MirLand

Development Corporation Plc
Annual report and accounts 2008

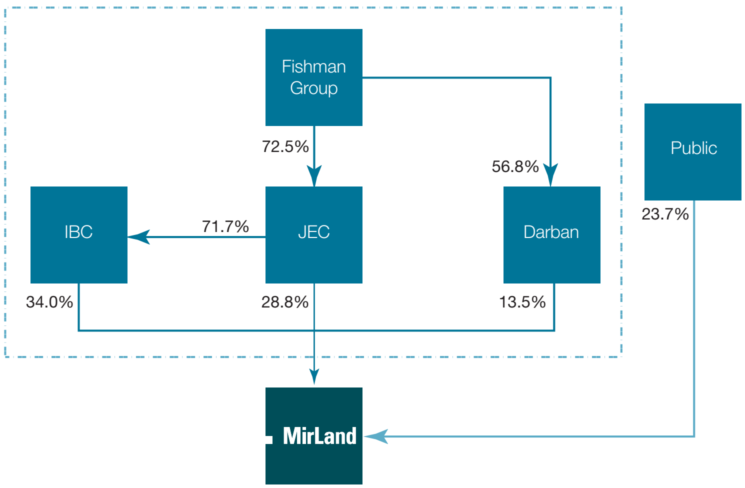
Contents

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 global Fishman Group, an investment group with over US$2bn of combined annual income and a strong international track record of over 20 years of developing, managing and investing in real estate assets via public companies.

In December 2006 the Company successfully raised net proceeds of US$293m, including the exercise of the over-allotment option, through its IPO on the AIM market of the London Stock Exchange.



In December 2007 the Company successfully raised net proceeds of US$62m through bond issuance in Israel, providing it with greater financial flexibility and enhancing its ability to deliver its existing portfolio and pipeline of projects.

The Company currently holds 14 projects for residential and commercial development across Russia, with a total rentable/saleable area of approximately 1,278,000 sqm. Of these, one was added to the portfolio during 2008.

What We Do

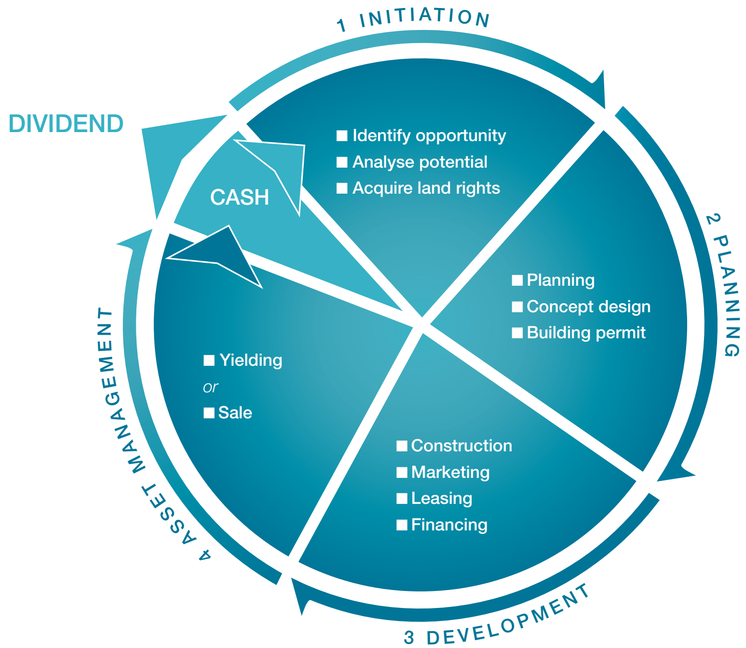
MirLand is mainly involved in the acquisition, development, construction, rental and sale of commercial and residential real estate in Russia.

MirLand focuses its efforts on Moscow, St Petersburg and major regional cities which have a population of more than 500,000, in which it has identified a significant demand for such properties.

The Company invests primarily in projects where it has identified the potential for a high return on equity and the generation of high yields, stemming from relatively low costs and high demand and prices.

Our Business Model

MirLand's fully integrated business model creates a competitive edge for the Company in the Russian market.



Measures and Policy

- High prioritisation given to financing
- Projects progressed subject to the financial resources available and market conditions
- Completion and delivery of cash-flow generating projects
- Focus on sales and leasing activity for the residential and commercial projects that are "ready for the market"
- Adjustment of the Company's expected general and administrative expenses according to the market conditions

How We Performed in 2008

Corporate and Financial Highlights

US$104.8m	US$20.4m	US$529.9m	US$487.2m
Loss for the year (2007: a profit of US$64.9m)	Revenues for the year (2007: US$12.4m), an increase of 65%	Total assets (31 December 2007: US$658.0m), a decrease of 19%	Adjusted Net Asset Value (31 December 2007: US$1,245.5m), a decrease of 60%

- Company's equity as at 31 December 2008 amounted to US$342.2m which comprises 65% of total assets.
- The Company invested US$176m in 2008, in developing its portfolio of assets. US$358m has been invested over the past three years.
- The Company continues to have modest leverage at 28% of its total assets.
- The Company's NAV per share as at 31 December 2008 is US$4.7 based on the Cushman & Wakefield Stiles & Riabokobylko valuation.
- 14 significant ongoing projects which, on completion, will provide approximately 1.28m sqm of office, retail and residential properties.
- Completion of the Century Buildings in Moscow.
- Start of first sub phase of the Company's flagship project in St Petersburg which, on completion, will comprise 9,000 apartments.

Our Markets

Real Estate Market

- 2008 started well, showing the same positive growth trend of the past ten years. In the second half of the year the picture altered dramatically, as it did across the globe, and the Russian economy entered a slowdown due to the world financial and economic crises and reduction in commodity prices.
- The economic slowdown naturally affected the real estate market. Yields are on the rise, asset values are decreasing, developments have been frozen and the investment volume has decreased. At the same time, the decline in new construction starts and the reduction in commodity prices has led to a decrease in raw materials and construction costs.

Retail Market Characteristics

- The consumer market began to show the serious effects of the global economic downturn towards the end of 2008 and the beginning of 2009. The demand for quality retail premises began to decline in Q4 2008, as a result of consumer caution, coupled with a decline in real disposable income growth and therefore retailers' turnover.
- Russia has numerous regional cities with populations of over 500,000 people, with no or little modern real estate stock. The change in market conditions is expected to delay plans of retailers who were looking to continue their expansion into the regions.

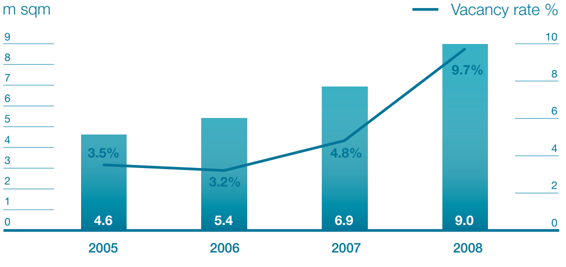
Office Market Characteristics

- The total stock of office space in Moscow reached 9m sqm in 2008 and set a record for the level of leased or sold premises. However, in Q4 2008 it was clear that the rapid growth in occupational demand for the office sector that had taken place since 2005, was coming to an end.
- Across Russia it is expected that in 2009 the considerable reduction in demand for office space will lead to a fall in the average rental rates and a significant increase in vacancy rates.

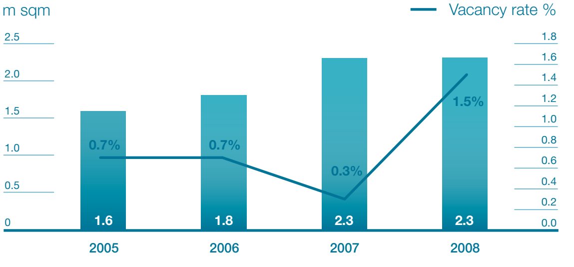
Residential Market Characteristics

- The market for residential property in Russia is characterised by very low supply per capita and ageing stock.
- The main reasons for the increase in demand since 1990 were the growth in salaries and disposable income, the expansion of western enterprises and the subsequent increase in employees needing housing.
- In St Petersburg the residential real estate market has experienced the fastest rate of development over the past few years while prices have shown relatively stable growth.
- Since Q3 2008 there has been a decrease in demand across Russia, due to the worsening economic situation and lack of mortgage finance. As a result, prices decreased (in US$ terms) across Russia.
- In 2009, activity in the housing market is expected to be low.

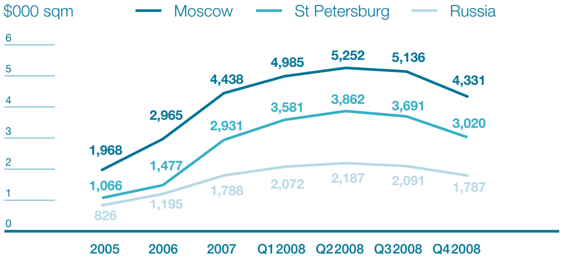
Office Stocks and Vacancy Rates, Moscow



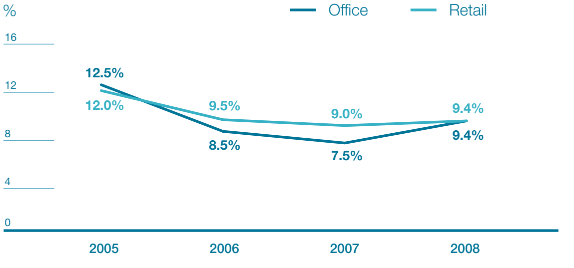
Retail Stocks and Vacancy Rates, Moscow



Residential Housing Prices



Historical Yields, Moscow



Source: Rosstat and Cushman & Wakefield

Chairman's Statement

Once again I have pleasure in reporting to shareholders on your Company's efforts and progress during the 2008 financial year. During the year MirLand monitored and adjusted its business plan according to the changing market and economic conditions. I am confident that we have taken prudent actions to enable us to endure the current crisis and position us to take full advantage as markets normalise and improve.

Nigel Wright
Chairman

In light of the extraordinary turn of events in world financial and real estate markets over the reporting period, the continuing global recession and the challenges faced by the Russian economy (upon which I comment further below) MirLand has conducted a thorough review of its business plan in order to ensure that the Company's future strategy is appropriate in light of current and anticipated market conditions. Given the uncertainties surrounding the world economy as a whole, availability of funding liquidity, energy prices and the timing of any upturn, our focus has been on positioning MirLand to cope with any presently foreseeable eventuality and we have therefore taken strong actions to ensure the business is appropriately positioned to ride out the storm.

We have adjusted our overall programme to ensure that we can:

- maximise returns from our existing completed developments;
- successfully bring to fruition those projects currently under construction; and
- delay commencement of certain pipeline projects until such a time that the outlook in the funding markets becomes clearer.

However, despite an anticipated slowdown of certain future projects we are still committing capital to "working up" those schemes which we feel will yield significant returns to shareholders as markets normalise and growth returns in due course.

Having taken these appropriate steps, the Board of Directors and Senior Management believe that MirLand is positioned to weather the global financial and economic crises, barring further unforeseen market shocks.

Business Environment

The 2008 financial year started positively, with increasing oil prices leading to continuing growth in the Russian economy as a whole, including the real estate sector. Initially foreign capital inflows continued and the Russian economy seemed, to an extent, insulated from the global credit crunch.

However, the business environment changed significantly in the second half of the year. Russia in particular suffered a significant outflow of foreign capital as international banks and investors sought to resolve problems in their domestic markets. Furthermore, a combination of falling commodity prices, in particular oil and gas from which Russia derives significant income streams, a collapsing stock market and a weakening Rouble presented huge challenges both for the Government and individual businesses in Russia.

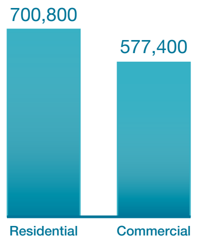
In order to stimulate the economy and to rebuild investor confidence, the Russian Government has announced a series of significant measures aimed at promoting business activity, increasing liquidity and redeeming foreign debt payments. Russia still has significant foreign currency reserves, and together with its decision to allow the Rouble devaluation it should have more than sufficient resources to pass through the global economic crisis, barring further unforeseen adverse events.

Success Factors

MirLand is a real estate developer and its sector has been significantly affected by the above factors. Changes in the business climate have forced management to adopt a prudent and cautious approach since we are in a period which offers both threats, challenges and opportunities alike. Despite these challenging conditions, we believe that, as a result of its revised business model, MirLand is well positioned to weather this rapidly changing environment:

Chairman's Statement continued

Segmentation Distribution sqm



- The Company has a diversified portfolio of assets comprising both residential and commercial projects;

- Our investment portfolio has three high quality completed income producing investment properties: Hydromashservice and MAG office buildings in Moscow, and Vernissage mall in Yaroslavl. Most of the leasing agreements in these assets are linked to the US Dollar;

- The Century office buildings in Moscow were completed during Q1 2009;

- The Triumph Mall in Saratov, which is expected to open towards the end of 2009, has seen strong ongoing demand from potential tenants and we have already either pre-let or received letters of intent for approximately 90% of the lettable area;

- We have a high quality tenant base and, when agreeing new leases the financial quality of the tenant is a key priority in our due diligence process;

- The Company is very modestly leveraged at just 28% of its assets and has no significant loan facilities due for repayment within the next 12 months; and

- MirLand enjoys significant backing and support from its main shareholders.

Financing

As a real estate company we rely on both short and long-term financing sources but, over the past few months, the global economic situation has dramatically changed and the ability for companies to arrange bank debt or raise debt on the public markets has become increasingly difficult.

To date, MirLand has relied upon a combination of equity capital raised during our earlier IPO on AIM, the proceeds of our previous corporate bond issue in Israel, the line of credit backed by its main shareholders, and recently shareholder loans, but given the current and ongoing difficult credit situation, the Company has taken measures aimed at diversifying these funding sources.

The Company has made efforts to build strong relationships with national and international banks, in particular the European Bank for Reconstruction and Development (EBRD) which is currently providing financing for our Triumph Mall project in Saratov, and Gazprom bank, which financed the construction of our Vernissage Mall in Yaroslavl. We continue to invest significant time and effort into building upon existing banking relationships and building new ones going forward.

As mentioned above, MirLand is managing its development pipeline according to market conditions and the availability of cash resources. As such, we have re-phased our residential projects in Moscow and St Petersburg to increase our flexibility and to match 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 our successes at the Triumph Mall in Saratov.

Results

Total assets as at 31 December 2008 were US$530m in comparison to US$658m as at 31 December 2007. Equity as at 31 December 2008 was US$342m compared to US$473m as

MirLand's Competitive Strengths

at 31 December 2007. The main reasons for the decrease in 2008 were foreign exchange losses caused by the sharp devaluation of the Russian Rouble against the US Dollar and the downward revaluation of the three investment properties.

Loss after tax in 2008 amounted to US$104.8m in comparison with profit of US$64.9m for 2007. Again, the main reason for the loss is foreign exchange losses and the decline in the revaluation of the Company's three investment properties, as a result of deteriorating market conditions. However, I would like to draw your attention to the fact that those losses were made due to the implication of certain accounting policies and do not impact the cash flow of the Company.

Rental income and property management fees increased to US$20.4m in 2008 in comparison with US$12.4m for 2007. This was due to the first full year of operation of the Vernissage mall in Yaroslavl and of the expanded and renovated MAG and Hydromashservice projects, as well as rising rental rates in MAG and Hydromashservice projects.

In line with the Company's policy, MirLand's assets are externally valued semi annually – at 30 June and 31 December. The valuation is conducted by Cushman & Wakefield Stiles & Riabokobylko (Cushman & Wakefield). Due to the market changes, the value of MirLand's portfolio has decreased by 50% to US$632m (Company's share). However, we strongly believe in the strength of the assets the Company has invested in and, that this portfolio will present an attractive yield to our investors over the longer term as the market begins to recover.

Portfolio Development

Due to the deteriorating business environment and the lack of liquidity, MirLand's focus is on the ongoing implementation of projects which are already under construction and on the careful management of its yielding assets.

During 2008, significant progress on the construction of Perkhushkovo Western Residence Phase 1, Century buildings (which were completed during the first quarter of 2009) and the Saratov Triumph Mall projects was achieved and construction works began on two additional projects:

- Phase one of Triumph Park in St Petersburg involving the development of circa 250 apartments (as the first element of phase one) began in August 2008. On completion, the entire development is expected to comprise 9,000 apartments;

- Construction of the Tamiz office building which is located adjacent to Hydromashservice, MAG and Century Buildings projects, began in July 2008.

On 31 March 2008, Tamiz (a wholly-owned subsidiary) won a tender for the purchase of 5.3 hectares of land in the city of Penza. The Company's long-term intention is to build a shopping centre on this land plot.

