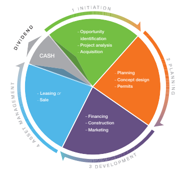
MirLand Development Corporation Plc

Annual report and accounts 2011

Contents

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



MirLand has a comprehensive approach towards real estate development; the Company is involved in the full life cycle of a project from initiation to successful completion and maximizing return.

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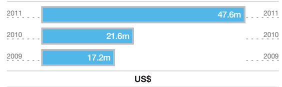
Total revenues showed significant increase of approximately 120% to US$47.6m. Net income increased to US$28.5m due to an improvement in operational results of yielding properties. Increased overall progress in the Company's commercial portfolio and improved market conditions.

Revenues for the Year

US$**47.6m**



Triumph Mall in Saratov enjoyed a successful first year in terms of footfall and is now 100% leased. The Vernissage Mall in Yaroslavl is fully occupied and has a high footfall; occupancy rates in MirLand office buildings are now 97% on average. Construction of the first phase of Western Residence project was completed.

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MirLand continues to execute its clearly defined business plan to maximize long-term shareholder returns. The Company's efforts and resources are focused on completing projects already under construction and commencing those where funding is already in place. In addition, positive market momentum will create opportunities for us to purchase new assets and increase our portfolio.

Триумф Парк
жилой эко•комплекс

November 2011, the Company launched a sales campaign of Triumph Park which offers high quality, competitively priced housing in St. Petersburg's desirable residential market. The development will be the first eco-residential complex in the city, built according to Western standards.

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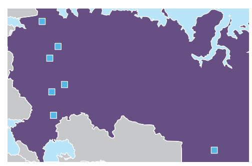
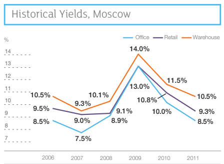
We strongly believe in the quality of our portfolio projects and our prudent, selective approach to the management and development, together with our committed shareholders, directors and managers will increase value for our shareholders.



Historical Yields, Moscow



Source: C&W

Russian economy performed well during 2011 with all macroeconomic indicators presenting positive results. 2011 was an exceptionally good year for the real estate sector, which saw a record year of US$7.66bn of investment in the sector. The increase in interest from investors led to yield compression.

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Who We Are

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

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

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

To date, the Company has successfully raised additional net debt of approximately US$186m (out of which approximately US$54m were in 2011) through several bond issuances in Israel, providing it with greater financial flexibility and enhancing its ability to deliver its existing portfolio and pipeline of projects.

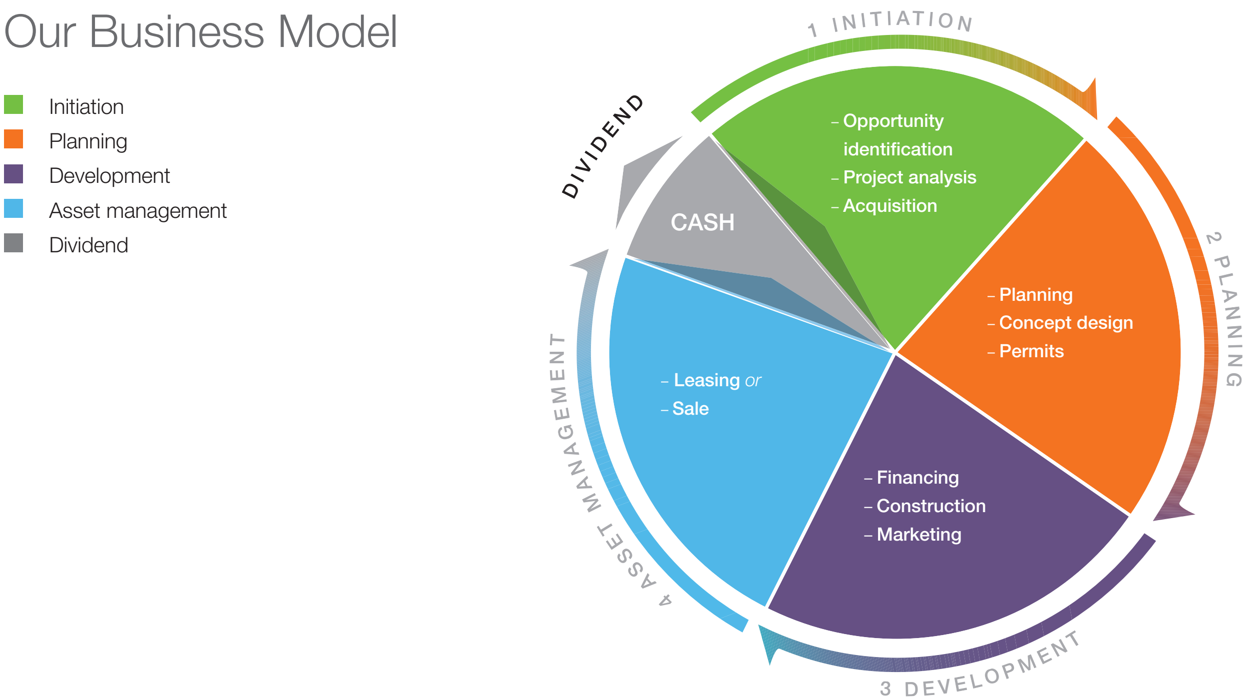
The Company currently owns 15 residential and commercial projects across Russia, with a total rentable/saleable area of approximately 1,424,150 sqm upon completion. Of these, six commercial projects are already yielding, and construction of one additional residential project was finished at Q4 2011.

Triumph Park development. For more information see page 14.

Our Business

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

Our Business Model



Each project comprises key common stages:

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

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

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

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

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

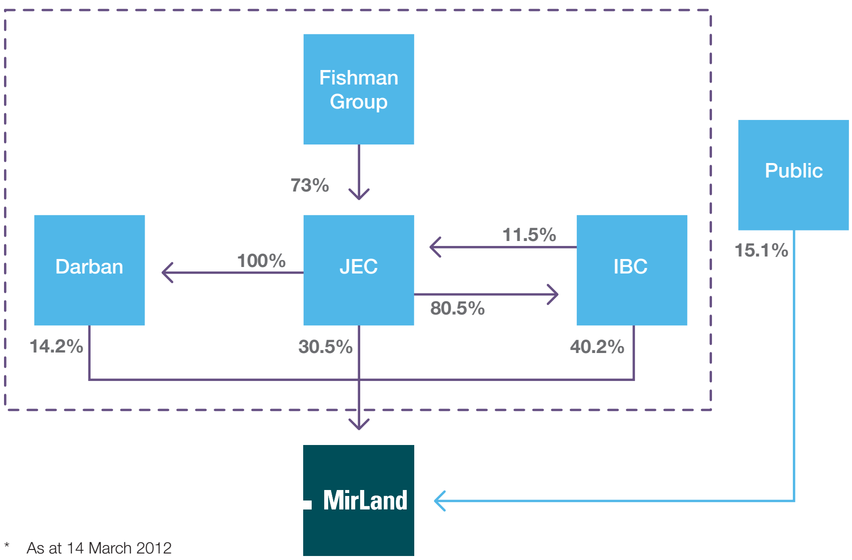
We believe that our full and integrated business model, together with the diversification of our portfolio, enables us to manage and control our risks in order to maximise returns to our shareholders.

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

Our Strategy

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

Our Corporate Structure*

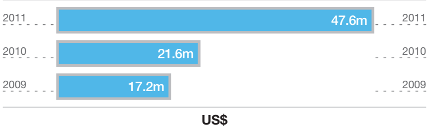


* As at 14 March 2012

How We Performed in 2011

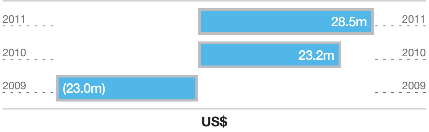
Revenues for the Year

US$47.6m



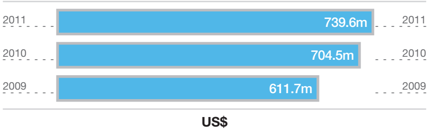
Net Income for the Year

US$28.5m



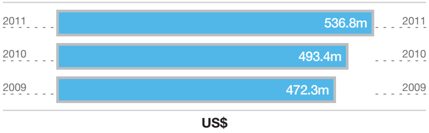
Total Assets

US$739.6m



Adjusted Net Asset Value

US$536.8m



Financial Highlights

- Total revenues showed a significant increase of approximately 120% to US$47.6m (31 December 2010: US$21.6m) due to growth in operational results and occupancy in all yielding properties that reached an average of 98%, inclusion of a full 12 months of income from the Triumph Mall in Saratov, income from Tamiz office building and partial recognition of sales at the Western Residence project in Perkhushkovo;
- Net income: US$28.5m (31 December 2010: US$23.2m), with the increase mainly attributable to an improvement in operational results of yielding properties and net fair value adjustment in investment properties and investment properties under construction of US$33.5m (31 December 2010: adjustment of US$29.8m), a result of overall progress in the Company's commercial portfolio and improved market conditions;
- Total assets increased to US$739.6m (31 December 2010: US$704.5m);
- Adjusted NAV: US$536.8m (31 December 2010: US$493.4m) and NAV per share of US$5.2 (31 December 2010: US$4.8). The growth in NAV (based on C&W valuation) is attributable mainly to a fair value increase in the St Petersburg project of approximately US$56m due to the significant progress achieved during the year in terms of sales, financing and construction and to a net increase in the fair value of commercial properties of approximately US$25.4m due to the overall improvement in the Company's commercial portfolio helped by improved market conditions. These increases were partially offset by growth in net liabilities;
- Real estate assets amounted to US$671.1m (31 December 2010: US$636.4m), representing 91% of total assets (31 December 2010: 90%). The increase is attributed to positive net fair value adjustment and investment of approximately US$39m in real estate during the year;
- Shareholders' equity increased to US$347.1m, equating to 47% of total assets (31 December 2010: US$341m);
- Further progress in management and optimisation of debt raising approximately US$54m through conversion of warrants to Bonds Series C and D and the sale of Bonds Series D (listed on the Tel-Aviv Stock Exchange) and repaying higher interest shareholders' loans of approximately US$40.6m (including interest);
- Further diversification of funding sources, refinancing four loan facilities totalling approximately US$60.1m (Company's share) with three leading Russian banks and obtaining a construction credit line for the first sub phase of the Triumph Park project in St Petersburg of approximately US$41m;
- Modest net leverage maintained at 44% of total assets (31 December 2010: 43.5%) despite raising of debt on the Tel-Aviv Stock Exchange and obtaining of project financing which were partially offset by repayment of shareholders' loans, scheduled repayments of previously issued bonds and scheduled principal repayments of loans on the project level. In January 2012, the Company repaid the remaining balance of shareholders' loans in the amount of approximately US$6.4m (including interest).

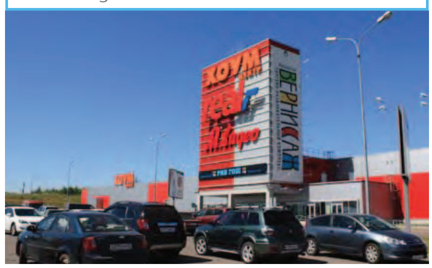
Operational Highlights

- Sales campaign for sub phase one of the Triumph Park project in St Petersburg, comprising 510 apartments launched in November 2011 and contracts for the sale of 179 apartments have been executed and 31 apartments reserved; launch of sales and construction of sub phase two comprising of 710 apartments is planned for Q3 2012;
- Triumph Mall in Saratov enjoyed a successful first year of operation in terms of footfall and is now 100% leased;
- Occupancy rate increased to 100% at the Vernissage Mall in Yaroslavl, with the asset experiencing high footfall;
- Construction of the first phase of 77 houses in the Western Residence project, Perkhushkovo, was completed in mid October and the process of handing over the sold houses to buyers has begun;
- Occupancy rates in Hydro, MAG and Century office buildings are now 97% on average (of available space);
- The Tamiz office building was completed during the third quarter of 2011, and is currently 92% leased, with negotiations with tenants under way for the remaining space;
- Insurance settlement amounting to approximately US$6.2m has been reached compensating MAG for the fire damage caused to one of its buildings in March 2010. Renovation works are now in progress and are expected to be completed in Q2 2012 and negotiations for lease out of the renovated space are at an advanced stage.
- The Company completed the acquisition of leasehold rights to a 40.6 hectares site designated for the development of a 180,000 sqm logistics centre in Novosibirsk for a total consideration of US$2.2m;

Triumph Park

Triumph Mall

Vernissage Mall



Western Residence

Chairman's Statement

I am pleased to report on MirLand's progress and results during the 2011 financial year. The Russian economy continued to stabilise and show improvement during 2011 and the performance of the Company's real estate portfolio continued to improve. In November, the Company secured construction finance for sub phase one of its flagship residential project, Triumph Park, in St Petersburg and commenced its sales campaign. Initial response has been highly encouraging, with approximately 40% of the 510 apartments in the first phase already sold or reserved.

Nigel Wright Chairman

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

The Company's strategy for 2012 proposes that we:

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

Russian Business Environment

The Russian economy performed well during 2011, with all macroeconomic indicators presenting positive results. 2011 was a year for record low inflation in Russia which, at 6.1%, was driven mainly by low food inflation. Unemployment continued to decrease and positive GDP growth and industrial production were supported by high energy prices, on which the Russian economy is highly dependent.

The performance of the Russian economy during 2011 can be divided into two halves. In H1 domestic demand was maintained, and consumption and the construction sector started growing faster as the economy was largely influenced by positive news from the world's top-performing economies. However, by the end of the summer, uncertainty about the leading countries' economies grew, bringing volatility to the commodity markets which in turn saw the lending market become more conservative, while the MosPrime interbank interest rate almost doubled.

The price of oil was supported by tensions around Iran, stable growth of BRIC economies and a moderate upturn in the US economy. However, EU financial uncertainty continues to create volatility in the Russian economy.

In addition, as a result of the uncertainty about the country post the presidential election (Prime Minister Putin was elected as president in March 2012), consumer confidence decreased during the year, and escalated political instability reduced the value of the Ruble towards end of the year.

2011 was an exceptionally good year for the real estate sector, which saw a record year of US$7.66bn of investment in the sector. The market experienced significant quality improvements in 2011 and foreign investors' interest returned. However, demand in the last quarter softened somewhat due to the world economic uncertainty. Transactions were seen across all sectors, but the most significant increase in the volume of investment deals was observed in the retail segment. The increase in interest from investors led to yield compression, with prime yields for good quality Moscow premises hardening from circa 13% in Q4 2009 to approximately 9.5% and lower for some assets, by the end of 2011.

2011 Operational Highlights

As a result of MirLand's business model implemented during the year and our high-quality portfolio, the Company is well-positioned to grow in this improving environment and this has already been reflected in a better performance for 2011.

- The Company has a diversified portfolio of assets comprising both residential and commercial projects.
- In November 2011, the sales campaign for the first phase of the Triumph Park residential project in St Petersburg was launched. The pace of sales has exceeded management's expectations, with sales contracts executed for 179 apartments and a further 31 apartments reserved, out of a total of 510, which comprises the first sub phase of the development. Launch of sales and construction of sub

phase two, comprising 710 apartments, is planned for Q3 2012.

- Our investment portfolio now comprises six high-quality, completed, income-producing investment properties, Hydromashservice, MAG, Century and Tamiz office properties in Moscow and, in the retail sector, Vernissage Mall in Yaroslavl and the Triumph Mall in Saratov. Most of the leasing agreements in the yielding assets are for long tenures and denominated in US Dollars. During the year, occupancy rates increased in all of our income-producing investment properties and we reached full occupancy at both of the Company's retail properties and overall average occupancy rate of approximately 98% (of available space) for all yielding properties.
- During the year, the Company raised approximately US$54m of debt through extensions of its Series C Bonds, the conversion of previously issued warrants (Series 2 and Series 3) to Bonds Series C and D and the sale of Bonds Series D, which are traded on the Tel-Aviv Stock Exchange.
- During 2011, special emphasis was given to progressing project refinancing and construction financing, resulting in four refinancing loans totalling approximately US$60.1m and the receipt of a construction credit line of circa US$41m for the first sub phase of the Triumph Park project in St Petersburg.
- In October 2011, the construction of the first phase of the Western Residence project in Perkhushkovo was completed and the delivery of the purchased houses to their new owners has begun. As at 14 March 2012, 19 out of a total of 77 houses have been sold.
- As previously announced, an insurance settlement amounting to approximately US$6.2m has been reached compensating MAG for the fire damage caused to one of its buildings in March 2010. Renovation works of the building are now in progress and are expected to be completed in Q2 2012.
- The Company continues to maintain modest net leverage at just 44% of its total assets at the year end.

Financing

In common with other real estate businesses, MirLand relies on both short- and long-term financing sources. In recent months we have witnessed an encouraging improvement in the domestic bank finance market in Russia and some improvement in the public debt markets.

To date, MirLand's activities have been financed through a combination of equity capital, proceeds of corporate bond issues, project financing for the Vernissage and Triumph Malls, financing for MAG, Hydro, Century and Western Residence properties, shareholders' loans and guarantees, and general corporate loans. During 2011, the Company was able to further diversify its funding sources, obtaining four refinancing loans from three of Russia's leading banks at the project level totalling approximately US$60.1m as well as a construction credit line for the first phase of the Triumph Park project in St Petersburg of approximately US$41m. In addition, during 2011 the Company successfully raised circa US$54m of debt through extensions of Series C Bonds, conversion of previously issued warrants (Series 2 and 3) to Bonds Series C and D and the sale to third parties of Bonds Series D by the Company's wholly owned subsidiary, which are traded on the Tel-Aviv Stock Exchange. During the year, the Company also repaid US$36.8m of shareholders' loans (US$40.6m including interest), US$10.8m of bonds and US$5.4m of bank loans.

MirLand is managing its development pipeline according to market conditions and availability of cash resources. We have rephased our residential projects in Moscow and St Petersburg to increase our flexibility and to match it to 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 success at the Triumph Mall project, delivered under difficult market conditions.

2011 proved to be a year of solid progress for the Company despite considerable and continuing challenges. I am delighted to report improvements across the board in our business. Growth in net revenues, profit and net asset value are encouraging and we have made significant progress over the past 12 months in a number of other key areas. These are all signs that the strategic decisions taken in the immediate aftermath of the 2008/2009 financial crisis are bearing fruit.

The completion of key additional financings with domestic banks, the successful commencement of sales at our major St Petersburg residential project, the growth in revenues and negligible vacancy rate at our principal retail and commercial investment properties all give cause for encouragement. Furthermore, there were positive signs of improvement in key Russian economic indicators during the year and a welcome improvement in bank liquidity. In light of the above, I remain cautiously optimistic in the medium term, barring unforeseen aftershocks.

Nigel Wright Chairman

Chairman's Statement

Continued

Our Competitive Strengths

Results

Total assets as at 31 December 2011 were US$739.6m as compared to US$704.5m as at 31 December 2010. Equity as at 31 December 2011 was US$347.1m compared to US$341m the preceding year. The main reason for the increase was recorded net income for 2011 which was partially offset by an increase in the negative translation reserve due to devaluation of the Rouble against the US Dollar.

Net income was US$28.5m (31 December 2010: US$23.2m), following the improvement in the Company's operational results as well as an increase in the value of its investment properties, as a result of improved market conditions and capital investment during the year. The increase was partially offset by increased finance costs and net foreign exchange differences due to a higher balance of financial liabilities, lower capitalised interest and devaluation of the Rouble against the US Dollar during the year, respectively.

Over the period, revenues recorded a significant increase of approximately 120% to US$47.5m (31 December 2010: US$21.6m), due to increased occupancy rates in all MirLand's yielding assets, income from Triumph Mall for its first full year of operation and income recognition from the sale of houses in the Western Residence project in Perkhushkovo.

MirLand's assets are externally valued semi-annually on 30 June and 31 December. The valuation is conducted by Cushman & Wakefield. As a result of market improvement and further investment by the Company during this period, the value of MirLand's portfolio (Company's share) increased by approximately 10% to US$853.6m at 31 December 2011 (31 December 2010: US$775.4m). Adjusted NAV, based on Cushman & Wakefield's valuation, was US$536.8m (31 December 2010: US$493.4m), an increase of 8.8%. The growth can be attributed mainly to an increase in the valuation of the St Petersburg project due to the significant progress made during the year in terms of sales, construction and financing as well as a net increase in the value of the Company's commercial portfolio as a result of overall improvement in all yielding assets that was helped by improved market conditions. The increase in value was offset by a decrease in the valuation of the Skyscraper project.

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

Portfolio Development

In an improving business environment, MirLand's focus for 2011 was on the delivery of projects already under construction, careful management of its income-producing investment properties in order to increase the occupancy rates, and the development of good quality pipeline projects with strong demand, in the shortest time to market.

