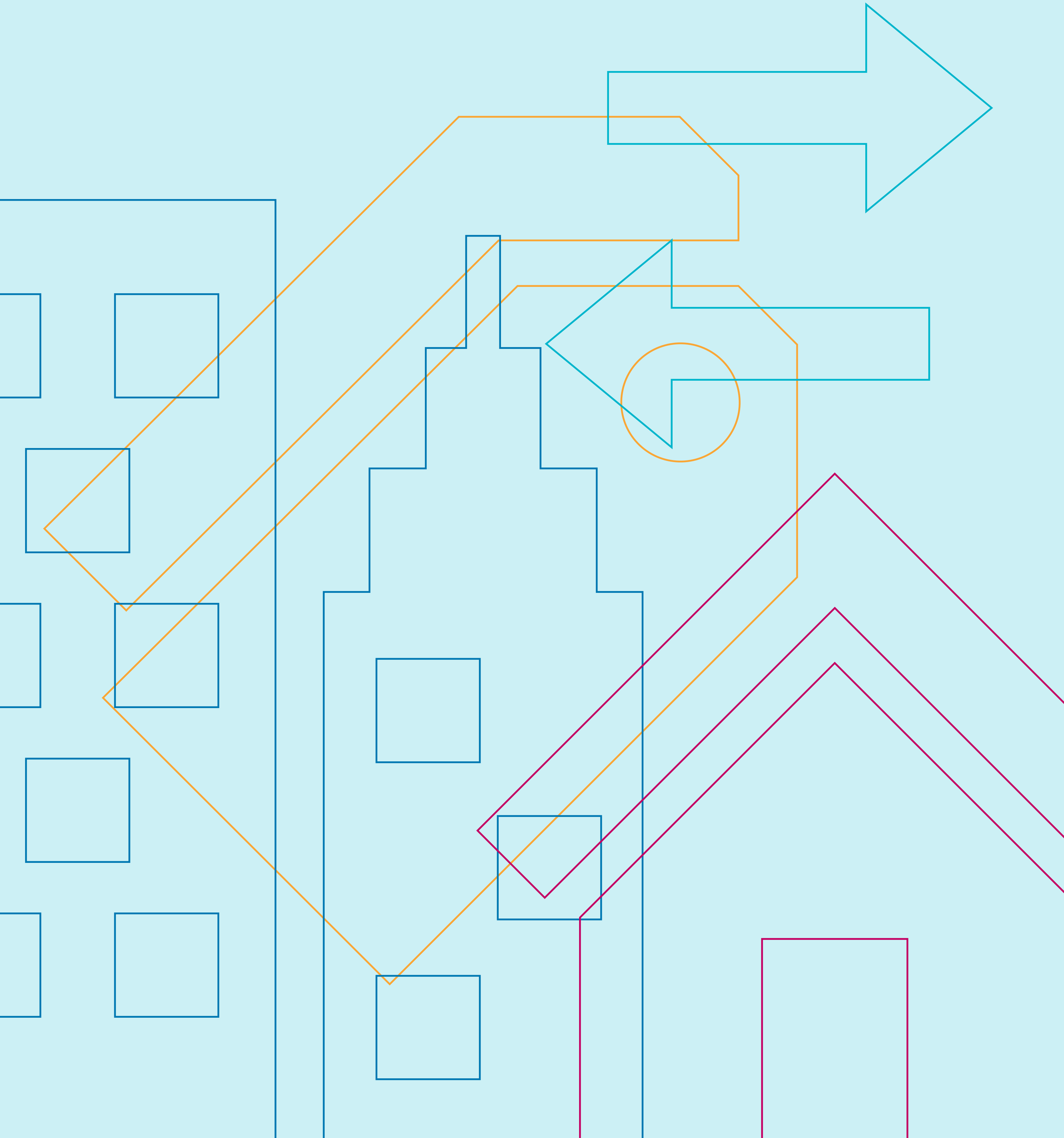
MirLand Development Corporation Plc

Annual report and accounts 2010



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.

The implementation of MirLand's strategy and fully integrated business model is strengthening our position as one of the leading international real estate companies in Russia.

We will continue to execute our business plan to maximize shareholders' returns in the future and believe that we are well positioned to take advantage of the upturn in the Russian macro economy and real estate sector.

03

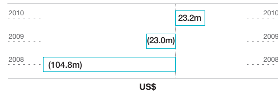
04

Net income increased to US$23.2m and real estate assets increased to a value of US$636.5m, mainly attributable to investments made during the year and an improvement in market conditions.

Further progress has been made in the management of the Company's debt, and approximately US$70.0m has been raised through the issuance of bonds.

NET INCOME FOR THE YEAR

US$**23.2m**



The Triumph Mall in Saratov was successfully completed and opened. Construction of the first phase of 77 houses in Western Residence project is now virtually complete.

Occupancy rates increased to high levels in all yielding assets.

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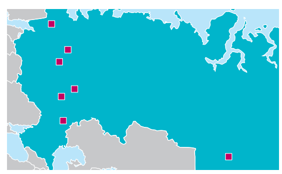
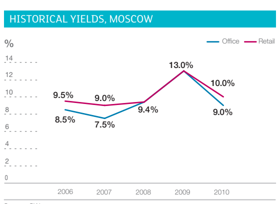
The Company's projects are diversified in their locations, sectors and stage of development.

We strongly believe in the quality of our portfolio and that it will deliver an attractive yield to our investors over the long term.





In 2010 the Russian economy showed gradual signs of recovery, driven mainly by increasing oil prices. Almost all macroeconomic indicators showed positive movement.

2010 saw a turning point for the Russian real estate market following the financial crisis, evidenced by rising rental rates, shrinking vacancy rates and 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 global Fishman Group, an 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 proceeds of US$293m through its IPO on the AIM market of the London Stock Exchange.

To date, the Company has successfully raised net proceeds of approximately US$164m 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 1,421,500 sqm upon completion. Of these, five commercial projects are yielding and one was added to the portfolio during the beginning of 2011.

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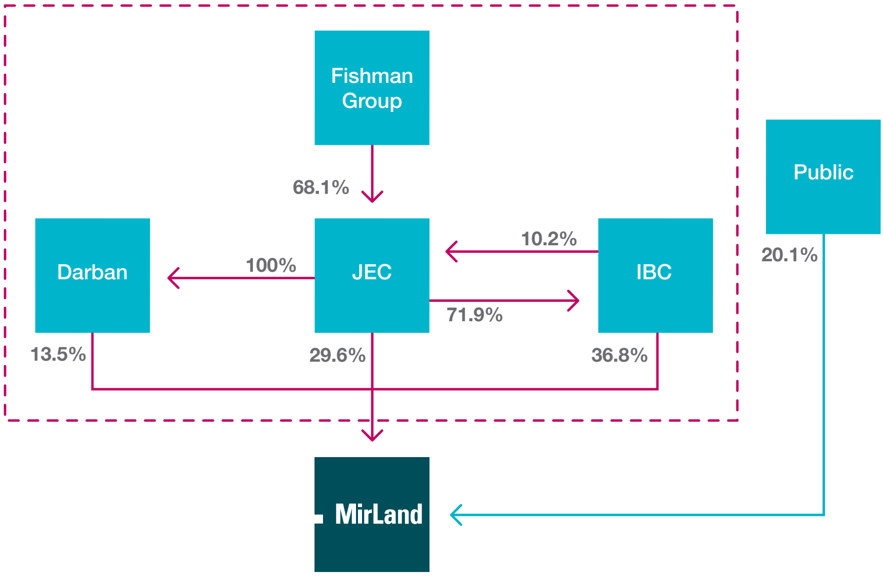
Our Business

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

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

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

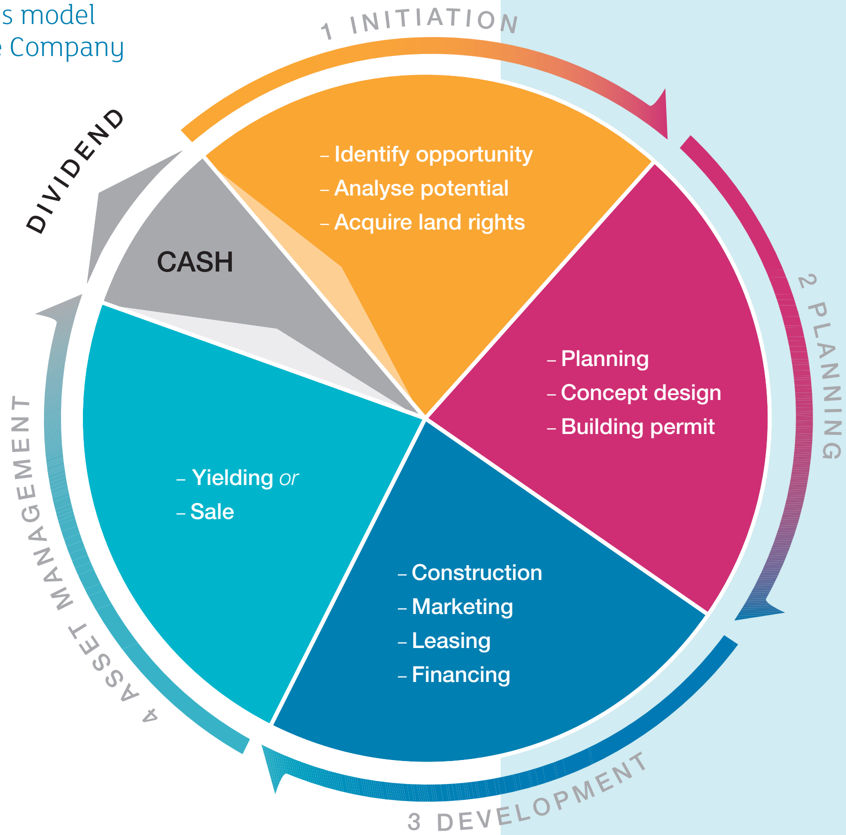
Our Corporate Structure*



* As at 16 March 2011

Our Business Model

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



Our Strategy

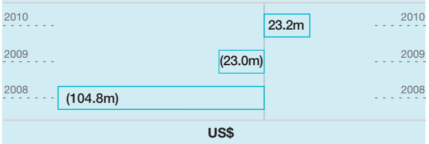
- Maintain diversification of the portfolio between various sectors, locations and development stage
- Hold commercial properties for lease, unless compelling realisation opportunities arise
- Develop residential properties for sale
- Use diverse financing sources to accelerate business activity and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

How We Performed in 2010

Financial and Operational Highlights

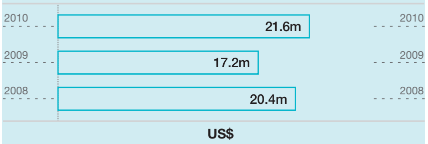
NET INCOME FOR THE YEAR

US$**23.2m**



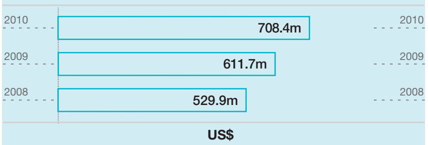
REVENUES FOR THE YEAR

US$**21.6m**



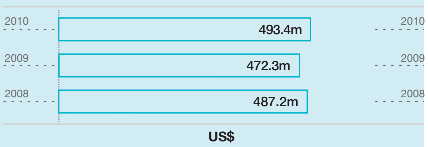
TOTAL ASSETS

US$**708.4m**



ADJUSTED NET ASSET VALUE

US$**493.4m**



Financial Highlights:

– Net income: US$23.2m (31 December 2009: net loss US$23.0m) mainly attributable to improvement in market conditions which led to uplifted fair value adjustments in investment properties and investment properties under construction of US$29.6m (31 December 2009: negative adjustment of US$16.5m)

– Total revenues increased to US$21.6m (31 December 2009: US$17.2m) reflecting an increase in occupancy rates and first-time recognition of house sales at the Western Residence project in Perkhushkovo