In addition the Company is continuing to progress pre-construction elements at the Skyscraper, Techagrocom, Triumph House in Kazan and Yaroslavl Phase 2 projects. In line with the Company's strategy, commencement of construction will be dependent upon market conditions and the availability of finance. However as the Company continues to prepare the sites prior to construction, additional value may be added to the land and the projects are positioned to progress as markets stabilise.

As previously announced in July 2008, the Company ended its joint venture relating to two residential projects in Moscow due to its former partner's failure to comply with the development agreement terms and conditions regarding obtaining development permits. In accordance with the terms of that joint venture, the Company had advanced a secured loan of approximately US$14m aimed at supporting the initial set up and design stages of the projects. Following termination of the agreement, the Company was repaid the full amount of the loan as well as an additional sum of US$1.5m in interest. The Company has no outstanding obligations in connection with the joint venture.

Dividend Policy

As set out in the Company's admission document, 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.

Shareholders will be aware that it was the Company's stated intention in 2009 to declare a dividend equating to 2% of its adjusted net asset value as at the date of the IPO for the financial year 2008. The Board has decided it would now be inappropriate to declare this dividend for 2008 for three reasons: firstly, because of the significant deterioration of the real estate investment and development market conditions since the declaration of this policy, secondly as a result of the net loss during the year, and thirdly to allow the Company maximum financial flexibility in the challenging year ahead.

Our People

The Board of Directors and senior management team consists of dedicated individuals whose expertise has proved invaluable throughout this particularly challenging year. They have recommended and implemented positive and necessary changes to the business plan in light of current economic circumstances and been involved in key decisions throughout. As Chairman, I place considerable emphasis on rigorous Board management and, in addition to formal meetings, I meet and communicate with my colleagues on a regular basis.

Once again I pay further tribute to my executive colleagues and all our staff at both Board and operating level. Together they form the backbone of our business and I thank them for their continuing dedication, energy and achievement that will ensure we are well placed to face the challenges of the future.

Despite market difficulties our commitment to sound corporate governance remains undiluted. Full detailed information on our approach to governance issues, our internal controls and key team members is provided in this annual report and accounts.

Outlook

In view of the uncertain and challenging market conditions, MirLand will continue to monitor and adjust its strategy according to market and economic conditions.

The Board has decided to focus the Company's efforts and resources on completing projects already under construction. In parallel to this, we will continue to intensify our efforts to grow our pre-sale and pre-letting activities. As before, we will continue with the planning and design stages of our strategic projects. We also expect to maintain a strong income stream from our leased investment properties.

In the absence of further unforeseen adverse events I am confident that we have taken prudent actions to enable us to endure the current crisis and position us to take full advantage as markets normalise and improve.

Nigel Wright
Chairman
3 April 2009

Our Investment Strategy

Focus on successful development of projects

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

Maintain a diversified portfolio

- Maximise opportunity 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

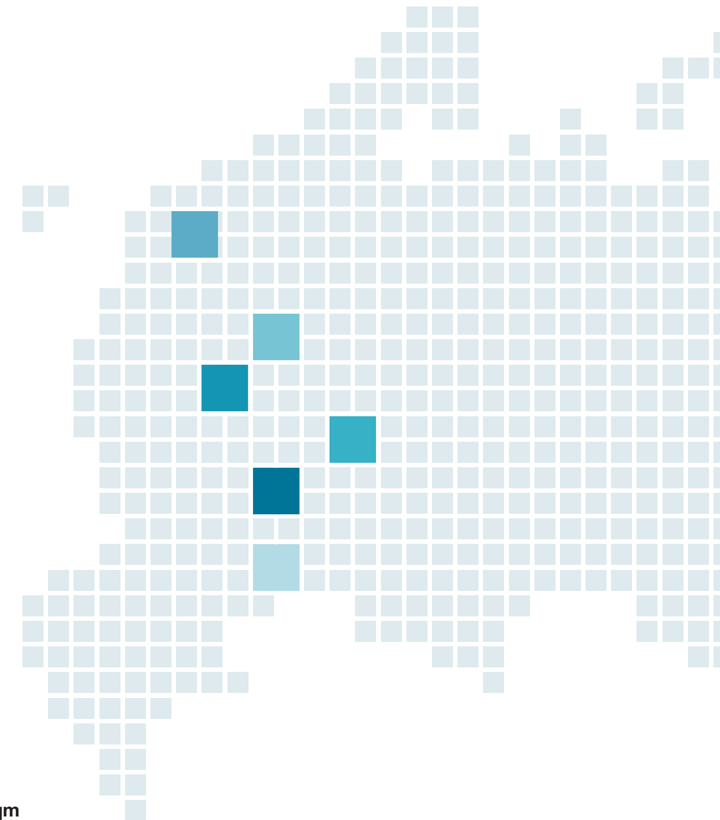
Generate value through active management

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

Acquire attractive sites in targeted locations for future development

- 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

Portfolio at a Glance



St Petersburg

Triumph Park
Development of a residential neighbourhood, complete with approximately 9,000 apartments, public and commercial areas, totalling approximately 720,900 sqm.

Yaroslavl

Vernissage Mall – Yielding
Development of a single-floor 33,300 sqm shopping centre
Big Box Complex
Development of a 50,000 sqm retail park adjacent to Vernissage Mall

Saratov

Triumph Mall
Development of 28,000 sqm of modern retail and entertainment centre in Saratov

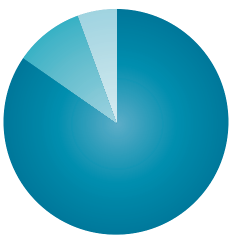
Kazan

Triumph House
Development of a 31,500 sqm trade centre aimed at home improvements and design stores

Penza

Shopping Centre
Development of a single-floor 17,900 sqm shopping centre

Portfolio project status sqm



- In planning **1,084,400 sqm**
- Under construction **123,900 sqm**
- Yielding **69,900 sqm**

Moscow & Regions

Hydromashservice & MAG – Yielding
Renovation of 17,200 sqm (Hydro) and 19,500 sqm (MAG) of Class B+ offices

Tamiz
Construction of 12,200 sqm of Class B+ offices

Techagrocom
Development of 163,400 sqm of offices and retail near MKAD

Century Buildings – Yielding
Construction of 22,800 sqm of Class B+ offices

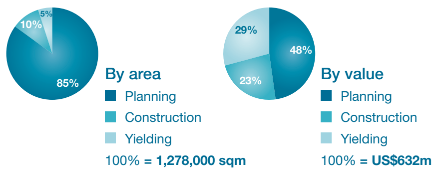
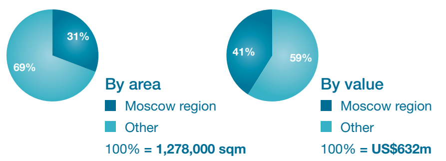
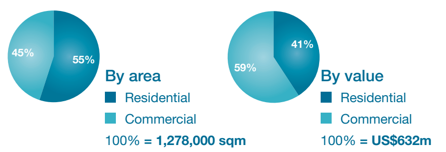
Skyscraper
Construction of 92,000 sqm in a 47-storey Class A office and retail building

Perkhushkovo Western Residence
Construction of 163 cottages and town houses in the western outskirts of Moscow

Images are for illustration only

Key Performance Indicators

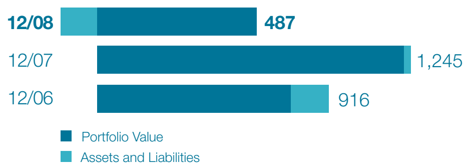
MirLand's vision is to be a leading developer of real estate in Russia and, by following its strategy, the Company aims to enhance shareholder value and increase returns. The following metrics represent the key performance indicators used by the Company to evaluate its performance.

Strategic Goal	Performance	Comments
Focus on successful development of projects	**Yielding areas** sqm 	In 2008, yielding projects Hydromashservice and MAG were expanded. At the beginning of 2009 the Century Buildings project was completed.
Maintain a diversified portfolio	**Development Stage** 	In 2008, The Company began construction on two of its projects: first sub phase of the Company's flagship project – Triumph Park in St Petersburg, and Tamiz office building in Moscow. Future commencement of construction of projects in planning phase will be dependent upon market conditions and the availability of finance.
	Geographic Spread 	The Company is gradually entering projects in regional cities; in 2008 only one project in Penza was added to the portfolio due to market conditions.
	Segment Distribution 	The Company's portfolio includes 12 commercial projects and two residential projects.

Strategic Goal	Performance	Comments

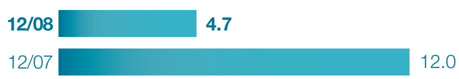
Generate value through active management

NAV US$m



MirLand's portfolio value decreased during 2008 by 50% attributed to the increase of yields and discount rates in the real estate property market in Russia due to the changing market conditions. The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield Stiles & Riabokobylko (C&W), and the full valuation is published on the Company's website.

NAV per Share US$



The Company's assets were valued by C&W in accordance with International Valuation Standards. As at 31 December 2008 it was valued at US$632m (31 December 2007: US$1,215m) and net liabilities were US$137m (31 December 2007: net assets US$31m). The Company's adjusted Net Asset Value (NAV) decreased as a result by 60%.

Net Profit/(Loss) US$m

Net Profit per Share US$

During 2008, rental income from investment properties grew substantially since it was the first full year of operation of the Vernissage mall in Yaroslavl and of the expanded and renovated MAG and Hydromashservice projects. Rising rental rates in MAG and Hydromashservice projects have complemented this progress. The Company has revalued its investment properties for the financial period ending 31 December 2008 based on the valuations of the Company's yielding projects by C&W. Consequently, the profit per share decreased accordingly.

Acquire attractive sites in targeted locations for future development

Portfolio in sqm

In 2008, the Company purchased one new project and two projects that were part of the portfolio were cancelled. Consequently the total rentable/saleable area decreased to 1.28m sqm once all projects are completed.

Chief Executive's Statement

We strongly believe in the quality of Mirland's property portfolio. We further believe that, despite recent market instability and difficult operating conditions, our prudent and selective approach to managing our business, combined with our committed Board and management team approach, will lead to enhanced shareholder value in the future.

Moshe Morag
Chief Executive Officer

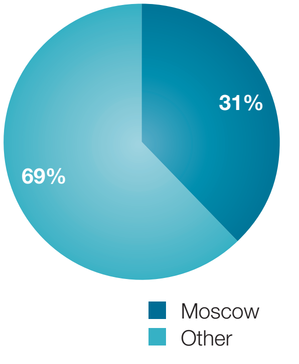
In the past two years since its IPO on the AIM market of the London Stock Exchange, MirLand acted to fulfill its goals and commitments as set out in the admission document in order to establish the foundations for its activity in the Russian real estate market.

MirLand was established in December 2006 to focus on the value-enhancing acquisition, construction, lease and sale of residential and commercial real estate in Russia. 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 those in the pre-planning stage). For each of MirLand's projects, a local management team is responsible for the development and/or the ongoing management of the asset.

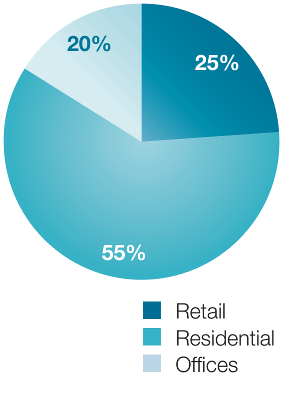
Strategy
MirLand's principal activities are focused on acquisition, development, construction, reconstruction, rental and sale of commercial and residential real estate in Russia. Its particular geographic focus is in Moscow, St Petersburg and major regional cities with populations over 500,000 people.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

Since the second half of 2008, the business arena has changed dramatically, and the Company has adjusted its operational focus accordingly in order to cope with these new, more challenging market conditions.

Geographic Distribution sqm



Segmentation Distribution sqm



Sector: Office

Location: Moscow

Name: Skyscraper

Land area: **0.9 ha**

Rentable area: **92,000 sqm**

Expected construction commencement: **Q2 10**

Expected completion: **Q3 13**

Leasehold rights: **100%**

Image for illustration only

Sector: Office
Location: Moscow
Name: Hydromashservice

Land area: **1.2 ha**

Rentable area: **17,200 sqm**

Completed: **Q2 08**

Leasehold rights: **100%**

Sector: Office
Location: Moscow
Name: MAG

Land area: **2.2 ha**

Rentable area: **19,500 sqm**

Completed: **Q2 07**

Leasehold rights: **100%**

Chief Executive's Statement continued

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

- Focus on the completion of existing projects: The Company aims for the timely delivery of projects while ensuring they are completed to a high standard. Marketing of all of the Company's commercial projects is commenced during their development so that they can generate income immediately upon completion.

- 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 the close examination of local and national economic and demographic data, and the balance between supply and anticipated demand for international standard properties.

  - Sector: the Company invests in a balanced mix of residential, retail, office and logistics as well as mixed-use projects.

  - The Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. The Company intends to hold both yielding and development properties to obtain a relatively balanced spread in the use of working capital and management attention, while at the same time generating an income flow from sales and yielding properties.

- Realisation of assets: The Company will continuously assess whether to retain yielding properties or realise their market value through disposals, depending on the opportunity and on prevailing market conditions. The Company uses revenues from the yielding assets to diversify its income sources.

- Use of diverse financing sources to accelerate business activity and growth: equity, shareholders' loans, bank loans, part of which have been guaranteed by our main shareholders, and bond issuance are used to finance the Company's activities.

- The extension of relationships with local partners, especially in the regions: Having a local partner provides daily proximity to the projects and thus a greater level of control over quality, costs and delivery for the Company. In addition, these relationships are expected to lead to future investment opportunities.

The global financial turmoil, which had a significant impact on the Russian real estate market during the second half of 2008, has led the Company to adjust its strategic focus on managing its financial resources.

This has been achieved through:

- a focus on the progression of those development projects which have the greatest potential to deliver the best returns despite current market conditions and are in an advanced construction phase; and

- the development of the remaining projects according to the availability of financial sources and to positive market conditions.

Furthermore, the Company does not expect to make any additional investments in new projects during 2009. MirLand believes that by adjusting its strategy in this way it will emerge out of this crisis stronger, firmly establishing its position as one of the leading international real estate companies in Russia.

During 2008, MirLand enjoyed financial support from its key shareholders through loans and guarantees. This crucial ongoing backing will enable MirLand to continue developing and maintaining its portfolio and to fulfil its mission of creating value for its shareholders according to its adjusted strategic focus.

The Market

Russian Economy

2008 started well, showing the same positive growth trend of the past ten years supported by increasing oil prices and foreign investment into the country. In the second half of the year the picture altered dramatically, as it did across the globe, and the Russian economy entered a severe slowdown. The main reasons for this change were the world financial and economic crises and the lack of a substantial debt market, which led to a steep reduction in commodity prices. Several controversial actions taken by the Russian Government such as the war in Georgia also acted to deter existing and potential foreign investors into Russia.

In 2009, the Russian economy is forecast to contract further and the Russian Government has deployed emergency measures in order to support the economy. The central bank injected money into the banking system and the markets to support the Rouble and to increase liquidity and the government published a list of companies, regarded as being crucial to the economy, which will be eligible for financial support. However, the Government believes that the country's foreign currency reserves, which amounted to almost US$400bn as at the end of 2008, will be sufficient to support the economy.

The economic slowdown in Russia naturally affected the real estate market and as can be seen also across the world, yields are on the rise as asset values are decreasing, developments have been frozen and the investment volume in yielding assets decreased due to scarcity of financing. At the same time, the decline in new construction starts has lead to a decrease in raw materials and construction costs.

Key economic indicators

	2004	2005	2006	2007	**2008**
Population (m)	143.8	143.4	142.8	142.4	**140.0**
GDP per capita (PPP, US$)	9,800	11,000	12,200	14,600	**15,800**
GDP growth rate (%)	7.2	6.4	6.7	7.6	**5.6**
Inflation (%)	10.9	12.7	9.7	11.9	**13.3**
Unemployment rate	8.6	8.2	7.6	6.1	**7.7**
Average RUR/US$ exchange rate	28.8	28.3	27.4	25.7	**24.9**
Credit rating	BB+	BBB	BBB+	BBB+	**BBB**

The Office Sector

The total stock of office space in Moscow reached 9m sqm in 2008, up from just 6.9m sqm in 2007. During Q1-Q3 2008 a record level of 1.5m sqm was leased or sold (30% increase on 2007 space taken up). However, in Q4 2008 it was clear that the rapid growth in occupational demand for the office sector that had taken place since 2005, was coming to an end.

Across Russia it is expected that in 2009 the considerable reduction in demand for office space will lead to a fall in the average rental rates and a significant increase in vacancy rates. Pre-letting rates will also decline as demand will be focused on completed and fitted out space.

The Retail Sector

The consumer market began to show the serious effects of the global economic downturn towards the end of 2008 and the beginning of 2009. The demand for quality retail premises began to decline in Q4 2008, as a result of consumer caution, coupled with a decline in real disposable income growth and therefore retailers' turnover.