Residential

In November 2011, the Company launched a sales campaign for sub phase one of Triumph Park which offers high-quality, competitively priced housing in St Petersburg's desirable residential market. The project, which is situated on a well-located, 40 hectare site, represents one of the few large-scale developments in the city to offer close proximity to major transport links. Furthermore, the development will be the first eco-residential complex in St Petersburg built according to western standards and will offer attractive features such as ecologically friendly construction materials, an energy-efficient design, reduced CO_2 emissions, water purification filters and high-speed eco-home lifts certified according to ISO 14001. 179 sale contracts have been signed and a further 31 reservations have been secured out of a total of 510 apartments which comprise the first phase. Construction of the first phase is expected to be completed in Q2 2013. On completion of the entire development, expected by 2019, Triumph Park will comprise 9,000 apartments, approximately 58,000 sqm of retail space, 60,000 sqm of offices, surface and underground parking and a variety of public amenities such as kindergartens, schools and parks.

In Q4 2011, the construction of phase one of the Western Residence project in Perkhushkovo (77 houses out of 163) was completed and the houses are now being handed over to the buyers. To date, a total of 19 houses have been sold.

Retail

The Triumph Mall in Saratov enjoyed a successful first year of operation, characterised by high footfall figures, with circa 450,000 visitors per month on average and 100% occupancy. The project has been nominated for the Russian-based Commercial Real Estate Awards 2011 in the category of "Best Medium-sized Regional Shopping Centre".

The occupancy rate in Vernissage Mall in Yaroslavl is 100% and the shopping centre has also enjoyed high footfall figures, with more than 300,000 visitors per month in 2011.

Office

The average occupancy in Hydro, MAG and Century Office Buildings increased to 97% of the net available leasable space.

Construction of the Tamiz office building was completed during the period and occupiers started to move in during Q3 2011. The building is currently 92% occupied.

As previously announced, on 20 March 2010, a fire broke out in one office building which constitutes part of the office building complex (MAG, building 26) located in Moscow. In August 2011, an insurance settlement amounting to approximately US$6m has been reached, compensating MAG for the fire damage. Renovation works on the building are now in progress and expected to be completed during Q2 2012. Based on an independent engineering report received by MAG, the renovation cost was estimated at approximately US$7.8m.

Other

In Q1 2011, MirLand completed the acquisition of leasehold rights to a 40.6 hectares site designated for the development of up to 180,000 sqm logistics centre in Novosibirsk for a total consideration of US$2.2m.

Dividend Policy

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

Despite the improvements in the Russian economy and the Company's results, the Board believes that it is appropriate to retain maximum flexibility to invest in the opportunities available to it and therefore the Board has determined that it is inappropriate to declare a dividend for the financial year ended 31 December 2011.

Our People

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

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

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

Outlook

In view of the improvements in the Russian macroeconomic environment and its real estate sub sector, MirLand will continue to execute its clearly defined business plan to maximise long-term shareholder returns.

The Company's efforts and resources are focused on completing projects already under construction and commencing those where funding is already in place. We continue to intensify our efforts to improve our pre-sale and letting activities and these strategies are already being reflected in the Company's improved results. As in the past, we will move forward with the planning and design stages of our strategic projects, whilst nurturing and growing the already strong income stream from our investment portfolio. In addition, we anticipate that continuing positive market momentum will create opportunities for us to purchase new assets and so increase our portfolio. Any activity will be undertaken with caution and subject to the availability of funds on appropriate terms.

Accordingly, barring any unforeseen market aftershocks, given growing market demand and availability of funding, MirLand appears well placed to benefit from improving market conditions.

Nigel Wright Chairman
14 March 2012

Our Investment Strategy and Key Performance Indicators

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

Focus on the Successful Development of Projects

Strategic Principles

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

Achievements in 2011

- Sales campaign for sub phase one of Triumph Park project in St Petersburg, comprising 510 apartments launched in November 2011 and contracts for the sale of 179 apartments have been executed and 31 apartments reserved. Launch of sales and construction of sub phase two comprising 710 apartments is planned for Q3 2012.
- In Q3 2011 the construction of the Tamiz office building in Moscow was completed and this asset was added to the yielding portfolio.
- Construction of the first phase of 77 houses in the Western Residence project, Perkhushkovo, is now completed.

Key Performance Indicators

Yielding Areas (sqm)

Financing Achievements in 2011

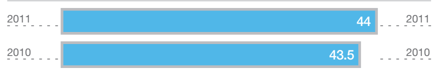
Strategic Principles

- Use diverse financing sources to accelerate business activity and growth

Achievements in 2011

- Modest net leverage maintained at 44% of total assets (31 December 2010: 43.5%) despite raising of additional debt on the Tel-Aviv Stock Exchange and obtaining of project financing which were partially offset by the repayment of shareholders' loans, scheduled repayments of previously issued bonds and scheduled principal repayments of loans on the project level. In January 2012, the Company repaid the remaining balance of shareholders' loans in the amount of approximately US$6.4m (including interest).
- Further diversification of funding sources, refinancing four loan facilities totalling approximately US$60.1m (Company's share) with three leading Russian banks and obtaining a construction credit line for the first sub phase of Triumph Park project in St Petersburg of approximately US$41m.

Net Leverage of Total Assets (%)



Maintain a Diversified Portfolio

Strategic Principles

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

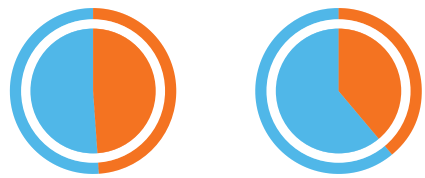
Achievements in 2011

- The Company continues to enter projects in regional cities. At the beginning of the year, MirLand completed the acquisition of leasehold rights to a 40.6 hectare site designated for the development of a logistics centre of up to 180,000 sqm in Novosibirsk.
- Future commencement of construction of projects in the planning phase will be dependent upon market conditions and the availability of finance.
- The Company's portfolio includes 13 commercial projects and two residential projects.
- The Company's portfolio assets are spread between Moscow and a variety of large regional cities.

Key Performance Indicators

Geographic Spread

Segments Spread



Development Stage

Grow and Improve Core Base of Yielding Properties

Strategic Principles

- Improve operational results and increase occupancy of existing yielding assets

Achievements in 2011

- Triumph Mall in Saratov enjoyed a successful first year of operation in terms of footfall and is now 100% leased;
- Occupancy rate increased to 100% at the Vernissage Mall in Yaroslavl, with the asset experiencing high footfall;
- Occupancy rates in Hydro, MAG and Century office buildings increased to 97% on average (of available space);
- The Tamiz office building has been completed during the third quarter of 2011, and is currently 92% leased, with negotiations with tenants under way for the remaining space;
- Insurance settlement amounting to approximately US$6.2m has been reached compensating MAG for the fire damage caused to one of its buildings in March 2010. Renovation works are now in progress and are expected to be completed in Q2 2012 and negotiations for lease out of the renovated space are in progress.

Our Investment Strategy and Key Performance Indicators

Continued

Generate Value Through Active Management

Strategic Principles

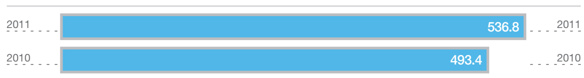
- Actively market assets before completion
- Identify market opportunities to increase yields
- Sell properties at the optimal time
- Take advantage of diverse financing opportunities

Achievements in 2011

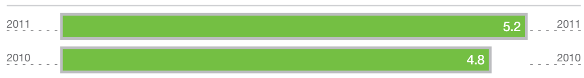
- As a result of further investment by the Company and market improvement during 2011, the value of MirLand's portfolio increased by 10% to US$853.6m during the year. Since the further investments were financed through bond issuance and bank loans the adjusted NAV during the period increased by 9%.
- The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield (C&W) in accordance with International Valuation Standards. As at 31 December 2011 it was valued at US$853.6m (31 December 2010: US$775m) and net liabilities were US$316.8m (31 December 2009: US$282m). The full valuation is published on the Company's website.
- The main reasons for increase are attributed to an improvement in operational results of yielding properties and net fair value adjustment in investment properties and investment properties under construction of US$33.5m (31 December 2010: adjustment of US$29.8m), a result of overall progress in the Company's commercial portfolio and improved market conditions. In addition, the revenues showed a significant increase of approximately 120% to US$47.6m (31 December 2010: US$21.6m) due to a growth in operational results and occupancy in all yielding properties that reached an average of 98%, inclusion of a full 12 months of income from the Triumph Mall in Saratov, income from Tamiz office building and partial recognition of sales at the Western Residence project in Perkhushkovo. Also, insurance settlement amounting to approximately US$6.2m has been reached compensating MAG for the fire damage caused to one of its buildings in March 2010.

Performance

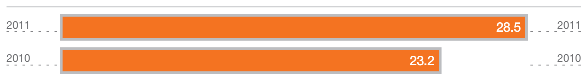
Adjusted Net Asset Value (US$m)



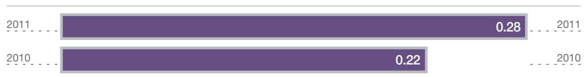
Adjusted Net Asset Value Per Share (US$)



Net Income (US$m)



Net Income Per Share (US$m)



Acquire Attractive Sites in Targeted Locations for Future Developments

Strategic Principles

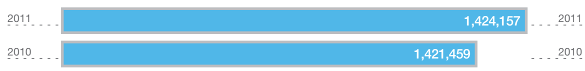
- Focus on high-quality developments which offer higher yields and capital growth
- Invest in Moscow, St Petersburg and attractive regional cities which have more than 500,000 inhabitants
- Invest in a variety of high-yielding sectors
- Invest in yielding or development projects that can be delivered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

Achievements in 2011

- At the beginning of 2011, one new project was added to the Company's portfolio – the logistic centre in Novosibirsk. Consequently, the total rentable/saleable area increased to 1.42 million sqm on completion of all projects.

Performance

Rentable/Saleable Area (sqm)



Priorities for 2012

- Enhance construction and sales of residential units in Triumph Park and Western Residence projects
- Assessment of potential acquisitions with the focus on yielding and development projects that can be delivered to market in a short time
- The increase of liquidity through strict cash flow management, maintaining high occupancy levels in our yielding portfolio, increasing sales of houses and apartments in our residential projects, and reduction of OPEX, G&A and other expenses
- To continue our efforts to increase and diversify our financial resources including obtaining financing at the project level
- Maintenance of our land bank portfolio for future development, which would be subject to availability of funds and market demand

Portfolio Focus **Triumph Park**

Triumph Park. Where dreams become opportunities.

Triumph Park, which is situated on a well-located, 40-hectare site, represents one of the few large-scale developments in the city to offer close proximity to major transport links.

Furthermore, the development will be the first eco-residential complex in St Petersburg with low environmental impact built according to western standards and will offer attractive features such as ecologically friendly construction materials, an energy-efficient design, water purification filters and high-speed eco-home lifts certified according to ISO 14001. The flexibility of the apartment mix in terms of both the range of unit sizes and the fit-out options is designed to appeal to a wide range of purchasers.

The total net sellable area of the first phase of the project is approximately 26,500 sqm plus approximately 1,200 sqm of retail space and two levels of underground parking comprising 194 spaces. Completion of the first phase of the development is planned for Q2 2013.

Main characteristics

- 40 ha land plot
- Over 1 million sqm of quality residential and commercial premises
- The most demanded apartment mix, totalling over 9,000 apartments
- Phase 1: 510 apartments with European fit-out, or advanced shell and core to meet individual client's preferences
- Two-level underground parking, two schools, four kindergartens
- Closed secured eco-landscaped internal yards
- Energy-efficient, environmentally friendly eco-complex – water purification filters, low energy consumption, lifts, greenery on the roofs, etc
- Applied for BREEAM certification issued by BRE

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

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

Триумф Парк
жилой эко•комплекс

Location

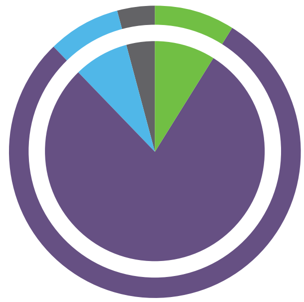
- Located in St Petersburg, a city with a population of five million people
- Well-developed residential district
- Easily accessible from downtown and main routes
- One of a few large-scale residential developments in the city, located within a short walking distance to the underground public transportation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

Project team

- Architectural concept by Yashar Architects
- General contractor – NSK Monolith, the leading construction company in St Petersburg
- Project financing from Sberbank, the leading Russian bank
- Marketing agent – Peterburgskaya Nedvizhimost, the leading residential broker in the St Petersburg market

Portfolio at a Glance

Russia



By area
- Yielding 9%
- Planning 79%
- Construction 8%
- Available for sale 4%

Total 1,424,157 sqm

Moscow and Moscow region

Hydromashservice and MAG
Yielding | 16,696 sqm and 18,392 sqm

Century Buildings
Yielding | 20,903 sqm

Tamiz
Yielding | 11,737 sqm

Skyscraper
In planning | 92,000 sqm

Western Residence
Completed | 22,579 sqm (excluding sold houses)
In planning | 35,219 sqm

St Petersburg

Triumph Park
Under construction | 27,381 sqm
In planning | 721,294 sqm

Yaroslavl

Vernissage Mall
Yielding | 34,092 sqm

Big Box Complex
In planning | 55,245 sqm

Saratov

Triumph Mall
Yielding | 27,305 sqm

Saratov Logistics
In planning | 104,000 sqm

Kazan

Triumph House
In planning | 31,470 sqm

Penza

Penza Shopping Centre
In planning | 18,024 sqm

Novosibirsk

Novosibirsk Logistics Centre
In planning | 180,000 sqm

Key

Residential Office Retail Logistics

Portfolio

Triumph Park

Location: St Petersburg

Land area: **41 ha**

Total saleable area: **630,900 sqm**

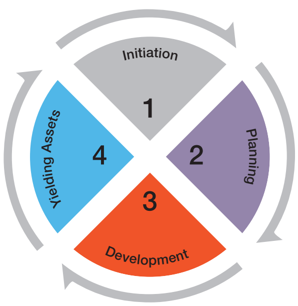
Leasable area: **117,775 sqm**

Phase 1* planned completion: **Q2 2013**

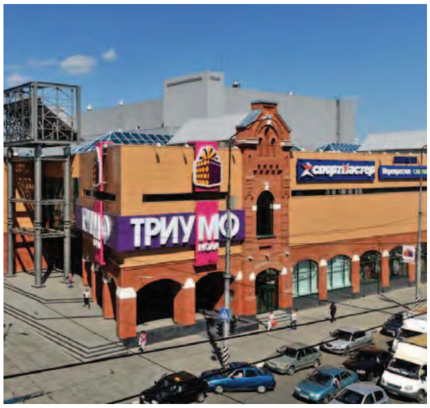
Planned completion: **Q4 2019 (of phases 2-5)**

Freehold rights: **100%**

* Phase 1 saleable area: 27,381 sqm.



Triumph Mall



Location: Saratov

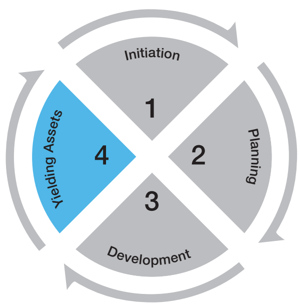
Land area: **2.2 ha**

Leasable area: **27,305 sqm**

Completed: **Q4 2010**

Freehold rights: **100%**

Occupancy rate: **100%**



Vernissage Mall

Location: Yaroslavl

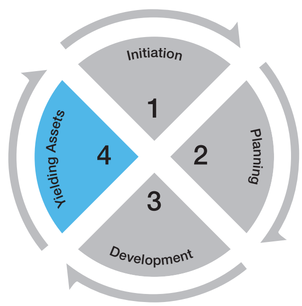
Land area: **12 ha**

Leasable area: **34,092 sqm**

Completed: **Q2 2007**

Freehold rights: **50.5%**

Occupancy rate: **100%**



Portfolio

Continued

Hydromashservice

Location: Moscow

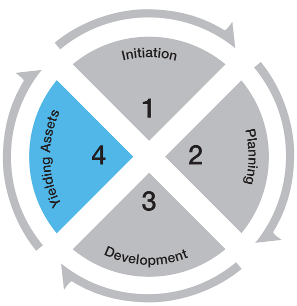
Land area: 1.2 ha

Leasable area: 16,696 sqm

Completed: Q4 2008

Leasehold rights of land: 100%

Occupancy rate: 98%



MAG

Location: Moscow

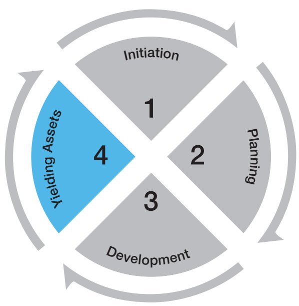
Land area: 2.3 ha

Leasable area: 18,392 sqm
(including 7,150 sqm under renovation)

Completed: Q4 2007

Leasehold rights of land: 100%

Occupancy rate: 95%* (not including 7,150 sqm under renovation due to fire)



Century Buildings

Location: Moscow

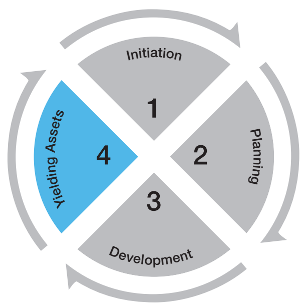
Leasable area: 20,903 sqm

Completed: Q1 2009

Leasehold rights of land: 51%*

Occupancy rate: 98%

* The Company granted the partners the option to buy back 1%.



Tamiz

Location: Moscow

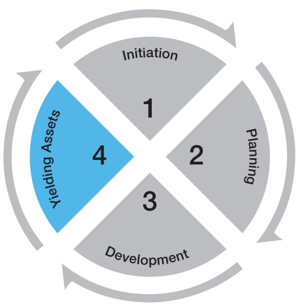
Land area: **0.45 ha**

Leasable area: **11,737 sqm**

Completed: **Q3 2011**

Leasehold rights of land: **100%**

Occupancy rate: **92%**



Western Residence

Location: Perkhushkovo

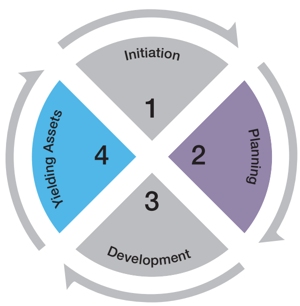
Land area: **22.5 ha**

Saleable area: **59,056 sqm (excluding sold houses)**

Phase 1 completed: **Q4 2011**

Freehold rights: **100%**

Sales: **19 houses were sold as of the date of this report**



Skyscraper

Location: Moscow

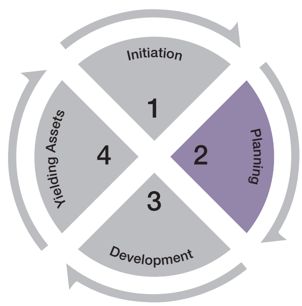
Land area: **0.9 ha**

Leasable area: **92,000 sqm**

Planned construction commencement: **Q3 2013**

Planned completion: **Q4 2016**

Leasehold rights of land: **100%**



Portfolio

Continued

Big Box Complex

Location: Yaroslavl

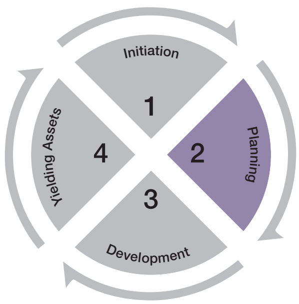
Land area: 18 ha

Leasable area: 55,245 sqm

Planned construction commencement: Q1 2013

Planned completion: Q1 2015

Freehold rights: 50.5%



Triumph House

Location: Kazan

Land area: 2.2 ha

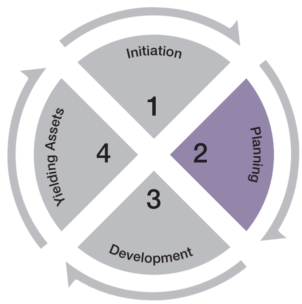
Leasable area: 26,300 sqm

Sellable area: 5,200 sqm

Planned construction commencement: Q1 2013

Planned completion: Q1 2015

Freehold rights: 100%



Penza Shopping Centre

Location: Penza

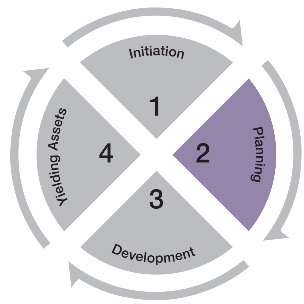
Land area: 5.3 ha

Leasable area: 18,000 sqm

Planned construction commencement: Q1 2014

Planned completion: Q4 2015

Freehold rights: 100%



Saratov Logistics

Novosibirsk Logistics Centre

Location: Saratov

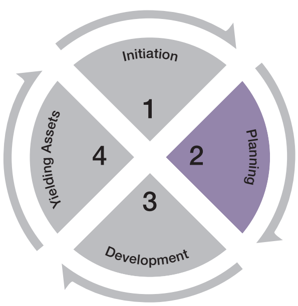
Land area: 26 ha

Leasable area: 104,000 sqm

Planned construction commencement: Q2 2013

Planned completion: Q4 2015

Freehold rights: 100%



Location: Novosibirsk

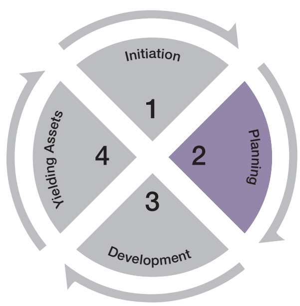
Land area: 40.6 ha

Leasable area: 180,000 sqm

Planned construction commencement: Q4 2013

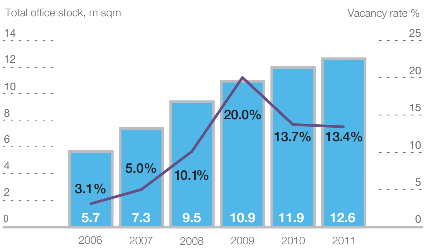
Planned completion: Q2 2018

Leasehold rights of land: 100%



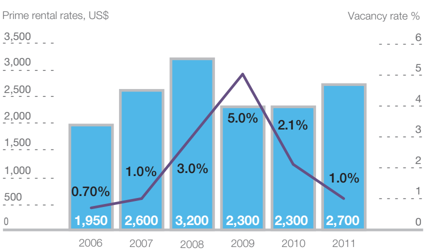
Our Markets

Office Stock and Vacancy Rates, Moscow



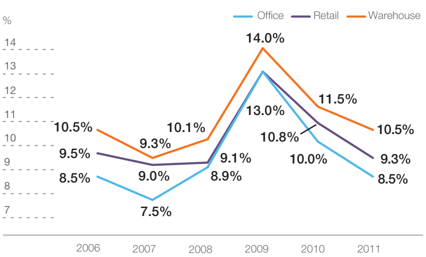
Source: C&W

Moscow SC Prime Rental Rates and Vacancy Rates



Source: C&W

Historical Yields, Moscow



Source: C&W

Macroeconomic and Real Estate Markets

- The Russian economy performed well during 2011 with all macroeconomic indicators presenting positive results. In H1 domestic demand was maintained while consumption and the construction sector started growing faster as the economy was largely influenced by positive news from the world's top-performing economies. However, by the end of the summer, uncertainty about the leading countries' economies grew, bringing volatility to the commodity markets which in turn saw the lending market become more conservative.
- 2011 was a year for record low inflation in Russia which at 6.1% was driven mainly by low food inflation. Unemployment continued to decrease while positive GDP and industrial production growth were supported by high energy prices.
- 2011 was an exceptionally good year for the real estate sector, which saw a record year of US$7.66bn of investment in the sector, while foreign investors' interest returned. Transactions were seen across all real estate sectors. The increase in interest from investors led to yield compression with prime yields for good quality Moscow premises hardening from circa 13% in Q4 2009 to approximately 9.5% and lower for some assets, by the end of 2011.

