Loans from banks and related parties and debentures	**225,099**	**7,942**	**117,849**	**350,890**
	232,562	**13,153**	**117,849**	**363,564**

31 December 2011:

	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Trade and other payables	9,135	5,379	–	14,514
Loans from banks and related parties and debentures	222,319	2,171	132,533	357,023
	231,454	7,550	132,533	371,537

Note 14 Financial Instruments continued

d. Group's capital management:
The Group's capital management objectives are:

(1) To maintain healthy capital ratios in order to support its business activity and maximise shareholders' value.

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

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

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

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

Note 15 Income Tax

a. Tax rates applicable to the Company and its investees:
Cyprus – corporate tax rate – 10%
Russia – corporate tax rate – 20%
Israel – corporate tax rate – 25%
Hungary – corporate tax rate – 19%

b. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December 2012 US$000	31 December 2011 US$000	**31 December 2012 US$000**	31 December 2011 US$000	31 December 2010 US$000
Deferred tax liabilities:					
Inventory of buildings	**(16,918)**	(15,755)	**399**	(4,265)	(3,778)
Deferred tax assets:					
Carry forward tax losses	**19,355**	18,670	**(935)**	17,747	2,168
Deferred tax (expenses) income			**(536)**	13,482	(1,610)
Deferred tax, net	**2,437**	2,915			

Notes to the Consolidated Financial Statements Continued

Note 15 Income Tax continued

The deferred taxes are presented in the statement of financial position as follows:

	31 December 2012 US$000	31 December 2011 US$000
Non-current assets	**2,437**	2,915

1. The deferred taxes are calculated at the average tax rate of 20% (2011: 20%) based on the tax rates that are expected to apply at the time they are realised.

2. The adjustments of the value of the assets to their fair value result in a temporary difference between the carrying value of the asset in the financial statements and its tax basis. Since management intends to realise assets by share transaction, and not via the sale of the assets themselves, deferred taxes were not recognised in respect to the above differences and other differences related to the assets, but were taken into account in the calculation of the fair value of the assets.

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

The Group is evaluating the possible impact of the change, but is presently unable to assess the effects, if any, on its financial statements since until the order will come into force other laws and protocol can be changed as well. The Group's management believes that the change will not have any material effect on the Company's results of operations, because the Group has accounted for a tax provision which was deducted from the fair value of the properties.

c. Tax expense (Tax benefit):

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Current income tax	**1,342**	1,215	875
Deferred taxes	**536**	(13,482)	1,610
Tax expense (tax benefit) in income statement	**1,878**	(12,267)	2,485

Note 15 Income Tax continued

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

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Income (loss) before tax expense	**(40,424)**	16,258	25,640
Tax at the statutory tax rate in Russia (20%)	**(8,085)**	3,252	5,128
Increase (decrease) in respect of:			
Effect of different tax rate in Cyprus (10%) and Hungary (16%)	**2,924**	(1,448)	(528)
Losses for which deferred tax assets were not recorded	**5,319**	2,804	782
Previous years losses for which deferred tax assets were recorded during the year	**–**	(9,623)	–
Inter-company expenses for which deferred tax liabilities were recorded	**531**	3,312	3,473
Non-deductible expenses (exempt income)	**1,325**	(10,517)	(5,855)
Others	**(136)**	(47)	(515)
Income tax expense (tax benefit)	**1,878**	(12,267)	2,485

e. The tax losses carried forward by the Group companies' amount to approximately US$128.6m. Deferred tax assets amounting to US$19.3m have been recognised. Deferred tax assets in the total amount of US$3m, on tax losses carried forward in the amount approximately US$22.1m, were not recorded.

Note 16 Equity

a. Composition of issued capital:

	31 December 2012 US$	31 December 2011 US$
Authorised shares of US$0.01 par value each	**1,200,000**	1,200,000
Issued and fully paid shares of US$0.01 par value each	**1,035,580**	1,035,580

b. Dividend distribution policy:

Since its establishment, the Company has not distributed a dividend to its shareholders.