– Total assets increased to US$708.4m (31 December 2009: US$611.7m)

– Adjusted NAV: US$493.4m (31 December 2009: US$472.3m) and NAV per share of US$4.8 (31 December 2009: US$4.6)

– Real estate assets amounted to US$636.5m (31 December 2009: US$534.7m) representing 90% of total assets (31 December 2009: 87%). The increase is attributed to project expenditure and to the positive fair value adjustment

– During 2010 the Company used US$65.5m for investment in real estate

– Further progress in management of debt, raising approximately US$70.0m through the issuance of two new corporate bond rounds (Series C and D) on the Tel-Aviv Stock Exchange during 2010. Post year end, the Company raised an additional amount of approximately US$32m through extensions of Series C bonds and conversion of warrants issued previously (Series 2 and Series 3) to bonds Series C and D

– The Company enjoys modest leverage at 37% of its total assets (excluding shareholders' loans) and 43% of total assets (including shareholders' loans)

– Bonds Series A to D of the Company are rated ilBBB stable by Ma'alot Standard & Poor's. Bonds Series A to B of the Company are rated Baa2 stable by Midrug, Israeli affiliate of Moody's

Operational Highlights:

- Triumph Mall in Saratov was successfully completed and opened for trading on 15 December 2010 with a 98% occupancy rate
- Construction of the first phase of 77 houses in Western Residence project, Perkhushkovo, is now virtually complete with 10 houses sold during 2010 making a total of 15 houses sold to date
- Significant progress has been made on the first phase of the Triumph Park project in St Petersburg, which will comprise 510 apartments on completion of that first phase
- The renovation of Tamiz office building is nearly finished and circa 50% of its GLA is already pre-let. The Company expects the project to be fully operational in Q2 2011
- Occupancy rates increased to 100% in Vernissage Mall retail project in Yaroslavl, to 95% in the Century buildings and to 95% in the Hydro and MAG office projects*
- The Company completed the sale of its share in the Techagrocom business park and received proceeds of US$18.5m for its 50% share generating a US$3.2m capital gain
- Following the year end, MirLand completed the acquisition of leasehold rights to a 40.6 hectare site designated for the development of up to 180,000 sqm logistics centre in Novosibirsk for a total consideration of US$2.2m
- Following the year end, the Company refinanced two loan facilities totalling approximately US$43.1m with two leading Russian banks
- Mr Roman Rozental, formerly CFO, replaced Mr Moshe Morag as CEO of the Company with effect from 1 December 2010. Mr Emil Budilovsky replaced Mr Roman Rozental as CFO of the Company from the same date and was admitted as a member of the Board

TRIUMPH MALL

WESTERN RESIDENCE

TRIUMPH PARK

TAMIZ

* Out of the available leasable space

Chairman's Statement

I am pleased to report on MirLand's progress and results during the 2010 financial year. Early signs point towards a turning point for both the Russian economy and the Company during 2010 and I hope that the financial thaw continues. The measures that the Company took during the financial crisis in 2008 and 2009, and the support received from our principal shareholders, the Fishman Group, have left us better positioned to take advantage of the upturn in the Russian macroeconomy and real estate arena.

Nigel Wright Chairman

As of the fourth quarter of 2009, the Russian economy moved out from the recession and started to show positive macroeconomic trends which have benefited the real estate market. As I have reported previously, MirLand conducted a comprehensive review of its business plan to ensure that the Company could cope with the changing economic environment, and in particular the ongoing uncertainties surrounding the world economy, availability of funding, volatile energy prices and the pace of any recovery.

The Company's business plan aims to:

- maximise returns from our existing assets;
- successfully complete projects currently under construction; and
- resume our pipeline projects in the light of both the cost and availability of funding and market demand.

By adjusting our operations the Company has withstood the recent crisis and has emerged leaner and more strongly positioned to capitalise on opportunities as the market continues to recover.

Business Environment

Following the 2008 economic crisis and 2009 stabilisation, the Russian economy showed gradual signs of improvement during 2010, primarily driven by rising oil prices. Although various factors, including the intense summer heat and forest fires, caused an uptick in inflation, other macroeconomic indicators, such as GDP growth, industrial production, retail turnover, real disposable incomes and employment levels continued to improve.

This positive trend was underlined when, in April, Russia resumed foreign borrowing for the first time since the 1998 financial crisis with a significant bond issue. The Finance Ministry raised US$5.5bn in five and ten-year bonds at spreads just 125 and 135 basis points above US government bonds with similar maturities, implying that the risk attributed to inward Russian investment has decreased, and is deemed lower than some developed Western European economies following the debt crisis.

In line with improved domestic macroeconomic indicators, the Russian real estate market showed moderate growth in all sectors, evidenced by rising rental rates, shrinking vacancy rates and yield compression. Reductions in the Central Bank refinancing rate from 13% in December 2008 to 7.75% in June 2010, in tandem with improved market conditions, led to a gradual increase in the availability of finance for the real estate sector from strong local banks and mortgage lenders. This positive trend in the domestic banking market will hopefully continue and sustain a lasting recovery in the real estate sector in the short to medium term.

However, as the performance of the Russian economy relies heavily on oil prices, which are highly volatile, we anticipate that the pace of the recovery will remain slow and gradual. Furthermore, the upcoming parliamentary and presidential elections in 2011 and 2012 respectively, may cause an increase in Russia's budget deficit and boost the pressure on prices that may cause the central bank to increase interest rates as it did by 0.25% in February 2011 to 8%. Finally, international events such as the 2014 Winter Olympics and 2018 World Cup due to be held in Russia may positively influence macroeconomics and development of real estate in certain cities.

2010 Highlights

As a result of MirLand's revised business model implemented during the year and our high-quality portfolio, the Company is well positioned to grow in this evolving environment. This is reflected in the improved 2010 results.

- The Company has a diversified portfolio of assets comprising both residential and commercial projects;
- Our investment portfolio comprises five high-quality, completed income-producing investment properties, Hydromashservice, MAG and Century office properties in Moscow, and in the retail sector, Vernissage Mall in Yaroslavl and the recently opened Triumph Mall in Saratov. Most of the leasing agreements in the yielding assets are for long tenures and denominated in the US

Dollar. During the year, occupancy rates increased in all of our income producing investment properties;

- During 2010, 10 houses were sold in the Western Residence project in Perkhushkovo, and as at 16 March 2011, 15 houses had been sold in total;
- During 2010 the Company successfully issued Series C and D bonds of circa US$70m on the Tel-Aviv Stock Exchange;
- The Company completed the sale of its share in the Techagrocom business park and received US$18.5m for its 50% share generating a US$3.2m capital gain;
- As previously announced, on 20 March 2010, one building in the MAG office park in Moscow was damaged by fire. The Company holds comprehensive insurance cover for the asset. Renovation of the premises has already started;
- The Company is modestly leveraged at just 37% of its total assets excluding shareholders' loans and 43% including shareholders' loans; and
- MirLand continues to benefit from very supportive main shareholders – The Fishman Group.

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 bank finance market in Russia from domestic banks. Furthermore, there has been some improvement in the public debt market.

To date, MirLand's activities have been financed through a combination of equity capital (raised through the 2006 IPO on AIM), proceeds of corporate bond issues, project financing for the Vernissage and Triumph malls, shareholders' loans and guarantees and general corporate loans. The Company continues to seek diversification of its funding sources, as we focus our efforts on building strong relationships with domestic and international banks. Inter alia, during 2010 the Company successfully raised US$70m in the issuance of Series C and D bonds on the Tel-Aviv Stock Exchange, in addition to other smaller working capital facilities.

During the year, the Company also repaid US$10.8m of bonds, US$10.0m of shareholder loans, and US$5.9m of bank loans. Following the year end, the Company raised an additional amount of approximately US$32m through the issuance of Series C bonds and conversion of warrants issued previously (Series 2 and Series 3) to bonds, Series C and D, and has refinanced two loan facilities totalling approximately US$43.1m.

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

Results

Total assets as at 31 December 2010 were US$708.4m as compared to US$611.7m as of 31 December 2009. Equity as of 31 December 2010 was US$341.0m compared to US$319.2m the preceding year. The main reasons for the increase in 2010 were increased occupancy rates and the upward revaluation of our investment properties.

Net income in 2010 amounted to US$23.2m as compared to a loss of US$23.0m in 2009. Again, the main reason for this change is the increase in the value of the Company's investment properties, as a result of improving market conditions and investments made during the year.

Over the period, revenues increased to US$21.6m from US$17.2m in 2009. This was due to an increase in occupancy rates in MirLand's yielding assets together with

Following the 2008 economic crisis and 2009 stabilisation, the Russian economy showed gradual signs of improvement during 2010, primarily driven by rising oil prices. Although various factors, including the intense summer heat and forest fires, caused an uptick in inflation, other macroeconomic indicators, such as GDP growth, industrial production, retail turnover, real disposable incomes and employment levels continued to improve.

Nigel Wright Chairman

Chairman's Statement

Continued

Our Competitive Strengths

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 Stiles & Riabokobylko ("Cushman & Wakefield"). As a result of market improvement and further investment by the Company during this period, the value of MirLand's portfolio increased by 15.9% to US$775.4m during the year (Company's share in the assets which excludes Techagrocom which was sold during 2010) (31 December 2009: US $669.0m). Adjusted NAV based on Cushman & Wakefield's valuation is US$493.4m compared to US$472.3m in 31 December 2009, an increase of 4.5%.

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

Due to the challenging business environment, MirLand's focus in 2010 was on delivery of projects already under construction and careful management of its income-producing investment properties in order to increase the occupancy rates.

During the year, significant progress was made on the construction of phase 1 in the Western Residence project in Perkhushkovo (77 houses out of 163), construction of which is expected to be completed in Q2 2011. To date, a total of 15 houses have been sold. In addition, significant progress has been made on the first phase of the Triumph Park project in St Petersburg, which will comprise 510 apartments on completion (out of approximately 9,000 apartments for the total scheme). Moreover, the facade of the Tamiz office building was completed during the year and internal works have commenced. To date, 50% of the leasable area in the project has been pre-let and the project will be fully operational in Q2 2011.

The Triumph Mall in Saratov was successfully opened on 15 December with a 98% occupancy rate. The mall is the only modern shopping centre in the city and since opening the average daily visitors are approximately 14,000. The occupancy rate in Vernissage mall in Yaroslavl is 100%, the Century Buildings are 95% occupied and in Hydro and MAG buildings the occupancy rate is 95% of the net available leasable space.

As previously announced, on 20 March 2010 a fire broke out in one office building which constitutes a part of the office building complex (MAG, building 26) located in Moscow. At the date of this report the investigation that is being conducted by the fire fighting authority and the legal authorities regarding the circumstances that caused the fire is yet to be completed. The Company has a comprehensive insurance policy for the asset and the consideration will be agreed upon the completion of the above-mentioned investigation, however, the renovation of the premises has already started.

Following the year end, MirLand completed the acquisition of leasehold rights to a 40.6 hectares site designated for the development of an up to 180,000sqm 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 considering the net loss reported by the Company in 2008 and 2009, the Board has determined that it is inappropriate to declare a dividend for the financial year ended 31 December 2010, and will focus on maintaining maximum financial flexibility for the Company in the year ahead.

Our People

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

In December 2010, MirLand's then CFO, Mr Roman Rozental, replaced Mr Moshe Morag as the CEO of the Company. In order to ensure that the Company benefits from Mr Morag's experience, he will continue to serve as a Non-executive Director until June 2011. I am confident that Mr Rozental will lead the Company forward positively as he has been intimately involved with MirLand since 2006. He has played a significant part in its success throughout the intervening years, managing the Company through the financial crisis as both CFO and a valued Board member.