Office Market Characteristics

- Over the course of 2011, Moscow's office market showed a mixed performance. On the one hand, there was falling vacancy and an increase in rental rates for good quality office space and on the other, the level of new supply and take-up fell compared with 2010. The steep increase in prime office rents in 2011 positioned Moscow as the fastest-growing location in terms of rent in Europe.
- New construction was at its lowest level since 2003 and deliveries of completed Class A and B office buildings were almost equal, which is another sign of market maturity. Restrictions placed by the Moscow administration have influenced this process to some extent; however, the construction slowdown has been driven largely by the market.
- During the year, investment activity was similar to that of 2010 and accounted for 41% of all real estate investment transactions in Russia by volume. The yield rate of prime office buildings in Moscow compressed sharply from 10% in 2010 to 8.5% at the calendar year end.

Retail Market Characteristics

- Russia's retail market continued to show strong performance during the year. Base rental rates were subject to moderate growth of 3%-5% per quarter in Moscow, vacancy rates decreased, consumer activity remained high and retail turnover increased during the year.
- In 2011, the activity of developers in the Moscow region and other cities was growing due to increased demand by retailers. Recovery in consumer demand has prompted retailers to return to their development plans, and the revival of the Russian economy is also attracting international retailers.
- During the year, investment activity in the retail segment increased significantly to US$2.0bn in comparison to US$0.5bn in 2010, accounting for 27% of all real estate investment transactions in Russia. Yields in prime shopping centres in Moscow compressed to 9.3% at the end of 2011 from 10.8% in 2010.

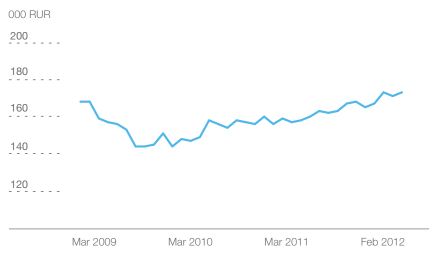
Residential Market Characteristics

- Together with the positive trend of the Russian economy in 2011, the Russian residential real estate market also benefited from sharply increased volumes of transaction activity during the year. Housing demand in the Moscow Metropolitan Area and St Petersburg Metropolitan Area increased sharply witnessing a volume of transactions at pre-crisis levels. Prices in both Metropolitan Areas increased above the 2011 CPI.
- In 2011, mortgage terms were eased through lower interest rates, lower initial down payment requirements and extended average loan periods. This led to growth in the share of mortgaged deals while 18% of the deals in Moscow and 9% in St Petersburg involved mortgages.

Logistics Market Characteristics

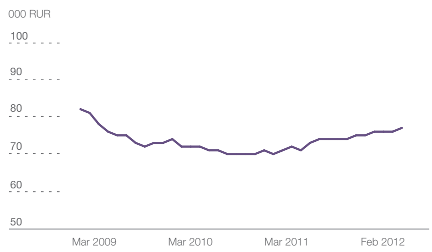
- The distinctive features of the logistics market in 2011 were stable demand and a low pace of construction. The build-to-suit concept became more popular among developers in 2011, but the lack of development finance has led to a shortage of warehouse space.
- During the year, investment activity in the logistic segment increased significantly to US$1.2bn in comparison to US$0.1bn in 2010. Yields of logistic assets compressed to 10.5% at the end of 2011 from 11.5% in 2010.

Residential Housing Prices, Moscow



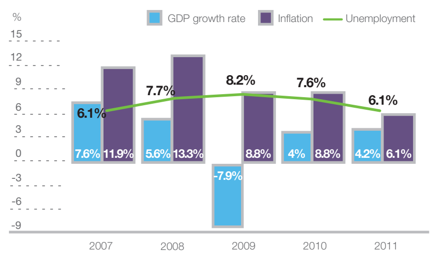
Source: ARN.ru, BN.ru

Residential Housing Prices, St Petersburg



Source: ARN.ru, BN.ru

Economic Performance



Source: C&W

Chief Executive's Statement

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

Roman Rozental CEO

The Market

Russian Economy

Key economic indicators	2007	2008	2009	2010	**2011**
Population (millions)	142.2	142.0	143.0	142.9	**142.4**
GDP per capita (PPP, US$)	14,899	16,040	14,830	15,612	**16,687**
GDP growth rate (%)	7.6	5.6	(7.9)	4.0	**4.2**
Inflation (%)	11.9	13.3	8.8	8.8	**6.1**
Unemployment rate	6.1	7.7	8.2	7.6	**6.1**
Average RUR/US$ exchange rate	25.7	24.9	31.7	30.4	**29.4**
Sovereign credit rating	BBB+	BBB	BBB	BBB	**BBB**

In general, all macro indexes were positive in 2011. The real growth in GDP totalled 4.2%, Rosstat's industrial production index totalled 4.7%, fixed investments showed a 4.8% growth in Q1-Q3, unemployment continued to decrease, and CPI at 6.1%, was the lowest rate in Russia's history with low food inflation (3.9%) and non-food inflation (6.7%) and services (8.7%) somewhat higher.

In H1 2011, the economy was largely influenced by positive news from the world's top-performing economies and from commodity markets. The Russian market managed to maintain domestic demand on the part of both consumers and investors. The recovering lending market had a positive impact on consumption and, as a result, the market showed a significant increase in retail turnover (by 5.4% compared to the similar period in 2010). In addition, from May 2011, the construction sector started growing faster, which also contributed to GDP growth. All of this was supported by high prices for energy resources.

However, as early as the end of summer 2011, uncertainty about the leading countries' economies grew stronger. Volatility in commodity markets, caused by the expectation of changes in global economic growth trends, had an even greater impact on the Russian market. The lending market became more conservative and the MosPrime interbank interest rate, a money market indicator, almost doubled in 2011.

Despite an increase in retail sales during the year and low inflation, the consumer confidence index was down 7%, as a result of uncertainty about the post-election future, causing changes in consumer spending patterns in favour of savings. In addition, the escalated political instability pushed the Rouble down to RUB 36.46 against the US$/EUR currency basket at the end of year.

Capital outflows in 2011 were US$84.2bn (Central Bank), which was higher than the US$34bn of 2010, but still lower compared to the US$134bn of 2008. Still, the risks are quite moderate, which has allowed Russia to keep its sovereign credit rating stable (source: C&W).

The oil price remains supported by tensions around Iran, stable growth of BRIC economies and a moderate upturn in the US economy. However, EU financial uncertainty will continue to create volatility within the Russian economy.

Russian Real Estate Market

As the market developed and new opportunities appeared, investment interest responded accordingly taking activity in 2011 to record levels, with more than US$7.66bn of total investments across the real estate sector. This figure is about twice as high as the quantum achieved in 2010 and 30% higher than 2008, which had previously been the most active year with US$5.8bn invested in the real estate investment market.

Moscow enjoyed an impressive 88% of total investment volume in 2011. This market share is close to pre-crisis levels for Moscow compared to the regions and reflects Moscow's hierarchy as one of the core drivers of the Russian investment business.

Transaction activity took place across all sectors, with office and retail leading (at 41% and 27% of transactions by value, respectively), followed by hospitality (17%) and warehousing (15%). Although the largest inflow of investment by value was in the office sector, its level was similar to the level of 2010, but its share declined from 80% to 41% of total volume. Compared to the previous year, the most significant increase in the volume of investment deals was observed in the retail segment.

Although more investors entered the market this year, buyers are now looking for opportunities which can provide higher returns and, despite a general lack of appetite for development risk, there have been occasions when they have entered into riskier projects in return for higher yields.

The Russian Office Sector

Over the course of 2011, Moscow's office market showed a mixed performance. On the one hand, there was falling vacancy and an increase in rental rates for good quality office space, and on the other, the level of new supply and take-up fell compared with 2010. The steep increase in prime office rents in 2011 positioned Moscow as the fastest-growing location in terms of rent in Europe.

New construction was at its lowest level since 2003 as total stock of office space in Moscow reached 12.6 million sqm in 2011, up from 11.9 million sqm in 2010. But this tightening of supply was good for the market as it contributed to an overall reduction in vacant space. Due to a combination of stable demand and falling supply, overall vacancy decreased from 20% at the end of 2010 to 13% in 2011 (source: C&W). Deliveries of completed Class A and B office buildings were almost equal, which is another sign of market maturity. Restrictions placed by the Moscow administration have influenced this process to some extent; however, the construction slowdown has been driven largely by the market.

In 2011, a major shift was observed in office space demand. For the last few years most transactions were for new space. By 2011, most tenants already resided in high-quality buildings, so a large portion of deals resulted in freeing up older space. The majority of take-up was accounted for by Russian companies, which accounted for 65% of the total. Average rental rates in 2011 increased by 11%, with 13% attributed to Class A office and 10% Class B.

During the year, investment activity was similar to that of 2010 and accounted for 41% of all real estate investment transactions in Russia by volume. The yield rate of prime office buildings in Moscow compressed sharply from 10% in 2010 to 8.5% at the calendar year end.

The Russian Retail Sector

Russia's retail market continued to show strong performance during the year. In 2011, base rental rates were subject to moderate growth of 3-5% per quarter in Moscow. According to Rosstat (Russia's statistical agency), real income of Russian consumers is stable. At the same time, consumer activity remains high and retail turnover increased during the year. In Q4 2011, footfall grew in accordance with the usual seasonal trend, but was at virtually the same level as in Q4 2010.

2011 became a year of further slowdown in new retail construction in Moscow. This is a result of two influencing factors: the first is that during the recession a limited number of new projects were started and developers largely focused on completing projects already under construction, and the second is that Moscow's local authorities restricted construction of commercial real estate in the city. At the same time, the activity of developers in the Moscow region and other cities was growing due to increased demand

Moscow enjoyed an impressive 88% of total investment volume in 2011. This market share is close to pre-crisis levels for Moscow compared to the regions and reflects Moscow's hierarchy as one of the core drivers of the Russian investment business.

Chief Executive's Statement

Continued

During the year, investment activity in the retail segment increased significantly to US$2.0bn in comparison to US$0.5bn in 2010, accounting for 27% of all real estate investment transactions in Russia.

by retailers. By the end of the year, construction of 32 retail assets with a total GLA of nearly 1.2 million sqm was completed, with the majority of new shopping centres having GLAs of between 20,000 and 45,000 sqm. In 2011, there was also a continued growth of retail development activity in cities with a population of less than one million people.

Due to the strong demand for retail space in shopping centres with a good catchment area, vacancy rates for high-quality shopping centres in Moscow decreased from 0.9% to 0.4%. Recovery in consumer demand has prompted retailers to return to their development plans, and the revival of the Russian economy is also attracting international retailers.

During the year, investment activity in the retail segment increased significantly to US$2.0bn in comparison to US$0.5bn in 2010, accounting for 27% of all real estate investment transactions in Russia. Yields in prime shopping centres in Moscow compressed to 9.3% at the end of 2011 from 10.8% in 2010.

The Russian Residential Sector

Together with the positive trend of the Russian economy in 2011, the Russian residential real estate market also benefited from sharply increased volumes of transaction activity during the year, supported by pent up demand as people had delayed purchases from previous years. In 2011, housing demand was up 49% and 72% in the Moscow Metropolitan Area and St Petersburg Metropolitan Area, respectively, with both markets witnessing a volume of transactions at pre-crisis levels.

Prices in 2011 increased 12% YoY in the Moscow Metropolitan Area, largely supported by the limited supply due to revisions to the city development plan. In the St Petersburg Metropolitan Area, prices increased during the year by 8% YoY. In both markets the increase in prices was above the 6.1% CPI. The pricing situation in the primary Moscow residential countryside real estate market in 2011 remained stable as minor fluctuations of the supply prices were recorded.

In 2011, mortgage terms were eased through lower interest rates, lower initial down payment requirements and extended average loan periods. This led to growth in the share of mortgaged deals, while 18% of the deals in Moscow and 9% in St Petersburg involved mortgages.

The Russian Logistics Sector

The distinctive features of the logistics market in 2011 were stable demand and a low pace of construction. About 700,000 sqm of space was leased in the Moscow region and 400,000 sqm in other regions. The build-to-suit concept became more popular among developers in 2011, but the lack of development finance has led to a shortage of warehouse space. The increase of rental rates to the pre-crisis levels and its further stabilisation helped to stimulate limited growth of development activity in the second part of the year. About 900,000 sqm of warehouse space is expected to be completed in 2012 and the majority of these projects have been pre-sold or pre-leased already.

In 2011, Moscow region rental rates increased 25% and reached US$135 per sqm per annum. The practice of entering into preliminary/pre-lease agreements returned to the market for the first time since 2008. Vacancy rates decreased from 3.9% at the end of 2010 to a level of 1% by the end of 2011.

The situation in the regional market differs from that of the Moscow region. Over 2011, vacancy rates had been decreasing while rental rates kept escalating. However, developers were not agitating to start new projects and lack of warehouse space caused a small volume of deals to be executed and warehouse and industrial real estate demand remained stable.

During the year, investment activity in the logistic segment increased significantly to

US$1.2bn in comparison to US$0.1bn in 2010. Yields of logistic assets compressed to 10.5% at the end of 2011 from 11.5% in 2010.

Strategy

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

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

- Focus on the completion of existing projects: The Company aims for the timely delivery of projects while ensuring they are completed to a high standard. Marketing of all of the Company's commercial projects is commenced during their development phase.
- Portfolio Diversification: To mitigate risk, the Company's portfolio is balanced between various sectors, locations and development stages.
  - Geographic location: investments are spread across Moscow, St Petersburg, and other major regional cities. Investment decisions are made following a detailed feasibility study and the close examination of local and national economic and demographic data, as well as the balance between supply and anticipated demand for international standard properties.
  - 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.

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: 16,696 sqm
- Completed: Q4 2008
- Leasehold rights of land: 100%
- Occupancy rate: 98%
- Financing: US$14m financed by Uniastrum in November 2011 (principal balance as at 31 December 2011: US$14m)

MAG, Moscow – office complex

A renovated Class B+ office complex adjacent to the Hydro project.

- Land area: 2.3 ha
- Leasable area: 18,392 sqm (including 7,150 sqm under renovation due to fire)
- Completed: Q4 2007
- Leasehold rights of land: 100%
- Occupancy rate: 95% (not including 7,150 sqm under renovation due to fire)
- Financing: US$15m financed by Uniastrum (principal balance as at 31 December 2011: US$12m)

Century Building, Moscow – offices

Two Class B+ office buildings at the Hydro and MAG site.

- Leasable area: 20,903 sqm
- Completed: Q1 2009
- Leasehold rights of land: 50% (effectively)
- Occupancy rate: 98%
- Financing: US$14m financed by Sberbank in February 2011 (principal balance as at 31 December 2011: US$13.3m)

Vernissage Mall, Yaroslavl – shopping centre

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

- Land area: 12 ha
- Leasable area: 34,092 sqm
- Completed: Q2 2007
- Freehold rights: 50.5%
- Occupancy rate: 100%
- Financing: US$43m financed by Gazprom Bank (principal balance as at 31 December 2010: US$29.3m). During February 2011, the remaining principal balance was refinanced by the bank with lower annual repayment and interest rate (principal balance as at 31 December 2011: US$26.7m)

Triumph Mall, Saratov – shopping centre

The first multi-storey retail and entertainment centre in Saratov. The complex is strategically located near the historical city centre on an important retail avenue in the city.

- Land area: 2.2 ha
- Leasable area: 27,305 sqm
- Completed: Q4 2010
- Freehold rights: 100%
- Occupancy rate: 100%
- Financing: US$48.5m financed by the European Bank for Reconstruction and Development (EBRD) (principal balance as at 31 December 2011: US$41.8m)

Tamiz, Moscow – offices

New Class B+ office building at the Hydro and MAG site.

- Leasable area: 11,737 sqm
- Completed: Q3, 2011
- Leasehold rights of land: 100%
- Occupancy rate: 92%

Chief Executive's Statement

Continued

Completed Residential:

Western Residence Perkhushkovo, Moscow region – residential complex – phase one

Development of 77 town houses and cottages in the prestigious western outskirts of Moscow. This project is targeting the growing segment of middle class Russian society who are seeking an improved standard of living.

- Land area (phase one): 11 ha
- Saleable area (phase one): 22,579 sqm (excluding sold houses)
- Freehold rights: 100%
- Sales: 19 houses have been sold
- Completion: first phase (77 town houses and cottages) was completed in Q4 2011
- Financing: US$25m was financed by Sberbank in December 2011 (principal balance as at 31 December, 2011: US$25m)

– The Company owns both yielding and development properties in order to obtain a relatively balanced spread in the use of working capital and demand for management's attention, that can, at the same time, generate 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 disposal, depending on the opportunity and on prevailing market conditions. The Company uses revenues from yielding assets to diversify its income sources.

- **Use of diverse financing sources to accelerate business activity and growth:** Equity, shareholders' loans, corporate loans (some of which have been guaranteed by our main shareholders), project financing and bond issuances are used to finance the Company's activities and projects.

- **The extension of relationships with local partners, especially in the regions:** Having a local partner provides daily monitoring of 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, has led the Company to adjust its operational focus to be more directed on managing its core activities and available financial resources.

This has been achieved through:

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

MirLand believes that adjusting its operational focus in the aforementioned ways will help to strengthen its position as one of the leading international real estate companies in Russia. The backing of the Company's main shareholders, together with the diversification of financial sources, will enable MirLand to continue to develop and maintain its portfolio and help fulfil its mission of creating value for its shareholders.

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

Portfolio

MirLand currently has 15 projects, of which six are yielding assets, one project is under construction, one is a completed residential project (phase one in the Western Residence in Perkushkovo) and six projects are at various stages of planning and in the process of obtaining permits (in addition to the second phase in the Western Residence project in Perkhushkovo and phases two to five in the Triumph Park project in St Petersburg).

The Company's portfolio has been valued by Cushman & Wakefield at US$853.6m (MirLand's share) as at 31 December 2011, based on the Company's freehold/leasehold rights. This value represents an increase of approximately 10% since 31 December 2010 and is mainly attributed to significant progress in St Petersburg project in terms of sales, construction and financing, continuing development of existing projects, completion of projects and improvement in operational results of yielding properties.

Project under construction:

Triumph Park, St Petersburg – residential complex and trade centre

Flagship phased development of a residential neighbourhood which, upon completion, will comprise approximately 9,000 apartments, commercial and public areas and will provide good access to both St Petersburg city and its airport. The commercial areas will include offices and a commercial centre with underground parking. The public facilities will include kindergartens, a school and parks.