The distribution of dividends by the Company is dependent on the financial performance and position of the Company, its equity and its working capital requirements. On 27 November 2006, the Company's Board of Directors adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Notes to the Consolidated Financial Statements Continued

Note 16 Equity continued

c. Other reserves

Exchange rate differences originating from monetary items ceasing to be part of net investments in foreign operation:

In light of the progress made in the sale of residential units of the St Petersburg project (Petra 8) and the rental income stabilisation in Saratov project (IIK), a subsidiary, which previously provided the loans to these projects, concluded that it would be able to demand repayment of loans. As such, the Group has ceased to account for such loans as part of net investment in foreign operation. As a result, during the six-month period ending 31 December 2012, the Company recorded gain from exchange rate differences, in the amount of US$14,717,000, instead of recording the amounts to the Company's equity.

Note 17 Earnings (Loss) per Share

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Weighted average number of ordinary shares used for computing basic earnings per share (in thousands)	**103,558**	103,558	103,558
Weighted average number of ordinary shares used for computing diluted earnings per share (in thousands) (see Note 20)	**106,684**	105,953	105,523
Income (loss) used for computing basic and diluted earnings per share (in thousands of US Dollars)	**(42,302)**	28,525	23,155

Note 18 Share-Based Payments

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

The options can be exercised by way of a cashless exercise according to a mechanism determined by the Company's Board. The options were meant to be exercised within five years from the grant date, otherwise they expire. As to the extension of the exercise term, see sub sections d and e below.

b. In November 2009, the Company's Board has approved the update of the exercise price of 1,946,524 Share Option granted to certain officers of the Company and its subsidiary pursuant to an ESOP adopted by the Board in November 2006. The update of the exercise price, included inter alia the update of the Share Options granted to the Company's CEO and CFO, as follows:

1. 1,122,995 Share Options have been reissued to Mr Morag, at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. As to the extension of the option exercise period see section (e) below. According to the binomial model, the value of the share options is 948,722 GBP.

2. 449,198 Share Options have been reissued to Mr Rozental, the Company's CEO (and at that time the Company's CFO) at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. As to the extension of the option exercise period see section (e) below. According to the binomial model, the value of the share options is 379,489 GBP.

Note 18 Share-Based Payments continued

3. 374,331 Share Options have been reissued to an officer of the Company's subsidiary at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. As to the extension of the option exercise period see section (e) below. According to the binomial model, the value of the share options is 316,240 GBP,

c. On 2 December 2010, the Company granted Mr Rozental, who was appointed, at that time, as the Company's CEO, additional Share Options for 673,797 ordinary shares of the Company. The exercise price is 2.30 GBP per share and the options are exercisable until 1 December 2015, and vest in three equal annual instalments, such that the first instalment vested at the grant date and second and third instalments will be vested on the second and third anniversary starting from the date of grant, respectively. The fair value of granted options is US$1,615,000.

d. On 12 March 2012, the Company's RemCo approved the extension of the exercise period of 1,122,995 options, previously granted by the Company, to 19 March 2014, and updated the exercise price of those options from 4.8 GBP per share to an exercise price of 3.5 GBP per share. According to IFRS 2, the additional value of those options was measured by an independent appraiser and amounted to US$494,000. The Company recognised this amount as expenses in the income statement. As of the reporting date, the options are fully vested.

e. On 12 November 2012, the Company's RemCo approved the extensions of the exercise period of 823,530 Share Options, previously granted by the Company described in sub section b (2) and (3) above, to 19 December 2014 and the extensions of the exercise period of 1,122,995 Share Options, previously granted by the Company described in sub section b (1) above, to 19 December 2014. According to IFRS 2, the additional value of those options was measured by an independent appraiser and amounted to US$105,000. The Company recognised this amount as expenses in the income statement. As of the reporting date, the options are fully vested.