The country has numerous regional cities with populations of over 500,000 people, with little or no modern real estate stock. Retail growth was stimulated by the increasing purchasing power in Russia's regions and a shortage of good quality retail assets – even in some of the country's largest regional cities. However, the change in market conditions is expected to delay plans of both Russian and international retailers who were looking to continue their expansion into the regions.

The Residential Sector

The market for residential property in Russia is characterised by very low supply per capita and ageing stock.

Since 1990, the volume of housing stock in Moscow city and the Moscow region has almost doubled. The main reasons for the increase in demand were the growth in salaries and disposable income, the expansion of western enterprises and the subsequent increase in employees needing housing.

In Saint Petersburg, for example, the residential real estate market has experienced the fastest rate of development over the last few years while prices have shown relatively stable growth.

Since Q3 2008 there has been a decrease in demand across Russia, due to the worsening economic situation and lack of mortgage finance. As a result, prices decreased (in US$ terms) across Russia, and in Moscow and Saint Petersburg in particular.

In 2009, activity in the housing market is expected to be low, with most potential buyers waiting for property prices to decrease further. Buyers seem to prefer smaller ready to market apartments, mortgages may not be attractive due to high costs, and both business and elite segments will suffer from the lack of Government support.

Sector: Office

Location: Moscow

Name: Century Buildings

Rentable area: **22,800 sqm**

Construction commencement: **Q4 07**

Completed: **Q1 09**

Building rights ownership: **51%**

* The final agreement between the parties, following an MOU, has not been executed yet. Upon the closing the partner will have the option to purchase an additional 1%

Image for illustration only

Sector: Office

Location: Moscow

Name: Tamiz

Rentable area: **12,200 sqm**

Construction commencement: **Q3 08**

Expected completion: **Q3 10**

Building rights ownership: **100%**

Image for illustration only

Sector: Office and Retail
Location: Moscow
Name: Techagrocom

Land area: **22 ha**

Rentable area: **163,400 sqm**

Expected construction commencement: **Q2 10**

Expected completion: **Q1 15**

Freehold rights: **50%**

Image for illustration only

Sector: Retail
Location: Kazan
Name: Triumph House

Land area: **2.2 ha**

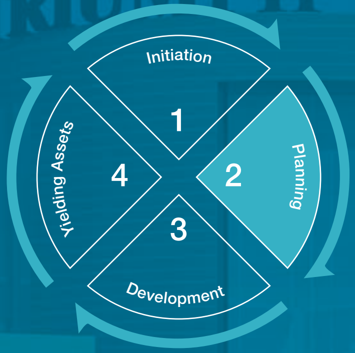
Rentable area: **31,500 sqm**

Expected construction commencement: **Q2 10**

Expected completion: **Q2 12**

Building ownership rights: **100%**

Image for illustration only



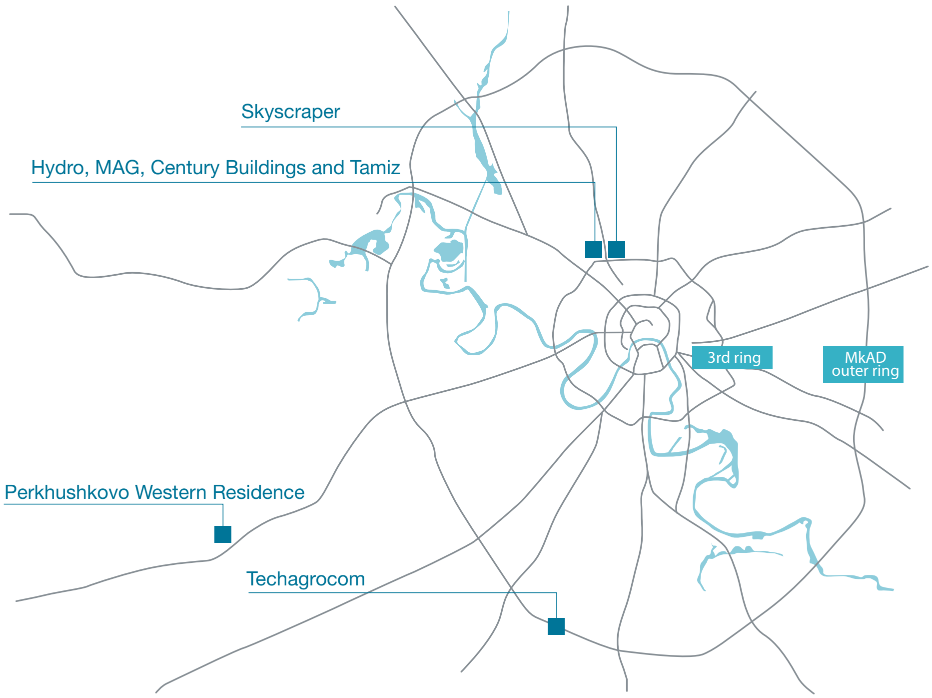
Chief Executive's Statement continued

Portfolio
As at 31 December 2008, MirLand had 14 projects. During the year MirLand had three yielding assets, three projects under construction, two assets that entered into the construction phase, five projects at various stages of planning and in the process of issuance of permits and made one acquisition.

The Company's portfolio has been valued by Cushman & Wakefield at US$632m (MirLand's share) as at 31 December 2008 based on the Company's freehold/leasehold rights. This value represents a decrease of 50% in the portfolio's value since 30 June 2008 and is due to the changing real estate market arena and lack of financing sources in Russia as well as the other factors discussed in this statement, which led to increasing yields.

The Company's main projects are as follows:

Projects in Moscow



Yielding Projects
Hydromashservice (Hydro), Moscow – Office Complex
Class B+ office complex located in the northern part of Moscow's Novoslobodsky business district. The site enjoys good transport links and excellent access.

- Land area: 1.2 ha
- Leasable area: 17,200 sqm
- Completed: Q2 2008
- Leasehold rights: 100%

MAG, Moscow – Office and Retail Complex
A renovated class B+ office complex and some retail premises adjacent to the Hydro project.

- Land area: 2.3 ha
- Leasable area: 19,500 sqm
- Completed: Q4 2007
- Leasehold rights: 100%

Vernissage Mall, Yaroslavl Phase 1 – Shopping Centre
Development of a western standard single floor shopping centre in Yaroslavl, completed in 2007. This project is located at the entrance road to Yaroslavl from Moscow.

- Land area: 12 ha
- Leasable area: 33,300 sqm
- Completed: Q2 2007
- Freehold rights: 49%

Century Buildings, Moscow – Offices
Recently completed class B+ office buildings at the Hydro & MAG site. Acquisition is subject to execution of final agreement, following an MOU which was executed between the parties.

- Leasable area: 22,800 sqm
- Completed: Q1 2009
- Leasehold rights: 50%

Commercial Projects Under Construction

Triumph Mall, Saratov – Shopping Centre

Development of a multi-storey retail and entertainment centre. The complex is strategically located near the historical city centre.

- Land area: 2.2 ha
- Leasable area: 28,000 sqm
- Construction commencement: Q2 2007
- Planned completion: Q4 2009
- Freehold rights : 95%
- Marketing: 90% is pre-let or with signed letters of intent
- Financing: US$ 48.5m financed by the European Bank for Reconstruction and Development

Tamiz, Moscow – Offices

New Class B+ office building under construction at the Hydro & MAG site.

- Leasable area: 12,200 sqm
- Construction commencement: Q3 2008
- Planned completion: Q3 2010
- Leasehold rights: 100%

Residential Projects Under Construction

Triumph Park, St. Petersburg – Residential and Commercial

Development of a residential neighbourhood, which will comprise approximately 9,000 apartments, commercial and public areas, including offices and a commercial centre with underground parking, kindergartens, school and parks. The project is located near the highway connecting the city with its airport.

- Land area: 41 ha
- Saleable area: 630, 900 sqm
- Leasable area: 90,000 sqm
- Construction commencement of sub phase 1: Q3 2008
- Planned completion of project: Q3 2017
- Freehold rights: 100%

Perkhushkovo Western Residence, Moscow region – Residential

Development of 163 town houses and cottages in the prestigious western outskirts of Moscow.

- Land area: 22.5 ha
- Saleable area: 69,900 sqm
- Construction commencement: Q3 2007
- Planned completion: Q3 2012
- Freehold rights: 100%

Commercial Projects In Planning

Skyscraper, Moscow – Offices and Retail

A 47-storey Class A office and retail building with underground parking will be constructed on Dmitrovskoye Shosse, adjacent to Moscow's third ring. This prime location offers excellent accessibility.

- Land area: 0.9 ha
- Leasable area: 92,000 sqm
- Planned construction commencement: Q2 2010
- Planned completion: Q3 2013
- Leasehold rights: 100%

Triumph House, Kazan – Shopping Centre

Development of a three-storey shopping centre in Kazan's city centre aimed at home improvement and design stores.

- Land area: 2.2 ha
- Leasable area: 26,300 sqm
- Saleable area: 5,200 sqm
- Planned construction commencement: Q2 2010
- Planned completion: Q2 2012
- Freehold rights: 100%

Techagrocom, Moscow region – Office and Retail Park

Phased development of a business park which will include Class B+ office buildings and a retail centre. The complex is ideally located at the Leninskiy district near Moscow's fourth ring (MKAD).

- Land area: 22 ha
- Leasable area: 163,400 sqm
- Planned construction commencement of phase 1: Q2 2010
- Planned completion of project: Q1 2015
- Freehold rights: 50%

Big Box Complex, Yaroslavl Phase 2 – Retail

Development of a 50,000 sqm retail park adjacent to the Vernissage mall.

- Land area: 18 ha
- Leasable area: 50,000 sqm
- Planned construction commencement: Q4 2010
- Planned completion: Q4 2011
- Freehold rights: 49%

Penza – Shopping Centre

Development of a modern shopping centre on land purchased during 2008.

- Land area: 5.3 ha
- Leasable area: 17,900 sqm
- Planned construction commencement: Q4 2010
- Planned completion: Q4 2012
- Freehold rights: 100%

Sector: Retail
Location: Saratov
Name: Triumph Mall

Land area: 2.2 ha
Rentable area: 28,000 sqm
Construction commencement: Q2 07
Expected completion: Q4 09
Freehold rights: 95%

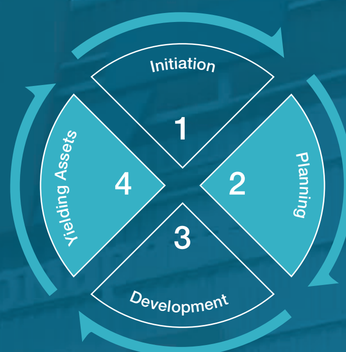

Image for illustration only

Sector: Retail
Location: Yaroslavl
Name: Vernissage Mall & Big Box Complex

Land area: 12 ha
Rentable area: 33,300 sqm
Construction commencement: Q3 05
Completed: Q2 07
Freehold rights : 49%

Phase 2 – Big Box Complex
Land area: 18 ha
Rentable area: 50,000 sqm
Expected construction commencement: Q4 10
Expected completion: Q4 11
Freehold rights : 49%

Image for illustration only



Sector: Residential and Commercial

Location: St Petersburg

Name: Triumph Park

Land area: **41 ha**

Saleable area: **630,900 sqm**

Rentable area: **90,000 sqm**

Construction commencement: **Q2 08**

Expected completion: **Q3 17**

Freehold rights : **100%**

Image for illustration only

Prospects

MirLand believes in the long-term potential of the real estate market in Russia.

MirLand is adjusting to the new and fast changing environment, and as discussed, has refocused its strategy to enable it to continue to develop its portfolio. These changes include:

- focusing on gradual and prudent development of key projects in an advanced construction phase;
- the Company will prioritise the progression of other projects according to the availability of financial sources and specific market conditions surrounding each project;
- focusing on the maintenance of occupancy and therefore rental rates at yielding properties;
- reducing costs, increasing efficiency and looking for additional sources of financing to substitute the gap left by the lack of available institutional financing support for real estate; and
- constantly monitoring and analysing the market for signs of recovery that will enable the Company to re-engage the investment activity in new projects.

I would like to thank the MirLand management team for its dedication to the Company, its shareholders and the Company's employees, who are responsible for the day-to-day success of all our activities. I am confident that this strong team will continue working through the current market turbulence to realise MirLand's vision.

We strongly believe in the quality of our portfolio projects and believe that our prudent and selective business approach in the unstable environment which we are active in, together with our committed Directors and Managers, will lead to an enhancement of our shareholders' value.

Moshe Morag
Chief Executive Officer
3 April 2009

MirLand Development Corporation Assets – Overview of Market Values* as at 31 December 2008

CUSHMAN & WAKEFIELD STILES & RIABOKOBYLKO™

Ref.	City	Property Name and Address	Portfolio Market Value as at 31 December 2008 Rounded US$	Percentage Owned by MirLand	**MirLand Market Value as at 31 December 2008 Rounded US$**
001	Moscow	Hydromashservice, 2-Khutorskaya str, 38A	75,210,000	100	**75,210,000**
002	Moscow	MAG, 2-Khutorskaya str, 38A	79,910,000	100	**79,910,000**
003	Moscow Region	Perkhushkovo Western Residence, Odintsovsky district	86,220,000	100	**86,220,000**
004	Saratov	Triumph Mall, 167 Zarubina street	33,160,000	95	**31,502,000**
005	Moscow	Skyscraper, Dmitrovskoe schosse, 1	41,292,000	100	**41,292,000**
006	St Petersburg	Triumph Park – Residential	173,068,300	100	**173,068,000**
007	St Petersburg	Triumph Park – Commercial	12,376,754	100	**12,377,000**
008	Moscow Region	Techagrocom, Kaluzhskoe Highway	44,697,000	50	**22,349,000**
009	Yaroslavl	Vernissage Mall Phase I Operating Shopping Centre, Kalinina str	62,290,000	49	**30,522,000**
010	Yaroslavl	Phase II (Remaining unimproved Land Plot of 18 ha)	4,628,000	49	**2,268,000**
011	Moscow	Tamiz Building	26,290,000	100	**26,290,000**
012	Moscow	Century Building	83,360,000	50	**41,680,000**
013	Kazan	Triumph House Kazan Commercial	7,180,000	100	**7,180,000**
014	Penza	Retail Centre	1,879,000	100	**1,879,000**
Total			731,561,000		**631,747,000**

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

Sector: Residential

Location: Perkhushkovo, Moscow Region

Name: Western Residence

Land area: **22.5 ha**

Saleable area: **69,900 sqm**

Construction commencement: **Q3 07**

Expected completion: **Q3 12**

Freehold rights : **100%**

Financial Review

Revenues for 2008 were US$20.4m and the net loss was US$104.8m. Total assets at December 2008 were US$529.9m and equity amounted to US$342.2m. The Company's adjusted net asset value was US$487.2m. The Company's real estate assets were valued on 31 December 2008 at US$731.6m (for 100% rights from freehold/leasehold) by an external appraiser of which MirLand's share is US$631.7m.

Roman Rozental
Chief Financial Officer

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 International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap 113.

Income Statement

The loss for 2008 amounted to US$104.8m in comparison to profit of US$64.9m in 2007.

The Company's revenue consists of two main items: rental income and fees from managing investment properties, and fair value adjustments of investment properties. Rental income and fees from investment properties grew to US$20.4m from US$12.4m, a rise of 65%, as 2008 was the first full year of operation since the completion of the Vernissage mall in Yaroslavl in April 2007, and of the expanded and renovated MAG and Hydromashservice projects, as well as increased rental rates in MAG and Hydromashservice projects. In accordance with IAS 40 the Company has revalued its investment properties for the financial period ending 31 December 2008 and has recognised the resulting movement in valuation through its income statement as fair value adjustments of investment properties.

The loss of US$58.8m has been determined based on the valuations of the Company's Yaroslavl Vernissage Mall, MAG & Hydromashservice projects prepared by an independent appraiser (Cushman & Wakefield Stiles& Riabokobylko), in accordance with International Valuation Standards.

The principal operating expenses of the Company are embodied in property maintenance costs, which rose from US$6.4m in 2007 to US$7.3m in 2008, due to first full year of operation in Vernissage mall and MAG properties.

The Company's general and administrative expenses for the period decreased to US$17.1m compared with US$26.7m in 2007, mainly due to adjustment of provision of management services for MAG and Hydromashservice.

Total financing costs for the period increased to US$44.7m compared with US$8.7m in 2007 mainly due to foreign exchange differences caused by the sharp devaluation of the Rouble. Financing income, achieved mainly through interest from deposits and from loans provided, and from financial assets not at fair value that were recognised through profit and loss statement, amounted to US$9.9m.