- Land area: 41 ha
- Saleable area: 630,900 sqm
- Leasable area: 117,775 sqm
- Planned completion of total project: Q4 2019
- Freehold rights: 100%

- Marketing: sales campaign for the first sub phase which consists of approximately 26,300 sqm sellable space (510 apartments) was launched in November 2011
- Launch of sales and construction of sub phase two is planned for Q3 2012
- Sales: to date, 179 sale contracts were executed in addition to 31 reservations
- Financing: construction credit line of US$41m for the first sub phase was obtained from Sberbank in November 2011 (principal balance as at 31 December 2011: US$2.2m)

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: Q3 2013
- Planned completion: Q4 2016
- Leasehold rights of land: 100%

Big Box Complex, Yaroslavl – retail development

Development of a retail park adjacent to the Vernissage Mall.

- Land area: 18 ha
- Leasable area: 55,245 sqm
- Planned construction commencement: Q1 2013
- Planned completion: Q1 2015
- Freehold rights: 50.5%

Shopping Centre, Kazan

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
- Sellable area: 5,200 sqm
- Planned construction commencement: Q1 2013
- Planned completion: Q1 2015
- Freehold rights: 100%

Penza – shopping centre

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

- Land area: 5.3 ha
- Leasable area: 18,000 sqm
- Planned construction commencement: Q1 2014
- Planned completion: Q4 2015
- Freehold rights: 100%

Saratov – logistics

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

- Land area: 26 ha
- Leasable area: 104,000 sqm
- Planned construction commencement: Q2 2013
- Planned completion: Q4 2015
- Freehold rights: 100%

Novosibirsk – logistics

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

- Land area: 40.6 ha
- Leasable area: 180,000 sqm
- Leasehold rights of land: 100%
- Planned construction commencement: Q4 2013
- Planned completion: Q2 2018

Western Residence Perkhushkovo, Moscow region – residential complex – phase two

Development of 86 town houses and cottages in the prestigious western outskirts of Moscow.

- Land area: 11.5 ha (phase two)
- Saleable area: 36,477 sqm
- Freehold rights: 100%
- Planned construction commencement: Q2 2013
- Planned completion: Q1 2015

Outlook

We strongly believe in the quality of our portfolio projects and believe that our prudent and selective approach to the management and development of our projects, together with our committed shareholders, Directors and managers, will lead to an increased value to our shareholders.

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

Roman Rozental Chief Executive Officer
14 March 2012

MirLand Development Corporation Assets – Overview of Portfolio Market Values

as at 31 December 2011

City	Property name and address	Portfolio market value as at 31 December 2011 (rounded)	Percentage owned by MirLand	MirLand market value as at 31 December 2011 (rounded)
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	US$69,100,000	100%	US$69,100,000
Moscow	MAG, 2-Khutorskaya str., 38A	US$63,700,000	100%	US$63,700,000
Moscow region	Western Residence, Perkhushkovo, Odintsovsky district	US$87,600,000	100%	US$87,600,000
Saratov	Triumph Mall, 167 Zarubina str.	US$110,600,000	100%	US$110,600,000
Moscow	Skyscraper, Dmitrovskoe schosse, 1	US$45,200,000	100%	US$45,200,000
St Petersburg	Triumph Park, Residential	US$285,200,000	100%	US$285,200,000
St Petersburg	Triumph Park, Trade Centre	US$21,000,000	100%	US$21,000,000
Yaroslavl	Vernissage Mall, Kalinina str.	US$97,200,000	50.5%	US$49,100,000
Yaroslavl	Phase II	US$8,300,000	50.5%	US$4,200,000
Moscow	Tamiz Building	US$40,700,000	100%	US$40,700,000
Moscow	Century Buildings	US$96,900,000	51%	US$49,400,000
Kazan	Triumph House	US$8,800,000	100%	US$8,800,000
Penza	Retail Centre	US$3,000,000	100%	US$3,000,000
Saratov	Logistics Complex	US$7,400,000	100%	US$7,400,000
Novosibirsk	Logistics Complex	US$8,600,000	100%	US$8,600,000
Total		US$953,300,000		US$853,600,000

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

Based on the Cushman & Wakefield valuation as at December 2011, the Company's Adjusted NAV increased to US$536.8m (31 December 2010: US$493.4m), an increase of 8.8%. As a result, the NAV per share as at 31 December 2011 was US$5.2 in comparison to US$4.8 as at 31 December 2010.

Financial Review

Revenues for 2011 were US$47.5m and net income was US$28.5m. Total assets at 31 December 2011 amounted to US$739.6m and equity amounted to US$347.1m. The Company's adjusted net asset value was US$536.8m. The Company's real estate assets were valued on 31 December 2011 at US$953.3m (for 100% rights from freehold/leasehold) by Cushman & Wakefield, the external appraiser, of which MirLand's share is US$853.6m.

Emil Budilovsky 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 requirements of the Cyprus Companies Law, Cap 113.

Income Statement

The net income for 2011 amounted to US$28.5m in comparison to net income of US$23.2m in 2010. The increase is mainly attributed to significant improvement in income and gross profit from yielding assets as a result of increased occupancy rates and addition of income from the Triumph Mall in Saratov and the Tamiz office building. This increase was partially offset by higher finance costs due to greater balances of outstanding bonds and bank loans and the impact of net foreign exchange differences, due to the devaluation of the Ruble versus the US Dollar during the year.

The Company's revenues consist of rental income from investment properties, income from the sale of houses and fees from managing investment properties. Rental income and fees from investment properties increased to US$43.6m from US$20.5m, which is a 113% increase. This increase is attributed to increased occupancy in all yielding assets, reaching an average figure of approximately 98%, inclusion of a full year of income from the Triumph Mall in Saratov and occupancy of the Tamiz Building from Q3, helped by the improved market conditions that influenced the real estate sector in Russia. The Company recognised income of US$3.9m from the sale of inventory due to the handover of houses in the Western Residence project in Perkhushkovo, to buyers.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2011 and has recognised the resulting movement in valuation through its income statement as fair value adjustments of investment properties and investment properties under construction. The income of US$33.5m was based on net effect of the valuations of the Company's investment properties and investment properties under construction, prepared by an independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards.

The cost of maintenance and management of the Company rose from US$10.4m in 2010 to US$21m in 2011, which was largely attributed to the inclusion of operating expenses of the Triumph Mall in Saratov and, to a lesser extent, the general increase in occupancy rates.

The Company's general administrative expenses for the period were US$16.6m in comparison to US$14.9m in 2010. The increase is attributed to inclusion of general, administrative expenses of the Triumph Mall in Saratov and growth in the Company's volume of general business activity.

Marketing expenses for the period were US$2.6m in comparison to US$1.2m in 2010, with the increase explained mainly by greater marketing efforts of the Company's residential projects.

Financial Review

Continued

Net financing costs for the period amounted to US$22.2m compared to US$0.8m in 2010. The increase is explained by significantly lower capitalisation of interest as a result of progress in the Company's residential projects: the construction progress of sub phase I in St Petersburg and completion of the first phase of the Western Residence project.

Other factors contributing to the increase include devaluation of the Ruble versus the US Dollar during the year and, to a lesser extent, the higher interest costs due to increased balances of bonds and bank loans.

Tax income in 2011 amounted to US$12.3m compared to a tax expense of US$2.5m in 2010. The tax income recorded during the period is mainly attributed to the creation of a deferred tax asset in the Company's balance sheet, due to increased feasibility of future profits attributed mainly to the Triumph Park project in St Petersburg.

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

The net income for 2011 amounted to US$28.5m in comparison to net income of US$23.2m in 2010.

The increase is mainly attributed to a significant improvement in income and gross profit from yielding assets as a result of increased occupancy rates and inclusion of income from the Triumph Mall in Saratov and to tax income recorded during the period. The increase was partially offset by growth in net finance costs.

Balance Sheet

Total assets as at 31 December 2011 amounted to US$739.6m in comparison to US$704.5m in 2010, an increase of 5%. The main reasons for the overall increase were the fair value adjustment of investment properties and continuing development of the Company's residential projects, which were financed through corporate loans, bond issuance and bank financing on the project level.

The Company's real estate portfolio amounted to US$671.1m at the year end and comprised 91% of the total assets, in comparison to US$636.4m as at 31 December 2010 which comprised 90% of the total balance sheet, the increase coming from positive revaluation and investments made during the year.

Equity and Liabilities

Equity as at 31 December 2011 increased to US$347.1m from US$341m as at 31 December 2010. The increase in equity

Bank loans obtained during 2011

Project	Bank	Loan type	Original amount (US$m)	Original amount (US$m) Company's share	Balance as at 31.12.11 (US$m)	Balance as at 31.12.11 (US$m) Company's share
Vernissage Mall, Yaroslavl*	Gazprom Bank	Refinance	29.1	14.0	26.7	13.5
Century (Inomotor)	SberBank	Refinance	14.0	7.1	13.3	6.8
Hydromashservice	Uniastrum	Refinance	14.0	14.0	14.0	14.0
Western Residence	SberBank	Refinance	25.0	25.0	25.0	25.0
Triumph Park	SberBank	Construction	41.0**	41.0	2.2	2.2
			123.1	101.1	81.2	61.5

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

from 2011 net income was offset largely by the devaluation of the Ruble versus the US Dollar which led to increased foreign currency translation reserve. MirLand's equity comprises 47% of its total assets.

Net financial liabilities as at 31 December 2011 amounted to approximately US$324.7m compared to US$306.7m as at 31 December 2010. The increase is mainly due to the Company raising approximately US$54m through extensions of Series C Bonds, conversion of warrants issued previously (Series 2 and 3) to Bonds Series C and D, sale of Bonds Series D by a subsidiary to third parties and obtaining of new bank loans on the project level. However, as an offsetting factor, the Company repaid shareholder loans of US$40.6m (principal and interest) leaving a balance at the year end of only US$6.4m compared to US$44.9m as at 31 December 2010. The remaining balance was repaid shortly after the balance sheet date. In addition, the Company made scheduled payments of bonds of US$10.8m and scheduled principal repayments of a project loan in the total amount of US$5.4m.

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

The Company's rating and the series A to D Bonds are rated ilBBB stable by Ma'alot Standard & Poor's. The Company's rating and the Series A to B Bonds are rated ilBaa2 by Midrug (Moody's Israel affiliate rating agency). In February 2012, Midrug changed the rating outlook from stable to positive.

During 2011, a special emphasis was made on diversifying the Company's funding sources by obtaining bank financing on the project level. In 2011, new bank loans were obtained, these are detailed in the table above.

Financial Review

Continued

Net Asset Value ("NAV")

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2011 at US$953.3m (for 100% rights from freehold/leasehold), of which MirLand's share is US$853.6m. The increase in value mainly attributed to the improvement in operational results of MirLand's yielding assets, significant progress made in sales, construction and financing of the Triumph Park residential project in St Petersburg and investments made during 2011.

Cash Flow

During 2010, the Company used US$39m for investment in real estate properties (including change in buildings for sale) in comparison to US$65.5m in 2010. Cash flow received from operating activities amounted to US$5.7m (excluding change in buildings for sale). Cash flow provided by financing activities amounted to US$48m.

Financial Strategy

In 2011, MirLand's activities were primarily financed by issuance of bonds, project bank loans and by revenues. The Company's policy is to limit its leverage to 66% of the gross value of its assets, including all development, trading and investment properties. The Company continues to have modest net leverage at 44% of its assets.

Typically, residential projects are constructed in phases, allowing the use of capital from pre-sales to finance ongoing development phases. However, during the year, the Company obtained a construction loan facility from Sberbank for the first phase of its flagship project, the Triumph Park in St Petersburg.

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

Market Risks

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

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

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

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

Emil Budilovsky Chief Financial Officer
14 March 2012

How We Manage Risk

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

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

Market

Changes in the Russian economic and political environment

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

Real estate market risks

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

Development

Dependence on contractors' and subcontractors' risks

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

Planning, general construction and development risks

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

Financial

Foreign exchange risk

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

Interest rate risk

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

Credit risks

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

Additional requirements for capital

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

Board of Directors

Nigel Wright
Non-executive Director and Chairman, age 57

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.

Roman Rozental
Chief Executive Officer, Certified Public Accountant, age 44

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

Emil Budilovsky
Chief Financial Officer, age 42

Emil Budilovsky has over 15 years of experience in financial management, corporate finance, M&A and international real estate. Before joining MirLand, Emil served as CFO for Adama Ukraine Ltd, an international real estate developer. Former positions also included COO for an investment fund, CFO of a private real estate company, VP of M&A and corporate finance for a boutique investment house and manager for Deloitte & Touche Financial consulting group in Israel. He holds a BA in accounting and economics, an MBA from Tel-Aviv University, LLB from College of Management (Israel) and is a member of the New York Bar.

Caroline Brown
Non-executive Director, Chairman of the Audit Committee and Senior Independent Director, age 49

Caroline Brown has over 20 years' experience in corporate finance and the financial management of public companies. She has served as chief financial officer for two AIM-quoted companies and chaired the Audit Committee for London-listed WSP Group plc, a consulting engineering company active in the international real estate sector. During her career, she has spent 14 years in international corporate finance, working for such firms as Merrill Lynch, UBS and HSBC. She is a qualified accountant and a chartered director.

Eliezer Fishman
Non-executive Director, Certified Public Accountant, age 68

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 42

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

Elias Eliades
Non-executive Director and Chairman of the Nomination Committee, age 64

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 59

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.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2011.

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

Principal Activities
During the year the Group continued its activities of property development, trading and investment. It will continue the same activities in 2012.

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

Review of Business Development and Prospects
Development of the Group's activities and its prospects are reviewed in the Chairman's statement on pages 6 to 9 and the Chief Executive's statement on pages 24 to 29.

Results for the Year
The results of the Group are set out in the consolidated income statement on page 54 which shows a net income for the financial year of US$28.5m (2010: US$23.2m). The consolidated balance sheet on pages 52 and 53 shows net assets of US$347.1m (2010: US$341m).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2011.

Share Capital and Treasury Shares
The authorised share capital of the Company was increased to US$1,350,000 in May 2011 at the 2010 AGM. 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 36 and 37.

On 30 June 2011, Mr Moshe Morag stepped down from his position as a Non-executive Director.

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

Directors' and Other Interests

The interests of the Directors in the shares of the Company at 31 December 2011, with comparative figures as at 31 December 2010, are as follows:

Director	**Number of Shares as at 31 December 2011**	Number of Shares as at 31 December 2010
Nigel Wright	**20,500**	20,500
Roman Rozental	**0**	0
Caroline Brown	**2,050**	2,050
Steven Holm	**32,645**	32,645
Eliezer Fishman*	**210,500**	200,000
Eyal Fishman*	**350,000**	350,000
Elias Eliades	**0**	0
Emil Budilovsky	**0**	0

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

Details of Directors' share options are given on page 50.

In addition to the disclosures above, as at 14 March 2012, the Company was aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage Holding
Jerusalem Economy Ltd	31,551,701	30.47
Industrial Buildings Corporation Ltd	41,659,188	40.23
Darban Investments Ltd	14,724,467	14.22

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

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

Directors' Report

Continued

Directors' Interests in Significant Contracts

The Company's investment property in Moscow, Hydromashservice, has a lease in place with Home Centers, a private company controlled by Eliezer Fishman and certain members of his family, including Eyal Fishman. In addition, 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.

The Company uses, from time to time, and in accordance with the Group's needs, flight services provided by an airplane indirectly held by the Fishman Group. The terms of usage are reviewed from time to time by the audit committee to ensure that they are on an arm's-length basis.

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 2011.

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

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

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

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

Financial Risk Management
The financial risks and uncertainties are stated in Note 18 of the consolidated financial statements. The Group is also exposed to other business risks which relate to the markets in which it operates. The Group monitors and manages these risks through various control mechanisms.

Charitable Donations
During the year, the Group made donations in the amount of US$50,000.

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

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

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

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

Post-Balance Sheet Events
The significant post-balance sheet events are described in Note 30 of the consolidated financial statements.

Nigel James Wright
Chairman
14 March 2012

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, and except for a fire which occurred in 2010, no significant injuries, diseases or other dangerous occurrences have occurred in the Company. Our goal for 2012 is to have a clean record. For that purpose the Company provides, and will continue to provide, health and safety education to its managers and employees.

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

The Environment
The Company is committed to maintaining the international environmental standards of the Group, and considers regulatory compliance to be a minimum standard. A significant portion of management attention is dedicated to the monitoring of the Company's employees and contractors, and their adherence with 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 2011, the Company made donations in the amount of US$50,000. As market conditions are improving the Company intends to continue its charity policy.

Corporate Governance Report

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

Board Composition, Roles and Independence

During the financial year, MirLand's Board comprised nine Directors until 30 June 2011, and eight Directors following Moshe Morag stepping down from his position as a Non-executive Director. 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 UK Corporate Governance Code recommends that the Board of Directors of a listed company should include a balance of executive and Non-executive Directors (and, in particular, independent Non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking. The UK Corporate Governance Code states that the Board should determine whether a Director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board has considered the independence of its Non-executive Directors in line with the principles of the UK Corporate Governance Code (section B.1.1) and, following careful consideration, assessed the independence of the Non-executive Directors as follows:

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

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

Corporate Governance Report

Continued

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 2011 and provides details of the Directors' attendance at each meeting.

	4 February 2011	14 February 2011	23 February 2011	14 March 2011	16 May 2011	12 August 2011	8 November 2011	14 November 2011
Nigel Wright (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Caroline Brown	✓	✓	✗	✓	✓	✓	✗	✓
Steven Holm	✓	✗	✓	✓	✓	✓	✓	✓
Roman Rozental	✓	✓	✓	✓	✓	✓	✓	✓
Eliezer Fishman	✗	✗	✗	✗	✗	✓	✗	✗
Eyal Fishman	✓	✓	✓	✓	✓	✓	✓	✓
Elias Eliades	✓	✗	✗	✓	✓	✗	✓	✓
Emil Budilovsky	✓	✓	✓	✓	✓	✓	✓	✓
Moshe Morag*	✗	✓	✗	✓	✓	–	–	–

* Mr Morag stepped down as a Non-executive Director on 30 June 2011

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.

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, Nigel Wright, Caroline Brown and Steven Holm will retire by rotation and their re-appointment to the Board is subject to the approval of shareholders. The Board considers that the performance of these Directors has, since their appointment, been effective and that they have demonstrated commitment to their roles. Accordingly, it recommends the re-election of each of them.

Biographical details of the Directors are given on pages 36 and 37.

Relations with Shareholders

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

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

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

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

Investment Committee

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

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

At 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 2011 is shown below.

	16 May 2011	12 August 2011	13 November 2011	14 November 2011
Eyal Fishman (member)	✓	✓	✓	✓
Nigel Wright (member)	✓	✓	✓	✓
Steven Holm (member)*	–	–	✓	✓

* Steven Holm became a member of the Investment Committee on 16 May 2011.

Corporate Governance Report

Continued

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 at the meetings of the Nomination Committee held in 2011 is shown below.

	16 May 2011	29 June 2011	12 August 2011
Eyal Fishman (member)	✓	✓	✓
Nigel Wright (member)	✓	✓	✓
Elias Eliades (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 or attended its meetings 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 UK Corporate Governance Code.

	10 March 2011	14 March 2011	15 May 2011	12 August 2011	14 November 2011
Caroline Brown (member)	✓	✓	✓	✓	✓
Steven Holm (member)	✓	✓	✓	✓	✓
Nigel Wright (member)	✓	✓	✓	✓	✓
Roman Rozental	✓	✓	✓	✓	✓
Emil Budilovsky	✓	✓	✓	✓	✓

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

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

ii) auditors' reports; and

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

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

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

Internal Audit

The Company's internal audit function is outsourced to a certified accountant in Cyprus who was nominated by the Audit Committee and approved by the Board. Baker Tilly Klitou and Partners Limited were nominated to be the internal auditors of the Company in October 2007. The internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the Audit Committee and the Board and is available for any meetings of the Audit Committee or Board. Baker Tilly Klitou and Partners filed its reports for 2011 in the months of March, May, August and November 2011.

Going Concern

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

Share Dealing Code

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

Controlling Shareholders

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

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 at the meetings of the Remuneration Committee held in 2011 is shown below:

	14 March 2011	12 August 2011
Steven Holm (member)	✓	✓
Caroline Brown (member)	✓	✓
Nigel Wright (member)	✓	✓

Remuneration Policy

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

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

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

Service Contracts and Letters of Appointment

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

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

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

	Contract date	Notice period
Nigel Wright	27 November 2006	3 months
Roman Rozental	16 October 2009	6 months
Caroline Brown	27 November 2006	3 months
Steven Holm	17 November 2008	3 months
Eliezer Fishman	27 November 2006	3 months
Eyal Fishman	27 November 2006	3 months
Elias Eliades	11 September 2007	3 months
Emil Budilovsky	5 October 2010	6 months

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

A bonus of US$136,360 was granted to Roman Rozental, CEO of the Company. Other than this, MirLand does not grant performance related remuneration.