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

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
	845	762	605

Notes to the Consolidated Financial Statements Continued

Note 19 Additional details regarding Profit and Loss

a. Cost of maintenance and management:

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Maintenance of property	**11,940**	14,524	7,253
Land lease payments	**775**	304	341
Fee to management company	**1,196**	1,276	328
Property tax on investment property	**4,485**	4,811	2,434
	18,396	20,915	10,356

b. General and administrative expenses:

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Salaries (1)	**7,376**	7,737	6,847
Office maintenance	**1,677**	1,190	1,263
Professional fees	**3,413**	4,380	3,891
Travelling expenses	**589**	767	553
Depreciation	**497**	467	610
Other costs	**1,346**	2,042	1,780
	14,898	16,583	14,944
(1) Includes cost of share-based payment (see Note 18)	**845**	762	605

Note 19 Additional details regarding Profit and Loss continued

c. Finance costs and income:

Finance income:

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Interest income from cash and cash equivalents and restricted deposits	**9**	22	86
Interest income from loans provided	**740**	1,445	1,940
Effect of discounting of long-term receivables	**258**	674	3,208
	1,007	2,141	5,234

Finance costs:

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Interest costs – loans from banks	**(15,720)**	(8,999)	(9,168)
Interest costs – loans from shareholders	**(117)**	(2,108)	(6,466)
Interest costs – debentures	**(11,876)**	(15,998)	(5,703)
Net capitalised interest costs	**2,929**	9,990	16,989
Bank charges and others	**(1,976)**	(916)	–
Others	**–**	–	(699)
	(26,760)	(18,031)	(5,047)

d. Other income (expenses):

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Change in provision regarding an agreement with government authorities and service providers (see Note 22f)	**(1,714)**	(2,397)	(186)
Compensation from insurance company in respect of fire damage	**–**	6,246	–
Gain from sale of jointly controlled entity	**–**	–	3,159
Other	**50**	–	–
	(1,664)	3,849	2,973

Notes to the Consolidated Financial Statements Continued

Note 20 Related Parties

a. Transactions with related parties:

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Interest income from related parties	**740**	1,445	1,940
Interest paid to shareholders (1) (2)	**2,714**	5,785	6,466
Private jet expenses	**17**	249	117

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

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

b. Balances with related parties:

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000
Debentures held by shareholders	**30,259**	40,824
Guarantees provided and benefits received regarding loans from majority shareholders	**1,826**	3,358
Loans from majority shareholders	**–**	6,402

c. For more details regarding agreements with related parties, see also Note 21.

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

	Year ended 31 December 2012 US$000	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Salaries	**904**	1,104	1,399
Share-based payments	**290**	762	605
	1,194	1,866	2,004

Note 21 Agreements with Related Parties

a. Global, which owns a commercial centre in Yaroslavl, has entered into a lease agreement with Home Centers LLC (“Home Center”), a company controlled by the Fishman family, the controlling shareholders of the Company. The area leased to Home Center covers 6,712 sqm, the minimal lease fees are US$138 per sqm and the lease period, assuming the exercise of all of the option periods contained therein, is 25 years. The terms of the agreements are in accordance with market conditions.

b. Hydro leases offices to Home Center with an overall area of approximately 652 sqm used for office purposes. The monthly lease fee is approximately US$20,000. Moreover, Hydro bears the renovation expenses of the offices, in the amount of US$186,000. The lease period terminated on 30 November 2013. The engagement is in accordance with market conditions.

c. During 2012, a subsidiary of the Company, Petra 8 LLC (“Petra 8”) entered into an agreement to purchase fit-out services in connection with the delivery of the apartments being built by Petra 8 in St Petersburg at a standard that is higher than the base standard for an overall amount of approximately US$2m.