Tax expenditure in 2008 was US$1.0m. MirLand is resident in Cyprus for tax purposes and is subject to a 10% tax rate. MirLand's subsidiaries in Russia are subject to a 24% tax rate (20% from 2009). Additional details are covered in note 8 of the financial statements.

Net loss for 2008 was US$104.8m, in comparison with net profit of US$64.9m in 2007. This decrease is largely due to the negative fair value adjustment of investment properties of US$58.8m for the period as opposed to US$94.6m positive adjustment in 2007.

Balance Sheet

Total assets as at 31 December 2008 amounted to US$529.9m in comparison with US$658.0m in 2007, a decrease of 19%. The main reasons for the decrease were the reduction of value of three assets which amounted to US$58.8m, reduction of cash and cash equivalents, and devaluation of the Rouble against the US Dollar.

Equity and Liabilities

Equity as at 31 December 2008 decreased to US$342.2m from US$472.8m in 2007, a decrease of 26%. Equity decreased mainly due to the net loss in 2008 and foreign currency translation adjustments. Prior to this the Company has financed its activities mainly by equity, which comprises 65% of total assets.

Financial liabilities as at 31 December 2008 amounted to US$150.9m compared with US$154.7m for 31 December 2007. The decrease is mainly due to the repayment of short-term loans. There are no significant loans due for repayment in the next 12 months. The short-term loans are guaranteed by the Company's main shareholders, therefore the Company assumes that these loans will revolve if necessary.

The Company raised approximately US$63m by issuing two series of debentures in the Tel-Aviv stock exchange on December 2007. The debentures are repaid in six annual and equal payments at the end of years 2010-2015. For further details please review note 22 of the financial statements.

NAV

The Company's real estate assets were valued by an external independent appraiser (Cushman & Wakefield Stiles& Riabokobylko) in accordance with International Valuation Standards on 31 December 2008 at US$731.6m (for 100% rights from freehold/leasehold), of this MirLand's share is US$631.7m.

The Company's Adjusted Net Asset Value ("NAV") based on the Cushman & Wakefield valuation as at December 2008 decreased to US$487m in comparison with US$1,245m in December 2007, a decrease of 60%. The decrease is due mainly to the decrease of portfolio projects (US$483m), to projects that were terminated and hence reduced the portfolio (US$98m), and to the decrease of cash and deposits (US$179m). The decrease of the portfolio projects' value is attributed to the increase of yields and discount rates in the real estate property market in Russia due to the changing market conditions. As a result, the NAV per share as at 31 December 2008 reduced to US$4.7 in comparison to US$12.0 as at 31 December 2007.

Cash Flow

During 2008, the Company used US$176m for investment in real estate properties in comparison with US$110m in 2007. Cash flow used for operating activities amounted to US$14.9m. Net cash flow provided by financing activity amounted to US$6m.

Financial Strategy

In 2008 the Company's activities have been primarily financed with proceeds from the 2007 bond issuance, corporate bank loans guaranteed by MirLand's main shareholders, revenues and shareholders' loans. The Company's policy is to limit its leverage to 66% of the gross value of the Company's assets, including all development, trading and investment properties. However, the Company anticipates that the debt markets in Russia will continue to be difficult, making project financing and other sources of financing limited.

Residential projects, on the other hand, are principally financed with equity as the financing market for residential projects remains relatively undeveloped in Russia. Accordingly, residential projects are constructed in phases, thus allowing the use of capital from pre-sales to finance upcoming development phases.

Wherever possible, the Company seeks to acquire finance on a non-recourse basis to minimise risk. In 2008 the Company did not sign any new loan agreements. The Company is currently negotiating with several banks financing for some of the portfolio projects.

Market Risks

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

Foreign currency risk: The Company's functional currency across its operating subsidiaries is the Rouble, whereas the Company's reporting currency is the US Dollar. The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US Dollar. Although most transactions are settled in Roubles, the price for real estate property is tightly linked to the US Dollar. The Company is exposed to fluctuations in the Rouble pending receipt of refunds or offsets of excess VAT under Russian VAT legislation.

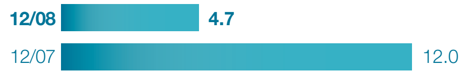
Despite the fact that the Company's functional currency is the Rouble, the Company's policy is generally not to enter into currency hedging transactions since the majority of the transactions and activities related to real estate in Russia are still linked to the US Dollar, and therefore the foreign exchange exposure is related more to accounting policies rather than to cash flow influences. However, the current trend in Russia is to move towards Rouble-linked transactions and therefore the Company will assess its future transactions and hedging policy.

Interest rate risk: 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 risk: 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.

Roman Rozental
Chief Financial Officer
3 April 2009

NAV per Share US$

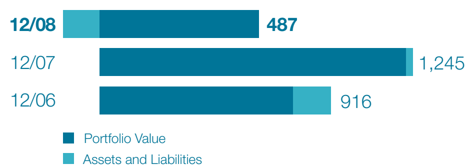


Net Profit/(Loss) US$m

Net Profit per Share US$

Total Revenues US$m

NAV US$m



How We Manage Risk

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

Risk	Mitigation
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 exploits their familiarity with the Russian market. The Company conducts bid processes that require also fixed prices. The Company purchases insurance 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$.
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

Moshe Morag

Roman Rozental

Caroline Brown

Eliezer Fishman

Eyal Fishman

Elias Eliades

Steven Holm

Guerman Aliev

Nigel Wright
Non-executive Director and Chairman, age 54

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.

Moshe Morag
Chief Executive Officer, age 63

Moshe Morag has over 34 years of general managerial experience and over 20 years of experience with real estate operations, most of those as the chief executive officer of IBC, Israel's largest real estate company operating in Israel, the United States and Europe. Moshe is also active as a board member of several non-profit organisations, including the Friends of the Rabin Medical Centre, one of Israel's main medical centres.

Roman Rozental
Chief Financial Officer, Certified Public Accountant, age 41

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 supplier, 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.

Caroline Brown
Non-executive Director and Chairman of the Audit Committee, qualified accountant, chartered director, age 46

Caroline Brown has over 20 years' experience in corporate finance and the financial management of public companies. She is finance director of the energy investments division of Petrofac, a major oil service and investment group listed in London. 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. During her career, she has spent 14 years in international investment banking, working for such firms as Merrill Lynch, UBS and HSBC.

Eliezer Fishman
Non-executive Director, Certified Public Accountant, age 65

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.

Eyal Fishman
Non-executive Director and Chairman of the Investment Committee, age 39

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 13 years. Eyal Fishman is the son of Eliezer Fishman.

Elias Eliades
Non-executive Director and Chairman of the Nomination Committee, age 61

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.

Steven Holm
Non-executive Director and Chairman of the Remuneration Committee, age 56

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.

Guerman Aliev
Non-executive Director, age 38
Guerman Aliev resigned from the Board on 29 January 2009.

Douglas Blausten
Non-executive Director, age 57
Douglas Blausten resigned from the Board on 19 May 2008.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

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 trading and development. It will continue the same activities in 2009.

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 5 to 7 and the Chief Executive's statement on pages 12 to 23.

Results for the Year

The results of the Group are set out in the consolidated income statement on page 46 which shows a loss for the financial year of US$104.8m (2007: profit of US$64.9m). The consolidated balance sheet on page 47 shows net assets of US$342.2 thousand (2007: US$472.8 thousand).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2008.

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 30 and 31.

Mr Steven Holm was appointed to the Board on 17 November 2008, Mr Guerman Aliev resigned on 29 January 2009 and Mr Douglas Blausten resigned on 19 May 2008.

There were no 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 2008, with comparative figures as at 31 December 2007, are as follows:

Director	**Number of Shares as at 31 December 2008**	Number of Shares as at 31 December 2007
Nigel Wright	**20,500**	20,500
Moshe Morag	**17,300**	0
Roman Rozental	**0**	0
Caroline Brown	**2,050**	2,050
Guerman Aliev†	**0**	0
Douglas Blausten††	**18,450**	18,450
Steven Holm†††	**0**	0
Eliezer Fishman*	**200,000**	200,000
Eyal Fishman*	**320,000**	200,000
Elias Eliades	**0**	0

* Eliezer and Eyal Fishman held jointly 200,000 ordinary shares through an entity controlled by them and their family.

† Mr Aliev resigned from the Board on 29 January 2009.

†† Mr Blausten resigned from the Board on 19 May 2008.

††† Mr Holm was appointed to the Board on 17 November 2008.

Details of Directors' share options are given on page 44.

Except as disclosed above, as at 30 March 2009, the Company is aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage Holding
Jerusalem Economy Ltd	**29,796,868**	28.8
Industrial Buildings Corporation Ltd	**35,196,072**	34.0
Darban Investments Ltd	**14,000,001**	13.5
Capital Venture Worldwide Group Limited	**8,833,866**	8.5
FIL Limited	**4,075,635**	3.9

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 substantial interests amounting to 3% or more.

Directors' Interests in Significant Contracts

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

On 31 December 2007 the Company signed MOU to acquire 50% of each of OOO Inomotor LLC and OOO Avtoprioritet LLC, companies in which Mr Krichevsky, a Director of certain subsidiaries of the Company, has a controlling interest. Each of these companies has building rights in the Hydromashservice and MAG site. The acquisitions are to be concluded on an arm's-length basis. As of the date of this report the final agreement has not been executed yet and the parties are negotiating to conclude the transaction.

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

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 2008. 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 insurance for MirLand's Directors in respect of their duties as Directors.

Financial Risk Management

The financial risks and uncertainties are stated in Note 27 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 donated US$187,000 to the community in Russia.

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

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

There were no significant post balance sheet events that require disclosure in the financial statements.

By order of the Board

Nigel James Wright
Chairman
3 April 2009

Corporate Social Responsibility

As an international developer in Russia, MirLand recognises its social responsibility, in particular to the following constituencies:

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, no significant injuries, diseases or other dangerous occurrences have occurred in the Company. Our goal for 2009 is to preserve this 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. Since the Company's incorporation, no significant injuries or other dangerous occurrences have occurred in the Company's facilities and no material complaint was filed by any of its tenants. Our goal for 2009 is to preserve this clean record.

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 the regulatory and the 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.

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 2008 the Company donated US$187,000 to the community in Russia. The Company has approved donations for 2009 of up to US$200,000 without additional approval from the Board of Directors.

Corporate Governance Report

As the Company's shares are traded on AIM, MirLand is not required to comply with the Combined Code on Corporate Governance, 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 Combined 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 of nine Directors (Mr Blausten resigned on 19 May 2008, Mr Aliev resigned on 29 January 2009 and Mr Holm was appointed on 17 November 2008). The Board and all the Board committees are currently comprised of an equal number of Non-executive independent Directors and non-independent Non-executive Directors and Executive Directors. Each Non-executive Director participates in at least two of the Corporate Governance committees of the Board. Caroline Brown is the Senior Independent Non-executive Director.

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 Combined 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 Combined Code states that the Board should determine whether a Director is independent in character and judgement 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 Combined Code (section A.3.1) and, following careful consideration, assessed the independence of the Non-executive Directors as follows:

Director	Determination	Notes
Nigel Wright (Chairman)	Independent	No section A.3.1 criteria apply
Caroline Brown	Independent	No section A.3.1 criteria apply
Guerman Aliev*	Independent	No section A.3.1 criteria apply
Douglas Blausten**	Independent	No section A.3.1 criteria apply
Steven Holm***	Independent	No section A.3.1 criteria apply
Elias Eliades	Independent	No section A.3.1 criteria apply
Eliezer Fishman	Not independent	Represents a significant shareholder
Eyal Fishman	Not independent	Represents a significant shareholder

* Mr Aliev resigned from the Board on 29 January 2009.
** Mr Blausten resigned from the Board on 19 May 2008.
***Mr Holm was appointed on 17 November 2008.

Of MirLand's eight Directors, four are Non-executive Directors considered by the Board to be independent. The Board is currently seeking a new addition to the Board in order to bring the Board composition in line with the provisions of the Combined Code.

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 2008 and provides details of the Directors' attendance at each meeting.

	17 March 2008	19 May 2008	25 August 2008	17 November 2008
Nigel Wright	✓	✓	✓	✓
Moshe Morag	✓	✓	✓	✓
Roman Rozental	✓	✓	✓	✓
Caroline Brown	✓	✓	✓	✓
Guerman Aliev	✓	✗*	✓	✗
Douglas Blausten	✓	N/A	N/A	N/A
Steven Holm	N/A	N/A	N/A	✓
Eliezer Fishman	✓	✓	✓	✗
Eyal Fishman	✓	✓	✓	✓
Elias Eliades	✓	✓	✗*	✓

* Ms Kalogreades was appointed as an alternate Director.
N.B. (a) Mr Blausten resigned on 19 May 2008; (b) Mr Holm was appointed on 17 November 2008; (c) Mr Aliev resigned on 29 January 2009.

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 Board meeting, there is a formal schedule of matters reserved for the Board's attention which includes:

a) setting the overall strategy;
b) approving major transactions;
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.

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.

As Mr Steven Holm was appointed to the Board after the last AGM of the Company, his election to the Board is subject to the approval of the shareholders. 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, Roman Rozental, Eliezer Fishman and Eyal 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 election of each of them.

Biographical details of the Directors are given on page 31.

Relations with Shareholders

The Finance Director, the Company's CFO, meets 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 two members were Nigel Wright and Guerman Aliev*.

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 the first meeting of each quarter, the Chief Executive Officer prepares and submits an asset evaluation for review by the Investment Committee. This is accompanied by a quarterly 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.

Attendance at the meetings of the Investment Committee held in 2008 is shown below.

	16 March 2008	19 May 2008	25 August 2008	17 November 2008
Eyal Fishman (Chairman)	✓	✓	✓	✓
Nigel Wright (member)	✓	✓	✓	✓
Guerman Aliev (member)*	✓	✗	✓	✓

* Mr Aliev resigned from the Board on 29 January 2009.

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. Attendance of the meeting of the Nomination Committee held in 2008 is shown below:

	11 November 2008
Elias Eliades (Chairman)	✓
Nigel Wright (member)	✓
Eyal Fishman (member)	✗

Internal Control

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.

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 throughout the year, is shown below. The Audit Committee comprised three independent Non-executive Directors throughout the period. Caroline Brown has the particular recent, relevant financial experience recommended by the Combined Code.

	12 March 2008	15 May 2008	14 August 2008	12 November 2008
Caroline Brown (Chairman)	✓	✓	✓	✓
Guerman Aliev (member)	✓	✗	✗*	✗
Douglas Blausten (former member)	✓	✓	N/A	N/A
Steven Holm (member)	N/A	N/A	N/A	N/A
Nigel Wright	✓	✓	✓	✓

* Mr Wright was appointed as Mr Aliev's alternate for this meeting.

N.B. (a) Mr Blausten resigned on 19 May 2008; (b) Mr Holm was appointed on 17 November 2008; (c) Mr Aliev resigned from the Board on 29 January 2009; (d) Mr Rosental attended all Audit Committee meetings in the financial year.

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 Finance Director, 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 annual report for 2007 in March 2008.

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 relevant 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, none of the Directors 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 Moshe Morag, and Eliezer and Eyal Fishman.

Report of the 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 of the meetings of the Remuneration Committee held in 2008 is shown below:

Remuneration Committee	10 March 2008	15 August 2008
Steven Holm (Chairman)	N/A	N/A
Caroline Brown (member)	✓	✓
Douglas Blausten (former Chairman)*	✓	N/A
Nigel Wright (member)	✓	✗

* Mr Blausten resigned from the Board on 19 May 2008.

** Eyal Fishman was present at the 15 August 2008 meeting.

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 Groups' 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 an initial three-year period, subject to termination by either side on three months notice. The letters of appointment contain no entitlement of compensation for early termination.

Details of the contracts and appointment dates are set out below:

	Contract Date	Notice Period
Nigel Wright	27 November 2006	3 months
Moshe Morag	28 November 2006	6 months
Roman Rozental	28 November 2006	6 months
Caroline Brown	27 November 2006	3 months
Guerman Aliev*	27 November 2006	3 months
Douglas Blausten**	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

* Mr Aliev resigned from the Board on 29 January 2009.

** Mr Blausten resigned from the Board on 19 May 2008.

Other than salary and benefits in relation to the notice period described above, 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.

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. 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.

Discretionary bonus In 2008 no discretionary bonus was granted.