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

Directors' Remuneration

Chairman and Executive Directors	Nigel Wright US$	Roman Rozental US$	Emil Budilovsky US$	Total US$
Non-performance related remuneration				
Salary and fees	153,130	441,520	198,000	792,650
Other taxable benefits	–	240,278	–	240,278
Share incentive plan	–	762,000	–	762,000
Total remuneration for the year ended 31 December 2011	**153,130**	**1,443,798**	**198,000**	**1,794,928**
Total remuneration for the year ended 31 December 2010	147,243	911,124	16,500	1,074,867

Non-executive Directors	Caroline Brown US$	Eliezer Fishman US$	Eyal Fishman US$	Elias Eliades US$	Steven Holm US$	Moshe Morag[1] US$	Total US$
Non-performance related remuneration							
Salary and fees	82,945	–	82,945	70,184	95,706	234,761	566,541
Other taxable benefits	–	–	–	–	–	–	–
Share incentive plan	–	–	–	–	–	–	–
Total remuneration for the year ended 31 December 2011	**82,945**	**–**	**82,945**	**70,184**	**95,706**	**234,761**	**566,541**
Total remuneration for the year ended 31 December 2010	79,757	–	79,757	67,486	79,757	461,175	767,982

1 Mr Morag served as an Executive Director until 1 December 2010, when he became a Non-executive Director. Mr Morag stepped down as a Non-executive Director on 30 June 2011.

Report of the Remuneration Committee and Directors' Remuneration Report

Continued

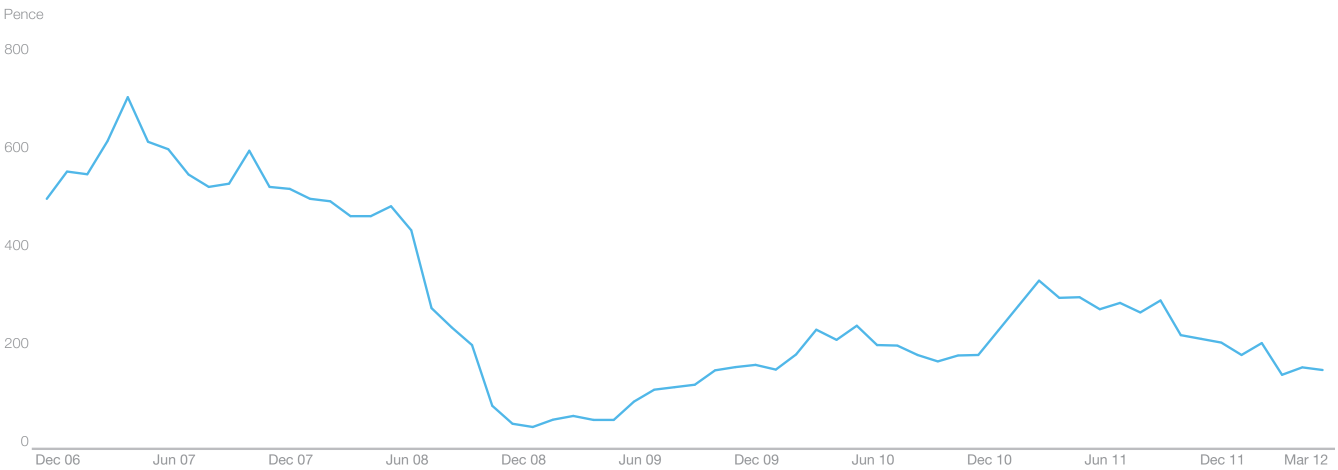
Details of share awards and options are included below.

Directors' Share Options

Director	Number of options	Number vested as at 31.12.2011	Exercise price of options GBP
Nigel Wright	0	N/A	N/A
Moshe Morag*	1,122,995	1,122,995	2.5
Roman Rozental	1,122,995	898,396	2.5/2.3
Emil Budilovsky	0	N/A	N/A
Caroline Brown	0	N/A	N/A
Steven Holm	0	N/A	N/A
Eliezer Fishman	0	N/A	N/A
Eyal Fishman	0	N/A	N/A
Elias Eliades	0	N/A	N/A

* Mr Morag was granted the share options in 2006 during his appointment as an Executive Director. As from 1 December 2010, Mr Morag was a Non-executive Director and stepped down from this position on 30 June 2011.

Share Price Performance



On behalf of the Board

Steven Holm
Chairman of the Remuneration Committee
14 March 2012

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of MirLand Development Corporation Plc (the "Company") and its subsidiaries (together with the Company, the "Group") on pages 52 to 107, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 38 to 41 is consistent with the consolidated financial statements.

Other Matter

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

Charis Stylianou
Certified Public Accountant
and Registered Auditor
for and on behalf of
Ernst & Young Cyprus Limited
Certified Public Accountants and
Registered Auditors
Limassol
14 March 2012

Consolidated Statement of Financial Position

	Note	31 December 2011 US$000	31 December 2010 US$000
Assets			
Current assets:			
Cash and cash equivalents	4	**32,333**	10,974
Short-term loans receivable		**–**	796
Restricted bank deposits	13f	**1,739**	–
Trade receivables		**4,568**	905
Other receivables	5	**2,780**	2,116
VAT receivable	11	**7,393**	31,014
Inventories of buildings for sale	6	**157,772**	178,338
		206,585	224,143
Non-current assets:			
Investment properties	7	**363,569**	306,257*
Investment properties under construction	8	**82,703**	121,364*
Inventories of buildings for sale	6	**67,062**	30,483
Loans to related parties	9	**10,611**	17,393
Fixed assets, net	10	**1,190**	1,422
VAT receivable from related parties		**317**	–
Other long-term receivables	28b	**2,851**	2,219
Prepaid expenses		**1,802**	1,207
Deferred taxes	19d	**2,915**	–*
		533,020	480,345
Total assets		**739,605**	704,488

* Reclassified, see Note 2bb.

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

	Note	31 December 2011 US$000	31 December 2010 US$000
Equity and liabilities			
Current liabilities:			
Credit from banks	12	**66,992**	69,845
Current maturities of long-term loans from banks and debentures	13, 16	**40,962**	18,280
Credit from banks for financing of inventory of buildings for sale	13	**24,218**	–
Loans from shareholders	15	**6,402**	39,298
Government authorities		**3,981**	2,221
Trade payables		**9,135**	14,768
Deposits from tenants		**3,831**	4,534
Advances from buyers	6d	**7,099**	7,587
Other accounts payable	14	**1,871**	1,128
		164,491	157,661
Non-current liabilities:			
Loans from banks	13	**79,960**	67,589
Loans from shareholders	15	**–**	5,567
Debentures	16	**138,488**	117,044
Other non-current liabilities	17	**9,528**	5,489
Deferred taxes	19d	**–**	10,115*
		227,976	205,804
Total liabilities		**392,467**	363,465
Equity attributable to equity holders of the parent:			
Issued capital	20	**1,036**	1,036
Share premium		**359,803**	359,803
Capital reserve for share-based payment transactions	22	**11,341**	10,579
Capital reserve for transactions with controlling shareholders	15	**6,565**	3,207
Foreign currency translation reserve		**(52,126)**	(25,596)
Retained earnings (accumulated deficit)		**20,519**	(8,006)
Total equity		**347,138**	341,023
Total equity and liabilities		**739,605**	704,488

* Reclassified, see Note 2bb.

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

Consolidated Income Statement

	Note	**Year ended 31 December 2011 (except per share data) US$000**	Year ended 31 December 2010 (except per share data) US$000	Year ended 31 December 2009 (except per share data) US$000
Rental income from investment properties		**39,679**	17,239	14,754
Income from sale of inventories		**3,932**	1,078	–
Revenues from managing fees		**3,922**	3,267	2,459
Total revenues		**47,533**	21,584	17,213
Cost of sales		**(6,279)**	(1,370)	–
Cost of maintenance and management	23	**(20,915)**	(10,356)	(7,438)
Gross profit		**20,339**	9,858	9,775
General and administrative expenses	24	**(16,583)**	(14,944)	(15,546)
Marketing expenses		**(2,593)**	(1,231)	(768)
Fair value adjustments of investment properties and investment properties under construction	7,8	**33,485**	29,822*	(15,013)*
Other income, net	25	**3,849**	2,973	2,104
Operating income (loss)		**38,497**	26,478	(19,448)
Finance income	26	**2,141**	5,234	7,090
Finance costs	26	**(18,031)**	(5,047)	(4,089)
Net foreign exchange differences		**(6,349)**	(1,025)	21
Profit (loss) before taxes on income		**16,258**	25,640	(16,426)
Taxes on income (tax benefit)	19b	**(12,267)**	2,485*	6,558*
Net income (loss)		**28,525**	23,155	(22,984)
Basic and diluted net earnings (loss) per share (US Dollars)	21	**0.28**	0.22	(0.22)

* Reclassified, see Note 2bb.

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

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Net income (loss)	**28,525**	23,155	(22,984)
Other comprehensive income (loss) (net of tax effect)			
Transfer of translation reserve to income statement as a result of sale of jointly controlled entity	**–**	815	–
Exchange differences on translation of foreign operations	**(26,530)**	(3,258)	(4,068)
Total other comprehensive loss	**(26,530)**	(2,443)	(4,068)
Total comprehensive income (loss)	**1,995**	20,712	(27,052)

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

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Parent								
	Note	Share capital US$000	Share premium US$000	Capital reserve for share-based payment transactions US$000	Capital reserve for transactions with controlling shareholders US$000	Currency translation reserve US$000	Retained earnings (accumulated deficit) US$000	Total US$000	Non-controlling interests US$000	Total equity US$000
At 1 January 2009		1,036	359,803	8,080	579	(19,085)	(8,202)	342,211	25	342,236
Loss for the year		–	–	–	–	–	(22,984)	(22,984)	–	(22,984)
Other comprehensive loss		–	–	–	–	(4,068)	–	(4,068)	–	(4,068)
Total comprehensive loss		–	–	–	–	(4,068)	(22,984)	(27,052)	–	(27,052)
Share-based payment transactions	22	–	–	1,894	–	–	–	1,894	–	1,894
Equity component of transaction with controlling shareholders	20	–	–	–	2,123	–	–	2,123	–	2,123
At 31 December 2009		1,036	359,803	9,974	2,702	(23,153)	(31,186)	319,176	25	319,201
At 1 January 2010		1,036	359,803	9,974	2,702	(23,153)	(31,186)	319,176	25	319,201
Net income (loss) for the year		–	–	–	–	–	23,180	23,180	(25)	23,155
Other comprehensive loss		–	–	–	–	(2,443)	–	(2,443)	–	(2,443)
Total comprehensive income (loss), net		–	–	–	–	(2,443)	23,180	20,737	(25)	20,712
Share-based payment transactions	22	–	–	605	–	–	–	605	–	605
Equity component of transaction with controlling shareholders	20	–	–	–	505	–	–	505	–	505
At 31 December 2010		1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023	–	341,023
At 1 January 2011		1,036	359,803	10,579	3,207	(25,596)	(8,006)	341,023		
Net income for the year		–	–	–	–	–	28,525	28,525		
Other comprehensive loss		–	–	–	–	(26,530)	–	(26,530)		
Total comprehensive income (loss), net		–	–	–	–	(26,530)	28,525	1,995		
Share-based payment transactions	22	–	–	762	–	–	–	762		
Equity component of transaction with controlling shareholders	20	–	–	–	3,358	–	–	3,358		
At 31 December 2011		**1,036**	**359,803**	**11,341**	**6,565**	**(52,126)**	**20,519**	**347,138**		

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

Consolidated Statement of Cash Flows

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Cash flows from operating activities:			
Net income (loss)	**28,525**	23,155	(22,984)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	**(13,482)**	1,610*	4,739*
Depreciation and amortisation	**467**	610	504
Finance costs (income), net	**22,239**	606	(2,066)
Share-based payment	**762**	605	1,894
Fair value adjustment of investment properties and investment properties under construction	**(33,485)**	(29,822)*	15,013*
Fair value adjustment and loss from sale of financial derivative	**–**	232	(956)
Gain from sale of jointly controlled entity	**–**	(3,159)	–
	(23,499)	(29,318)	19,128
Changes in asset and liability items:			
Increase in trade receivables	**(5,547)**	(256)	(317)
Increase in VAT receivable and others	**23,708**	(2,729)	(6,466)
Increase in inventories of buildings for sale	**(21,759)**	(25,990)	(18,473)
Increase in trade payables	**165**	–	284
Increase (decrease) in other accounts payable	**6,612**	6,726	(3,038)
	3,179	(22,249)	(28,010)
Cash paid and received during the year for:			
Interest paid	**(23,370)**	(11,647)	(8,030)
Interest received	**20**	86	236
Taxes paid	**(948)**	(218)	(1,736)
Taxes received	**22**	–	537
	(24,276)	(11,779)	(8,993)
Net cash flows used in operating activities	**(16,071)**	(40,191)	(40,859)

* Reclassified, see Note 2bb.

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

Consolidated Statement of Cash Flows

Continued

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Cash flows from investing activities:			
Additions to investment properties	**(6,365)**	(15,281)	(1,902)
Additions to investment properties under construction	**(8,742)**	(24,196)	(49,684)
Purchase of fixed assets	**(349)**	(872)	(193)
Proceeds from the sale of fixed assets	**–**	33	556
Proceeds from sale of jointly controlled entity (1)	**–**	18,069	–
Proceeds from repayment of loans granted	**8,428**	3,398	–
Investment in restricted deposit	**(1,739)**	–	–
Net cash flows used in investing activities	**(8,767)**	(18,849)	(51,223)
Cash flows from financing activities:			
Issuance of debentures, net	**54,104**	70,024	–
Repayment of debentures	**(10,768)**	(10,823)	–
Short-term credit from banks and others, net	**–**	2,868	8,998
Receipt of loans from shareholders	**–**	5,000	32,772
Repayment of loans from shareholders	**(36,843)**	(10,000)	–
Receipt of long-term loans	**47,696**	–	68,332
Repayment of other loans origination costs	**–**	(1,837)	–
Repayment of loans from banks	**(6,206)**	(5,900)	(3,895)
Proceeds from sale of financial derivative	**–**	1,443	–
Deferred expenses on account of loan receipt	**–**	–	(1,364)
Net cash flows provided by financing activities	**47,983**	50,775	104,843
Exchange differences on balances of cash and cash equivalents	**(1,786)**	(1,732)	(1,612)
Increase (decrease) in cash and cash equivalents	**21,359**	(9,997)	11,149
Cash and cash equivalents at the beginning of the year	**10,974**	20,971	9,822
Cash and cash equivalents at the end of the year	**32,333**	10,974	20,971
(1) Proceeds from sale of jointly controlled entity:			
Investment property under construction	**–**	15,545	–
Trade and other receivables	**–**	180	–
Foreign currency translation reserve	**–**	(815)	–
Gain from sale of jointly controlled entity, net	**–**	3,159	–
	–	18,069	–

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

Notes to the Consolidated Financial Statements

Note 1 General

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

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

b. During 2011, the Company recorded loss from fair value adjustment in project which is presented in the financial statements as part of investment properties under construction. For further details, see also Note 8e.

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

d. The following are the principal shareholders of the Company as at 31 December 2011:

Shareholder	% of holding
Jerusalem Economy Ltd. ("JEC") (a company traded on the Tel-Aviv Stock Exchange)	30.5
Industrial Buildings Corporation Ltd. ("IBC") (71.43%-owned subsidiary of JEC and traded on the Tel-Aviv Stock Exchange)	40.2
Darban Investments Ltd. ("Darban") (a company traded on the Tel-Aviv Stock Exchange)	14.2

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

e. Definitions:

In these financial statements:

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

Notes to the Consolidated Financial Statements

Continued

Note 1 General continued

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

Name of company	Country of incorporation	Activity	% of holding
Hydromashservice LLC (“Hydro”)	Russia	Lease of buildings	100
Mashinostroenie & Hydravlika OJSC (“Mag”)	Russia	Lease of buildings	100
Creativecom LLC (“Creative”)	Russia	Constructing residential projects	100
Petra 8 LLC (“Petra”)	Russia	Constructing residential projects	100
Real Service LLC (“Real Service”)	Russia	Constructing commercial projects	100
Investisionno Ipotechnaya Kompania Ltd (“IIK”)	Russia	Constructing commercial projects	100
Mall Project Co. Ltd. (“Mall Project”)	Cyprus	Holding company	100
Gasconade Holding Ltd	Cyprus	Holding company	100
Laykapark Trading Ltd	Cyprus	Holding company	100
Dunchoille Holdings Ltd	Cyprus	Holding and financing company	100
MirLand Management Limited	Cyprus	Consulting	100
MirLand Management RUS LLC	Russia	Consulting	100
Heckbert 22 Group Financing Limited KFT	Hungary	Financing company	100
Israrussia Services Ltd (“IRS”)	Israel	Consulting	100
Tamiz LLC	Russia	Constructing commercial projects	100
Design Project LLC	Russia	Constructing commercial projects	100
TTM LLC	Russia	Constructing commercial projects	100
LIGA 45 LLC	Russia	Constructing commercial projects	100
Windeatts Limited	Cyprus	Consulting	100
Zarechie Invest LLC (“Zarechie”)	Russia	Holding company	100
Polus Invest LLC	Russia	Constructing commercial projects	100
MirLand Novosibirsk LLC	Russia	Lease of buildings	100

g. List of jointly controlled entities:

Name of company	Country of incorporation	Activity	% of holding
Inverton Enterprises LLC	Cyprus	Holding company	50.5
Astraestate & Co. Limited Partnership (“Astra”)	Cyprus	Partnership for holding a company, erecting commercial projects and lease of buildings	50
Winta Holdings Ltd	Cyprus	Limited partner in partnership for holding a company, erecting commercial projects and lease of buildings	50
Global 1 LLC (“Global”)	Russia	Lease of commercial property	50.5
Inomotor LLC	Russia	Lease of buildings	51
Avtoprioritet LLC	Russia	Lease of buildings	51
Mall Mortgage Ltd	Cyprus	Financing company	49

Note 1 General continued

h. Based on management plans and as reflected in the Group's forecasted cash flows, the Group expects to finance its activities in 2011 among others by obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as at 31 December 2011 amounting to approximately US$88m, and by generating revenues from sales of building projects that are expected to be completed during 2012.

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

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

Note 2 Significant Accounting Policies

a. Basis of Presentation of the Financial Statements:

1. Measurement basis:

The Group's financial statements have been prepared on a cost basis, except for the following:

Financial instruments at fair value through profit or loss;
Investment property;
Investment property under construction;
Shareholders' guarantees
Provisions.

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

2. Basis of preparation of the financial statements:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS 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 consolidated financial statements are prepared in accordance with the requirements of the Cyprus Companies Law Cap. 113.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

3. Consistent accounting policies

The accounting policies adopted are consistent with those of the previous financial years, except as described below.

4. Changes in accounting policies in view of the adoption of new standards:

IAS 1 – Presentation of Financial Statements: According to the amendment to IAS 1 (the “Amendment”), the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Company has elected to present this disclosure in the statement of changes in equity. The Amendment has been applied retrospectively from 1 January 2011.

IAS 24 – Related Party Disclosures: The amendment to IAS 24 (the “Amendment”) clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government-related entities. The Amendment has been applied retrospectively from 1 January 2011.

The required disclosures have been included in the Group’s financial statements.

IFRS 3 (Revised) – Business Combinations: The amendments to IFRS 3 (Revised) address the following issues:

a) Measurement of non-controlling interests:

The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at their proportionate share in the recognised amounts of the acquiree’s identifiable net assets. According to the amendment, this possibility is only available for types of non-controlling interests that are present ownership interests and entitle their holders to a pro rata share of the acquiree’s net assets in the event of liquidation (usually shares). In contrast, for other types of non-controlling interests (such as options that represent equity instruments of the acquiree) no such choice is available and they are measured at fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2. The amendment has been applied retrospectively from the date of original adoption of IFRS 3 (Revised).

The retrospective application of the amendment did not have a material effect on the Group’s financial statements.

b) Transition provisions for accounting for contingent consideration in a business combination that occurred prior to the adoption of IFRS 3 (Revised):

According to the amendment, the amendments to IFRS 7, IAS 32 and IAS 39 which prescribe that contingent consideration in a business combination is within the scope of these Standards, do not apply to contingent consideration in respect of a business combination whose acquisition date preceded the date of adoption of IFRS 3 (Revised). Such contingent consideration will continue to be accounted for under the provisions of IFRS 3 prior to its amendment. The amendment has been applied retrospectively from 1 January 2011.

The retrospective application of the amendment did not have a material effect on the Group’s financial statements.

Note 2 Significant Accounting Policies continued

IFRS 7 – Financial Instruments: Disclosure: The amendment to IFRS 7 (the “Amendment”) clarifies the Standard’s disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures and the nature and extent of risks arising from financial instruments. The Amendment also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The Amendment has been applied retrospectively commencing from the financial statements for periods beginning on 1 January 2011.

The retrospective application of the Amendment did not have a material effect on the Group’s financial statements.

b. Significant Accounting Judgments, Estimates and Assumptions Used in the Preparation of the Financial Statements:

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

Acquisitions of Subsidiaries that are not Business Combinations: On the day of acquisition of subsidiaries and operations, the Group 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, 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.