Note 22 Commitments and Contingencies

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

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

On 4 January 2013, the Company entered into a new management service agreement with two Cypriot companies owned by the previous affiliates of FIN ("Service Providers") substituting the above-mentioned management service agreement. The new management service agreement is entered into for a term of two years with an option to extend its term by an additional one year term. Each of the parties has the right to terminate the agreement with one year's termination notice without derogating from the Service Providers the right to the Project Commission. According to the new management service agreement, the Company has the discretion to extend to any of the Service Providers' companies, on account of the above-mentioned consideration a monthly advance payment in the amount of US$70,000 with regard to both Hydro and MAG Projects. See also sub section b below. The advance amount will bear annual interest at the rate of 11%. It was further agreed that the direct expenses of hiring additional employees for providing the said management services will be paid by the Company.

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

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

In addition, Petra entered into an agreement with another third party according to which such third party provides services which include preparation for tenders, assistance in projects planning, assistance in selection of providers, technical supervision, budget control, etc.

As of the reporting date Petra pays such third party monthly management fees in an amount of approximately US$110,000.

In September 2012, Petra entered into an agreement with another management company for the purpose of developing the third phase of the Project for a monthly consideration of US$65,000.

During July 2008 Petra entered into a construction agreement for the construction of the first phase of the Project based on a cost + 4.8% that will be paid to the contractor based on the construction progress as stipulated in the agreement between the parties.

Notes to the Consolidated Financial Statements Continued

Note 22 Commitments and Contingencies continued

d. The Group entered into commercial lease agreements for certain land plots. These leases are irrevocable and have a term of 19-45 years with a renewal option.

Future minimum lease payments as of 31 December 2012 are as follows:

	US$000
First year	775
After one year but no more than five years	1,262
More than five years	7,237
Total	9,274

e. Expected rental income:

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

The minimum rental income is as follows:

	31 December 2012 US$000
First year	**42,742**
Second year until five years	**105,490**
More than five years	**41,525**
	189,757

f. A subsidiary of the Company, which owns a plot of land in Yaroslavl, has entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the built area on said land. The Group has recorded a provision regarding this agreement. See also Note 13.

g. On 24 April 2012, Avtoprioritet (a subsidiary of the Company) signed a compromise agreement with Reiffeisen Bank ("a lease in one of the Company's assets") which was approved by a court ruling agreement in Russia. According to the agreement, a debt balance, for which the lessee was liable in respect to 2011 in an amount aggregating to about US$4.8m (not including VAT), was paid. Further, on 23 April 2012 an additional compromise agreement and lease termination agreement were signed and were approved by court ruling. Pursuant to the compromise agreement, the subsidiary collected the debt balance, for which the lessee was liable in respect to the period from 1 January 2012 until the date on which the compromise was signed, in the amount of about US$1.5m (not including VAT). Further, in accordance with the lease termination agreement between the parties it was agreed that in reference to the period up to the end of the original lease agreement, to which the lessee was liable, an amount aggregating to US$7.7m will be paid in addition to the deposit in the amount of about US$1.3m that the lessee deposited with it and that was transferred to the subsidiary at the inception of the lease agreement. The compromise amounts were received by the subsidiary in full.

Note 23 Segment Information

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

The commercial segment is involved in the leasing of real estate property for commercial purposes, and the residential segment is involved in the development of real estate property for sale for residential purposes.

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

	Year ended 31 December 2012		
	Commercial US$000	**Residential US$000**	**Total US$000**
Segment revenues	**50,956**	**8,079**	**59,035**
Segment results	**(9,245)**	**(15,338)**	**(24,583)**
Unallocated expenses			**(11,763)**
Finance Income, net			**(4,078)**
Loss before taxes on income			**(40,424)**

	Year ended 31 December 2011		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	43,601	3,932	47,533
Segment results	50,840	(4,661)	46,179
Unallocated expenses			(7,682)
Finance cost, net			(22,239)
Profit before taxes on income			16,258

	Year ended 31 December 2010		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	20,506	1,078	21,584
Segment results	37,018	(1,435)	35,583
Unallocated expenses			(9,105)
Finance cost, net			(838)
Profit before taxes on income			25,640