I would also like to place on record both the thanks of the Board and my personal appreciation of our former CEO, Moshe Morag, for his great contribution to the Company throughout its IPO process and, most importantly, through the last three challenging years.

On 1 December 2010, Mr Emil Budilovsky was appointed as the new CFO of the Company replacing Mr Rozental, and also admitted as a member of the Board of Directors. Mr Budilovsky has over 15 years' relevant experience in financial management, corporate finance, M&A and international real estate. I am confident that he will prove a valuable asset to the Company and I welcome him to the Board.

We also made one significant senior management appointment during 2010. Following the resignation of Mr Yehuda Marom as Chief Engineer during the year, we appointed Mr Lev Margolin to replace him. Mr Margolin was previously Project Manager of our flagship Triumph Park project in St Petersburg and was most recently responsible for bringing Triumph Mall in Saratov to successful completion and launch.

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, MirLand will continue to conduct its business plan to maximise shareholder return in the future.

The Company's efforts and resources are focused on completing projects already under construction and commencing those where funding is already in place. In conjunction with this, we continue to intensify our efforts to improve our pre-sale and pre-letting activities and these strategies are already reflecting improvements in the Company's results.
As in the past, we will move forward with the planning and design stages of our strategic projects, whilst nurturing the already strong income stream from our investment portfolio. In addition, we anticipate that early signs of the positive market momentum will create opportunities for us to prudently purchase new assets and so increase our portfolio, subject to the availability of funds.

There have been positive changes in the Russian economy and the real estate segment since the fourth quarter of 2009. We have also seen improvement in our portfolio valuation and financial results for 2010. Accordingly, barring any unforeseen market aftershocks, and given growing market demand and availability of funding, MirLand appears well placed to benefit from any such improving market conditions.

Nigel Wright
Chairman
16 March 2011

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 Successful Development of Projects

Strategic Principles

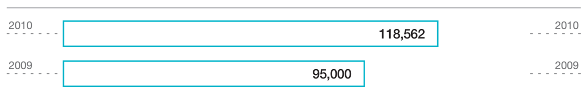
– Commitment to the successful and timely completion of portfolio projects at all development stages

Achievements in 2010

– In 2010 the construction of the Triumph Mall in Saratov was completed and this asset was added to the yielding portfolio.

Performance

Yielding Areas (sqm)



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 2010

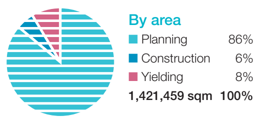
- First phase of 77 houses in Western Residence project, Perkhushkovo, is now virtually completed and construction of 510 apartments comprising the first phase of the Triumph Park project in St Petersburg is in progress. Renovation of Tamiz office building is nearly finished and the project is planned to be fully operational in Q2 2011.
- Future commencement of construction of projects in planning phase will be dependent upon market conditions and the availability of finance.

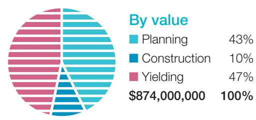
- The Company continues to enter projects in regional cities. Following the year end, MirLand completed the acquisition of leasehold rights to a 40.6 hectare site designated for the development of a logistics centre of up to 180,000 sqm in Novosibirsk.

- The Company's portfolio includes 13 commercial projects and two residential projects.

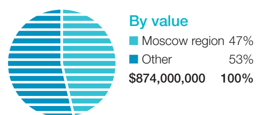
Performance

Development Stage

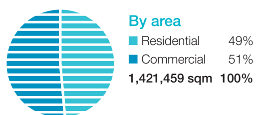


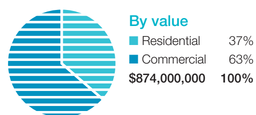


Geographic Spread



Segment Distribution





Our Investment Strategy and Key Performance Indicators

Continued

Generate Value Through Active Management

Strategic Principles

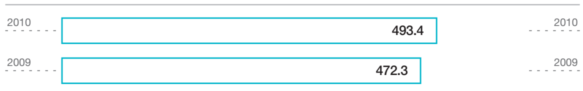
– Actively market assets before completion
– Identify market opportunities to increase yields
– Sell properties at the optimal time
– Take advantage of diverse financing opportunities

Achievements in 2010

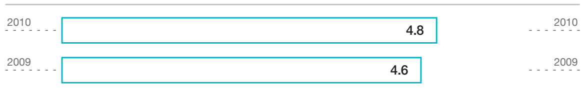
– As a result of further investment by the Company and market improvement during 2010, the value of MirLand's portfolio increased by 15.9% to US$775.4m during the year (Company's share in the assets which excludes Techagrocom which was sold during 2010). Since the further investments were financed through bond issuance and bank loans the adjusted NAV during the period increased by 4.5%.
– 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 2010 it was valued at US$775m (31 December 2009: US$688m) and net liabilities were US$282m (31 December 2008: US$216m). The full valuation is published on the Company's website.

Performance

Adjusted Net Asset Value (US$m)



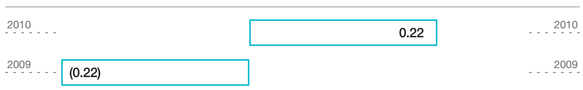
Adjusted Net Asset Value Per Share (US$)



– The main reasons for the change from a net loss in 2009 to a net income in 2010 is the increase in the value of the Company's investment properties, as a result of improving market conditions which led to uplifted fair value adjustments in investment properties and investment properties under construction of US$29.6m (31 December 2009: negative adjustment of US$16.5m). In addition, the revenues increased by 25% due to an increase in occupancy rates in MirLand's yielding assets together with sales of houses in the Western Residence project in Perkhushkovo. Also during the year the Company completed the sale of its share in the Techagrocom business park, which generated a US$3.2m capital gain.

Net Income (US$m)

Net Income Per Share (US$m)



Acquire Attractive Sites in Targeted Locations for Future Developments

Strategic Principles

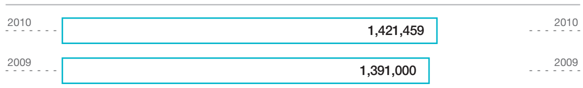
– Focus on high-quality developments which offer higher yields and capital growth
– Invest in Moscow, St Petersburg and attractive regional cities which have more than 500,000 inhabitants
– Invest in a variety of high-yielding sectors
– Invest in yielding or development projects that can be delivered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

Achievements in 2010

– 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

Portfolio (sqm)

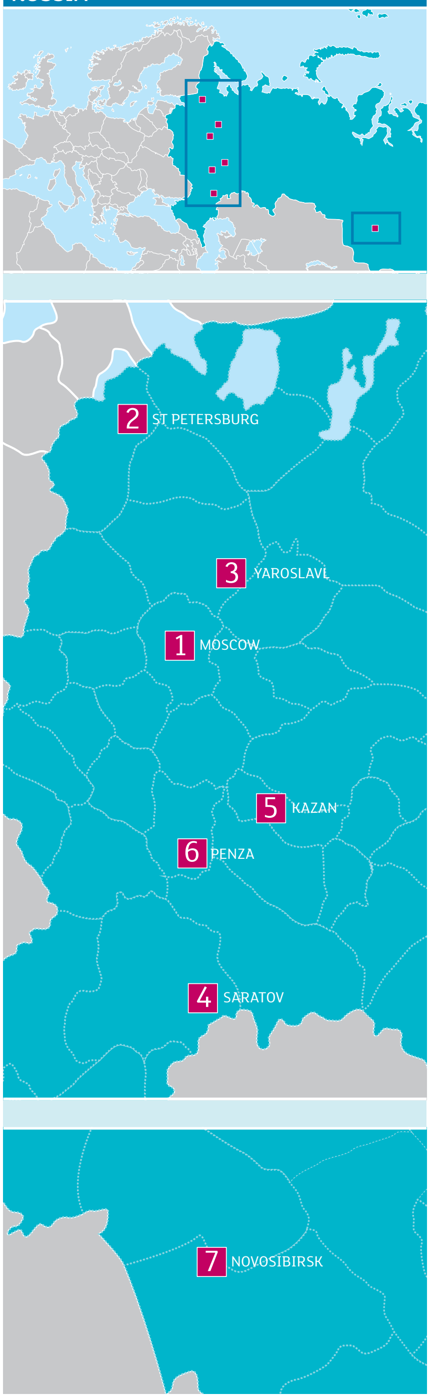


PRIORITIES FOR 2011

– The construction and delivery of projects – Tamiz, MAG building 26, Western Residence phase 1 and Triumph Park phase 1
– The increase of liquidity through strict cash flow management, focus on leasing of vacant areas and 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 operational 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
– Assessment of potential acquisitions with the focus on yielding and development projects that can be delivered to market in a short time

Portfolio at a Glance

RUSSIA



1. MOSCOW AND MOSCOW REGION

Hydromashservice and MAG
Yielding | 16,900 sqm and 19,230 sqm

Century Buildings
Yielding | 21,050 sqm

Tamiz
Under construction | 13,000 sqm

Skyscraper
In planning | 92,000 sqm

Western Residence
Under construction | 28,043 sqm
In planning | 32,469 sqm

2. ST PETERSBURG

Triumph Park
Under construction | 35,330 sqm
In planning | 713,345 sqm

3. YAROSLAVL

Vernissage Mall
Yielding | 34,050 sqm

Big Box Complex
In planning | 55,245 sqm

4. SARATOV

Triumph Mall
Yielding | 27,325 sqm

Saratov Logistics
In planning | 104,000 sqm

5. KAZAN

Triumph House
In planning | 31,500 sqm

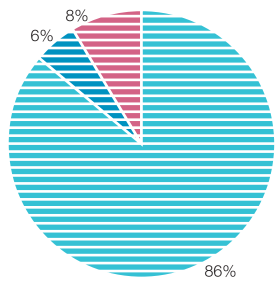
6. PENZA

Penza Shopping Centre
In planning | 18,000 sqm

7. NOVOSIBIRSK

Novosibirsk Logistics Centre
In planning | 180,000 sqm

PORTFOLIO PROJECT STATUS (SQM)



- In planning 1,226,553 sqm
- Under construction 76,344 sqm
- Yielding 118,562 sqm

Total 1,421,459 sqm

Key

Residential Office Retail Logistics

Portfolio

HYDROMASHSERVICE

Location: Moscow

Land area: 1.2 ha

Leasable area: 16,900 sqm

Completed: Q4 2008

Leasehold rights: 100%

Occupancy rate: 93%

MAG

Location: Moscow

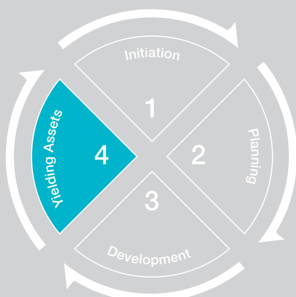
Land area: 2.3 ha

Leasable area: 19,230 sqm
(including 7,150 sqm under renovation)

Completed: Q4 2007

Leasehold rights: 100%

Occupancy rate: 98% (not including 7,150 sqm under renovation due to fire)



CENTURY BUILDINGS

Location: Moscow

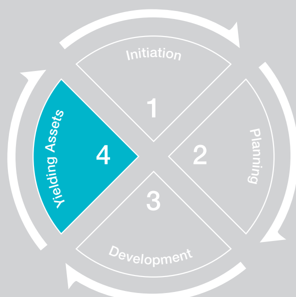
Leasable area: 21,050 sqm

Completed: Q1 2009

Leasehold rights: 51%*

Occupancy rate: 95%

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



Portfolio

Continued

TAMIZ

Location: Moscow

Leasable area: 13,000 sqm

Construction commencement: Q3 2008

Planned completion: Q2 2011

Leasehold rights: 100%

Pre-leased: 50%

SKYSCRAPER

Location: Moscow

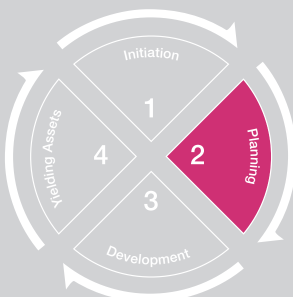
Land area: 0.9 ha

Leasable area: 92,000 sqm

Planned construction commencement: Q1 2012

Planned completion: Q3 2015

Leasehold rights: 100%



WESTERN RESIDENCE

Location: Perkhushkovo

Land area: 22.5 ha

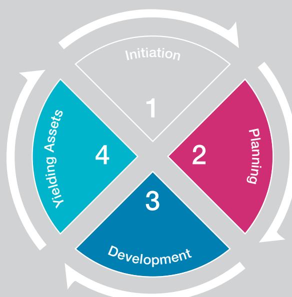
Saleable area: 60,500 sqm (excluding sold houses)