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

Directors' Remuneration

Chairman and Executive Directors	Nigel Wright US$	Moshe Morag US$	Roman Rozental US$	Total US$
Non-performance related remuneration				
Salary and fees	171,259	334,799	189,458	695,516
Other taxable benefits		68,328	43,596	111,924
Share incentive plan		805,921	322,369	1,128,290
Total remuneration for the year ended 31 December 2008	**171,259**	**1,209,048**	**555,423**	**1,935,730**
Total remuneration for the year ended 31 December 2007	109,485	1,880,462	816,481	2,806,428

Non-executive Directors	Caroline Brown US$	Guerman Aliev* US$	Douglas Blausten US$	Eliezer Fishman US$	Eyal Fishman US$	Elias Eliades US$	Steven Holm** US$	Total US$
Non-performance related remuneration								
Salary and fees	93,742	100,953	66,423	–	93,742	79,320	11,525	445,705
Other taxable benefits								
Share incentive plan								
Total remuneration for the year ended 31 December 2008	**93,742**	**100,953**	**66,423**	**–**	**93,742**	**79,320**	**11,525**	**445,705**
Total remuneration for the year ended 31 December 2007	72,990	79,073	73,953	–	77,565	20,224		370,455

* Resigned 29 January 2009.

** Appointed on 17 November 2008.

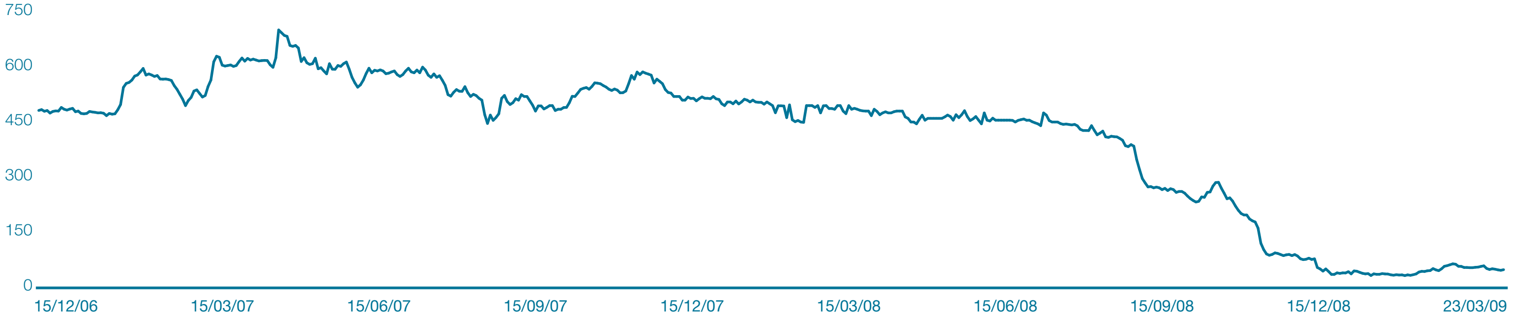
Report of the Remuneration Committee and Directors' Remuneration Report continued

Details of share awards and options exercised in the year are included below.

Directors' Share Options

Director	Number of Options	Number Vested as at 31.12.2008	Exercise Price of Options US$
Nigel Wright	0	N/A	N/A
Moshe Morag	1,122,995	0	9.42
Roman Rozental	449,198	0	9.42
Caroline Brown	0	N/A	N/A
Guerman Aliev (resigned 29 January 2009)	0	N/A	N/A
Douglas Blausten (resigned 19 May 2008)	0	N/A	N/A
Steven Holm (appointed 17 November 2008)	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

Share Price Performance



On behalf of the Board

Steven Holm
Chairman of the Remuneration Committee
3 April 2009

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

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Mirland Development Corporation Plc (the Company) and its subsidiaries (the Group) on pages 46 to 80, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 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 of 31 December 2008, 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 EU and the requirements of Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, 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 Company's 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 financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.

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 156 of the Companies Law, Cap. 113, 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.

Ernst & Young Cyprus Ltd
Certified public accountants and registered auditors
Limassol, Cyprus
18 March 2009

Consolidated Income Statement

	Note	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Revenues:			
Rental income from investment properties		**17,949**	10,446
Revenues from managing fees		**2,411**	1,977
Total revenues		**20,360**	12,423
Fair value adjustments of investment properties	9	**(58,768)**	82,138
Operating expenses	4	**(7,291)**	(6,384)
General and administrative expenses	5	**(17,099)**	(26,706)
Other expenses	7	**6,186**	(5,469)
Finance costs	6a	**(44,725)**	(8,703)
Finance income	6b	**9,883**	23,004
Profit (loss) before tax expense		**(103,826)**	70,303
Tax expense	8	**(1,005)**	(5,423)
Profit (loss) for the year		**(104,831)**	64,880
Earnings per share (in US$ per share)	21		
Basic		**(1.012)**	0.627
Diluted		**(1.012)**	0.627

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

Consolidated Balance Sheet

	Note	31 December 2008 US$000	31 December 2007 US$000
Assets			
Non-current assets			
Investment properties	9	**163,987**	227,030
Investment properties under construction	10	**120,035**	87,963
Long-term loans	12	**58,525**	22,521
Advance on acquisition of subsidiary	13	**584**	1,080
Fixed assets, net	14	**2,154**	4,866
Deferred expenses	26j	**1,936**	796
Long-term receivables and prepayments	15	**16,172**	12,891
Deferred taxes	8c	**4,246**	214
Financial derivatives	27c	**719**	–
		368,358	357,361
Current assets			
Inventories of buildings under construction	11	**144,202**	103,980
Trade and other receivables	17	**7,566**	7,537
Restricted deposits	18	**–**	71,406
Cash and cash equivalents	16	**9,822**	117,758
		161,590	300,681
Total assets		**529,948**	658,042
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company:			
Share capital	19	**1,036**	1,036
Share premium		**359,803**	359,803
Employee equity benefits reserve		**8,080**	6,199
Retained earnings (accumulated deficit)		**(8,202)**	96,629
Currency translation reserve		**(19,085)**	9,151
Shareholders' contributions		**579**	–
		342,211	472,818
Minority interests		**25**	25
Total equity		**342,236**	472,843
Non-current liabilities			
Debentures	22	**62,267**	62,088
Financial derivative	27	**–**	50
Long-term loans from banks	24b	**17,443**	19,357*
Long-term loans from shareholders	20h	**9,032**	–
Other long-term liability	25	**8,112**	12,739
Deferred taxes	8c	**9,154**	5,118
		106,008	99,352*
Current liabilities			
Accounts payable and accruals	23	**17,032**	11,145
Short-term loan from banks	24	**62,196**	73,212*
Income tax payable		**2,476**	1,490
		81,704	85,847*
Total liabilities		**187,712**	185,199
Total equity and liabilities		**529,948**	658,042

* Reclassified.

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

Approved by the Board of Directors and signed on its behalf by:

Moshe Morag
Chief Executive Officer

Roman Rozental
Chief Financial Officer

Consolidated Statement of Changes in Equity

	Attributable to Equity Holders of the Company									
	Share Capital US$000	Share Premium US$000	Employee Equity Benefits Reserve US$000	Retained Earnings (accumulated deficit) US$000	Currency Translation Reserve US$000	Shareholders' contributions US$000	Total US$000	Minority Interests US$000	Total Equity US$000	Total Recognised Income (Expenses) US$000
At 1 January 2007	1,000	329,028	2,348	31,749	2,402	–	366,527	25	366,552	
Issuance of shares	36	30,775	–	–	–	–	30,811	–	30,811	–
Profit for the year	–	–	–	64,880	–	–	64,880	–	64,880	64,880
Share-based payment	–	–	3,851	–	–	–	3,851	–	3,851	–
Foreign currency translation adjustments	–	–	–	–	6,749	–	6,749	–	6,749	6,749
At 31 December 2007	1,036	359,803	6,199	96,629	9,151	–	472,818	25	472,843	71,629
Loss for the year	–	–	–	(104,831)	–	–	(104,831)	–	(104,831)	(104,831)
Share-based payment	–	–	1,881	–	–	–	1,881	–	1,881	–
Shareholders' contribution (see Note 20h,i)	–	–	–	–	–	579	579	–	579	–
Foreign currency translation adjustments	–	–	–	–	(28,236)	–	(28,236)	–	(28,236)	(28,236)
At 31 December 2008	**1,036**	**359,803**	**8,080**	**(8,202)**	**(19,085)**	**579**	**342,211**	**25**	**342,236**	**(133,067)**

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

Consolidated Cash Flow Statement

	Note	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Cash flows from operating activities:			
Profit (loss) before the tax expense		**(103,826)**	70,303
Adjustments for:			
Finance costs		**44,725**	8,703
Interest paid		**(8,135)**	(6,881)
Finance income		**(9,883)**	(23,004)
Interest received		**3,156**	10,343
Fair value adjustments of investment properties		**58,768**	(82,138)
Options granted		**1,881**	3,851
Additions to residential projects for sale under construction		**(64,466)**	(22,003)
Depreciation of equipment		**343**	287
Increase in trade and other receivables		**(2,674)**	(3,067)
Impairment of investment property under construction and residential projects for sale under construction		**4,289**	–
Increase in accounts payable and accruals and in provision to service provider		**1,380**	5,941
Write-down of advance on account of acquisition of subsidiary		**1,256**	406
Income taxes paid		**(1,909)**	(1,169)
Net cash flows used in operating activities		**(75,095)**	(38,428)
Cash flows from investing activities:			
Additions to fixed assets		**(679)**	(3,373)
Additions to investment properties		**(29,206)**	(36,056)
Additions to investment properties under construction		**(48,296)**	(62,658)
Interest capitalised in investment properties under construction		**–**	(2,016)
Loans granted		**(47,408)**	(22,238)
Advance on acquisition of subsidiary		**(600)**	(1,080)
Loans repaid		**14,829**	–
Release of restricted deposits		**71,406**	–
Net cash flows used in investing activities		**(39,954)**	(127,421)
Cash flows from financing activities:			
Proceeds from issuance of shares by the Company		**–**	30,811
Advances received on account of IPO		**–**	1,053
Accrued expenses on account of loan		**(1,500)**	(767)
Proceeds from issuance of bonds		**–**	61,756
Repayments from short-term borrowings		**(12,433)**	–
Proceeds from long-term borrowings from related parties		**7,991**	–
Net cash flows provided by (used in) financing activities		**(5,942)**	92,853
Decrease in cash and cash equivalents		**(120,991)**	(72,996)
Net foreign exchange differences on cash and cash equivalents		**13,055**	(5,832)
Cash and cash equivalents at beginning of year		**117,758**	196,586
Cash and cash equivalents at end of year	16	**9,822**	117,758

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.

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

c) On 18 December 2006, the Company issued approximately 30 million shares in an initial public offering and all of its shares were admitted for trading on AIM. The shares represent 30% of the Company's share capital. On 3 January 2007, the underwriters of the offering exercised options to purchase an additional approximately 3.6 million shares representing approximately 3.5% of the Company's share capital.

d) On 6 December 2007, the Company issued two series of debentures. The par value of both of the series that were issued is NIS 244,134,000 (approximately US$63m). Issuance expenses of approximately US$1m were deducted from the consideration. All of the debentures were admitted for trading on the Tel-Aviv Stock Exchange (see also Note 19).

e) The following are the principal shareholders of the Company as of 31 December 2008:

Shareholder	Rate of holding
Jerusalem Economy Ltd (JEC) (a company traded on the Tel-Aviv Stock Exchange)	28.8%
Industrial Buildings Corporation Ltd (IBC) (71.43%-owned subsidiary of JEC and traded on the Tel-Aviv Stock Exchange)	34.0%
Darban Investments Ltd (a company traded on the Tel-Aviv Stock Exchange)	13.5%

All of the above shareholders are companies that are controlled, directly and indirectly, by the Fishman family.

Note 1 General continued

f) Definitions:

In these financial statements:

The Company	Mirland Development Corporation PLC.
The Group	Mirland Development Corporation PLC and its subsidiaries as listed above.
Subsidiaries	Companies over which the Company exercises control (as defined in IAS 27) and whose accounts 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.
Parent	JEC.
Ultimate controlling shareholder	Fishman family.
Related parties	As defined in IAS 24.

g) Reclassification of comparatives:

Certain numbers shown in the comparatives have been reclassified in order to provide better comparability relevant to understanding the financial position of the Group.

a) Basis of Presentation of the Financial Statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations to IFRS and IAS: IFRIC and SIC.

Furthermore, the financial statements are prepared in accordance with the requirements of the Cyprus Companies Law Cap.113 and under historical cost convention except for investment properties and financial derivatives which are measured at fair value.

The Company has been preparing financial statements in accordance with IFRS since its establishment.

Note 2 Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years, except as follows IFRS 8:

IFRS 8 – Operating Segments – Early Adoption IFRS 8 (the Standard) deals with operating segments and replaces IAS 14. The Standard applies to companies whose securities are traded or are in the process of filing with any securities stock exchange. The Standard is effective for annual financial statements for periods beginning after 1 January 2009. IFRS 8 was applied for all periods presented.

In accordance to the Standard the entity adopted a management approaches in reporting on the financial performance of the operating segments. The segment information contains the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

For additional information see note 3.

Basis of Consolidation The consolidated financial statements include the accounts of companies over which the Company exercises control (subsidiaries). Control is normally evidenced when the Company is able, directly or indirectly, to govern the financial and operating policies of an enterprise so as to benefit from its activities. In the examination of the existence of control, the effect of potential voting rights exercisable as of the balance sheet date is taken into consideration. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All inter-company balances and transactions among the Group companies have been eliminated in the consolidated financial statements.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented within equity in the consolidated balance sheet, separately from the Company's shareholders' equity.

The accounts of a jointly controlled entity in which the shareholders share joint control under contractual consent are consolidated with those of the Company using the proportionate consolidation method. The Group consolidates its share in the jointly controlled entity's assets, liabilities, revenues and expenses with the proper financial statement items. All inter-company balances and transactions and gains and losses between the Group companies and the jointly controlled entity are eliminated based on the Company's share in the jointly controlled entity.

The financial statements of the subsidiaries and jointly controlled entities are prepared for the same reporting periods as the company, using consistent accounting policies.

b) Acquisition of Businesses from Companies Under Common Control:

The acquisition of businesses from companies under the Company's shareholders' control are not business combinations within the scope of IFRS 3. The Company accounts for these acquisitions in accordance with the pooling of interests method. Accordingly, the consolidated financial statements are retrospectively adjusted to reflect the acquisitions as if they had occurred at the beginning of the earliest period presented. Thus, the consolidated financial statements comprise the consolidated financial position, results of operations and cash flows of the Company and of the companies acquired. For those companies that were acquired by the Company under common control subsequent to the beginning of the earliest period presented, the financial statements reflect the acquisitions of those companies from the dates those companies were acquired by the Company under common control.

On 30 September 2006, the Company, then owned by JEC, issued to IBC and Darban shares. During the transaction, some Russian subsidiaries were transferred to the Company. The transaction was represented as acquisition of business from companies under control.

c) Accounting Judgements and Estimates:

Judgements In the process of applying the Company's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

Operating Lease of Investment Properties The Group classifies its investment property portfolio as operating lease since it retains all the significant risks and rewards of ownership of these properties.

Note 2 Summary of Significant Accounting Policies continued

Acquisitions of Subsidiaries That Are Not Business Combinations On the day of acquisition of subsidiaries and operations, the Company assesses whether business is acquired in accordance with IFRS 3. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present, the transferred set of activities and assets shall be presumed to be a business. When no business is acquired, according to IFRS 3, the consideration is allocated between the identifiable assets and liabilities acquired on the basis of relative fair values, without allocating to goodwill or deferred taxes.

Estimates and Assumptions The preparation of financial statements requires management to make estimates and assumptions that affect the adoption of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The underlying estimates and assumptions are reviewed on an ongoing basis. The changes in accounting estimates are carried to the period in which they are made.

The following are the principal assumptions in the financial statements regarding uncertainties as of the balance sheet date and the critical judgments used by the Group in respect of which any material change might modify the cost of assets and liabilities in the coming reporting year:

Investment Property Investment property is presented at fair value as of balance sheet date. Changes in fair value of investment property are carried to the income statement. Fair value is determined by independent outside appraisers based on economic evaluations that are also performed according to the revenue capitalisation method. This method consists of estimating the value of the asset by discounting the expected flow of revenues over the economic useful life of the asset. This calculation involves making assumptions, among other things, as to the capitalisation rates, the continued lease of the assets by the existing tenants, and the occupancy rates in the different assets. Fair value is sometimes measured with reference to recent real estate transactions with similar characteristics and location to the estimated asset. Additional information is provided in Note 9.

Deferred tax assets Deferred tax assets are recognised for unutilised 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 utilised. Significant management judgment 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.

d) Functional and Foreign Currencies:

1) Functional Currency The financial statements are presented in thousands of US dollars, which is the Company's functional currency and best reflects the economic environment in which the Company operates and conducts its transactions.