Notes to the Consolidated Financial Statements Continued

Note 23 Segment Information continued

	Year ended 31 December 2012		
	Commercial US$000	Residential US$000	Total US$000
Assets:			
Segment assets	**464,507**	**297,642**	**762,149**
Unallocated assets			**11,069**
Total assets			**773,218**
Liabilities:			
Segment liabilities	**132,747**	**108,709**	**241,456**
Unallocated liabilities			**214,415**
Total liabilities			**455,871**

	Year ended 31 December 2011		
	Commercial US$000	Residential US$000	Total US$000
Assets:			
Segment assets	479,316	232,058	711,374
Unallocated assets			28,231
Total assets			739,605
Liabilities:			
Segment liabilities	114,379	36,853	151,232
Unallocated liabilities			241,235
Total liabilities			392,467

Note 24 Subsequent Events

a. On 25 February 2013, Midroog, a subsidiary of Moody's Investor Services, the credit rating agency, has updated the credit rating for the Company's Series A, B and D Bonds to "ilBaa1/Stable" from their prior ratings of "ilBaa2/+" on a local Israeli scale. The Series C Bonds are not rated by Midroog. In addition, Midroog has provided the same rating for any new issue or extension of an existing bond series of up to NIS 100m (approximately US$27m).

b. On 4 January 2013, the company entered into an amendment agreement with its partners in a joint controlled entity ("The Century Companies"). The amendment amended the previous shareholders' agreement that was in place between the parties, so that unanimous consent will not be required for transactions exceeding monetary value over US$100,000, thus adopting the agreement to the everyday practice between them and limiting the veto rights of the partners in the Century Companies.

During January 2013, the Company reached an understanding and an agreement in principle with its partner in the Century Companies according to which the partner will waive the Option previously granted to him for the acquisition of 1% of Century Companies, the exercise of which has not been consummated. As consideration for such waiver the partner will be entitled to an amount equal to 1% of the value attributed to the Century Companies' valuation as of 31 December 2012. The parties agreed that such amount will be set off against the balance of the loan previously granted to the partner. See also Note 3 (a) (1).

Note 25 Date of Approval of the Financial Statements

The Board of Directors approved these consolidated financial statements for issue on 11 March 2013.

Shareholders' Information

Financial Calendar

Annual General Meeting	13 May 2013
Announcement of 2013 first quarter results	May 2013
Announcement of 2013 interim results	August 2013
Announcement of 2013 third quarter results	November 2013

Share Price

The range of the closing mid-market prices of the Company's ordinary shares during the year were:

Price at 31 December 2012	116p
Lowest price during the year	77p
Highest price during the year	177.5p
Average	127.1p

Daily information on the Company's share price can be obtained on the London Stock Exchange website (Company's ticker MLD.L).

Website

www.mirland-development.com

Shareholders' Enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the Company's registrar at:

Computershare

The Pavilions, Bridgwater Road, Bristol
BS13 8AE, United Kingdom

Secretary and Registered Office

Asoted Secretarial Limited
Office 606, 6th floor, Nicolaou Pentadromos Centre,
Thessalonikis Street, 3025 Limassol, Cyprus

Tel: +357 25 871 785
Fax: +357 25 342 403
office@mirland-development.com

Company registration number 153919

Advisers

Nominated Adviser

Credit Suisse, Securities (Europe) Limited, London

PR Agency

FTI Consulting, London

Legal Advisers

Berwin Leighton Paisner LLP, London
King & Spalding, Moscow

Chrysses Demetriades & Co, Limassol
Steinmetz, Haring Gurman & Co, Tel-Aviv

Real Estate Consultant

Cushman & Wakefield, Moscow
Jones Lang LaSalle, Moscow
CB Richard Ellis, Moscow

Designed and produced by FTI Consulting   www.fticonsulting.com

The report was printed by PurePrint. It was printed without the use of harmful, VOC emitting, isopropyl alcohol using *pure*print®
environmental print technology, a CarbonNeutral® printer registered to environmental management system ISO 14001.