Construction commencement: Q3 2007

Planned completion: Q4 2013

Freehold rights: 100%

Sales: 15 houses were sold as of the date of the report



TRIUMPH PARK

Location: St Petersburg

Land area: 41 ha

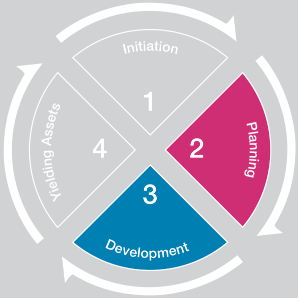
Saleable area: 630,900 sqm

Leasable area: 117,775 sqm

Construction commencement: Q3 2008

Planned completion: Q2 2019

Freehold rights: 100%



VERNISSAGE MALL

Location: Yaroslavl

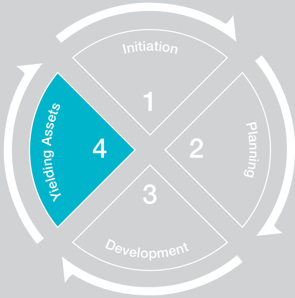
Land area: 12 ha

Leasable area: 34,050 sqm

Completed: Q2 2007

Freehold rights: 49%

Occupancy rate: 100%



TRIUMPH MALL

Location: Saratov

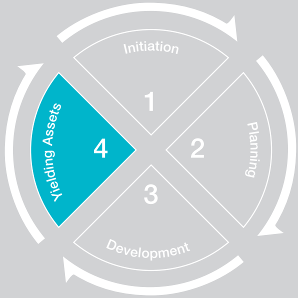
Land area: 2.2 ha

Leasable area: 27,325 sqm

Completed: Q4 2010

Freehold rights: 100%

Occupancy rate: 99.8%



Portfolio

Continued

BIG BOX COMPLEX

Location: Yaroslavl

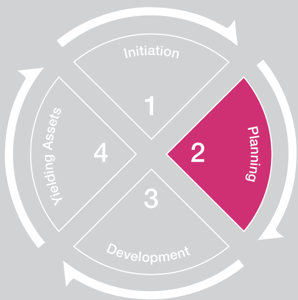
Land area: 18 ha

Leasable area: 55,245 sqm

Planned construction commencement: Q2 2012

Planned completion: Q2 2014

Freehold rights: 49%



TRIUMPH HOUSE

Location: Kazan

Land area: 2.2 ha

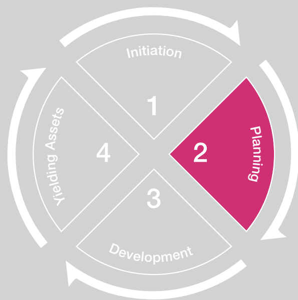
Leasable area: 26,300 sqm

Sellable area: 5,200 sqm

Planned construction commencement: Q4 2011

Planned completion: Q3 2013

Freehold rights: 100%



PENZA SHOPPING CENTRE

Location: Penza

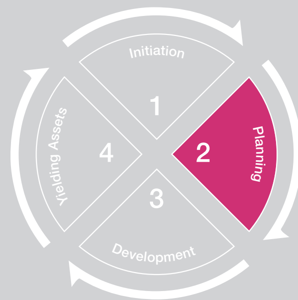
Land area: 5.3 ha

Leasable area: 18,000 sqm

Planned construction commencement: Q4 2012

Planned completion: Q3 2014

Freehold rights: 100%



SARATOV LOGISTICS

Location: Saratov

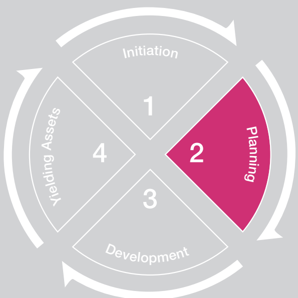
Land area: **26 ha**

Leasable area: **104,000 sqm**

Planned construction commencement: **Q2 2012**

Planned completion: **Q1 2015**

Freehold rights: **100%**



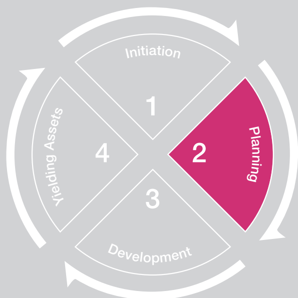
NOVOSIBIRSK LOGISTICS CENTRE

Location: Novosibirsk

Land area: **40 ha**

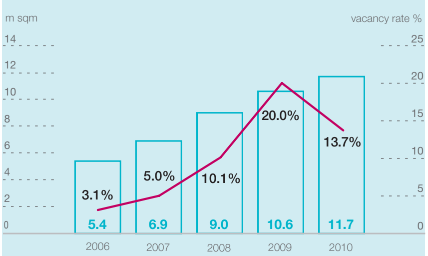
Leasable area: **180,000 sqm**

Leasehold rights: **100%**



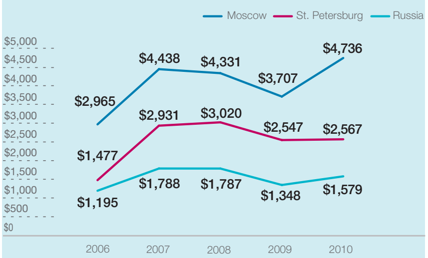
Our Markets

OFFICE STOCKS AND VACANCY RATES, MOSCOW



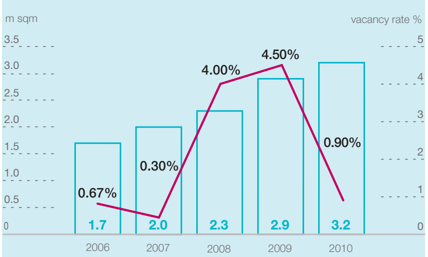
Source: CW

RESIDENTIAL HOUSING PRICES



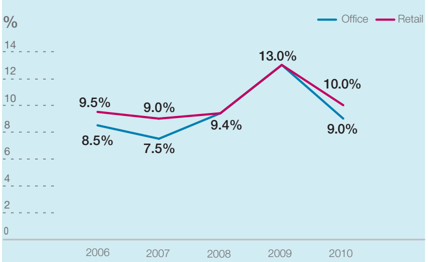
Source: Rosstat

QUALITY RETAIL STOCKS AND VACANCY RATES, MOSCOW



Source: CW

HISTORICAL YIELDS, MOSCOW



Source: CW

Macroeconomic and Real Estate Markets

- Following the 2008 economic crisis and 2009 stabilisation, the Russian economy showed gradual signs of recovery driven mainly by increasing oil prices. All macroeconomic indicators, excluding inflation level, performed positive dynamics, positively influencing the real estate market.
- The large stimulus package, lower interest rates and an increase in external demand have all supported growth for the economy.
- This positive trend was underlined when, in April, Russia resumed foreign borrowing for the first time since the 1998 financial crisis with a $5.5bn bond issue at spreads just 125 and 135 basis points above US government bonds with similar maturities.
- 2010 saw a turning point for the Russian real estate market post the financial crisis. During the year, the Russian real estate market showed moderate growth in all sectors, evidenced by rising rental rates, shrinking vacancy rates and yield compression, across all real estate segments, while debt financing also returned to the market.

Office Market Characteristics

- The total stock of office space in Moscow reached 11.7 million sqm in 2010. The increase in office space is largely attributed to construction that started prior to the crisis.
- Following the improvements in the Russian economy, the tenants' activity has been increased, resulting in rising rents and decreasing vacancies. More than 85% of all investment transactions in real estate in Russia by volume were in the office sector, while the yields compressed sharply from 13% in 2009 to 9% at year end.
- It is expected that, in 2011, the positive economic growth prospects will continue to fuel the occupier market, rents are anticipated to rise further and yields are expected to contract further, while the market absorbs an additional 1 million sqm of space that is currently under construction.

Retail Market Characteristics

- Moscow's retail market is stable and active. Following growing tenant activity, the average rental rates increased by 10%-15% in 2010, while vacancies declined from 4.5% at the beginning of the year to less than 1% at the year end.
- Retail turnover grew by 4.4% in YoY terms, indicating stable consumer demand. The Russian retail market is becoming more transparent while some new retailers are planning to enter the Russian market in 2011.
- In other Russian cities the retail market became more active as well. 37 new quality shopping centres were built in Russia in 2010, 10 of them were constructed in Moscow and 27 in other Russian cities.
- It is expected that in 2011 the retail market will continue to experience positive trends, with improving consumer demand and retail turnover, and rental rates also expected to increase further.

Residential Market Characteristics

- Following improvements in the Russian economy, the residential market experienced a gradual recovery. Following decreases in the mortgage lending rates, the number of deals with mortgage financing is growing. Average asking prices both in Moscow and St Petersburg are stable and are expected to remain stable during 2011.
- Russia's limited housing supply in relation to Europe, together with the increase in the real disposable income and decrease in the mortgage lending rates will create a demand for existing stock.

Logistics Market Characteristics

- In 2010 supply growth in Moscow was the lowest since 2002 and comprised half of the total 2009 delivery, resulting in rising rents and shrinking vacancies.
- The Moscow region is still undersupplied, therefore, in 2011, the steady growth of the rental rates combined with a decrease in vacancy rates is expected.

Chief Executive's Statement

The Market
Russian Economy

Key economic indicators	2010	2009	2008	2007	2006
Population (millions)	**139.4**	141.9	142.0	142.2	142.8
GDP per capita (PPP, US$)	**15,900**	15,039	15,800	14,600	12,200
GDP growth rate (%)	**4.0**	(7.9)	5.6	7.6	6.7
Inflation (%)	**8.8**	8.8	13.3	11.9	9.7
Unemployment rate	**7.6**	8.2	7.7	6.1	7.6
Average RUR/US$ exchange rate	**30.5**	30.2	24.9	25.7	27.4
Sovereign credit rating	**BBB**	BBB	BBB	BBB+	BBB+

The global economic crisis naturally affected the Russian economy. However, in 2009 we witnessed stabilisation of the Russian economy, while 2010 already demonstrated improvements in the main macroeconomic indicators, except the level of inflation, which was boosted by summer heat, forest fires and fog and reached the previous year's level. The large stimulus package, lower interest rates and an increase in external demand have all supported growth for the economy. During the year, we witnessed the growth of industrial output reaching its pre-crisis level, growth in retail turnover, real disposable income and employment level, the growth of which positively affected consumer confidence and led to gradual recovery in all real estate sectors.

In 2011, Russia's main macroeconomic indicators are expected to continue to improve. The Russian government approved plans for a large scale privatisation programme aiming to overcome the shortfalls in its budget. GDP is forecast to show modest growth along with a decrease in both unemployment and inflation rates. The nationwide international projects like the 2014 Winter Olympics and 2018 World Cup are also expected to contribute to the improvement in macroeconomic indicators.

Real Estate Market
2010 saw a turning point for the Russian real estate market post the financial crisis. During the year, notable changes were seen as the occupational market improved resulting in an increase in leasing activity, and transactions being made across all real estate segments. Debt financing also returned as VTB and Sberbank, the two largest banks in Russia, financed both developers and retailers.