Reliable Measurement of Fair Value of Investment Property Under Construction: In evaluating whether the fair value of investment property under construction can be reliably measured, the Group considers, among others, the following relevant indicators, when relevant:

1. Is the property being constructed in a developed, liquid market;

2. Are there any quotations of recent transactions or former valuations of acquisitions or sales of properties with similar characteristics and location;

3. Are construction costs reliably determinable;

4. Is the value of the completed property reliably determinable.

If, after evaluating the above indicators, it is determined that the fair value of investment property under construction can be reliably measured, the property is presented at fair value in accordance with the Group’s policy for investment property. If fair value cannot be reliably measured, then investment property under construction is measured at cost less, if appropriate, any impairment loss.

Recognising Revenue on a Gross or Net Basis: In cases where the Group acts as agent or broker without bearing any of the risks and rewards derived from the transaction, revenue is presented on a net basis. In contrast, if the Group acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis.

Estimates and Assumptions: The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

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

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

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

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

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

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

Deferred Taxes in Respect of Asset Entities: In cases where the Group holds single asset entities and the Group's intention is to realise the shares of single asset entities and not the asset itself, the Group does not record deferred taxes in respect of the temporary differences relating to the asset. Nonetheless, the Group measures the fair value of the single asset entities' shares taking into account said tax implications. As to the change in the Cyprus-Russia tax treaty, see Note 19d.

Inventories of Buildings for Sale: The net realisable value is determined in accordance with an independent valuation, which includes forecasts and estimations regarding the expected receipts from selling inventory in the project and regarding required construction costs.

Share-Based Payment Transactions: The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 22.

Transactions with Controlling Shareholder: The Company received a long-term loan with non-market conditions from a controlling shareholder and a guarantee on a bank loan without charging a fee from a controlling shareholder. The Company accounts for these transactions as contribution from shareholders and recognises them immediately pursuant to IAS 39 and, accordingly, the amount of contribution that is carried to equity reflects the difference between the fair value of the liability and the consideration received. In determining the compensation, the Company is required to evaluate the market conditions that existed when the transaction was made, including the market terms of a similar guarantee had it been given by an unrelated third party. Further details are given in Note 15.

Note 2 Significant Accounting Policies continued

Determining the Fair Value of Share-Based Payment Transactions: The fair value of share-based payment transactions is determined using an option-pricing model. The model's assumptions consist of the share price, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate.

Legal Claims: In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

c. Consolidated Financial Statements:

Effective from 1 January 2010, the date of adoption of IFRS 3 (Revised) and IAS 27 (2008), the Group applies the accounting policy required by these Standards for business combinations and transactions with non-controlling interests.

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

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

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

Commencing from 1 January 2010, the acquisition of non-controlling interests by the Group is recorded as a decrease/an increase in equity (capital reserve from transactions with non-controlling interests) and calculated as the difference between the consideration paid by the Group and the proportionate amount of non-controlling interests acquired and derecognised at the date of acquisition (when non-controlling interests also include a share of other comprehensive income, the Company reattributes the cumulative amounts recognised in other comprehensive income between the equity holders of the Company and the non-controlling interests).

Transaction costs in respect of transactions with non-controlling interests are also recorded in equity. Cash flows from transactions with non-controlling interests (without change in status) are classified in the statement of cash flows as cash flows from financing activities.

Until 31 December 2009, additional goodwill was recognised in respect of the acquisition of non-controlling interests and the effect of the sale of non-controlling interests was recorded in profit or loss.

Commencing from 1 January 2010, losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

Until 31 December 2009, such losses were entirely attributed to the equity holders of the Company unless the non-controlling interests were obligated and able to make additional investments. Losses accrued through 31 December 2009, were not reallocated between the equity holders of the Company and the non-controlling interests.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

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

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

Jointly controlled operations are joint ventures where each party uses its own assets for the joint operation. The consolidated financial statements include all the assets of the joint operations that the Company controls, the liabilities of the joint operations to which it is exposed, the expenses that it incurs in connection with the joint operation and its share of the income of the joint operation.

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

d. Functional and Foreign Currencies:

1. Functional Currency and Presentation 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 Group 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 investees 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 statements of financial position presented are translated at the closing rate as at each statement of financial position presented.

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 at the date of incurrence.

d) Retained earnings are translated based on the opening balance at the exchange rate as at 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").

Note 2 Significant Accounting Policies continued

Upon the disposal of a foreign operation, the relevant portion of other comprehensive income (loss) is recognised in profit or loss. Commencing from 1 January 2010, upon the partial disposal of a subsidiary that is a foreign operation which disposal results in the loss of control of the subsidiary, the cumulative gain (loss) recognised in other comprehensive income is transferred to profit or loss whereas upon the partial disposal of a subsidiary that is a foreign operation which disposal results in the retention of control, the relative portion of the cumulative amount recognised in other comprehensive income is reattributed to non-controlling interests.

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment and the exchange differences arising in these loans are recognised in other comprehensive income.

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

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

e. Cash and Cash Equivalents:

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

f. Allowance for Doubtful Accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Group's management, is doubtful. Impaired debts are derecognised when they are assessed as uncollectible.

g. Inventories of Buildings for Sale:

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

Inventories of land include acquisitions by the Group in an exchange transaction in which in consideration for the land, the vendor is provided units in the completed project. Such land is measured at fair value upon delivery of the land and a corresponding liability is recognised.

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

h. The Operating Cycle:

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

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

i. Financial Instruments:

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

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. Gains and losses are recognised in the income statement when the loans and receivables are recognised or impaired, as well as through the amortisation process.

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

Financial Liabilities Measured at Amortised Cost: Interest-bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortised cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognised in profit or loss when the financial liability is derecognised as well as through the systematic amortisation process.

Financial Guarantees: Financial guarantees granted by controlling shareholders of the Group are incurred from a contract obliging the controlling shareholder in the Group to pay compensation to beneficiary for loss resulted from non-collection pursuant to the terms of the contract.

Financial guarantees are initially recognised at fair value while taking into account direct transaction costs attributed to the grant of guarantee. After the initial recognition, the guarantee is measured at the higher of the amount initially recognised (net of the appropriate amortisation over the guarantee period) and the estimate of the amount required (if required) to be recognised as of the report date regarding the guarantee amount.

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

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

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

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

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

Note 2 Significant Accounting Policies continued

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

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

j. Leases:

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

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

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

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

k. Business Combinations and Goodwill:

Effective from 1 January 2010, following the expansion of the definition of a "business" pursuant to IFRS 3 (Revised), the Company also accounts for activities and assets as a business even when they are not conducted as such as long as the seller is capable of operating them as a business.

Business combinations are accounted for by applying the acquisition method. Under this method, the identifiable assets and liabilities of the acquired business are recognised at fair value on the acquisition date. The cost of the acquisition is the aggregate fair value of the assets transferred, liabilities incurred and equity interests issued by the acquirer on the date of acquisition.

In respect of business combinations that occurred on or after 1 January 2010, non-controlling interests are measured at fair value on the acquisition date or at the proportionate share of the non-controlling interests in the acquiree's net identifiable assets.

In respect of business combinations that occurred through 31 December 2009, the non-controlling interests were measured at their proportionate share of the fair value of the acquiree's net identifiable assets.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

The amendment to IFRS 3 (Revised) has been applied retrospectively from the date of the original adoption of IFRS 3 (Revised). The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at their proportionate share in the recognised amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for types of non-controlling interests that are present ownership interests and entitle their holders to a pro rata share of the acquiree's net assets in the event of liquidation (usually shares). In contrast, for other types of non-controlling interests (such as options that represent equity instruments of the acquiree) no such choice is available, and they are measured at fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2.

For business combinations that occurred on or after 1 January 2010, direct acquisition costs relating to the business combination are recognised as an expense in profit or loss and are not part of the acquisition cost.

As for business combinations that occurred through 31 December 2009, these costs are recognised as part of the acquisition cost.

On the acquisition date, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date, except for lease contracts that have not been modified on the acquisition date and whose classification as a finance or operating lease is therefore not reconsidered.

Starting from 1 January 2010, in a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value and included in the acquisition consideration while recognising gain or loss resulting from the fair value measurement, including realisation of amounts recorded in other comprehensive income.

In business combinations achieved in stages that occurred through 31 December 2009, the Group measured the goodwill for every acquisition individually.

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

After initial recognition, goodwill is measured at cost less, if relevant, any accumulated impairment losses.

For business combinations that occurred on or after 1 January 2010, contingent consideration is recognised at fair value on the acquisition date. If the contingent consideration is classified as a financial liability in accordance with IAS 39, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement. In any event, if the changes arise from adjustments resulting from the provisional purchase price allocation during the measurement period, they are recognised as adjustments to goodwill.

For business combinations that occurred through 31 December 2009, contingent consideration was recognised on the acquisition date if the outcome of the contingency was probable (in this context "more likely than not") and the amount could be measured reliably. Subsequent changes in the likelihood of the contingent consideration are accounted for prospectively as a change in estimate with a resulting adjustment to the acquisition cost and goodwill (also applicable to changes that occur on or after 1 January 2010).

Effective from 1 January 2010, an adjustment to the deferred tax asset balance in respect of acquired temporary differences which did not meet the recognition criteria at acquisition date is recorded in profit or loss and not as an adjustment to goodwill.

Note 2 Significant Accounting Policies continued

Acquisitions of Subsidiaries that are not Business Combinations: Upon the acquisition of subsidiaries and activities that do not constitute a business, the consideration paid is allocated among the subsidiary's identifiable assets and liabilities.

Based on their relative fair values on the acquisition date without attributing any amount to goodwill or to deferred taxes, and the non-controlling interests, if any, participate at their relative share of the fair value of the net identifiable assets on the acquisition date.

Upon the acquisition of non-controlling interests of subsidiaries, as above, that occurred until 31 December 2009, the difference between the consideration paid and the relative portion of non-controlling interests acquired on the date of acquisition is attributed to assets and liabilities as described above. Upon the acquisition of non-controlling interests of subsidiaries, as above, that occurred starting from 1 January 2010, the accounting treatment is in accordance with section c ("Consolidated Financial Statements").

l. Investment Property and Investment Properties Under Construction:

An investment property is property (land or a building or both) held by the owner (lessor under an operating lease) or by the lessee under a finance lease, to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business.

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment property are included in profit or loss when they arise. Investment property is not systematically depreciated.

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

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

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

m. 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%.

The useful life, depreciation method and residual value of an asset are reviewed at least each year end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. An asset is derecognised on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in profit or loss when the asset is derecognised.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

n. Borrowing Costs in Respect of Qualifying Assets:

The Group capitalises borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, comprising of tangible and intangible non-financial assets, and inventories that require a substantial period of time to bring them to a saleable condition.

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

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

o. Impairment of Non-Financial Assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

An impairment loss of an asset, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognised in profit or loss.

p. Taxes on Income:

Taxes on income in the income statement include current and deferred taxes. The tax charges/credit in respect of current or deferred taxes are carried to the income statement other than if they relate to items that are directly carried to equity or to other comprehensive income. In such cases, the tax effect is also carried to the relevant item in equity or to other comprehensive income.

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

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

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognised in other comprehensive income or in equity.

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

Note 2 Significant Accounting Policies continued

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

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

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

The Group did not record deferred taxes in respect of temporary differences arising from changes in the fair value of investment properties in view of management's intention to sell the companies holding these assets rather than the assets themselves (see also Note 19).

q. Share-Based Payment Transactions:

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

Equity-Settled Transactions: The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model, additional details are given in Note 22. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account. The only conditions taken into account in estimating fair value are market conditions and non-vesting conditions.

The cost of equity-settled transactions is recognised in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognised in profit or loss represents the change between the cumulative expense recognised at the end of the reporting period and the cumulative expense recognised at the end of the previous reporting period.

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

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

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognised for the grant is recognised immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

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

Rendering of Services, including Management Fees: Revenue from the rendering of services is recognised by reference to the stage of completion as of the reporting date. 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 of ownership have passed to the buyer. Revenues are recognised when significant uncertainties regarding the collection of the consideration no longer exist, the related costs are known and there is no continuing managerial involvement with the residential apartment delivered. These criteria are usually met when construction has effectively been completed, the residential apartment has been delivered to the buyer and the buyer has paid the entire consideration for the apartment.

s. Finance Income and Expenses:

Interest income is recognised as it accrues using the effective interest method. Revenues from dividend are recognised when the Group's right to receive the payment is established.

Finance costs comprise interest expenses on borrowings. Borrowing costs that are not capitalised to qualifying assets are recognised in the income statement using the effective interest method.

Gains and losses on exchange differences are reported on a net basis.

t. Advertising Expenses:

Expenditures incurred on advertising, marketing or promotional activities, such as production of catalogues and promotional pamphlets, are recognised as an expense when the Group has the right of access to the advertising goods or when the Group receives those services.

u. Operating Segments:

An operating segment is a component of the Group that meets the following three criteria:

1. is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intragroup transactions;

2. whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance; and

3. for which separate financial information is available.

Note 2 Significant Accounting Policies continued

v. Earnings (Loss) Per Share:

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

w. Provisions:

A provision in accordance with IAS 37 is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

x. Presentation of Statement of Comprehensive Income:

The Group has elected to present comprehensive income using two statements: a statement of income and a statement of comprehensive income in which all the items recognised in other comprehensive income are presented, excluding net income which is brought forward from the statement of income.

y. Presentation of the Changes in Other Comprehensive Income Items:

The Group presents the changes between the opening and closing balance of each component of other comprehensive income in the statements of changes in equity.

aa. Disclosure of New IFRSs in the Period Prior to their Adoption:

IAS 1 – Presentation of Financial Statements: In June 2011, the IASB issued an amendment to IAS 1 (“the Amendment”) which provides guidance for the presentation of other comprehensive income. According to the Amendment, items which may be carried to profit or loss at a later stage (such as upon derecognition or recovery) should be presented separately from items that can never be carried to profit or loss.

The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on 1 January 2013, or thereafter. Earlier application is permitted.

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

IAS 12 – Income Taxes: The amendment to IAS 12 (“the Amendment”) applies to investment property measured at fair value. According to the Amendment, the deferred tax asset/liability in respect of such property should be measured based on the presumption that the carrying amount of the property will be recovered in full through sale (and not through use). However, if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embedded in the investment property over time rather than through sale, the sale presumption is rebutted and the Group should apply the regular guidelines of IAS 12 (namely, deferred taxes are measured based on the expected recovery of the property as determined by management – through sale or use).

The Amendment supersedes the provisions of SIC 21 that require separation of the land component and the building component of investment property measured at fair value in order to calculate the deferred tax.

The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on 1 January 2012. Earlier application is permitted.

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

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

IFRS 7 – Financial Instruments:

Disclosure: The amendment to IFRS 7 ("the Amendment") provides new and expansive disclosure requirements regarding the derecognition of financial assets and regarding unusual transfer activity close to the end of a reporting period. The objective of the Amendment is to assist users of financial statements to assess the risks to which the Company may remain exposed from transfers of financial assets and the effect of these risks on the Group's financial position. The Amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitisation of financial assets. The Amendment is to be applied prospectively commencing from the financial statements for periods beginning on 1 January 2012. Earlier application is permitted.

The appropriate disclosures will be included in the Group's financial statements.

IFRS 9 – Financial Instruments:

1. In November 2009, the IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("the Standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

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

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

  Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the aforementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

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

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognised in profit or loss or in other comprehensive income; in accordance with the election by the Group on an instrument-by-instrument basis (amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard is effective commencing from 1 January 2015. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the Standard.

2. In October 2010, the IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortised cost.

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

Note 2 Significant Accounting Policies continued

Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

The amendments are effective commencing from 1 January 2015. Earlier application is permitted provided that the Group also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

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

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

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on 1 January 2013 or thereafter. Earlier application is permitted. However, if the Group chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

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

IFRS 10 – Consolidated Financial Statements: IFRS 10 supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, “Consolidation – Special Purpose Entities”.

IFRS 10 does not prescribe changes to the consolidation procedures but rather modifies the definition of control for the purpose of consolidation and introduces a single consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee’s activities that significantly affect the investor’s return.

According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27 prior to its amendment which required consideration of potential voting rights only if they could be exercised immediately while disregarding management’s intentions and financial ability to exercise such rights.

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

IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on 1 January 2013, or thereafter.

The Group is evaluating the possible impact of the adoption of IFRS 10 but is presently unable to assess the effects, if any, on its financial statements.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies continued

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

IFRS 11 defines joint arrangements as contractual arrangements over which two or more parties have joint control.

IFRS 11 distinguishes between two types of joint arrangements:

- Joint ventures in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires joint ventures to be accounted for solely by using the equity method, as opposed to the provisions of IAS 31 which allowed the Group to
  make an accounting policy choice whether to apply proportionate consolidation or the equity method for entities under joint control.
- Joint operations in which the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. IFRS 11 requires the joint operator to recognise a joint operation's assets liabilities, revenues and expenses in proportion to its relative share of the joint operation as determined in the joint arrangement, similar to the current accounting treatment for proportionate consolidation.

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

The Group is evaluating the possible impact of the adoption of IFRS 11 but is presently unable to assess the effects, if any, on its financial statements.

IAS 28R – Investments in Associates and Joint Ventures: IAS 28R supersedes IAS 28. The principal changes in IAS 28R compared to IAS 28 relate to the application of the equity method of accounting for investments in joint ventures, as a result of the issuance of IFRS 11, and the guidance for transition from proportionate consolidation to the equity method of accounting for these investments. IAS 28R also prescribes that in the event of disposal of an investment in an associate or joint venture, including a portion thereof, the portion that meets the criteria to be classified as held for sale is accounted for in accordance with IFRS 5. Any remaining portion is accounted for using the equity method until the time of actual disposal. In addition, an investment in an associate that becomes an investment in a joint venture, or vice versa, will continue to be accounted for at equity and the remaining investment will not be remeasured.

IAS 28R is to be applied retrospectively in financial statements for annual periods commencing on 1 January 2013, or thereafter. Earlier application is permitted; however, if the Group elects earlier application of IAS 28R, it must also apply IFRS 10, IFRS 11, IFRS 12 and IFRS 27R (Revised 2011) collectively.

The Group is evaluating the possible impact of the adoption of IAS 28R but is presently unable to assess the effects, if any, on its financial statements.

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

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

Note 2 Significant Accounting Policies continued

IFRS 13 – Fair Value Measurement: IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market or, in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures and the measurement of assets and liabilities pursuant to IFRS 13 are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on 1 January 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Group's financial statements upon initial adoption of IFRS 13.

The Group is evaluating the possible impact of the adoption of IFRS 13 but is presently unable to assess the effects, if any, on its financial statements.

bb. Reclassification:

During 2011, the Group reclassified deferred tax assets and deferred tax liabilities relating to the Company's subsidiaries, which own investment properties and investment properties under construction, in order to reflect the fair value of the Company's share in those subsidiaries.

As a result of the reclassification, deferred tax assets and deferred tax liabilities were decreased in the amount of US$4m as at 31 December 2010. The reclassification did not have an effect on the Group's net income.

Notes to the Consolidated Financial Statements

Continued

Note 3 Interest in Jointly Controlled Entities

The list of jointly controlled entities is provided in Note 1f.

a. The Group's share of the assets and liabilities as at 31 December 2011 and 2010 and income and expenses of the jointly controlled entities for the years ended 31 December 2011, 2010 and 2009, which are proportionally consolidated in the consolidated financial statements, are as follows:

	31 December 2011 US$000	31 December 2010 US$000
Share of the joint ventures' statement of financial position:		
Current assets	**8,002**	2,418
Non-current assets	**91,498**	89,835
Current liabilities	**(6,061)**	(5,603)
Non-current liabilities	**(36,823)**	(43,329)
Net assets	**56,616**	43,321

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Share of the joint ventures' revenue and profit:			
Revenue	**14,379**	9,357	5,354
Cost of maintenance and management	**(3,817)**	(2,886)	(1,439)
Administrative expenses	**(186)**	(486)	(1,154)
Fair value adjustments of investment properties and investment properties under construction	**11,221**	10,542	5,078
Finance costs	**(5,494)**	(4,437)	(2,983)
Other income	**–**	2,796	–
Income before taxes on income	**16,103**	14,886	4,856
Taxes on income	**–**	–	(53)
Net income	**16,103**	14,886	4,803

b. During 2011, the Company purchased 1.5% of the shares of a jointly controlled entity which holds Yaroslavl Vernissage Shopping Center ("The Shopping Center") for the total amount of approximately US$1,055,000.

The deal was executed by offsetting the amount aforesaid from a loan previously granted to the seller in an amount of approximately US$1,205,000 (principal and interest).

Pursuant to the deal, the Company through its subsidiaries now holds 50.5% of The Shopping Center.

Note 4 Cash and Cash Equivalents

	31 December 2011 US$000	31 December 2010 US$000
Cash at banks	**32,333**	10,423
Short-term deposits[1]	**–**	551
	32,333	10,974

1 The short-term deposits are deposited in a bank account for a term under three months and earn interest at floating rates, based on daily bank deposit rates.