The functional currency is separately determined for each subsidiary and jointly controlled entity and is used to measure their financial position and operating results. When their functional currency differs from that of the Company, the subsidiary and jointly controlled entity represent foreign operations whose financial statements are translated in order to be included in the Company's consolidated financial statements as follows:

a) Assets and liabilities in all balance sheets presented (including comparative data) are translated at the closing rate as of each balance sheet presented. Goodwill and all adjustments of the assets and liabilities' fair value to their carrying amount on the date of acquisition of the foreign operation are treated as the foreign operation's assets and liabilities and are translated at the closing rate at each balance sheet date.

b) Income and expenses in all statements of income (including comparative data) are translated at the exchange rates at the dates of the transactions or at average exchange rates for the periods during which the transactions were made if such exchange rates approximate the actual exchange rates.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing as of the date of incurrence.

d) Retained earnings are translated based on the opening balance at the exchange rate as of that date and other relevant transactions during the period are translated as described in b) and c) above.

e) All translation differences are recorded as a separate item in shareholders' equity ("currency translation reserve").

Intra-group loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment and the exchange differences arising in these loans (net of income taxes) are recognised in the same component of equity as discussed above.

Notes to the Consolidated Financial Statements continued

Note 2 Summary of Significant Accounting Policies continued

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 balance sheet 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.

e) Cash Equivalents:

The Company considers all highly liquid investments, including unrestricted short-term bank deposits purchased with original maturities of three months or less, to be cash equivalents.

f) Allowance for Doubtful Accounts:

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

g) Inventory of Buildings Under Construction:

The cost of the inventory of buildings for sale includes direct identifiable costs in respect of the cost of the land such as taxes, fees and levies and construction costs. The Company also capitalises to cost of inventory of buildings for sale borrowing costs incurred in the period during which the Company began the land's development, pursuant to IAS 23. Capitalised costs are charged to operations, along with other costs related to the project, when revenues are recognised.

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

h) Investment Property Under Construction:

Investment property under construction is included at cost. Cost of investment property includes borrowing costs relating to the financing of the erection of the properties until their operation, planning and design costs, allocated indirect construction costs and other related costs.

i) Financial Instruments:

The accounting treatment of investments in financial assets is based on their classification into one of the following groups:

- Financial assets measured at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial instruments

Financial Assets at Fair Value Profit or Loss Financial assets at fair value through profit or loss includes derivative financial instruments entered into by the Group, swap transactions, that do not meet the hedge accounting criteria as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Loans and Receivables Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Interest-Bearing Loans and Borrowings Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Impairment of Financial Assets The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Note 2 Summary of Significant Accounting Policies continued

Assets Carried at Amortised Cost If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

Derecognition of financial instruments:
Financial assets A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired: or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

j) 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%.

k) Impairment of Non-Financial Assets:

The Company assesses at each reporting date whether events or changes in circumstances indicate that an asset (investment properties under construction and fixed assets) may be impaired. An impairment loss is recognised if an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the income-generating unit of that asset. Impairment losses are carried to the statement of income.

l) Taxes on Income

Taxes on income in the income statement include current and deferred taxes. The tax results 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. In such cases, the tax effect is also carried to the relevant item in equity.

1) Current Income Taxes Current income tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

2) Deferred Income Taxes Deferred taxes are computed in respect of temporary differences between the amounts included in the financial statements and the amounts allowable for tax purposes, other than a limited number of exceptions.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as it is probable that the sale of the investments is not expected in the foreseeable future.

Similarly, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since the distribution of dividends does not involve an additional tax liability.

Deferred taxes attributed to items carried directly to equity are also carried to equity.

Note 2 Summary of Significant Accounting Policies continued

Deferred tax assets and deferred tax liabilities are presented as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legal enforceable right that allows offsetting a current tax asset against a current tax liability and the deferred taxes refer to the same taxpayer and the same tax authority.

The Company did not create 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 Note 8).

m) 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. The following specific recognition criteria must also be met before revenue is recognised:

Rental Income Rental income is accounted for on a straight-line basis over the lease terms.

Rendering of Services, Including Management Fees Revenue from the rendering of services is recognised by reference to the stage of completion as of balance sheet date. Stage of completion is measured according to the reporting periods during which the services were rendered. 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 relating to the ownership have been transferred to the buyer. Revenues are not recognised if there are significant uncertainties regarding the collection of the consideration and the related costs or if there is continuing managerial involvement of the Group with respect to the real estate sold. These criteria are usually met once the apartment is transferred to the buyer.

n) Advertising Expenses

Advertising expenses are charged to the statement of income as incurred.

o) Borrowing Costs in Respect of Qualified Assets

The Company capitalises borrowing costs in connection with investment properties under construction and inventory of buildings for sale under construction.

The capitalisation of borrowing costs commences when the qualified asset's preparation begins, and terminates when the qualified asset is ready for its designated use or sale.

The amount of borrowing costs capitalised in the reported period does not exceed the borrowing costs in that reported period.

p) Leases

The criteria for classifying leases as finance or operating leases are performed at the date of inception according to the provisions of IAS 17.

Operating Leases Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term.

q) Business Combinations

Business combinations are treated using the acquisition method pursuant to IFRS 3. This method consists of identifying the assets, liabilities and contingent liabilities of the acquired business at fair value upon the date of acquisition and all the minority interests in the acquired entity are presented at the minority's share in the fair value, net of these items. Goodwill, if involved in the business combination, is initially measured as the difference between the cost of the acquisition over the Group's share in the net fair value of the identified assets, the liabilities and the contingent liabilities.

Note 2 Summary of Significant Accounting Policies continued

r) Investment Property:

An investment property is property (land or a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, and not for use in manufacture or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties are measured initially at cost, including direct transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise under increase (decrease) in fair value of investment properties. Investment properties are not systematically depreciated.

Property interests held under operating lease and leased out under operating lease is classified as an investment property, if the property would otherwise meet the definition of an investment property, as mentioned above, and the fair value model is used. In this case, the transaction is treated as a finance lease with a corresponding reduction in the assets reflecting the present value of future payments under the primary operating lease.

The transfer of an asset from investment property under construction to investment property is executed upon completion of the development of the real estate designed to serve as an investment property.

When the Group completes the construction of the investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

In order to determine the fair value of investment properties, the Group utilises independent appraisals from expert real estate appraisers with the proper knowledge and experience.

s) Investment Property under Construction

An investment property under construction is measured at cost. Cost includes cost of acquisition, direct construction costs, borrowing costs relating to financing the erection of the properties until their operation, planning and design costs, allocated indirect construction costs and other related costs. Finance costs cease being capitalised when the construction is completed and the investment property is available for use.

t) Share-Based Payment Transactions

The cost of equity-settled transactions with employees/service providers is measured according to the fair value of the equity instruments on the date of grant. The fair value is determined by an independent appraiser using a standard option-pricing model. See more details in Note 19.

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 or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The cost of equity-settled transactions is recognised in profit and loss together with a corresponding increase in shareholders' equity over the period during which the performance and/or service conditions apply and ending on the date of the relevant employees' entitlement to compensation ("the vesting period"). The cumulative expense recognised in respect of equity-settled transactions for each reported period through the vesting date reflects the Group's best estimate of the number of equity instruments that will eventually vest. The charge or credit in the income statement for the period reflects the change in the cumulative expense recognised at the beginning and end of the period, as described in the following paragraph.

In the event of changes in the grant terms of an equity-settled transaction, the expense recognised is the expense that would have been recognised had there not been a change in terms over the original vesting period. An additional expense is recognised over the new vesting period in respect of any change that increases the total fair value of the share-based payment or that benefits the employee/service provider as measured on the date of change.

The cancellation of an equity-settled grant is treated as if the grant had vested as of the date of cancellation and the as yet unrecognised expense in respect of the grant is recognised immediately. However, if the cancelled grant is replaced by a new grant which is identified as a replacement grant as of the date of grant, both the cancelled grant and the replacement grant are treated as a change in the terms of the original grant, as described in the preceding paragraph.

Note 2 Summary of Significant Accounting Policies continued

u) Earnings (Loss) per Share

Earnings per share are computed according to the number of Ordinary shares. Basic earnings per share only include shares that were actually outstanding during the period. Convertible securities (such as options) are only included in the computation of diluted earnings per share. Furthermore, options that have been exercised during the period are included in diluted earnings per share only until the exercise date and starting from that date in basic earnings per share. Options are included in diluted earnings when their exercise results in the issuance of shares for a consideration which is less than the average market price of the shares. The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

v) Standards Issued but Not yet Effective

IAS 23 Borrowing Costs In accordance with the revised IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets, investment property and inventories that take a substantial period of time to get ready for sale. The possibility of immediately carrying these costs as an expense has been removed.

The revised Standard is effective for the financial statements for the year beginning 1 January 2009. Earlier application is permitted.

The Company believes that the effect of the revised Standard on its financial condition, results of operations and cash flows is not expected to be material.

IAS 1 (Revised) Presentation of Financial Statements IAS 1 (Revised) introduces an additional statement, "statement of comprehensive income". The statement may be presented as a separate statement which includes net income and all items carried in the reported period directly to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as adjustments arising from translating the financial statements of foreign operations, fair value adjustments of available-for-sale financial assets, changes in revaluation reserve of fixed assets and the tax effect of these items carried directly to equity, with allocation between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled "statement of comprehensive income" which replaces the statement of income, while properly allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, with allocation between the Company and the minority interests.

IAS 1 (Revised) also prescribes that in cases of restatement of comparative figures as a result of the retroactive adoption of the change in accounting policy, the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for annual financial statements for periods beginning after 1 January 2009. Earlier application is permitted.

The effect of the adoption of IAS 1 (Revised) will require the Company to disclose the above items in the financial statements.

IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements IFRS 3 (Revised) and the amendments to IAS 27 ("the Standards") will be effective for annual financial statements for periods beginning on 1 January 2010. The combined early adoption of the two Standards is permitted from the financial statements for periods beginning on 1 January 2008.

The principal changes expected to take place following the adoption of the Standards are:

- IFRS 3 currently prescribes that goodwill, as opposed to the acquiree's other identifiable assets and liabilities, will be measured as the excess of the cost of the acquisition over the acquirer's share in the fair value of the identifiable assets, net on the acquisition date. According to the standards, goodwill can be measured at its full fair value and not only for the acquired part, this in respect of each business combination transaction measured separately.

Note 2 Summary of Significant Accounting Policies continued

- Contingent consideration in a business combination will be measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, will not be simultaneously recognised as goodwill adjustment. Normally, the contingent consideration will be considered a financial derivative within the scope of IAS 39 and will be presented at fair value through profit or loss.

- Direct acquisition costs attributed to a business combination transaction will be recognised in the statement of income as incurred as opposed to the previous requirement of carrying them as part of the consideration of the cost of the business combination, which has been removed.

- A transaction with the minority interests, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognised in the statement of income or have any effect on the amount of goodwill, respectively.

- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, will be allocated between the parent company and minority interests, even if the minority has not guaranteed or has no contractual obligation of sustaining the subsidiary or of investing further amounts.

- On the loss of control of a subsidiary, the remaining investment in the subsidiary, if any, will be revalued to fair value against gain and loss from the sale and this fair value will represent the cost basis for the purpose of subsequent treatment.

The Company believes that the effect of the Standards on its financial condition, results of operations and cash flows is not expected to be material.

IAS 40 – Investment Property Pursuant to an amendment to IAS 40, property under construction or development for future use as an investment property will be classified as investment property if the fair value model is applied and it can be reliably measured. The Standard will be adopted prospectively starting from the financial statements for periods starting on 1 January 2009. Earlier application is permitted.

The Company believes that the effect of the amendment on its financial position, operating results and cash flows is not expected be material.

IFRIC 15 – Agreements for the Construction of Real Estate IFRIC 15 ("the Interpretation") establishes rules for distinguishing between agreements for the construction of real estate under the scope of IAS 11 and similar agreements under the scope of IAS 18. When an agreement is specifically negotiated for the construction of an asset or a combination of assets when the buyer is able to specify the major structural elements and specify any changes therein, the agreement is within the scope of IAS 11. Accordingly, revenue will be recognised by reference to the stage of completion. In contrast, when the buyer has only limited ability to influence the design or to specify only minor variations the agreement is an agreement for the sale of real estate within the scope of IAS 18. The Interpretation applies to annual financial statements for periods beginning on or after 1 January 2009 and will be adopted retrospectively. Earlier application is permitted.

The Company believes that the effect of the new Interpretation on its financial position, operating results and cash flows is not expected be material.

w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain the expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Note 3 Segment Information

The organisational basis for management purposes is determined according to products and services.

The commercial segment leases real estate for commercial purposes, the residential segment develops real estate assets 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 2008			Year Ended 31 December 2007		
	Commercial US$000	**Residential US$000**	**Total US$000**	Commercial US$000	Residential US$000	Total US$000
Revenues						
Rental income from investment properties	**17,949**	**–**	**17,949**	10,446	–	10,446
Revenue from management and consulting fees	**2,411**	**–**	**2,411**	1,977	–	1,977
Total revenues	**20,360**	**–**	**20,360**	12,423	–	12,423
Fair value adjustments of investment properties	**(58,768)**	**–**	**(58,768)**	82,138	–	82,138
Total income	**(38,408)**	**–**	**(38,408)**	94,561	–	94,561
Inter segment income	**–**	**–**	**–**	–	–	–
	(38,408)	**–**	**(38,408)**	94,561	–	94,561
Segment results	**(59,150)**	**(2,246)**	**(61,396)**	69,872[1]	(1,314)	68,558
Unallocated expenses[1]			**(7,588)**			(12,556)
Net finance income (costs)			**(34,842)**			14,301
Profit (loss) before income tax			**(103,826)**			70,303
Tax expense			**(1,005)**			(5,423)
Profit (loss) for the year			**(104,831)**			64,880
Assets and liabilities						
Segment assets	**316,544**	**154,172**	**470,716**	346,825	103,980	450,805
Unallocated assets			**59,232**			207,237
Total assets			**529,948**			658,042
Segment liabilities	**34,333**	**9,485**	**43,818**	23,370	1,202	24,572
Unallocated liabilities[2]			**143,894**			160,627
Total liabilities			**187,712**			185,199

1 Includes an expense for registration of land lease of US$5,469 thousand.
2 Includes mainly tax, financing assets and genuine central assets.

Note 4 Operating Expenses

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Maintenance of property	**4,783**	3,831*
Land lease payments	**241**	195
Fee to management company	**813**	773*
Property tax on investment property	**1,454**	812
Land tax on investment property under construction and inventories of buildings under construction	**–**	773
	7,291	6,384

* Reclassified.

Note 5 General and Administrative Expenses

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Office maintenance	**1,652**	1,330
Professional fees	**6,236**	4,968
Marketing fees	**2,386**	674
Salaries[1]	**7,530**	8,506
Depreciation of equipment	**343**	287
Write-down of advance on account of investment	**1,256**	406
Adjustment of provision to service provider	**(5,160)**	7,643
Travelling expenses	**1,090**	1,440
Other costs	**1,766**	1,452
	17,099	26,706
[1] Includes cost of share-based payment (see Note 19)	**1,881**	3,851

The fee in consideration of the audit is in the amount of approximately US$2,080 thousand (2007: US$1,398 thousand).

The fee to directors is approximately US$617 thousand (2006: US$521 thousand).

Note 6 Finance Costs and Revenue

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
a) Finance Costs:		
Interest costs – financial liabilities not at fair value through profit and loss	**(10,838)**	(10,669)
Net capitalised interest costs	**–**	2,016
Effect of discounting of long-term receivables	**(3,933)**	(1,400)
Fair value adjustment of financial derivative	**–**	(50)
Effect of discounting of long-term receivables to investment properties under construction and residential projects for sale under construction	**3,933**	1,400
Other (mainly foreign exchange differences) [1]	**(33,887)**	–
	(44,725)	(8,703)
b) Finance Income:		
Interest income from cash and cash equivalents and restricted deposits	**3,420**	10,744
Interest income from loans provided	**4,420**	843
Interest income from financial assets not at fair value through profit and loss	**528**	–
Effect of discounting of long-term receivables	**405**	–
Fair value adjustment of financial derivative	**769**	–
Other (mainly foreign exchange differences)	**341**	11,417
	9,883	23,004

1 Starting from the last quarter of 2008, the Company has no intention in the foreseeable future to require repayment of intercompany loans provided by the Company to its subsidiaries developing real estate projects under construction in Russia. Therefore, foreign exchange differences for the said loans beginning in the last quarter of 2008 are recognised as a separate item in equity (currency translation reserve).