Moscow continued to be the focus for most interest by investors as 94% of transactions in real estate have been made in the city, and it ranked third place among European cities after London and Paris. Due to the positive interest in the sector and increased transaction activity capitalisation rates compressed across all sectors.

The Office Sector
The total stock of office space in Moscow reached 11.7 million sqm in 2010, up from 10.6 million sqm in 2009. This increase in office space is largely attributed to construction that started prior to the crisis. Business confidence has steadily returned to the market over the year, resulting in the growing tenant activity. The take-up reached 2006 levels and remains healthy. Vacancy rates are stable in general and decreased by 1-2% quarterly, currently reaching 14% in Moscow. The asking rents in the most popular buildings have increased by up to 30% during the year, while the actual average rental rates have grown slightly.

During the year, investment activity increased significantly with more than 85% of all real estate investment transactions in Russia by volume taking place within the office sector and yields compressed sharply from 13% in 2009 to 9% at the calendar year end.

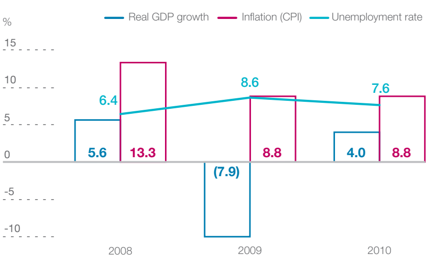
MirLand was established in 2004 as part of the Fishman Group to focus on value-enhancing acquisitions, construction, lease and sale of residential and commercial real estate in Russia. In December 2006 the Company executed an IPO on the AIM market of the London Stock Exchange. The Company's projects 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 Chief Executive Officer

Chief Executive's Statement

Continued

ECONOMIC PERFORMANCE



It is expected that, in 2011, the positive economic growth prospects will continue to fuel the occupier market and rents are anticipated to rise further, while the market absorbs an additional 1 million sqm of space that is currently under construction. Yields are expected to contract further and as financing for development of office premises is still difficult to obtain the development pipeline is not expected to increase in the short term.

The Retail Sector

Moscow's retail market is stable and active. Following growing tenant activity, the average rental rates increased by 10%-15% in 2010, while vacancies declined from 4.5% at the beginning of the year to less than 1% at the year end. Retail turnover grew by 4.4% in YoY terms, indicating stable consumer demand. The Russian retail market is becoming more transparent, several Russian retailers are ready to IPO and a number of new international retailers are planning to enter the Russian market in 2011.

In other Russian cities the retail market became more active as well. 37 new quality shopping centres were built in Russia in 2010, 10 of them were constructed in Moscow and 27 in other Russian cities.

It is expected that during 2011 the retail market will continue to experience positive trends, with improving consumer demand and retail turnover and rental rates also expected to increase further.

The Residential Sector

Following improvements in the Russian economy, the residential market experienced a gradual recovery. Following decreases in the mortgage lending rates, the number of deals with mortgage financing is growing. Average asking prices both in Moscow and St Petersburg are stable and are expected to remain stable during 2011.

Russia's limited housing supply in relation to Europe, as reflected in the low ratio of apartment area per capita, together with the increase in the real disposable income and decrease in the mortgage lending rates will create a demand for existing stock.

The Logistics Sector

The total amount of quality warehouse space rented in Moscow totalled about 730,000 sqm. In 2010 supply growth was the lowest registered since 2002 and comprised half of the total 2009 delivery. In comparison to the beginning of the year, the level of vacant space decreased three times and reached 3.9% in the Class A warehouse sector. In the Moscow region, average rental rates increased and reached the level of US$110-US$120 per sqm per annum. The Moscow region still suffers from a shortage of ready to move in large-scale warehouses. Approximately 390,000 sqm was leased in other regions of Russia for between US$95 and US$105 per sqm per annum and approximately 170,000 sqm of new space has been constructed during the year.

In 2011, it is expected that 400,000-450,000 sqm of quality warehouse space will become available in Moscow. However, the estimated demand for 2011 is about 600,000 sqm, and the steady growth of the rental rates combined with a decrease in vacancy rates is expected.

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 generation of strong yields and income, stemming from demand for good quality commercial and residential real estate assets.

Since the second half of 2008, the business arena in Russia has changed dramatically and the Company has adjusted its operational focus accordingly.

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. The Company holds 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 on financing; and
- a reduction of costs in OPEX, general and administrative, professional services and "in-house" expenses.

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: **16,900 sqm**

Completed: **Q4 2008**

Leasehold rights: **100%**

Occupancy rate: **93%**

MAG, Moscow – office complex

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

Land area: **2.3 ha**

Leasable area: **19,230 sqm (including 7,150 sqm under renovation due to fire)**

Completed: **Q4 2007**

Leasehold rights: **100%**

Occupancy rate: **98% (not including 7,150 sqm under renovation due to fire)**

Financing: **US$15m financed by Uniastrum (principal balance as of 31 December 2010: US$13.5m)**

Century Buildings, Moscow – offices

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

Leasable area: **21,050 sqm**

Completed: **Q1 2009**

Leasehold rights: **51%**

Occupancy rate: **95%**

Financing: **During February 2011 a loan agreement of US$14.0m was closed with Sberbank**

Vernissage Mall, Yaroslavl – shopping centre

A Western standard single-floor shopping centre in Yaroslavl located at the entrance road to the city from Moscow.

Land area: **12 ha**

Leasable area: **34,056 sqm**

Completed: **Q2 2007**

Freehold rights: **49%**

Occupancy rate: **100%**

Financing: **US$43m financed by Gazprom Bank (principal balance as of 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**

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.

Land area: **2.2 ha**

Leasable area: **27,325 sqm**

Completed: **Q4 2010**

Freehold rights: **100%**

Occupancy rate: **99.8%**

Financing: **US$48.5m financed by the European Bank for Reconstruction and Development (EBRD) (principal balance as of 31 December 2010: US$43.6m)**

Chief Executive's Statement
Continued

The Company's portfolio has been valued by Cushman & Wakefield at US$775.4m (MirLand's share) as of 31 December 2010, based on the Company's freehold/leasehold rights. This value represents an increase of 15.9% since 31 December 2009 (Company's share in the assets which excludes Techagrocom which was sold during 2010) and is attributed to continuing development of existing projects and decrease in yields due to the improved market.

Roman Rozental Chief Executive Officer

MirLand believes that by adjusting its operational focus in the aforementioned ways, it will help 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 acquisitions of new real estate assets – either yielding or development projects that can be delivered in a short time to the market.

Portfolio
MirLand currently has 15 projects, of which five are yielding assets (including renovation of about 7,150 sqm in MAG), three are under construction, and seven projects are at various stages of planning and in the process of obtaining permits (in addition to the second phase in Western Residence project in Perkhushkovo and phases 2-5 in the Triumph Park project in St Petersburg).

Projects Under Construction:

Triumph Park, St Petersburg – residential and commercial complex
Phased development of a residential neighbourhood which, upon completion, will comprise approximately 9,000 apartments, commercial and public areas. The commercial areas will include offices and a commercial centre with underground parking, and the public areas will include kindergartens, a school and parks. The project's location allows good access both to the city and its airport.

Land area: 41 ha

Saleable area: 630,900 sqm

Leasable area: 117,775 sqm

Construction commencement of sub phase 1 (510 apartments): Q3 2008

Planned completion of total project: Q2 2019

Freehold rights: 100%

Western Residence, Perkhushkovo, Moscow region – residential complex
Development of 163 town houses and cottages in the prestigious western outskirts of Moscow, implemented in two phases. This project targets the segment of middle class who are seeking an improved standard of living.

Land area: 22.5 ha

Saleable area: 60,500 sqm (excluding sold houses)

Construction commencement of phase 1 (77 houses): Q3 2007

Planned completion: Q4 2013

Freehold rights: 100%

Sales: 15 houses have been sold

Tamiz, Moscow – offices
Development of new class B+ office building under construction at the Hydro and MAG site.

Leasable area: 13,000 sqm

Construction commencement: Q3 2008

Planned completion: Q2 2011

Leasehold rights: 100%

Pre let: approximately 50%

The Company's portfolio has been valued by Cushman & Wakefield at US$775.4m (MirLand's share) as of 31 December 2010, based on the Company's freehold/leasehold rights. This value represents an increase of 15.9% since 31 December 2009 (Company's share in the assets which excludes Techagrocom which was sold during 2010) and is attributed to continuing development of existing projects and decrease in yields due to the improved market.

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, especially in the challenging business environment in which we operate, 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
16 March 2011

For further information and images of our portfolio, please got to pages 14-19

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: **Q1 2012**

Planned completion: **Q3 2015**

Leasehold rights: **100%**

Big Box Complex, Yaroslavl – retail

Development of a retail park adjacent to the Vernissage mall.

Land area: **18 ha**

Leasable area: **55,245 sqm**

Planned construction commencement: **Q2 2012**

Planned completion: **Q2 2014**

Freehold rights: **49%**

Triumph House, Kazan – retail

Development of a multi-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: **Q4 2011**

Planned completion: **Q3 2013**

Freehold rights: **100%**

Penza Shopping Centre, Penza – retail

Development of a multi-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: **Q4 2012**

Planned completion: **Q3 2014**

Freehold rights: **100%**

Saratov Logistics

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

Land area: **26 ha**

Leasable area: **104,000 sqm**

Planned construction commencement: **Q2 2012**

Planned completion: **Q1 2015**

Freehold rights: **100%**

Novosibirsk Logistics

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

Land area: **40.6 ha**

Leasable area: **180,000 sqm**

Leasehold rights: **100%**

MirLand Development Corporation Assets – Overview of Portfolio Market Values

as at 31 December 2010

City	Property name and address	Portfolio market value as at 31 December 2010 (rounded)	Percentage owned by MirLand	MirLand market value as at 31 December 2010 (rounded)
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	US$65,500,000	100%	US$65,500,000
Moscow	MAG, 2-Khutorskaya str., 38A	US$59,900,000	100%	US$59,900,000
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	US$90,800,000	100%	US$90,800,000
Saratov	Triumph Mall, 167 Zarubina street	US$104,500,00	100%	US$104,500,00
Moscow	Skyscraper, Dmitrovskoe schosse, 1	US$60,200,000	100%	US$60,200,000
St. Petersburg	Triumph Park, Residential	US$229,200,000	100%	US$229,200,000
St. Petersburg	Triumph Park, Trade Centre	US$18,000,000	100%	US$18,000,000
Yaroslavl	Vernissage Mall, Kalinina str.	US$82,400,000	49%	US$40,400,000
Yaroslavl	Phase II	US$8,000,000	49%	US$3,920,000
Moscow	Tamiz Building	US$36,300,000	100%	US$36,300,000
Moscow	Century Buildings	US$94,700,000	51%	US$48,300,000
Kazan	Triumph House	US$8,500,000	100%	US$8,500,000
Penza	Retail Centre	US$2,800,000	100%	US$2,800,000
Saratov	Logistics Complex	US$7,100,000	100%	US$7,100,000
Total		**US$867,900,000**		**US$775,400,000**

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 2010, the Company's adjusted net asset value ("NAV") increased to US$493.4m (31 December 2009: US$472.3m), an increase of 4.5%. As a result, the adjusted NAV per share as at 31 December 2010 was US$4.8 in comparison to US$4.6 as at 31 December 2009.

Financial Review

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 2010 amounted to US$23.2m in comparison to a net loss of US$23.0m in 2009.

The Company's revenues consist of rental income from investment properties, income from sales of houses and fees from managing investment properties. Rental income and fees from investment properties increased to US$20.5m from US$17.2m, which is a 19% increase. This increase is attributed to the improving market conditions that influenced the real estate sector in Russia causing an increase in occupancy rates, and to the occupancy of the Century Buildings during the year. The increase was moderated because of the fire in MAG building 26 which reduced the available area for lease by 7,150 sqm. The Company recognised income of US$1.1m from sale of inventory due to the hand-over 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 2010 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$29.6m was based on 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 are embodied in property maintenance and management costs, which rose from US$7.4m in 2009 to US$10.4m in 2010. This increase is attributed mainly to the increase in occupancy rate and non-recurring expenses attributed to the fire in MAG building 26.