Note 5 Other Receivables

	31 December 2011 US$000	31 December 2010 US$000
Prepayments to suppliers	**1,500**	686
Government authorities	**473**	514
Trade and other receivables	**807**	916
	2,780	2,116

Note 6 Inventories of Buildings for Sale

a. Composition:

Current Assets:

	31 December 2011 US$000	31 December 2010 US$000
Land	**38,428**	49,462
Construction costs	**119,344**	128,876
	157,772	178,338

Non-Current Assets:

	31 December 2011 US$000	31 December 2010 US$000
Land	**18,005**	10,435
Construction costs	**49,057**	20,048
	67,062	30,483

b. Inventories of buildings are intended for the construction of residential apartments and town houses. The inventory is measured at the lower of cost and net realisable value in accordance with IAS 2, which was determined by an independent appraiser.

c. This includes capitalised borrowing costs of approximately US$5,101,000 for the year ended 31 December 2011 and approximately US$19,262,000 for the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

Continued

Note 6 Inventories of Buildings for Sale continued

d. During the period, a Company's subsidiary entered into agreements regarding the sale of five units in a residential project located near Moscow, for a total consideration of approximately US$3.9m. The Group received advances from buyers for these sales in a total amount of US$2.7m.

The total town houses sold since the beginning of the marketing is 19 units.

The total consideration received for sold units amounted to US$12.2m.

e. Due to the progress in the development stages of the residential project in St Petersburg, and due to the commencement of marketing for the project, the Group determined that the operating cycle for this project will be four years. As a result, inventories of buildings for sale of the St Petersburg project in the amount of approximately US$39m were reclassified to non-current assets.

Note 7 Investment Properties

a. Composition:

	31 December 2011 US$000	31 December 2010 US$000
Balance at 1 January	**306,257**	187,340*
Additions for the year	**3,181**	12,278
Transfer from investment properties under construction (d)	**42,982**	98,840
Fair value adjustments	**30,409**	8,147*
Exchange rate differences	**(19,260)**	(348)
Balance at 31 December	**363,569**	306,257

* Reclassified.

b. Investment property is stated at fair value which has been determined based on valuations performed by independent external valuation experts who hold recognised and relevant professional qualifications and who have experience in the location and category of the property being valued. The valuation was prepared pursuant to international valuation standards. The fair value represents the amounts on the valuation date at which the properties will be exchanged between a buyer and a seller in an arm's-length transaction after the parties have acted rationally and with caution and without coercion. The fair value was measured with reference to recent real estate transactions for similar properties in the same location as the property owned by the Group, if any, and based on the expected future cash flows from the property. In assessing cash flows, their inherent risk is taken into account. In computing the fair value, the valuators used a discount rate of 12%–14%.

c. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes have not been recorded but were taken into consideration while determining the fair value of the investment property. However, the fair values of the properties were reduced in 2011 and 2010 by US$23,228,000 and US$16,236,000 respectively, to reflect the fair values of the deferred tax liabilities and assets that the Group 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 management is of the opinion that the actual amount of the reduction may be significantly lower due to the economic benefits to which the buyer is entitled upon the sale of shares. See also Note 19e.

d. During 2011, the Group completed the construction of the Tamiz Building in Moscow and already has a number of tenants. As a result, the asset was reclassified from investment property under construction to investment property.

Note 8 Investment Properties Under Construction

a. Composition:

	2011 US$000	2010 US$000
At 1 January	**121,364**	184,782*
Additions for the year	**8,487**	30,708
Transfer to investment properties (d)	**(42,982)**	(98,840)
Disposal	**–**	(15,545)
Fair value adjustments	**3,076**	21,675*
Exchange rate differences	**(7,242)**	(1,416)
At 31 December	**82,703**	121,364

* Reclassified.

b. The fair value of investment property under construction is either determined on the basis of the residual or the discounted cash flow (DCF) methods, as deemed appropriate by the valuation expert. The estimated fair value is based on the expected future income from the completed project using yields adjusted for the significant risks which are relevant to the construction process, including construction costs and rent that are higher than the current yields of similar completed property. The remaining expected costs of completion are deducted from the estimated future income. In computing the fair value, the valuators used a discount rate of 14%–22%.

c. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes have not been recorded, but were taken into consideration while determining the fair value of the investment property. However, the fair values of the properties were reduced in 2011 and 2010 by US$12,615,000 and US$13,886,000, respectively, to reflect the fair values of the deferred tax liabilities and assets that the Group 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 management is of the opinion that the actual amount of the reduction may be significantly lower due to the economic benefits to which the buyer is entitled upon the sale of shares. See also Note 19e.

d. See Note 7(d).

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

In particular, the New Law amends the Federal Laws "On Direct Investment Activities in the Russian Federation", "On the Enactment of the Russian Federation Forestry Code", "On State Registration of Title to Immovable Property and Transactions Therewith".

The amendments stipulate that the state or municipal authorities may unilaterally terminate lease contracts made for the purpose of construction of an immovable property before 1 January 2011, if the contractual obligations on construction of a property are not performed when due or construction of a property has been completed by less than 40% at the last day of the term of the lease.

These provisions apply to lease contracts for land plots in state or municipal ownership and located in Moscow and St Petersburg. One of the Company's projects in Moscow, called "Skyscraper" (the "Project") may be subject and affected by the New Law, due to the Group's failure to complete construction by the date set forth in the lease agreement (completion of construction prior to 2010). According to the New Law, this gives the state or local authority the right to cancel a lease agreement early. The Project is presented in the financial statements at its fair value in the aggregate amount of US$38.3m. As of the balance sheet date the Group has invested in the project approximately US$55.9m.

Notes to the Consolidated Financial Statements

Continued

Note 8 Investment Properties Under Construction continued

There is significant uncertainty of the consequences of the New Law on lessees, generally, and the Group in particular, with regard to the project. This includes the degree and manner of implementation of the New Law by the authorities (if at all), the protections available in the event of its implementation and the method of calculating the compensation if its appeal against the decision to cancel the lease agreement of the land relating to the Project is denied.

As a result, the Company recorded loss from fair value adjustments in the amount of approximately US$10m. According to the Company's assessment and based on the valuation of the project, the value of the Project in the Group's financial statements reflects the potential risks deriving from possible implementation of the New Law.

Note 9 Loans to Related Parties

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 ("Century Companies project"), both incorporated under the laws of the Russian Federation.

The Group granted during 2007 and 2008 loans of approximately US$55m to Century Companies, for the purpose of investing in the project, buildings and the repayment of former debts to third parties. The loans bear 11% annual interest.

In consideration of purchase rights in the Century Companies project, the Group paid to the Sellers an amount of US$1m. In addition, US$19m out of loans provided by the Group to Century Companies project during the years 2007, 2008 and 2009, were capitalised in 2010 to the equity of Century Companies project as part of irrecoverable obligations of the Group in accordance with the aforementioned purchase agreement. The total amount of remaining loans and the accrued interest are to be repaid from future income of Century Companies project. See also Note 17(2).

There will be no dividend distribution in the Century Companies project until the loans are repaid to the Company.

During 2011, the Company utilised an amount of US$8.5m from the loan balance.

Note 10 Fixed Assets, Net

	2011 US$000	2010 US$000
Cost:		
At 1 January	**2,725**	2,294
Additions	**349**	872
Disposals	**(331)**	(393)
Exchange rate differences	**(146)**	(48)
At 31 December	**2,597**	2,725
Depreciation:		
At 1 January	**1,303**	1,062
Additions	**467**	610
Disposals	**(284)**	(360)
Exchange rate differences	**(79)**	(9)
At 31 December	**1,407**	1,303
Net carrying value	**1,190**	1,422

Note 11 Vat Receivable

a. Comprises of VAT that was paid upon the purchase of land and the construction of the projects, and which the Group expects to recover from VAT to be collected from customers over a period of four years from the reporting date. The VAT receivable over a long-term period is stated at its estimated present value using a discount rate of 8%.

b. Future expected VAT receivable as at 31 December 2011, are as follows:

	US$000
First year	7,393
Second year	317
Total	7,710

Note 12 Credit from Banks

The bank loans bear annual interest rates of LIBOR plus 1.5% to 4.05%. During September 2008, the Company's main shareholders (companies that are part of the Fishman Group) reinstated guarantees in favour of certain bank institutions that granted the Group lines of credit. See also Note 15a.

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

Notes to the Consolidated Financial Statements

Continued

Note 13 Loans from Banks

a. On 29 May 2007, a subsidiary of the Company (IIK) entered into an agreement with the European Bank of Reconstruction and Development (EBRD) regarding the financing of the Triumph Mall project.

Following the above mentioned agreement, in 2009, IIK received funds from the aforementioned loan from EBRD for approximately US$48m. The loan is repayable in annual instalments, commencing from 2010. The loan bears interest of LIBOR + 2.5%–5%.

The Company guaranteed IIK's liabilities towards the bank until the conditions undertaken by IIK toward the bank have been met as detailed below:

1. The project will be completed by 31 December 2011.

2. IIK's debt coverage ratio will not fall 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 made of an aggregate amount exceeding US$250,000 that are not in compliance with the bank approved project budget.

As at 31 December 2011, IIK complies with all the covenants regarding this loan.

To secure the loan, IIK has pledged its rights to the project area and rights to the project's expected cash flows, in addition to the shares of IIK held by the Company in favour of the bank.

b. During December 2009, a subsidiary of the Company (MAG) signed an agreement with CB Uniastrum Bank LLC (the Bank). In accordance with the agreement, the Bank has approved a credit line of approximately US$30m. On 17 December 2009, MAG received a loan of approximately US$15m as part of the approved credit line. The loan bears an annual interest of 9.8% and was repayable on 3 December 2010. However, the loan can be extended for a one-year period by a written application from MAG. The maturity date of the loan extensions cannot exceed 10 years. In December 2011, the loan repayment date was extended for one year (until 3 December 2012). The rest of the approved credit line will be granted to MAG in accordance with future rental revenues. The covenants of the loan are as follows:

1. Rental income to the loan payments ratio should be at least 1.3 to 1.

2. The ratio between the loan balance and the fair value of the pledged properties will not exceed 50%.

As collateral for this credit, MAG had pledged its rights in investment properties presented at fair value of US$104.4m as at 31 December 2011 and another subsidiary of the Company (Hydro) has provided a guarantee for this credit. As for guarantees provided by the Company, see also Note 28g.

As at 31 December 2011, MAG complies with all the covenants regarding this loan.

Note 13 Loans from Banks continued

c. The Group has refinanced two loan facilities totalling approximately US$43.1m. This refinancing, undertaken by two Russian leading banks, in February 2011, is detailed below.

1. The extension and revision to an existing loan facility with GazpromBank on the Vernissage Mall in Yaroslavl. This property is owned by a jointly controlled entity, in which MirLand holds a 50.5% ownership interest, this being the largest shareholder.

The renewed loan amount is US$29.1m, representing the remaining balance of the previous loan following scheduled amortisation. The revised interest rate is 9.25% p.a. (previously 12% p.a.) and the loan has been renewed for a five-year term, with the option of a two-year extension. The principal will be repaid through equal quarterly payments and repayment of approximately 53% at the end of the term.

2. The refinancing by Sberbank of an office building in Moscow, forming part of the "Century Companies project". The "Century Companies project" is owned by one of MirLand's 51% held investees.

The loan amount relating to this asset is US$14.0m, bears an annual interest rate of 7.7% above three-month LIBOR, and is repayable over a period of seven years. The principal will be repaid through quarterly payments and a payment of approximately 37% at the end of the term.

d. In November 2011, a subsidiary of the Company, Hydro, signed a facility agreement with Uniastrum Bank. According to the agreement, the loan amounts to US$14m and is being repaid over 10 years by monthly repayments that are being updated every year. The loan bears a fixed annual interest rate of 9.8%. The covenants of the loan are as follows:

1. The debt cover ratio should not be lower than 1.

2. The ratio between the loan balance and the fair value of the pledged properties will not exceed 50%.

To secure the loan, Hydro has pledged land plots and lease rights of the project.

e. In November 2011, the Company's wholly owned subsidiary Petra 8 LLC has entered into a credit line agreement with SberBank for the provision of a line of credit of US$41m. The purpose of the credit line is to finance the construction of the first phase of "Triumph Park" in St Petersburg. The credit line bears 10.25% interest rate per annum and is being repaid over three years by part of the receivables from sales of apartments. The outstanding credit line balance in April 2013 will be repaid by variable monthly repayments.

As of the report date, Petra 8 LLC utilised an amount of US$2.2m from the credit line.

To secure the credit line, Petra 8 LLC has pledged its rights to 300 acres out of 400 acres of the project's land plot, completed apartments to be completed and part of the receivables from sales.

f. In December 2011, the Company's wholly owned subsidiary, Creative, has entered into a credit line agreement with SberBank of Russia for the provision of a credit line of US$25m. The credit line bears an annual interest rate of three months LIBOR + 7.1% and will be repaid within three years by part of the receivables from sales of town houses.

The outstanding credit line balance as of six months from the credit line grant date will be repaid by variable quarterly repayments.

To ensure loan repayment, the Company pledged the holdings on Creative, 163 acres out of 163 acres from the project's land and completed town houses, and made a deposit of US$1.8m.

Notes to the Consolidated Financial Statements

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Note 13 Loans from Banks continued

g. The maturity dates of long-term loans:

	31 December 2011 US$000	31 December 2010 US$000
First year – current liabilities	**11,608**	5,344
Second year	**16,085**	4,100
Third year	**23,578**	4,219
Fourth year and after	**64,517**	59,270
	115,788	72,933

Note 14 Other Accounts Payable

	31 December 2011 US$000	31 December 2010 US$000
Accrued expenses	**747**	378
Other payables	**1,124**	750
	1,871	1,128

Note 15 Loans and Guarantees from Shareholders

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

As at 31 December 2011, the Group measures the fair value of those benefits received from shareholders and recorded as expense in the total amount of US$505,000 for the year ended 31 December 2011 (2010: US$687,000). On 31 December 2011, the Group measured the guarantees value based on the yield of the Group's bonds with the required amendments. As a result, the Group recorded capital reserve in a total amount of US$3,358,000.

b. During 2011, the Company repaid shareholder's loans in a total amount of approximately US$40.6m (including interest).

c. During 2010, the Company has signed a loan framework agreement for the total amount of US$5m, with its major shareholders, accordingly to which, loans were granted in the amount of US$5m, which mature on 14 April 2012, bearing interest at a rate 15% per annum.

After the balance sheet date, the Company repaid shareholders' loans in total amount of approximately US$6.4m (including interest).

Note 16 Debentures

a. On 6 December 2007, the Company raised approximately US$63m of debt by the issuance of two series (A and B) of debentures on the Tel-Aviv Stock Exchange. Both series are repayable 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 deducted from the 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%.

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%.

b. On 8 August 2010, the Company published a Shelf Offering Report in Israel according to which it raised approximately US$52m by the issuance of Israeli New Shekel ("NIS") 200,000,000 Series C Bonds ("Series C Bonds") to institutional investors and the public in Israel.

The Series C Bonds are to be redeemed in five annual, equal and consecutive payments on 31 August 2012 to 2016 (inclusive). Interest is payable on the Series C Bonds, in semi-annual payments, at the annual rate of 8.5% linked to the Israeli Consumer Price Index ("CPI"). In the event of any downgrading of the rating of the Series C Bonds, the interest rate will be increased by 0.5%. The effective interest rate is 8.8%.

c. On 10 November 2010, the Company published a Shelf Offering Report in Israel, according to which it raised approximately US$18m (NIS 65.4m) by the issue of NIS 66,080,000 Series D Bonds ("Series D Bonds") to the public in Israel.

The Series D Bonds are to be redeemed in four annual equal and consecutive payments on 30 November from 2014 through to 2017 (inclusive). Interest is payable on the Series D Bonds, in semi-annual payments, at the annual rate of 6%. In the event of any downgrading of the current rating of the Series D Bonds (ilBBB), the interest rate will be increased by 0.5%.

The Series D Bonds (principal and interest) are linked to the Israeli CPI.

d. On 23 February 2011, the Company published a Shelf Offering Report in Israel based on a Shelf prospectus that was published on 31 May 2010 and updated on 27 July 2010.

According to the Shelf Offering, the Company raised approximately US$17m by the issuance of NIS 56,126 Series C Bonds to the public in Israel.

The Series C Bonds are to be redeemed in five annual, equal and consecutive payments on 31 August 2012 to 2016 (inclusive). Interest is payable on the Series C Bonds, in semi-annual payments, at the annual rate of 8.5% linked to the Israeli CPI. In the event of any downgrade of the Series rating, the interest rate will be increased by 0.5%.

In addition, the Company issued 425,000 warrants (Series 2) convertible into NIS 42,500,00 Series C Bonds and 1,000,000 warrants (Series 3) convertible into 100,000,00 Series D Bonds, exercisable until March 2011.

During 2011, 419,331 warrants (Series 2) and 186,218 warrants (Series 3) were exercised into 41,933,100 Series C Bonds and 18,621,800 Series D Bonds respectively, for a total consideration of approximately US$19m, which was raised by the Company in addition to the above amounts.

On 31 March 2011, the warrants that were not exercisable expired.

e. During 2011, a Company's subsidiary placed and sold 63,950,481 Series D Bonds to third parties, which were previously acquired by a Company's subsidiary during December 2010, for a total consideration of approximately US$18m. The effective interest rate is 5.4%.

Notes to the Consolidated Financial Statements

Continued

Note 16 Debentures continued

f. During the reporting period, the Company's subsidiary sold 2,800,000 Series C Bonds to third parties, which were acquired by the Company's subsidiary during May 2011, for a total consideration of approximately US$1m. The effective interest rate is 4.3%.

	Quantity of the debentures in thousands	Effective annual interest rate	**31 December 2011 US$000**
Series A	26,173	6.19%	**7,897**
Series B	136,583	5.15%	**35,308**
Series C	298,059	7.49%	**85,098**
Series D	146,701	6.22%	**39,538**
			167,841

	Quantity of the debentures in thousands	Effective annual interest rate	31 December 2010 US$000
Series A	32,717	6.82%	9,779
Series B	170,728	5.68%	43,383
Series C	200,000	8.84%	58,137
Series D	66,080	6.24%	18,682
			129,981

g. The expected maturities after the reporting date for the year ended 31 December 2011:

	Less than one year US$000	One to two years US$000	Two to three years US$000	Three to four years US$000	Four to five years US$000	More than five years US$000	Total US$000
Series A	**1,957**	**1,957**	**1,957**	**1,957**	**–**	**–**	**7,828**
Series B	**8,771**	**8,771**	**8,771**	**8,771**	**–**	**–**	**35,084**
Series C	**16,141**	**16,141**	**16,141**	**16,141**	**16,141**	**–**	**80,705**
Series D	**–**	**–**	**9,886**	**9,886**	**9,886**	**9,886**	**39,544**
	26,869*	**26,869**	**36,755**	**36,755**	**26,027**	**9,886**	**163,161**
Premium							**2,196**
Total							**165,357**

* Not including interest accrued, in the amount of US$2,484 as at 31 December 2011.

h. Regarding acquisitions of debentures by related parties see Note 27b.

Note 17 Other Non-Current Liabilities

	31 December 2011 US$000	31 December 2010 US$000
Deposits from tenants[1]	**7,011**	5,319
Less short-term deposits from tenants	**(3,831)**	(4,534)
Provision regarding an agreement with government authorities (see Note 28g)	**5,379**	4,172
Other[2]	**969**	532
	9,528	5,489

1 The deposits do not bear interest and usually represent up to three months of rent to be repaid at the end of the rent period.
2 On 31 December 2007, a wholly owned subsidiary signed a memorandum of understandings with two private companies ("the Sellers") to purchase 51% of the shares held by the Sellers in the companies Inomotor LLC and Avtoprioritet ("the Century Companies"), both incorporated according to Russian law.

The Company granted the Sellers the right to purchase from it 1% of the share capital of Century Companies, in return for an immaterial amount (such that upon the exercise of the option, the Company and the sellers will have an equal share in the project companies). The option can be exercised starting from the earlier of the date of filing the financial statements of the project companies for 2010 to the tax authorities or starting from 1 August 2011, all by 31 December 2011. Accordingly, the Company had recorded the option's fair value as part of its liabilities.

During December 2011, the Sellers announced their intention to exercise the option.

The Company recorded in its financial statements provisions in the amount of US$969,000 and US$532,000 as at 31 December 2011 and 2010, respectively, which reflect the option values at those dates.