Note 7 Other Expenses

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Update of provision regarding an agreement with government authorities (see Note 26o)	**1,897**	–
Registration of land lease	**–**	5,469
Impairment of investment properties under construction and inventories of buildings under construction	**4,289**	–
Tax expense in income statements	**6,186**	5,469

Note 8 Taxation

a) Tax expense:

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Current taxes	**1,844**	2,659
Prior year taxes	**(849)**	–
Deferred taxes	**10**	2,764
Tax expense in income statements	**1,005**	5,423

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

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Profit (loss) before tax expense	**(103,826)**	70,303
Tax at the statutory tax rate in Cyprus (10%)	**(10,383)**	7,030
Increase/(decrease) in respect of:		
Temporary differences in respect of which no deferred tax was recorded*	**6,846**	(17,918)
Effect of different tax rate in Russia (20%) and Hungary (16%)	**6,375**	13,2240
Effect of change in tax law in Russia	**196**	–
Prior year taxes	**(849)**	–
Losses for which deferred tax assets were not recorded	**416**	2,852
Income not subject to tax	**(716)**	(641)
Other	**(880)**	876
Income tax expense	**1,005**	5,423

* The fair value adjustments of the investment properties result in a temporary difference between the carrying value of the properties and their tax basis. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes on the above differences have not been recorded. However, the fair values of the properties have been reduced in 2008 and 2007 by US$15,896 thousand and US$28,644 thousand, respectively, to reflect the fair values of the deferred tax liabilities that the Company would transfer to a buyer upon the sale of the companies owning the properties. The reduction was calculated based on the 20% income tax rate in Russia. The Company's management believes that the actual amount of the reduction might be substantially lower due to economic benefits that the buyer will be entitled to, based upon the differences arising from the method of disposal, (i.e. direct asset sale or share sale).

Taxation in Cyprus

- The taxation of the companies is based on their country of residence and accordingly, all the Cypriot companies are taxable at a corporate tax rate of 10%.
- Dividend income in the hands of the Company and of Cypriot holding companies is corporate tax exempt in Cyprus.
  Dividend income in Cyprus is subject to Defense tax at a rate of 15% on dividends received by Cypriot resident companies from non-resident subsidiaries ("foreign companies"). However, dividend income received from Russian companies is Defense tax exempt in Cyprus in accordance with Cyprus tax laws as long as the Russian companies are 100% held by the Cypriot companies and their earnings are corporate taxable in Russia at a rate of 24%. Commencing 1 January 2009, the income tax was decreased to 20%.
- The distribution of dividends by Cypriot holding companies to the Company is not taxable in Cyprus yet the non distribution of dividends by Cypriot holding companies to the Company during a period of two years from the end of the tax year in which dividends were last distributed may lead to attributing a notional dividend to the Company's income.
- A capital gain from the sale of shares of Russian companies or Cypriot holding companies by the Company will be tax exempt in Cyprus.
- Interest income derived for the Company will be taxed at the regular corporate tax rate unless it is not generated in the ordinary course of business, in which case it will be subject to effective tax at a rate of 15%.

Note 8 Taxation continued

Taxation in Russia

- Income from the sale or lease of real estate in Russia, net of legally deductible expenses, should be subject to corporate tax of 24% in Russia. Commencing 1 January 2009, the income tax was decreased to 20%.
- Rental income from properties is VAT taxable in Russia at a rate of 18%. Subject to certain conditions, the sale of residential properties is not VAT taxable in Russia whereas the sale of commercial properties is VAT taxable in Russia.
- The Russian companies must pay property tax at a maximum rate of 2.2% of the value of the properties in the financial statements of those Russian companies, prepared in accordance with Russian GAAP. In view of the Company's policy to acquire companies rather than properties, this tax liability is immaterial.
- Russian companies that own real estate are liable to pay real estate tax at a maximum rate of 1.5% of the value of the real estate in the Land Registrar's Office.
- The distribution of dividends by the Russian companies to the Company or to the Cypriot holding companies will be subject to withholding tax in Russia at a rate of 5% according to the treaty between Russia and Cyprus.
- A capital gain from the sale of shares of the Russian companies by the Company or the Cypriot holding companies is tax exempt in Russia subject to certain conditions, in accordance with the treaty for the prevention of double taxation signed between Russia and Cyprus.

Taxation in Hungary

- Net interest income is subject to corporate tax in Hungary at a rate of 16%. It is also subject to solidarity tax of 4%.
- According to the thin financing laws, if the daily debt average exceeds three times the Company's daily capital average, the remaining interest expenses will not be deducted in the calculation of the corporate tax liability.

Taxation in Israel

- According to the amendment to the Income Tax Ordinance (No. 147) 2005, the corporate tax rate is to be progressively reduced to the following tax rates: 2007 – 29%, 2008 – 27%, 2009 – 26%, 2010 and thereafter – 25%.
- The Company is subject to the Income Tax (Inflationary Adjustments) Law, 1985 according to which, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.
  In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to 31 December 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

c) Deferred taxes

	31 December 2008 US$000	31 December 2007 US$000
Opening balance – net credit balance	**4,904**	1,755
Charged to the income statement	**10**	2,764
Exchange rate differences	**(6)**	385
Closing balance – net credit balance	**4,908**	4,904

d) The tax losses carried forward of the Group companies amount to approximately US$87,823 thousand and a deferred tax asset amounting to US$4,310 thousand has been recognised.

Note 9 Investment Properties

a) Composition

	US$000
At 1 January 2007	65,709
Reclassification from investment properties under construction	32,081
Additions for the year	36,056
Fair value adjustments	82,138
Exchange rate differences	11,046
At 31 December 2007	227,030
Additions for the year	29,206
Fair value adjustments	(58,768)
Exchange rate differences	(33,481)
At 31 December 2008	**163,987**

b) The investment properties are stated at fair value, which has been determined based on valuations performed by independent appraisers. The fair value represents the amount at which the assets could be exchanged between a willing buyer and willing seller in an arm's length transaction at the date of valuation, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, in accordance with International Valuation Standards. The valuations are based on the income approach. In the case of completed and operating buildings, this approach involves a direct capitalisation of the net income and, in respect of buildings under renovation, a discounted cash flow analysis.

Note 10 Investment Properties Under Construction

	US$000
At 1 January 2007	46,930
Reclassification to investment properties	(32,081)
Additions for the year	61,020
Capitalised interest	3,416
Exchange rate differences	8,678
At 31 December 2007	87,963
Additions for the year	48,296
Capitalisation of equipment	2,981
Impairment	(4,289)
Effect of discounting of long-term receivables	2,200
Exchange rate differences	(17,116)
At 31 December 2008	**120,035**

Notes to the Consolidated Financial Statements continued

Note 11 Inventories of Buildings Under Construction

	US$000
At 1 January 2008	103,980
Additions for the year	64,466
Impairment	(649)
Exchange rate differences	(23,595)
At 31 December 2008	**144,202**

Inventories of buildings under construction are intended for construction of residential apartments and vacation homes.

Note 12 Long-Term Loans

a) In December 2007, a wholly owned subsidiary of the Company provided a loan to a third party of approximately US$1.6 million for the purpose of purchasing land in Saratov, Russia and constructing a logistic centre. The acquired land that is secured by a mortgage in favour of the subsidiary. The subsidiary intends to acquire the rights to the land during 2009, upon fulfilment of certain conditions. The loan bears annual interest of 11% and is repayable on demand of the subsidiary.

b) On 31 December 2007, a wholly owned subsidiary of the Company entered into a memorandum of understanding with two private companies which are affiliated with the owners of a management company that provides the Company with certain services ("the Sellers") for the purchase of 51% of the Sellers' shares in the companies Inomotor LLC and Avtoprioritet LLC, both incorporated under the laws of the Russian Federation.

The Project is adjacent to the Hydro and MAG Projects and is comprised of two buildings. One building is owned by Inomotor and the other by Avtoprioritet, which after their renovation and expansion will be part of the Project complex and buildings.

The subsidiary provided loans of approximately US$55 million to Avtoprioritet and Inomotor for the purpose of investing in the project buildings and the repayment of former debts to third parties. The loans bears 11% annual interest.

Note 13 Advance on Account of Investment

In March 2008, the Company paid an amount of US$584 thousand as an advance on account of investment in Saratov Project.

Note 14 Fixed Assets, Net

	US$000
At 1 January 2007, net of accumulated depreciation	1,082
Additions for the year	3,373
Depreciation for the year	(287)
Exchange rate differences	698
At 31 December 2007, net of accumulated depreciation	4,866
Additions for the year	679
Capitalisation to investment properties under construction	(2,981)
Depreciation for the year	(343)
Exchange rate differences	(67)
At 31 December 2008, net of accumulated depreciation	**2,154**
At 31 December 2007	
Cost	5,165
Accumulated depreciation	(299)
Net carrying value	**4,866**
At 31 December 2008	
Cost	2,796
Accumulated depreciation	(642)
Net carrying value	**2,154**

Note 15 Long-Term Receivables and Prepayments

Comprises VAT which was paid upon the purchase of land and construction, and which the Group expects to recover in a period exceeding 12 months from the balance sheet date.

Note 16 Cash and Cash Equivalents

	31 December 2008 US$000	31 December 2007 US$000
Cash in banks[1]	**9,822**	65,476
Short-term deposits	**–**	52,282
	9,822	117,758

1 Cash in bank earns interest at floating rates based on daily bank deposit rates.

Notes to the Consolidated Financial Statements continued

Note 17 Trade and Other Receivables

	31 December 2008 US$000	31 December 2007 US$000
Trade receivables[1]	**328**	268
Prepayments to suppliers	**716**	1,195
Government authorities (mainly VAT)	**6,318**	4,696
Other	**204**	1,378
	7,566	7,537

1 The balances represent amounts that are neither past due nor impaired.

Note 18 Restricted Deposits

Deposits held to secure the Company's compliance with liabilities to banks.

During September 2008, the Company received guarantees from its majority shareholders, and the deposits were classified as cash and cash equivalents (see Note 24).

Note 19 Equity

	31 December 2008 US$	31 December 2007 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**	1,000,000

On 4 January 2007, the Company issued an additional 3,558 thousand shares to Merrill Lynch and Credit Suisse as a result of the exercise of options granted to them as underwriters in the initial public offering. As consideration for the exercise of the options, the Company received $30,811 thousand net of expenses that were deducted in the amount of US$2,389 thousand. The share price at the date of the exercise of the option was GBP 4.78 per share.

Dividend Policy The Company adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Company, taking into account the Company's capital requirements, while at the same time maintaining an appropriate level of dividend cover. Subject to these factors, and where it is otherwise appropriate to do so, the Company intends to declare a dividend of 2% of the Adjusted NAV on Admission (taking into account the net proceeds of the Placing) for each financial year, and 7% of the Adjusted NAV on Admission (market value of company's property assets, as determined by a third-party valuation, adjusted to reflect the percentage interests held by the Group, plus its non-property assets minus its total liabilities minus assumed amounts payable under certain management services agreements with Senior Managers) for each financial year, with a view to increasing the dividend in line with the Company's cash flow growth in the future.

Due to the global financial crisis and the downturn of the Russian real estate market, the Company decided not to declare a dividend for the year 2008. The Company intends to continue to evaluate its ability to declare a dividend during 2009, taking into account inter alia the cash flow levels of the Company and the economical conditions of the Russian real estate market.

Note 19 Equity continued

Share Option Schemes The Company adopted a share option plan on 19 November 2006 (the Adoption Date), according to which a certain portion of the options was granted immediately with the remaining options to be granted in the future.

The Company granted on 18 December 2006 options to purchase 1,871,658 ordinary shares under the share option plan to employees (“the Employee Options”). The exercise price of the Employee Options is equivalent to the price of the offering of the ordinary shares (GBP 4.78 per share). The Employee Options will vest over a period of three years from the grant date, in equal tranches from the anniversary of the grant date. Termination of employment renders the options that are not yet vested, expired. The options will expire within five years from the date of grant or within three months from the date of termination of employment, whichever is sooner.

The Company also granted at the same date, options to purchase 1,497,326 Ordinary shares were granted under the share, which option plan to officers of subsidiaries of the Company (“Options to Officers”).

The terms of half of the Options to Officers are identical to the terms of options to the employees. The Options to Officers will vest over three years from the grant date, in equal tranches from the anniversary of the grant date. Termination of the engagement renders the options that are not yet vested expired. The options to officer are to be exercised within five years from the grant date, otherwise they expire.

The other half of the Options to Officers vest on the grant date. The exercise of the Employee Options and the Options to Officers will be a cashless exercise according to a mechanism determined by the Company’s Board (so that in practice, the number of shares allocated to the option holder will only be in respect of the bonus component upon the exercise, where the exercise price is not paid by the option holder).

As part of the 18 December 2006 offering terms, the IPO underwriters accompanying the issuance received an option to purchase 3,558,000 shares of the Company for an exercise price of GBP 4.78 per share. The option was exercisable until 6 January 2007. On 4 January 2007, some of the option were exercised. The weighted average share price at that date was GBP 4.78. The above grant had no effect on the financial statements since it was accounted as part of the issuance of the shares carried to equity.

Details on equity-settled share-based payment transaction:

	2008 US$000	2007 US$000
Fair value of the options	**8,823**	8,823
Less – recognised as expense in the income statement	**(8,080)**	(6,199)
Expense to be recognised in the future	**743**	2,624

In the years 2008 and 2007, there were no exercise or termination of any of the options granted to Employees or Officers.

The following table lists the binomial model used for the plans for the year ended 31 December 2008:

	Vested on Grant Date
Expected volatility (%)	31.89
Risk-free interest rate (%)	5
Expected life of option (months)	0
Weighted average share price (GBP)	4.78

	Vested Over Three Years
Expected volatility (%)	3.89
Risk-free interest rate (%)	5
Expected life of option (months)	12
Weighted average share price (GBP)	4.78

Note 19 Equity continued

The expected life of the options is based on historical data and Company's expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The volatility was calculated according to comparative data of companies with similar activity.

The weighted average remaining contractual life for the share option outstanding as at 31 December 2008 is 3.97 years (2007: 4.97).

No options were exercised as of the balance sheet date.

The options were appraised by an independent appraisal company.

Shareholders' Contributions:

The shareholders' contributions are comprised of the following:

1) The fair value surplus from the provision of shareholders' loans at below market interest rate.
2) The fair value surplus from the financial guarantees provided by the shareholders with respect of the bank loans.

Note 20 Related Parties

a) Transactions with related parties:

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Interest expense to shareholders	**1,494**	97
Private jet expenses	**279**	515

b) Balances with related parties:

	31 December 2008 US$000	31 December 2007 US$000
Debentures held by shareholders (see Note 22)	**22,016**	24,687
Guarantees and benefit regarding loans received from majority shareholders	**529**	–
Loans received from majority shareholders	**9,032**	–

c) The transactions with related parties are according to the market terms.

Note 20 Related Parties continued

d) Compensation of key management personnel of the Group

	31 December 2008 US$000	31 December 2007 US$000
Salaries[1]	**1,227**	856
Share-based payments	**1,881**	3,851
	3,108	4,707

1 Key personnel were appointed at the end of the year 2006.

e) During 2007, renovation work was carried out at the Ackerstein Towers by Industrial Buildings. The Group's relative share in the renovation work amounted to approximately US$198 thousand.

f) Global, which owns a commercial centre in Yaroslavl has entered into a lease agreement with Home Centres LLC ("Home Centre"), a company controlled by the Fishman family, the controlling shareholders in the Company. The area leased to the Group spans 6,712 sqm, the minimal lease fees are US$120 per sqm and the lease period, assuming the exercise of all the option periods, is 300 months. The engagement is under market conditions.

g) Hydro leases to Home Centre offices with an overall area of some 730 sqm used for office purposes. The monthly lease fees are approximate US$22 thousand. The lease period terminates on 30 September 2011. The engagement is under market conditions.

h) On 11 December 2008, the Company signed a loan facility agreement with its main shareholders. According to which, the Company received in December 2008 loans in the amount of US$8 million, and will receive additional loans of US$23 million. The loans bear interest of 12% and are repayable on 31 March 2010.

i) During September 2008, its main shareholders (companies that are part of Fishman Group) have reinstated certain guarantees in favor of certain banking institutions that secured lines of credit in the aggregate amount of approximately US$70 million that were previously granted to the Company.

Note 21 Earnings per Share

	Year Ended 31 December 2008 US$000	Year Ended 31 December 2007 US$000
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	**103,558**	103,558
Weighted average number of Ordinary shares used for computing diluted earnings per share (in thousands) (see Note 19)[1]	**103,558**	103,558
Income (loss) used for computing basic and diluted earnings per share (in thousands of US dollars)	**(104,831)**	64,880

1 The options have no dilutive impact in 2008 and 2007 since, as of 31 December 2008 and 2007; the exercise price was higher than the market value.

Note 22 Debentures

On 7 December 2007, the Company raised approximately US$63m of debt by the issuance of 2 series (A and B) of debentures on the Tel-Aviv Stock Exchange. Both series are repaid in six annual equal and consecutive payments on 31 December for each of the years 2010-2015 (inclusive). Issuance expenses of approximately US$1m were discounted from amount of the debentures and will be recognised according to the effective interest method.