The Company's general, administrative and marketing expenses for the period decreased marginally to US$16.2m in comparison to US$16.3m in 2009.

Net financing costs for the period amounted to US$0.8m compared to net financing income of US$3.0m in 2009.

Tax expenditure in 2010 amounted to US$2.3m compared to US$5.1m in 2009.

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 2010 was US$23.2m, in comparison to net loss of US$23.0m in 2009. This change is mainly due to the income from fair value adjustment of investment properties and investment properties under construction which amounted to US$29.6m for the period compared to a loss of US$16.5m in 2009.

Balance Sheet
Total assets as at 31 December 2010 amounted to US$708.4m in comparison to US$611.7m in 2009, an increase of 16%. The main reasons for the overall increase were the income from fair value adjustment of investment properties and investment properties under construction, and the development of the Company's real estate portfolio which were financed through corporate loans, loans from shareholders and bond issuance.

The Company's real estate portfolio amounted to US$636.5m at year end which comprise 90% of the total assets, in comparison to US$534.7m as at 31 December 2009 which comprised 87% of the total balance sheet.

Revenues for 2010 were US$21.6m and the net income was US$23.2m. Total assets at December 2010 amounted to US$708.4m and equity amounted to US$341.0m. The Company's adjusted net asset value was US$493.4m. The Company's real estate assets were valued on 31 December 2010 at US$867.9m (for 100% rights from freehold/leasehold) by an external appraiser, of which MirLand's share is US$775.4m.

Emil Budilovsky Chief Financial Officer

Financial Review

Continued

Equity and Liabilities

Equity as at 31 December 2010 increased to US$341.0m from US$319.2m in 2009, an increase of 7%. Equity increased due to the net income in 2010. MirLand's equity comprises 48% of its total assets.

Financial liabilities as at 31 December 2010 amounted to US$272.8m (excluding shareholders' loans) compared to US$210.8m for 31 December 2009. The increase is mainly due to the issuance of bond Series C and D amounting to US$70.0m. Shareholders' loans at year end amounted to US$44.9m, similar to the level of 31 December 2009. Shareholders' loans were granted to MirLand from its main shareholders, the Fishman Group, in order to finance its operations during the financial crisis. In addition, short-term loans in the amount of US$70.7m 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 raised approximately US$70.0m by issuing two series of debentures on the Tel-Aviv Stock Exchange in August and November 2010. The Series C bonds are to be redeemed in five annual, equal and consecutive payments on 31 August 2012 to 2016 (inclusive). The Series D bonds are to be redeemed in four annual, equal and consecutive payments on 30 November 2014 to 2017 (inclusive). Interest on both series is payable in semi-annual payments. For further details please review note 16 of the financial statements.

Post year end, the Company raised approximately US$32m by additional issuance of Series C bonds and conversion of warrants issued previously (Series 2 and Series 3) to bond Series C and D. For further details please review note 30b of the financial statements.

The Company rating and the Series A to D bonds are rated ilBBB stable by Ma'alot Standard & Poor's. The Company rating and the Series A to B bonds are rated ilBaa2 stable by Midrug (Moody's).

Following the balance sheet date the Company has refinanced two loan facilities totalling approximately US$43.1m. These refinancings were undertaken by two of Russia's leading banks, GazpromBank and Sberbank, on February 2011. For further details please review note 30a of the financial statements.

Also post year end, the Company made an early repayment of Shareholder's loans in the amount of US$20m. For further details regarding shareholder's loans please review note 15 of the financial statements.

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 2010 at US$867.9m (for 100% rights from freehold/leasehold), of which MirLand's share is US$775.4m. The increase in value mainly attributed to the improvement in market conditions which was reflected by yield compression in the real estate market in Russia and to the asset management and development progress achieved and investments made during 2010.

Cash Flow

During 2010, the Company used US$65.5m for investment in real estate properties (including change in buildings for sale) in comparison to US$70.1m in 2009. Cash flow used for operating activities amounted to US$14.2m (excluding change in building for sale). Cash flow provided by financing activities amounted to US$50.8m. Net proceeds from the sale of Techagrocom project amounted to US$18.5m.

Financial Strategy

In 2010, MirLand's activities were primarily financed by issuance of bond series, shareholders' loans, corporate 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 leverage at 37% of its assets (not including shareholders' loans) and 43% of its assets (including shareholders' loans).

Residential projects are principally financed by equity as the financing market for residential projects remains relatively undeveloped in Russia. Accordingly, residential projects are constructed in phases, allowing the use of capital from pre-sales to finance upcoming development phases. Notwithstanding the above, the Company will seek to obtain the best available financing for its residential projects as well.

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 portfolio projects.

Market Risks

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

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

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

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

Emil Budilovsky
Chief Financial Officer
16 March 2011

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

ROMAN ROZENTAL

EMIL BUDILOVSKY

CAROLINE BROWN

ELIEZER FISHMAN

EYAL FISHMAN

ELIAS ELIADES

STEVEN HOLM

MOSHE MORAG

Nigel Wright
Non-executive Director and Chairman, age 56

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 43

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 41

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 48

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 67

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 41

Eyal Fishman has served as chief executive officer of various companies in the Fishman Group, including Megamart Sport Equipment Ltd, Celio Chains Israel, P.K.P Design Ltd and Fishman Chains Ltd, and served as chairman of the board of Fishman Retail Chains, a group of eight retail chains. Eyal is a member of the board of directors of Darban Investments Limited, one of the Company's significant shareholders, an office he has held for the past 13 years.

Elias Eliades
Non-executive Director and Chairman of the Nomination Committee, age 63

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 58

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.

Moshe Morag
Non-executive Director, age 65

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

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2009.

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 2011.

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 21 to 25.

Results for the Year

The results of the Group are set out in the consolidated income statement on page 48 which shows a net income for the financial year of US$23.2m (2009: net loss of US$23.0m). The consolidated balance sheet on pages 46 and 47 shows net assets of US$341.0 thousand (2009: US$319.2 thousand).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2010.

Share Capital and Treasury Shares

The authorised share capital of the Company was increased to US$1,350,000 at the 2010 AGM, otherwise there were no changes in the share capital of the Company during the year.

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

Directors

The Directors of the Company who served during the year are listed on pages 30 and 31.

Mr Emil Budilovsky was appointed to the Board as Chief Financial Officer on 1 December 2010. Also on 1 December 2010, Mr Roman Rozental began his tenure as Chief Executive Officer in the place of Moshe Morag, who became 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 2010, with comparative figures as at 31 December 2009, are as follows:

Director	Number of Shares as at 31 December 2010	Number of Shares as at 31 December 2009
Nigel Wright	20,500	20,500
Moshe Morag	17,300	17,300
Roman Rozental	0	0
Caroline Brown	2,050	2,050
Steven Holm	48,000	8,000
Eliezer Fishman*	200,000	200,000
Eyal Fishman*	350,000	200,000
Elias Eliades	0	0
Emil Budilovsky**	0	–

* Eliezer and Eyal Fishman held jointly 200,000 ordinary shares through an entity controlled by them and their family.
** Mr Budilovsky was appointed to the Board on 1 December 2010.

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

In addition to the disclosures above, as at 16 March 2011, the Company was aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage Holding
Jerusalem Economy Ltd	30,599,347	29.6
Industrial Buildings Corporation Ltd	38,080,200	36.8
Darban Investments Ltd	14,000,001	13.5
Clal Insurance Enterprises Holdings Ltd	3,975,260	3.8

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

On 31 December 2009 the Company completed the acquisition of 51% of each of OOO Inomotor LLC and OOO Avtoprioritet LLC, companies in which Mr Krichevsky, a Director of certain subsidiaries of the Company, has a controlling interest. Each of these companies has building rights in the Hydromashservice and MAG site. The consideration was US$1 million for the interest in the two companies and total investment of an additional US$19 million in the two companies. Furthermore, the Company made a loan of US$31 million to the two companies at an interest rate of 11% per annum. The Company granted the sellers an option to buy back 1% of each of the two companies for a nominal amount. The option is exercisable from the date of filing of the Company's annual report for the 2010 fiscal year with the tax authority or 1 August 2011 (whichever is earlier). The option will expire on 31 December 2011.

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 2010.

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, due to the financial crisis, the Group did not make any donations.

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
16 March 2011

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 the incident mentioned below, no significant injuries, diseases or other dangerous occurrences have occurred in the Company. Our goal for 2011 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.

As shareholders are aware, a fire occurred in one of the office properties of the Company's fully-owned subsidiary, Mashinostroenie & Hydravilka OJSC.

Tragically, one fire officer lost his life in the fire. The Company is investigating this incident with a view to ensuring the health and safety of its employees and the community in which it works.

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 2010, due to the financial crisis, the Company did not make any donations. As the market conditions are improving the Company intends to implement its charity policy.

Corporate Governance Report

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

Board Composition, Roles and Independence

During the financial year, MirLand's Board comprised eight Directors. On 1 December 2010, Mr Emil Budilovsky was appointed to the Board and Mr Roman Rozental began his tenure as the Company's new CEO in place of Mr Moshe Morag who has become 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
Moshe Morag	Not independent	Represents a significant shareholder

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

The Board is currently seeking a new addition to the Board in order to bring the Board composition in line with the provisions of the UK Corporate Governance Code.

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 2010 and provides details of the Directors' attendance at each meeting.

	15 March 2010	17 May 2010	27 July 2010	6 August 2010	10 August 2010	13 August 2010	5 October 2010	3 November 2010	15 November 2010
Nigel Wright (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Caroline Brown	✓	✓	✗	✓	✓	✓	✓	✓	✓
Steven Holm	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eliezer Fishman	✗	✗	✗	✗	✗	✗	✗	✗	✓
Eyal Fishman	✓	✓	✓	✗	✗	✓	✓	✓	✓
Elias Eliades	✓	✓	✗	✓	✗	✗	✓	✗	✗
Moshe Morag*	✓	✓	✗	✓	✓	✓	✓	✓	✓
Roman Rozental**	✓	✓	✓	✓	✓	✓	✓	✓	✓
Emil Budilovsky***	–	–	–	–	–	–	–	–	–

* Mr Morag serves as a Non-executive Director as from 1 December 2010.
** Mr Rozental has been appointed as CEO with effect from 1 December 2010.
*** Mr Budilovsky was appointed to the Board on 1 December 2010 as the Company's CFO.

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, Roman Rozental, Eliezer Fishman and Eyal Fishman will retire by rotation and their re-appointment to the Board is subject to the approval of shareholders. The Board considers that the performance of these Directors has, since their appointment, been effective and that they have demonstrated commitment to their roles. Accordingly, it recommends the election of each of them.

Biographical details of the Directors are given on page 31.

Relations with Shareholders

The 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 member is Nigel Wright.

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 2010 is shown below.

	15 March 2010	28 April 2010	17 May 2010	13 August 2010	15 November 2010
Eyal Fishman (Chairman)	✓	✓	✓	✓	✓
Nigel Wright (member)	✓	✓	✓	✓	✓

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.

During the course of the year, the Nomination Committee discussed the vacancy on the Board for an additional Non-executive Director on several occasions on an informal basis. The committee did not identify any suitable candidates. The committee is mindful of the vacancy and intends to continue its efforts to find a suitable additional independent Non-executive Director.

Attendance at the meetings of the Nomination Committee held in 2010 is shown below.