Note 18 Financial Instruments

a. Classification of Financial Assets and Liabilities:

The table below presents the classification of the financial assets and liabilities in the financial statements, according to IAS 39:

	31 December 2011 US$000	31 December 2010 US$000
Financial assets		
Cash and cash equivalents	**32,333**	10,974
Restricted deposits	**1,739**	–
Loans and receivables	**18,448**	21,309
Financial liabilities		
Financial liabilities at amortised cost	**(371,538)**	(336,564)

Notes to the Consolidated Financial Statements

Continued

Note 18 Financial Instruments continued

b. Financial Risk Factors:

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

1. Exchange Rate Risk: The Group has balances of financial instruments held in Rubles, Israeli New Shekels ("NIS") and Hungarian Forints ("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.

a) The following table represents the sensitivity to a reasonably possible change in the US Dollar/Ruble exchange rates in the year 2011:

	2011 Effect on profit before tax US$000	2010 Effect on profit before tax US$000
Increase of 5% in US Dollar/Ruble	**(131)**	(3,821)
Decrease of 5% in US Dollar/Ruble	**119**	3,821

b) The following table represents the sensitivity to a reasonable possible change in US Dollars/NIS exchange rates in the year 2011:

	2011 Effect on profit before tax US$000	2010 Effect on profit before tax US$000
Increase 5% in US Dollar/NIS	**6,454**	4,301
Decrease 5% in US Dollar/NIS	**(7,133)**	(4,301)

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 at the end of the reporting period. The Group is also exposed to credit risk in respect of receivables, cash equivalents, deposits and other financial assets (including loans provided).

3. Interest Rate Risk: In December 2007 and in August and November 2010, the Group issued debentures (see Note 16). These balances bear variable interest and therefore expose the Group to cash flow risk in respect of increase in interest rates.

49% of the Company's loans bear floating interest rates.

The following table represents the sensitivity to a reasonable possible change in interest in the year 2010:

	2011 Effect on profit before tax US$000	2010 Effect on profit before tax US$000
Increase 1% in interest	**(1,752)**	(1,568)
Decrease 1% in interest	**1,752**	1,568

Note 18 Financial Instruments continued

4. Liquidity RIsk Exposure:

b. The main liquidity risk of the Group arises from the issue of debentures. See also Note 16.

c. The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2011 and 2010, based on contractual undiscounted payments.

	31 December 2011					
	Less than one year US$000	One to two years US$000	Two to three years US$000	Three to four years US$000	More than five years US$000	Total US$000
Loans from banks and others	18,608	22,777	29,128	11,805	32,416	114,734
Loans from shareholders	6,402	–	–	–	–	6,402
Debentures	40,868	38,768	47,225	44,491	40,654	212,006
Credits from banks	71,486	–	–	–	–	71,486
Accounts payable	14,987	–	–	–	–	14,987
	152,351	61,545	76,353	56,296	73,070	419,615

	31 December 2010					
	Less than one year US$000	One to two years US$000	Two to three years US$000	Three to four years US$000	More than five years US$000	Total US$000
Loans from banks	8,727	9,378	9,064	8,749	58,387	94,305
Loans from shareholders	40,772	6,682	–	–	–	47,454
Debentures	20,059	30,782	29,103	32,099	52,607	164,650
Credits from banks	71,512	–	–	–	–	71,512
Accounts payable	18,117	–	–	–	–	18,117
	159,187	46,842	38,167	40,848	110,994	396,038

d. Israeli Consumer Price Index ("CPI") risk:

1. The Series A, C and D Bonds issued by the Company are linked to the Israeli CPI. The total amount of financial instruments which are linked to CPI is US$132,533,000 and US$86,598,000 as at 31 December 2011 and 31 December 2010, respectively.

2. The table below represents sensitivity to a reasonable possible change in CPI in the year 2011:

	2011 Effect on profit before tax US$000	2010 Effect on profit before tax US$000
Increase 0.2% in CPI	(271)	(173)
Decrease 0.2% in CPI	271	173

Notes to the Consolidated Financial Statements

Continued

Note 18 Financial Instruments continued

e. Fair value of financial instruments:

Set out below is a comparison by category of carrying amounts and fair values of all the financial instruments of the Group as at 31 December 2011 and 31 December 2010:

	31 December 2011		31 December 2010	
	Carrying amount US$000	Fair value US$000	Carrying amount US$000	Fair value US$000
Financial liabilities				
Long- and short-term loans[1]	45,093	43,824	27,336	25,532
Debentures (series A)[2]	7,897	7,396	9,779	10,701
Debentures (series B)[2]	35,308	30,441	43,383	43,012
Debentures (series C)[2]	85,098	79,768	58,137	64,148
Debentures (series D)[2]	39,538	33,394	18,682	18,595

1 The fair value is based on the calculation of the present value of cash flows at standard interest rates acceptable for similar loans with similar characteristics in accordance with the repayment dates of the payments of the loans.
2 The fair value represents the market value of the debentures on the Tel-Aviv Stock Exchange.

The carrying amount of cash and cash equivalents, short-term investments, trade receivables, other accounts receivable, short-term loans granted, credit from banks and others, trade payables and other accounts payable approximate their fair value.

f. The Group's capital management objectives are to maintain healthy capital ratios in order to support its business activity and maximise shareholder's value.

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

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

Note 18 Financial Instruments continued

g. Linkage terms of financial assets by groups of financial instruments pursuant to IAS 39:

31 December 2011:

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

31 December 2010:

	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Cash and cash equivalents	8,562	1,861	551	10,974
Loans and receivables	20,404	905	–	21,309
	28,966	2,766	551	32,283

h. Linkage terms of financial liabilities by groups of financial instruments pursuant to IAS 39:

31 December 2011:

	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Trade and other payables	9,135	5,379	–	14,514
Loans from banks and related parties and debentures	222,320	2,171	132,533	357,024
	231,455	7,550	132,533	371,538

31 December 2010:

	US Dollar US$000	Ruble US$000	Other linkage basis US$000	Total US$000
Trade and other payables	8,164	10,731	45	18,940
Loans from banks and related parties and debentures	231,026	–	86,598	317,624
	239,190	10,731	86,643	336,564

Notes to the Consolidated Financial Statements

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Note 19 Income Tax

a. Tax rates applicable to the Company and its investees:

Cyprus – corporate tax rate – 10%
Russia – corporate tax rate – 20%
Israel – corporate tax rate – 25%
Hungary – corporate tax rate – 19%

b. Tax expense (income):

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Current income tax	**1,215**	875	1,819
Deferred taxes	**(13,482)**	1,610*	4,739*
Tax expense in income statement	**(12,267)**	2,485	6,558

* Reclassified.

c. 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 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Income (loss) before tax expense	**16,258**	25,640	(16,426)
Tax at the statutory tax rate in Russia (20%)	**3,252**	5,128*	(3,286)*
Increase (decrease) in respect of:			
Effect of different tax rate in Cyprus (10%) and Hungary (16%)	**(1,448)**	(528)	8
Losses for which deferred tax assets were not recorded	**2,804**	782	3,440
Previous years' losses for which deferred tax assets were recorded during the year	**(9,623)**	–	–
Inter-company expenses for which deferred tax liabilities were recorded	**3,312**	3,473	3,832
Exempt income	**(10,517)**	(5,855)	2,761
Others	**(47)**	(515)	(197)
Income tax expense (tax benefit)	**(12,267)**	2,485	6,558

* As of 2011, the Company calculates its theoretical tax according to the tax rate in its main operating location – 20%.

Note 19 Income Tax continued

d. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December 2011 US$000	31 December 2010 US$000	**31 December 2011 US$000**	31 December 2010 US$000	31 December 2009 US$000
Deferred tax liabilities:					
Inventory of buildings	**(21,574)**	(13,088)	**(4,265)**	(3,778)*	(4,960)*
Deferred tax assets:					
Carry forward tax losses	**2,973**	24,489	**17,747**	2,168*	221*
Deferred tax (expenses) income			**13,482**	(1,610)	(4,739)
Deferred tax, net	**2,915**	(10,115)*			

* Reclassified, see Note 2bb.

e. The fair value adjustments of the investment properties and investment properties under construction result in a temporary difference between the carrying value of the properties and their tax basis.

The Russian Parliament approved in February 2012 the new protocol of the Cyprus-Russia tax treaty, which updated the taxation of capital gain in order that a Cypriot-holding company that will receive a capital gain on the sale of a Russian real estate company will be subject to a 20% tax rate in Russia, and not be exempt from tax as it has been. This order will be in force for four years from the date on which the protocol comes into effect.

The Group is evaluating the possible impact of the change, but is presently unable to assess the effects, if any, on its financial statements. However, the Group's management believes that the change will not have any material effect on the Company's results of operations, because the Company has deducted a full discount for the amount of the tax provision from the fair value of the properties.

f. The tax losses carried forward by the Group companies amount to approximately US$110m. Deferred tax asset amounting to US$24m has been recognised. Deferred tax assets in the total amount of US$3.2m, on tax losses carried forward in the amount approximately US$16m, were not recorded.

Notes to the Consolidated Financial Statements

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Note 20 Equity

	31 December 2011 US$	31 December 2010 US$
Authorised shares of US$0.01 par value each	**1,350,000**	1,200,000
Issued and fully paid shares of US$0.01 par value each	**1,035,580**	1,035,580

Dividend Policy

The Group adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Capital Reserve for Transactions with Controlling Shareholders:

The capital reserve is 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 to the bank loans.

Note 21 Earnings (Loss) Per Share

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares used for computing basic earnings per share (in thousands)	**103,558**	103,558	103,558
Weighted average number of ordinary shares used for computing diluted earnings per share (in thousands) (see Note 20)	**105,953**	105,523	103,558
Income (loss) used for computing basic and diluted earnings per share (in thousands of US Dollars)	**28,525**	23,155	(22,984)

Note 22 Share-Based Payments

a. The Company adopted the share option plan on 19 November 2006, according to which a certain portion of the options was granted immediately, with options remaining for future grant.

Half of 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 employment renders the options that have not vested yet, to expire. The options to Officers 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 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 benefit component upon the exercise, where the exercise price is not paid by the option holder).

b. On 16 October 2009, 1,122,995 share options have been granted to Mr Morag, at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. The Group recognised US$663,000 as expenses with respect to this grant.

At the same time, Mr Morag's existing share options, granted at the time of the Company's IPO, were cancelled. The new share options have been granted at an exercise price of 2.5 GBP per share until 19 December 2012. According to the binomial model, the value of the share options is 948,722 GBP.

On 16 October 2009, 449,198 share options have been granted to Mr Rozental, the Company's CEO (and at the time the Company's CFO) at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. The Group recognised US$266,000 as expenses with respect to these share options granted.

On 16 October 2009, 374,331 share options were granted to a service provider at an exercise price of 2.5 GBP per share and exercisable until 19 December 2012. The Group recognised US$221,000 as expenses with respect to these share options granted.

c. On 2 December 2010, the Company granted to Mr Rozental, who was appointed as CEO of the Company in December 2010, options for 673,797 ordinary shares of the Company. The exercise price is 2.30 GBP per share and the options are exercisable until 1 December 2015 and vest in three equal annual instalments, with the first instalment vesting on the date of grant and the second and third instalments vesting on the second and third anniversary of the date of grant, respectively.

The fair value of granted options is US$1,615,000.

The Group recognised US$762,000 as expenses with respect to this grant during 2011.

Notes to the Consolidated Financial Statements

Continued

Note 22 Share-Based Payments continued

d. The following table lists the binomial model assumption used for calculating the plans, adopted in 2006 and amended in 2009, fair value:

	Over three years
Expected volatility (%)	82.59
Risk-free interest rate (%)	1.28
Expected life of option (months)	24
Weighted average share price (GBP)	1.8
Exercise price	2.5

e. The following table lists the binomial assumption model used for calculating the plan, adopted in 2010, fair value:

	Vested over three years
Expected volatility (%)	82.31
Risk-free interest rate (%)	1.86
Expected life of option (months)	60
Weighted average share price (GBP)	2.25
Exercise price	2.3

The expected life of the options is based on historical data and Group'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.

f. Details on equity-settled share-based payment transaction:

	2011 US$000	2010 US$000
Fair value of the options	**1,615**	1,615
Less – recognised as expense in the income statement	**(1,367)**	(605)
Expense to be recognised in the future	**248**	1,010

In the years 2011 and 2010, there was no exercise of any of the options granted to employees or officers.

Note 23 Cost of Maintenance and Management

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Maintenance of property	**14,524**	7,253	4,678
Land lease payments	**304**	341	264
Fee to management company	**1,276**	328	371
Property tax on investment property	**4,811**	2,434	2,125
	20,915	10,356	7,438

Note 24 General, Administrative Expenses

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Salaries[1]	**7,737**	6,847	7,339
Office maintenance	**1,190**	1,263	1,317
Professional fees	**4,380**	3,891	3,339
Travelling expenses	**767**	553	453
Depreciation	**467**	610	504
Other costs	**2,042**	1,780	2,594
	16,583	14,944	15,546
1 Includes cost of share-based payment (see Note 22)	**762**	605	1,894

Note 25 Other Income

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Compensation from insurance company in respect of fire damage[1]	**6,246**	–	–
Change in provision regarding an agreement with government authorities and service providers	**(2,397)**	(186)	2,802
Gain from sale of jointly controlled entity	**–**	3,159	–
Loss from acquisition of jointly controlled entities	**–**	–	(698)
	3,849	2,973	2,104

1 In September 2011, the Company has settled its outstanding insurance claim in respect of the fire damaged property owned by its subsidiary, MAG. (For additional information regarding the fire in MAG please refer to Note 7d in the Company's annual financial statements for 2010).

The total settlement received amounted to approximately US$6.2m. Based on an independent engineering report received by MAG, the total cost of the required remedial works will be approximately US$7.8m.

Note 26 Finance Costs and Income

a. Finance income:

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Interest income from cash and cash equivalents and restricted deposits	**22**	86	–
Interest income from loans provided	**1,445**	1,940	6,134
Fair value adjustment of financial derivative	**–**	–	956
Effect of discounting of long-term receivables	**674**	3,208	–
	2,141	5,234	7,090

Notes to the Consolidated Financial Statements

Continued

Note 26 Finance Costs and Income continued

b. Finance costs:

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Interest costs – financial liabilities from banks	**(8,999)**	(9,168)	(7,433)
Interest costs – loans from shareholders	**(2,108)**	(6,466)	(3,816)
Interest costs – debentures	**(15,998)**	(5,703)	(3,294)
Net capitalised interest costs	**9,990**	16,989	10,454
Loss from disposal of financial derivative	**–**	(232)	–
Effect of discounting of long-term receivables	**–**	(467)	–
Bank charges and others	**(916)**	–	–
	(18,031)	(5,047)	(4,089)

Note 27 Related Parties

a. Transactions with related parties:

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Interest income from related parties	**1,445**	1,940	1,321
Interest paid to shareholders	**5,785**	6,466	3,815
Private jet expenses	**249**	117	17

b. Balances with related parties:

	31 December 2011 US$000	31 December 2010 US$000
Debentures held by shareholders	**40,824**	20,466
Guarantees provided and benefits received regarding loans received from majority shareholders	**3,358**	3,207
Loans from majority shareholders	**6,402**	44,865

c. The transactions with related parties are in accordance with the market terms except for the loans and guarantees from shareholders, see Note 15.

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

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Salaries	**1,104**	1,399	1,371
Share-based payments	**762**	605	1,602
	1,866	2,004	2,973

e. Global, which owns a commercial centre in Yaroslavl has entered into a lease agreement with Home Centers LLC ("Home Centers"), a company controlled by the Fishman family, the controlling shareholders of the Company. The area leased to Home Centers covers 6,712 sqm, the minimal lease fees are US$120 per sqm and the lease period, assuming the exercise of all of the option periods contained therein, is 25 years. The terms of the agreements are in accordance with market conditions.

f. Hydro leases offices to Home Centers with an overall area of approximately 652 sq m used for office purposes. The monthly lease fee is approximately US$30,000. The lease period terminates on 31 December 2012. The engagement is in accordance with market conditions.

Note 28 Commitments and Contingencies

a. Group as lessee:

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

Future minimum lease payments as at 31 December 2011 are as follows:

	US$000
First year	304
After one year but no more than five years	1,215
More than five years	7,712
Total	9,231

b. On 1 July 2005, Hydro and FIN (subsidiaries of the Company), entered into a management service agreement for an indefinite period. FIN is a Russian company whose controlling shareholder also serves as the CEO of Hydro. Either party may terminate this 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 pursuant to the above agreement, FIN will be entitled to receive: a) 10% of the net profits from the project, including those from the sale of the project after completion; b) 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. According to the oral agreement with Fin, the Company will provide to Fin advances on account of the aforementioned future profit, in a total amount of US$35m, and which will bear interest at the rate of 11%. As of the reporting date, the agreement has not been signed.

Notes to the Consolidated Financial Statements

Continued

Note 28 Commitments and Contingencies

c. In December 2006, Real Service (subsidiary of the Company) entered into an oral agreement with FIN for the provision of certain services that include sourcing of the investment and project management services. According to the agreement and in consideration for these services FIN will be entitled to receive 10% of the net profits from the project, including those from the sale of the project after completion and to 2% of the lease fees actually received by Real Service from its tenants. As of the reporting date, the agreement has not been signed.

d. In February 2006, MAG and FIN entered into a management service agreement. The terms of the agreement are identical to Hydro's engagement with FIN, see b above.

e. Expected rental income:

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

The minimum rental income is as follows:

	31 December 2011 US$000	31 December 2010 US$000
First year	**46,485**	31,497
Second year until five years	**137,457**	108,031
More than five years	**84,907**	27,239
	268,849	166,767

f. A subsidiary of the Company, which owns a plot of land in Yaroslavl, has entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the built area on said land. The Group has recorded a provision regarding this agreement. See also Note 17.

g. The Company provided a guarantee for its subsidiary, in order to secure the loan from the bank, in the amount of US$36.4m. See also Note 13b.

h. The Company's subsidiary Petra 8 LLC ("Petra") entered into an agreement with Gabel Development LLC ("Gabel") according to which Gable provides services which include preparation for tenders, assistance in projects planning, assistance in selection of providers, technical supervision, budget control and etc.

As of the balance sheet date Petra pays Gabel monthly management fees in an amount of approximately US$100,000.

i. In October 2008, a jointly controlled entity ("Avtoprioritet") entered into a lease agreement with Reiffeisen Bank ("the lessee") according to which the lessee undertook to lease approximately 5,600 sqm for a period of 10 years, in a project whose lease rights are held by Avtoprioritet. In December 2008, the lessee announced that it had no intention of fulfilling the lease agreement. Within the framework of mutual legal claims filed in connection with the validity of the lease agreement, the court made a final ruling, in a number of instances, according to which the lease agreement is binding to both parties and the leased space was indeed transferred to the lessee according to the agreement and the law. In view of the court's ruling, Avtoprioritet filed a claim for enforcing the payment of lease fees for 2009 and for the first quarter of 2010, which were fully settled by the lessee during 2010 as a result of the court's ruling in 2010. Avtoprioritet's claim for enforcing the payment of lease fees for the last nine months of 2010 was approved by the court in the first half of 2011 in the amount of approximately US$3,831,000 including VAT. As of the date of the financial statements, Avtoprioritet has received the amount aforementioned and filed a claim for enforcing the payment of lease fees for the first nine months of 2011. The court claim for nine months was won in the first instance. In view of the above, the Group recognised in its financial statements rental income for the last nine months of 2010 totalling approximately US$1,656,000 (the Group's share) which was collected during October 2011 based on the results of the court proceedings. The Group also recognised rental income for the first nine months of 2011 totalling approximately US$1,820,000 (the Group's share). The Group recognised rent revenues and accounts receivable due for the last three months of 2011 (about US$710,000). No bad debt allowance was recorded taking into consideration the lessee rental deposit held by the Company.

Note 29 Segment Information

The operations segments are identified on the basis of information that is reviewed by the chief operating decision-maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organised according to operating segments based on 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 2011		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	**43,601**	**3,932**	**47,533**
Segment results	**50,840**	**(4,661)**	**46,179**
Unallocated expenses			**(7,682)**
Finance cost, net			**(22,239)**
Profit before taxes on income			**16,258**

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

	Year ended 31 December 2009		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	17,213	–	17,213
Segment results	(5,934)	(1,521)	(7,455)
Unallocated expenses			(11,993)
Finance Income, net			3,022
Loss before taxes on income			(16,426)

Notes to the Consolidated Financial Statements

Continued

Note 29 Segment Information continued

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

	Year ended 31 December 2010		
	Commercial US$000	Residential US$000	Total US$000
Assets:			
Segments assets	466,898	221,956	688,854
Unallocated assets			15,634
Total assets			704,488
Liabilities:			
Segments liabilities	92,726	12,000	104,726
Unallocated liabilities			258,739
Total liabilities			363,465

Note 30 Subsequent Events

After the balance sheet date the Company's Board of Directors approved by way of reallocation the prolongation of the expiration date of 1,122,994 options, previously granted by the Company, to 19 March 2014, and updated the exercise price of those options from 4.8 GBP per share to an exercise price of 3.5 GBP per share.

Note 31 Date of Approval of the Financial Statements

The Board of Directors approved these consolidated financial statements for issue on 14 March 2012.

Shareholders' Information

Financial Calendar

Annual General Meeting	14 May 2012
Announcement of 2012 first quarter results	May 2012
Announcement of 2012 interim results	August 2012
Announcement of 2012 third quarter results	November 2012

Share Price

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

Price at 31 December 2011	145p
Lowest price during the year	145p
Highest price during the year	330p

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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