Series A – is in NIS linked to the Israeli Consumer Price Index. The debenture pays an annual interest rate of 6.5%. The Company has entered into a swap agreement regarding this series (see Note 27c).

Series B – is in NIS linked to the NIS/US dollar exchange rate. The debenture pays an interest of Libor (for dollar deposits for a period of six months) plus a margin of 2.75%.

	Quantity of the Debentures in Thousands	Effective Semi-Annual Interest Rate	**31 December 2008 US$000**
Series A	39,260	4.16%[1]	**10,583**
Series B	204,874	3.84%	**51,684**
			62,267

1 In respect of a swap agreement (see Note 27c).

Regarding acquisitions by related parties, see Note 28.

Regarding acquisitions by related parties, see Note 20.

Note 23 Accounts Payable and Accruals

	31 December 2008 US$000	31 December 2007 US$000
Trade payables	**11,615**	6,640
Property tax payable	**–**	570
Government institutions	**635**	526
Rent received in advance	**2,047**	2,424
Deposits from tenants	**2,065**	337
Accrued expenses and other payables	**670**	648
	17,032	11,145

Note 24 Credits from Banks

a) The bank loans bear annual interest at rates of LIBOR plus 1.75% to 2%. Bank deposits have been put in place to secure the Company's liabilities in respect of these loans (see also Note 18). During September 2008, the Company main shareholders (companies that are part of the Fishman Group) have reinstated guarantees in favor of certain banking institutions that have granted the Company lines of credit in the aggregate amount of US$70 million. These guarantees have replaced the deposits of the Company in the bank as collateral which allowed the free used of these funds.

	31 December 2008 US$000	31 December 2007 US$000
Short-term credit from banks	**60,282**	71,406
Current maturities of long-term loans	**1,914**	1,806
	62,196	73,212

These loans were classified as short-term loans due to the fact that according to certain previous in the bank agreement, the bank may have very wide right can demand repayment of the loans at any time.

b) In February 2006, a jointly controlled entity received a loan of approximately US$42 million from a bank, bearing annual interest of 12%. As collateral for this loan, the jointly controlled entity pledged 100% of the parent company shares to the bank. The jointly controlled entity's relative share in the loan is approximately US$19.4 million as of 31 December 2008.

The maturity dates of long-term loans subsequent to balance sheet date are as follows:

	31 December 2008 US$000	31 December 2007 US$000
First year – current maturities	**1,914**	1,806
Second year	**2,059**	1,914
Third year	**15,384**	2,059
Fourth year	**–**	15,384
	19,357	21,163

Note 25 Other Long-Term Liabilities

	31 December 2008 US$000	31 December 2007 US$000
Provision to service provider[1]	**3,374**	10,943
Deposits from tenants	**1,141**	–
Provision regarding an agreement with government authorities (see Note 26o)	**3,328**	1,431
Other	**269**	365
	8,112	12,739

1 According to the management services agreements signed between MAG and Hydro ("the Companies") and FIN ("the Service Provider"), in return for the service provider's assistance in sourcing the project, the Service Provider shall be entitled to a payment equal to 10% of the net profit (as defined below) of the Companies from its ongoing operation as well as in case of the sale of properties, if they are sold to a third party. See also Notes 26b and 26h.

The net profit in relation to these properties is calculated as: the price of the property paid by a third party, less any expenses that the Companies have incurred as a result of such sale, less repayments of any external debt of the Companies, and only after the balance of any outstanding shareholder loans plus an annual interest of 10% have been repaid in full to the relevant shareholder and/or repayment of any other third party financing relating to said property. The amounts paid for the acquisition of the Companies at the date of acquisition and thereafter will be treated as shareholders loans to the Group for the purposes therein.

The Group has accounted for this payment as an interest in the profits of MAG and Hydro. Accordingly, a liability measured at fair value has been recorded based on the fair value of the properties as recorded in the financial statements at each balance sheet date.

Note 26 Commitments and Contingencies

a) Group as lessee:
The Group entered into commercial lease agreements for certain land plot. These leases are irrevocable and have a life of 4-45 years with a renewal option.

Future minimum lease payments at 31 December 2008 are as follows:

	US$000
First year	176
After one year but no more than five years	936
More than five years	6,018
Total	7,130

b) On 1 July 2005, Hydro and FIN entered into a management service agreement for an indefinite period. FIN is a Russian company whose controlling shareholder also serves as the CEO of Hydro. Either party may terminate the agreement without cause at any time upon providing the other party with advance written notice of a minimum of three months.

In return for the management services provided by FIN, FIN will be entitled to 2% of the lease fees actually received by Hydro from its tenants. It was further agreed that the direct expenses of FIN's hiring additional employees for providing the said management services will be paid by Hydro. Hydro's books include the proper expenses.

c) On 22 May 2005, the subsidiary and the other shareholders in Inverton (Gazprombank Invest and NAM) signed a shareholders' agreement whereby it was agreed that NAM would be entitled to receive fees from Inverton based on a fixed formula set forth in the shareholders' agreement in a total of approximately US$1,763 thousand for rendering certain management services stipulated in the agreement (mainly coordination with local authorities).

Note 26 Commitments and Contingencies continued

d) On 27 November 2006 Global 1 entered into an agreement with a third party for the current management of the commercial centre in Yaroslavl, which began its operations in April 2007. The agreement is in effect until 31 March 2009 and will be automatically renewed for three more additional years unless either of the parties informs the other party of its wish to terminate the agreement as was amended. In exchange for said management services Global 1 will pay monthly fees based on a mechanism established in the agreement. An adequate expense was recorded in Global 1's books in respect of the agreement. An expense of approximately US$1.4 million was recorded in the financial statements.

e) The Company's subsidiary ("Heckbert22") extended a loan to Mall Project, the balance of which as of 31 December 2007 and 2008 is US$3,826 thousand and US$4,045 thousand, respectively, for the financing of the acquisition of the property under development in Saratov. According to the shareholders' agreement, as was amended, the minority shareholders in Mall Project will be entitled to receive rights to shares subsequent to the repayment of the loan and the accrued interest. The intercompany balances regarding this loan were eliminated in the consolidated financial statements.

f) On 16 March 2006, IIK entered into a consulting agreement with Norman Project according to which the latter undertook to provide consulting services to IIK in connection with the development and construction of a commercial project in Saratov, in consideration of the equivalent of approximately US$1.1m excluding VAT. The agreement expires on the performance in full by the parties of their obligations under the agreement.

g) In December 2006, RealService entered into an oral agreement with FIN for providing certain services that include sourcing the investment and project management services. According to the agreement and in consideration for these services FIN will be entitled to 10% of the net profits from the project, including any sale of the project after completion.

h) 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. MAG's books include the adequate expenses.

i) On 24 May 2007, IIK entered into a contracting agreement with a Russian company controlled by Denya Cebus Ltd. ("Denya") for the construction of the commercial centre in Saratov as a main contractor in consideration for an overall amount of US$50.8m principally paid at the rate of the project's progress.

On 25 February 2009, IIK signed an additional agreement with Denya in which the overall amount of the agreement was enlarged by US$3m and it was agreed that Denya would receive an additional US$1.5m, if the construction of the trade centre is finished by 15 October 2009.

j) On 29 May 2007, IIK entered into an agreement with a bank whereby the bank will extend a loan of approximately US$48.5m to IIK for a period of 15 years to be repaid in quarterly installments, while during the first two years, IIK will pay interest alone.

The loan will bear interest of Libor + 2.5-5%. The Company guaranteed IIK's liabilities towards the bank until the conditions undertaken by IIK toward the bank are met as detailed below:

1) The project will be completed by 31 December 2011.
2) IIK's debt coverage ratio will not be below 1.3.
3) The ratio of equity to total liabilities will not fall below 0:5 before the project is completed and 0.4 after the project is completed.
4) No dividends will be distributed until the project is completed.
5) No investments will be performed of an aggregate amount exceeding US$250 thousand that are not in compliance with the bank approved project budget.

To secure the loan, IIK will pledge its rights to the project area and rights to the project as well as the shares of IIK held by the Company in favor of the bank.

Expenses regarding this loan are recorded as other assets in the balance sheet. Once the loan is received, these deferred expenses will be discounted from the loan and recognised in profit and loss according to the effective interest method.

Note 26 Commitments and Contingencies continued

k) On 27 November 2006, Petra entered into an agreement with a third party for receiving management services for which it shall pay approximately US$9.3m in 95 monthly installments. Petra will also pay success commissions of approximately US$1.7m for complying with established targets. The financial statements include adequate expenses.

Starting March 2009, the amount was reduced to US$41 thousand a month.

l) On 1 August 2006, Creative entered into an oral agreement for receiving management and supervision services from a third party whereby the third party will be entitled to approximately US$2m to be paid in 33 equal monthly installments.

Commencing February 2009, the amount was reduced to US$10 thousand a month.

m) In February 2008, IIK entered into an additional management agreement with NAM, according to which IIK will pay to NAM an amount of US$450 thousand during the year 2008.

n) Expected rental income:

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

The minimum rental income is as follows:

	31 December 2008 US$000	31 December 2007 US$000
First year	**17,398**	16,498
Second year until five years	**50,286**	55,577
More than five years	**18,032**	24,712
	85,716	96,787

o) The previous owners of a plot of land in Yaroslavl, which is currently owned by the Group and on which the Group has constructed a shopping centre, have 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 Company has recorded a provision regarding this agreement.

Note 27 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 performances.

1) Exchange Rate Risk The Group has balances of financial instruments held in Ruble, New Israeli Shekels ("NIS") and Hungarian Forint ("HUF"). The Group is exposed to changes in the value of these foreign currencies due to changes in exchange rates against the US dollar. The Group's policy is not to enter into any hedging transactions in order to hedge against exchange rate risks, except for raising funding from the public.

a) The following table represents the sensitivity to a reasonably possible change in the US dollar/Ruble exchange rates in the year 2008:

	Effect on Equity			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Cash and cash equivalents	496	248	(496)	(248)
Trade and other receivables	2	1	(2)	(1)
Trade and other payables	(1,284)	(642)	1,284	642

b) The following table represents the sensitivity to a reasonable possible change in U.S. dollars/NIS exchange rates in the year 2008:

	Effect on Equity			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Debentures (series A) and swap agreement	(992)	(496)	992	496

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 financial statements do not include an allowance for doubtful accounts since management believes, from past experience, that the chances of collecting all the debts of customers and buyers are good. The maximum credit risk is the carrying amount of the financial assets in the balance sheet.

Credit risk may arise to the Company from concentration of revenues to a major client. The rental income of the Company from this client amounted in the year 2008 to approximately 16% of total rental income from investment properties.

All of the financial assets are neither past due nor impaired.

Notes to the Consolidated Financial Statements continued

Note 27 Financial Instruments continued

3) Interest Rate Risk The Group has placed deposits in banks, which are held for short periods, and has also taken out loans from banks. In December 2007, the Group issued debentures (see Note 22). These balances bear variable interest and therefore expose the Group to cash flow risk in respect of increase in interest rates.

a) The following table represents the sensitivity to a reasonable possible change in interest on balances in NIS in the year 2008:

	Effect on Profit Before Tax			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Debentures (series A) and swap agreement	(992)	(496)	992	496

b) The following table represents the sensitivity to a reasonable possible change in interest on balances in US dollars in the year 2008:

	Effect on Profit Before Tax			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Financial derivative	72	36	(72)	(36)
Loan provided	(2,508)	(1,254)	2,508	1,254
Long-term loans from banks	5,852	2,926	(5,852)	(2,926)

4) Linkage to Israeli CPI risk:

In December 2007, the Company issued debentures that were admitted to be traded on in the Israeli Stock Exchange (series A) (see Note 22). These debentures are linked to the Israeli CPI. In order to hedge this risk, the Company entered into a swap agreement (see c below).

The following table represents the sensitivity to a reasonably possible change in Israeli CPI in 2007:

	Effect on Profit Before Tax	
	Increase 1.5% US$000	Decrease 1.5% US$000
Debentures (series A) and swap agreement	(149)	149

5) Significant risk exposure:

The only item in the balance sheet that is affected significantly by various risks is debentures nominated in shekels. Since there is a hedge on this item, the risk is not material.

Note 27 Financial Instruments continued

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 in 2008 and:

	31 December 2008 Carrying Amount US$000	31 December 2008 Fair Value US$000
Long-term loans	**58,525**	**58,525**
Long-term receivables and prepayments	**16,172**	**16,172**
Trade and other receivables	**7,566**	**7,566**
Cash and cash equivalents	**9,822**	**9,822**
Loans from shareholders	**(9,032)**	**(7,841)**
Debentures (series A) and swap agreement[1]	**(10,583)**	**8,652**
Debentures (series B)	**(51,684)**	**(51,684)**
Long-term loans from banks (including current maturities)	**(19,357)**	**(21,352)**
Accounts payable and accruals, including income tax	**(19,508)**	**(19,508)**

	31 December 2007 Carrying Amount US$000	31 December 2007 Fair Value US$000
Long-term loan	14,829	15,016
Long-term receivables and prepayments	12,891	12,891
Trade and other receivables	7,537	8,176
Short-term loans	7,692	7,692
Restricted deposits	71,312	71,312
Cash and cash equivalents	117,758	117,758
Debentures (series A) and swap agreement[1]	(10,098)	(10,257)
Debentures (series B)	(52,040)	(52,040)
Long-term loans from banks (including current maturities)	(21,163)	(21,128)
Accounts payable and accruals, including income tax	(12,635)	(11,403)

1 The fair value represents the market value of the debenture on the Tel Aviv Stock Exchange.

c) On 31 December 2007, the Company entered into a transaction agreement with Bank Leumi (UK) plc. According to the agreement, payments of the Company on account of Series A debentures (see Note 22) will be linked to the NIS/US dollar as of 31 December 2007, and the interest payments will be according to LIBOR (for dollar deposits for a six-month period), plus a margin of 3.72%. The transaction hedging is not recognised for accounting purposes, therefore it is recorded in each period according to the fair value. The fair value of the swap agreement at 31 December 2007 amounted to US$(50) thousand and the fair value of the swap agreement at 31 December 2008 amounted to US$719 thousand.

d) The Company's capital management objectives are to maintain healthy capital ratios in order to support its business activity and maximise shareholders value.

The Company acts to achieve a capital return at a level that is customary in the industry and markets in which the Company operates. This return is subject to changes depending on market conditions in the Company'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, premium, minority interests, retained earnings, capital reserves and shareholders' loans and excludes currency translation adjustment reserves and treasury shares.

Note 27 Financial Instruments continued

e) During September 2008, the Company's main shareholders (companies that are part of the Fishman Group) have reinstate guarantees in favor of certain banking institution that have granted the Company lines of credit in the aggregate amount of US$70m. The fair value of this transaction is recorded in the equity of the Company ("shareholders' contributions") and is amortised in the subsequent periods through profit and loss.

f) On 11 December 2008, the Company signed a loan facility agreement with its main shareholders (see Note 20h). The fair value of this transaction is recorded in the equity of the Company ("shareholders' contributions") and is amortised in the subsequent periods through profit and loss.

g) The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted payments.

	31 December 2008					
	On Demand US$000	**Less than Three Months US$000**	**Three to 12 Months US$000**	**One to Five Years US$000**	**More than Five Years US$000**	**Total US$000**
Long-term loans from banks	**–**	**479**	**1,436**	**17,443**	**–**	**19,357**
Long-term loans from shareholders	**–**	**–**	**–**	**9,032**	**–**	**9,032**
Debentures	**–**	**–**	**–**	**41,511**	**20,756**	**62,267**
Short-term loan from bank	**62,196**	**–**	**–**	**–**	**–**	**62,196**
Accounts payable and accruals	**–**	**4,540**	**8,380**	**–**	**–**	**12,920**
	62,196	**5,019**	**9,816**	**69,127**	**27,727**	**173,885**

	31 December 2007					
	On Demand US$000	Less than Three Months US$000	Three to 12 Months US$000	One to Five Years US$000	More than Five Years US$000	Total US$000
Long-term loans from banks	–	–	–	19,357	–	19,357
Debentures	–	–	4,683	34,940	22,465	62,088
Short-term loan from bank	73,212	–	–	–	–	73,212
Accounts payable and accruals	8,384	–	–	–	–	8,384
	81,596	–	4,683	50,813	35,204	172,296

Note 28 Post Balance Sheet Events

There were no significant post balance sheet events that require disclosure in the financial statements.

Note 29 Date of Approval of the Financial Statements

The Board of Directors approved these financial statements on 18 March 2009.

Shareholders' Information

Financial Calendar

Annual General Meeting	18 May 2009
Announcement of 2009 first quarter results	May 2009
Announcement of 2009 interim results	August 2009
Announcement of 2009 third quarter results	November 2009

Share Price

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

Price at 31 December 2008	35p
Lowest price during the year	34p
Highest price during the year	510p

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:

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