	5 October 2010
Eyal Fishman (member)	✓
Nigel Wright (member)	✓
Elias Eliades (Chairman)	✓

Internal Control

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

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

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

Audit Committee

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

	9 February 2010	13 May 2010	17 May 2010	11 August 2010	13 August 2010*	15 November 2010
Caroline Brown (Chairlady)	✓	✓	✓	✓	✓	✓
Steven Holm (member)	✓	✓	✓	✓	✓	✓
Nigel Wright	✓	✓	✓	✓	✓	✓
Roman Rozental	✓	✓	✓	✓	✓	✓

* Continuation of meeting held on 11 August 2010.

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

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

ii) auditors' reports; and

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

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

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

Internal Audit

The Company's internal audit function is outsourced to a certified accountant in Cyprus who was nominated by the Audit Committee and approved by the Board. Baker Tilly Klitou and Partners Limited were nominated to be the internal auditors of the Company in October 2007. The internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the Audit Committee and the Board and is available for any meetings of the Audit Committee or Board. Baker Tilly Klitou and Partners filed its reports for 2010 in the months of March, May, August and November 2010.

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 Moshe Morag, 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 2010 is shown below:

	5 October 2010	16 October 2010
Steven Holm (Chairman)	✓	✓
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 an initial three-year period, subject to termination by either side on three months' notice. The letters of appointment contain no entitlement of compensation for early termination.

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

	Contract date	Notice period
Nigel Wright	27 November 2006	3 months
Moshe Morag	28 November 2006	N/A
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.

* Mr Rozental was appointed CEO with effect from 1 December 2010.
** Mr Budilovsky was appointed CFO with effect from 1 December 2010.

Other Directorships

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

Non-Performance Related Remuneration

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

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

Pensions Directors are not entitled to pension plans.

Performance Related Remuneration

MirLand does not grant performance related remuneration.

No discretionary bonus was granted in 2010.

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

Directors' Remuneration

Chairman and Executive Directors	Nigel Wright US$	Moshe Morag[1] US$	Roman Rozental[2] US$	Emil Budilovsky[3] US$	Total US$
Non-performance related remuneration					
Salary and fees	147,243	398,539	246,421	16,500	808,703
Other taxable benefits	–	62,636	59,703	–	122,339
Share incentive plan	–	–	605,000	–	605,000
Total remuneration for the year ended 31 December 2010	**147,243**	**461,175**	**911,124**	**16,500**	**1,536,042**
Total remuneration for the year ended 31 December 2009	150,277	1,465,162	658,697	–	2,274,136

Non-executive Directors	Caroline Brown US$	Guerman Aliev[4] US$	Eliezer Fishman US$	Eyal Fishman US$	Elias Eliades US$	Steven Holm US$	Total US$
Non-performance related remuneration							
Salary and fees	79,757	–	–	79,757	67,486	79,757	306,757
Other taxable benefits							
Share incentive plan							
Total remuneration for the year ended 31 December 2010	**79,757**	**–**	**–**	**79,757**	**67,486**	**79,757**	**306,757**
Total remuneration for the year ended 31 December 2009	81,601	27,245	–	81,601	69,047	71,790	331,284

1 Mr Morag served as an Executive Director until 1 December 2010, when he became a Non-executive Director.
2 Appointed CEO with effect from 1 December 2010.
3 Appointed CFO with effect from 1 December 2010.
4 Resigned 29 January 2009.

Report of the Remuneration Committee and Directors' Remuneration Report

Continued

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

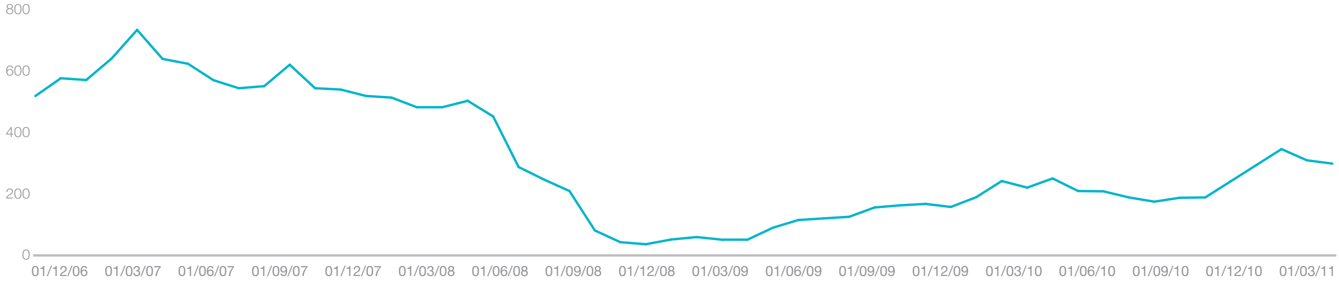
Directors' Share Options

Director	Number of options	Number vested as at 31.12.2010	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	673,797	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 price in 2006 during his appointment as an Executive Director. As from 1 December 2010 Mr Morag is a Non-executive Director.

** On 1 December 2010 Mr Rozental, who was appointed as CEO, was granted a further 673,797 share options of the Company. The exercise price for these options is GBP2.3 per share.

Share Price Performance



On behalf of the Board

Steven Holm
Chairman of the Remuneration Committee
16 March 2011

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

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Mirland Development Corporation Plc (the "Company") and its subsidiaries (the "Group") on pages 46 to 95, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 Company's 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 whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, 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 and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The 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 32 to 35 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 156 of the Cyprus Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young Cyprus Limited
Certified Public Accountants
and Registered Auditors
Limassol
16 March, 2011

Consolidated Statement of Financial Position

	Note	31 December 2010 US$000	31 December 2009 US$000
Assets			
Current assets:			
Cash and cash equivalents	4	**10,974**	20,971
Short-term loans receivable		**796**	1,164
Trade receivables		**905**	655
Other receivables	5	**2,116**	1,890
VAT receivable	11	**31,014**	14,947*
Inventories of buildings for sale	6	**178,338**	140,310
		224,143	179,937
Non-current assets:			
VAT receivable	11	**–**	12,758*
Investment properties	7	**305,051**	187,419
Investment properties under construction	8	**122,593**	185,043
Inventories of buildings for sale	6	**30,483**	21,939
Long-term loans receivable	9	**17,393**	19,311
Financial derivative		**–**	1,675
Fixed assets, net	10	**1,422**	1,232
Other long-term receivables	28b	**2,219**	–
Prepaid expenses		**1,207**	753
Deferred taxes	19d	**3,910**	1,656*
		484,278	431,786
Total assets		**708,421**	611,723

* Reclassified, see Note 2z.

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

	Note	31 December 2010 US$000	31 December 2009 US$000
Equity and liabilities			
Current liabilities:			
Credit from banks	12	**69,845**	68,964
Current maturities of long-term loans from banks and debentures	13, 16	**18,280**	15,455
Loans from shareholders	15	**39,298**	20,672
Government authorities		**2,221**	2,475
Trade payables		**14,768**	11,584
Deposits from tenants	17	**4,534**	4,253
Advances from buyers	6d	**7,587**	813
Other accounts payable	14	**1,128**	1,937
		157,661	126,153
Non-current liabilities:			
Loans from banks	13	**67,589**	74,077
Loans from shareholders	15	**5,567**	24,282
Debentures	16	**117,044**	52,345
Other non-current liabilities	17	**5,489**	5,082
Deferred taxes	19d	**14,048**	10,583*
		209,737	166,369
Total liabilities		**367,398**	292,522
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	**10,579**	9,974
Capital reserve for transactions with controlling shareholders	15	**3,207**	2,702
Foreign currency translation reserve		**(25,596)**	(23,153)
Accumulated deficit		**(8,006)**	(31,186)
		341,023	319,176
Non-controlling interests		**–**	25
Total equity		**341,023**	319,201
Total equity and liabilities		**708,421**	611,723

* Reclassified, see Note 2z.

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

16 March 2011

Date of approval of the financial statements

Roman Rozental
CEO

Nigel Wright
Chairman of Board

Consolidated Income Statement

	Note	**Year ended 31 December 2010 US$000**	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Rental income from investment properties		**17,239**	14,754	17,949
Income from sale of inventories		**1,078**	–	–
Revenues from managing fees		**3,267**	2,459	2,411
Total revenues		**21,584**	17,213	20,360
Cost of sales		**(1,370)**	–	–
Cost of maintenance and management	23	**(10,356)**	(7,438)	(7,291)
Gross profit		**9,858**	9,775	13,069
General, administrative and marketing expenses	24	**(16,175)**	(16,314)	(22,259)
Fair value adjustments of investment properties and investment properties under construction	7,8	**29,613**	(16,463)	(58,768)
Other income (expenses), net	25	**2,973**	2,104	(1,026)
Operating income (loss)		**26,269**	(20,898)	(68,984)
Finance income	26	**5,234**	7,090	8,609
Finance costs	26	**(5,233)**	(4,089)	(10,838)
Net foreign exchange differences		**(839)**	21	(32,613)
Profit (loss) before taxes on income		**25,431**	(17,876)	(103,826)
Taxes on income	19b	**(2,276)**	(5,108)	(1,005)
Net income (loss)		**23,155**	(22,984)	(104,831)
Basic and diluted net earnings (loss) (in US Dollars per share)	21	**0.22**	(0.22)	(1.01)

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

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Net income (loss)	**23,155**	(22,984)	(104,831)
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	**(3,258)**	(4,068)	(28,236)
Total other comprehensive loss	**(2,443)**	(4,068)	(28,236)
Total comprehensive income (loss)	**20,712**	(27,052)	(133,067)

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 2008		1,036	359,803	6,199	–	9,151	96,629	472,818	25	472,843
Loss for the year		–	–	–	–	–	(104,831)	(104,831)	–	(104,831)
Other comprehensive loss		–	–	–	–	(28,236)	–	(28,236)	–	(28,236)
Total comprehensive loss		–	–	–	–	(28,236)	(104,831)	(133,067)	–	(133,067)
Share-based payment transactions	22	–	–	1,881	–	–	–	1,881	–	1,881
Equity component of transaction with controlling shareholders	20	–	–	–	579	–	–	579	–	579
At 31 December 2008		1,036	359,803	8,080	579	(19,085)	(8,202)	342,211	25	342,236
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**

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

Consolidated Statement of Cash Flows

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Cash flows from operating activities:			
Net income (loss)	**23,155**	(22,984)	(104,831)
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	**1,401**	3,289	10
Depreciation and amortisation	**610**	504	343
Finance costs (income), net	**606**	(2,066)	35,611
Share-based payment	**605**	1,894	1,881
Fair value adjustment of investment properties and investment properties under construction	**(29,613)**	16,463	63,057
Fair value adjustment and loss from sale of financial derivative	**232**	(956)	(769)
Gain from sale of jointly controlled entity	**(3,159)**	–	–
	(29,318)	19,128	100,133
Changes in asset and liability items:			
Increase in trade receivables	**(256)**	(317)	(60)
Increase in VAT receivable and others	**(2,729)**	(6,466)	(2,614)
Increase in buildings for sale	**(25,990)**	(18,473)	(62,666)
Impairment of advances on account of investment	**–**	–	1,256
Increase in trade payables	**–**	284	5,016
Increase (decrease) in other accounts payable	**6,726**	(3,038)	(2,641)
	(22,249)	(28,010)	(61,709)
Cash paid and received during the year for:			
Interest paid	**(11,647)**	(8,030)	(8,135)
Interest received	**86**	236	3,156
Taxes paid	**(218)**	(1,736)	(1,909)
Taxes received	**–**	537	–
	(11,779)	(8,993)	(6,888)
Net cash flows used in operating activities	**(40,191)**	(40,859)	(73,295)

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

Consolidated Statement of Cash Flows

Continued

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Cash flows from investing activities:			
Additions to investment properties	(15,281)	(1,902)	(29,206)
Additions to investment properties under construction	(24,196)	(49,684)	(50,096)
Purchase of fixed assets	(872)	(193)	(679)
Proceeds from the sale of fixed assets	33	556	–
Proceeds from sale of jointly controlled entity (1)	18,069	–	–
Advances on account of investments	–	–	(600)
Grant of long-term loans	–	–	(47,408)
Proceeds form repayment of loans granted	3,398	–	14,829
Proceeds from restricted bank deposits, net	–	–	71,406
Net cash flows used in investing activities	(18,849)	(51,223)	(41,754)
Cash flows from financing activities:			
Issuance of debentures, net	70,024	–	–
Repayment of debentures	(10,823)	–	–
Short-term credit from banks and others, net	2,868	8,998	–
Receipt of loans from shareholders	5,000	32,772	7,991
Repayment of loans from shareholders	(10,000)	–	–
Receipt of long-term loans	–	68,332	–
Repayment of other loans	(1,837)	–	–
Repayment of loans from banks	(5,900)	(3,895)	(12,433)
Proceeds from sale of financial derivative	1,443	–	–
Deferred expenses on account of loan receipt	–	(1,364)	(1,500)
Net cash flows generated from (used in) financing activities	50,775	104,843	(5,942)
Exchange differences on balances of cash and cash equivalents	(1,732)	(1,612)	13,055
Increase (decrease) in cash and cash equivalents	(9,997)	11,149	(107,936)
Cash and cash equivalents at the beginning of the year	20,971	9,822	117,758
Cash and cash equivalents at the end of the year	10,974	20,971	9,822
(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.

b. 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.

c. The following are the principal shareholders of the Company as of 31 December 2010:

Shareholder	% of holding
Jerusalem Economy Ltd ("JEC") (a company traded on the Tel-Aviv Stock Exchange)	29.6
Industrial Buildings Corporation Ltd ("IBC") (71.43%-owned subsidiary of JEC and traded on the Tel-Aviv Stock Exchange)	36.7
Darban Investments Ltd ("Darban") (a company traded on the Tel-Aviv Stock Exchange)	13.5

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

On 24 October 2010, Darban entered into an agreement with JEC and Designated Economy, a private company wholly-owned by JEC, which was established for the purpose of the merger transaction and has no commercial operations, pursuant to which, Designated Economy will merge with and into Darban, in accordance with the provisions of section 320 to the Israeli Companies Law 1999 in a manner where, with the consummation of the transaction, all of the operations, assets and liabilities of Designated Economy will be transferred into Darban. The result is that Designated Economy will be dissolved and deleted from the records of the Israeli Companies Registrar, and Darban will become a private company held entirely by JEC.

In consideration of their holdings in the Company, Darban's shareholders, among them IBC, will receive shares of JEC, in accordance with the value ratio of the companies as determined by an outside and independent appraiser.

The transaction was completed on 7 February 2011.

d. Definitions:

In these financial statements:

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

Notes to the Consolidated Financial Statements

Continued

Note 1 General Continued

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

Name of company	Country of incorporation	Activity	% of holding
Hydromashservice LLC ("Hydro")	Russia	Lease of buildings	100
Mashinostroenie & Hydravlika OJSC ("Mag")	Russia	Lease of buildings	100
Creativecom LLC ("Creative")	Russia	Constructing residential projects	100
Petra 8 Llc ("Petra")	Russia	Constructing residential projects	100
Realservice Llc ("Realservice")	Russia	Constructing commercial projects	100
Investisionno Ipotechnaya Kompania Ltd ("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

f. List of jointly controlled entities:

Name of company	Country of incorporation	Activity	% of holding
Inverton Enterprises LLC	Cyprus	Holding company	49
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	49
Inomotor LLC	Russia	Lease of buildings	51*
Avtoprioritet LLC	Russia	Lease of buildings	51*
Mall Mortgage Ltd	Cyprus	Financing company	49

* The Company holds the Century Project in Russia. This investment was acquired on 31 December 2009. For further information see Note 7d.

Note 1 General Continued

g. For the year ended 31 December 2010, the Group had negative cash flows from operating activities of approximately US$14m (excluding cash outflows for additions to costs of construction of residential projects for sale of approximately US$26m).

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 of 31 December 2010 amounting to approximately US$147m, and by generating revenues from sales of building projects that are expected to be completed during 2011.

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

On 8 August 2010, the Company has issued debentures in consideration of approximately US$52m (NIS 200m). In addition, on 10 November 2010, the Company has issued debentures in consideration of approximately US$18m (NIS 65m). See also Note 16.

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;
Deferred tax assets and deferred tax liabilities;
Provisions.

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

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

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

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

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

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies Continued

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

IFRS 3 (Revised) – Business Combinations and IAS 27 (Amended) – Consolidated and Separate Financial Statements according to the new standards:

- The definition of a business was broadened so that it also contains activities and assets that are not managed as a business as long as the seller is capable of operating them as a business.
- IFRS 3 currently prescribes that goodwill, as opposed to the acquiree's other identifiable assets and liabilities, will be measured as the excess of the cost of the acquisition over the acquirer's share in the fair value of the identifiable assets, net on the acquisition date. According to the Standards, non-controlling interests, including goodwill, can be measured either at fair value or at the proportionate share of the acquiree's fair value of net identifiable assets, this in respect of each business combination transaction measured separately.
- Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, are not simultaneously recognised as goodwill adjustments. If the contingent consideration is classified as a liability it will be measured at fair value through profit or loss.
- Direct acquisition costs attributed to a business combination transaction are recognised in the statement of income as incurred as opposed to the previous requirement of carrying them as part of the consideration of the cost of the business combination, which has been removed.
- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be recorded against profit or loss and not as adjustment to goodwill.
- A transaction with the minority interests, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognised in the statement of income or have any effect on the amount of goodwill, respectively.
- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, will be allocated between the parent company and minority interests, even if the minority has not guaranteed or has no contractual obligation for sustaining the subsidiary or of investing further amounts.
- On the loss or achievement of control of a subsidiary, the remaining investment, if any, will be revalued to fair value against gain or loss from the sale and this fair value will represent the cost basis for the purpose of subsequent treatment.

IAS 7 Statement of Cash Flows: It states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement. The amendment was applied retrospectively commencing from 1 January 2010.

b. Significant Accounting Judgments, Estimates and Assumptions Used in the Preparation of the Financial Statements:
Judgments: In the process of applying the Group's accounting policies, management has made the following judgments 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.

Note 2 Significant Accounting Policies Continued

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 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. Has a construction contract been signed with the prime contractor?

4. Have the required building permits been obtained?

5. What percentage of rentable area has been pre-leased to tenants?

6. Are construction costs reliably determinable?

7. 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.

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

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

Investment Property and Investment Property Under Construction: Investment property is presented at fair value as of the reporting date. Changes in fair value are carried to the income statement. Fair value is usually determined by independent outside appraisers based on economic evaluations that are also performed according to the revenue capitalisation method. This method consists of estimating the value of the asset by discounting the expected flow of revenues over the economic useful life of the asset. This calculation involves making assumptions, among other things, as to the capitalisation rates, the continued lease of the assets by the existing tenants, and the occupancy rates in the different assets. Fair value is sometimes measured with reference to recent real estate transactions with similar characteristics and location to the estimated asset. Additional information is provided in Note 7.

Investment property under construction is also valued at fair value as determined by independent real estate valuation experts, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. Additional information is provided in Note 8.

Inventories of Property Under Construction: The net realisable value is assessed based on management's evaluation including expectations and estimates as to the amounts expected to be realised from the sale of the inventory and the construction costs necessary to bring the inventory to a saleable condition. All the amounts are being capitalised to express the time risks.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies Continued

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 judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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.

c. Basis of Consolidation:

Due to the first-time adoption of IFRS 3 (Revised) and IAS 27 (2008), the Group has changed its accounting policy for business combinations and transactions with non-controlling interests. For more information, see a. above.

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 in equity 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 this difference is negative, a decrease in equity is recognised for the amount of this difference. Upon the disposal of a subsidiary that does not result in a loss of control, an increase or a decrease in equity is recognised for the amount of the difference between the consideration received by the Group and the carrying amount of the non-controlling interests in the subsidiary which has been added to the Group's equity, taking into account also the disposal of a portion of any goodwill in the subsidiary and any amounts which have been recognised in other comprehensive income, based on the relative decrease in the interests in the subsidiary. 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.

Note 2 Significant Accounting Policies Continued

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

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

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

d. Functional and Foreign Currencies:

1. Functional Currency: The financial statements are presented in thousands of US Dollars, which is the Company's functional currency and best reflects the economic environment in which the 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 of 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 of the date of incurrence.

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

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

Until 31 December 2009, upon the full or partial 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.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies Continued

2. Foreign Currency Transactions, Assets and Liabilities: Transactions in foreign currencies are initially recorded at the exchange rate on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the operation at the exchange rates prevailing at 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 the income statement.

e. Cash And Cash Equivalents:

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

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. Inventory of Buildings For Sale:

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

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

h. The Operating Cycle:

The Group's normal operating cycle exceeds one year and may generally last between five and six 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.

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.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

Note 2 Significant Accounting Policies Continued

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.

Fair Value: The fair value of investments that are actively traded in organised financial markets is determined by reference to market prices at the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

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: A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor:

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

Where 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 amount of the above liabilities is recognised in the statement of income. If the exchange or modification is immaterial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognised from the exchange. In evaluation whether the terms are substantially different, the Group take into consideration quantitative as well as qualitative parameters.

Financial Liabilities Measured at Amortised Cost: Loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, loans and other borrowings are measured based on their terms at amortised cost using the effective interest method. Short-term borrowings 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 Liabilities at Fair Value through Profit or Loss: Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Issuance of a Unit of Securities: The issuance of a unit of securities involves the allocation of the proceeds received (before issuance expenses) to the components of the securities issued in the unit based on the following order: fair value is first determined for financial instruments measured at fair value in each period; then fair value is determined for financial liabilities that are not measured at amortised cost; and the proceeds allocated to equity instruments are the residual amount. Issuance costs are allocated to each component pro rata to the amounts determined for each component, net of any tax effect, in respect of equity instruments. After said allocation, each component is accounted for based on its classification (financial liability or equity instrument).

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies Continued

Derecognition:

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

If the Group transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset 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.

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

Assets Carried at Amortised Cost: If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

Derivative Financial Instruments Held for Hedging: Sometimes the Group enters into contracts with derivative financial instruments such as forward currency contracts (forward) in respect of foreign currency and interest rate swaps (IRS) to hedge its risks associated with foreign exchange rates and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value. After initial recognition, the derivatives are measured at fair value.

Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are carried directly to the Income Statement.

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.

Note 2 Significant Accounting Policies Continued

k. Business Combinations and Goodwill:

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. As for business combinations that occurred on or after 1 January 2010, the direct costs relating to the acquisition are recognised as an expense in profit or loss. 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.

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. Goodwill is not systematically amortised.

Upon the disposal of a subsidiary resulting in loss of control, the Group:

- derecognises the subsidiary's assets and liabilities.
- derecognises the carrying amount of non-controlling interests.
- recognises the fair value of the consideration received.
- regarding loss of control on or after 1 January 2010, recognises any remaining equity interest at fair value.
- recognises any resulting difference (surplus or deficit) as gain or loss.
- regarding loss of control on or after 1 January 2010, reclassifies the components recognised in other comprehensive income on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Accordingly, cumulative exchange differences are reclassified to profit or loss upon loss of control. Regarding loss of control through 31 December 2009, only the proportionate share of cumulative exchange differences that is disposed of is reclassified to profit or loss.

l. Acquisitions of Subsidiaries that are not Business Combinations:

Upon the acquisition of i. 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.

Business Combinations Involving Entities Under Common Control: The Group accounts for business combinations that include entities under common control using the pooling of interests method. Since in this type of transaction there is no change in control and, ultimately, all the entities are controlled by the same parties both before and after the business combination, the pooling of interests method best reflects the transaction.

Accordingly, the Group's assets and liabilities are the assets and liabilities as included in the financial statements of the merging companies under common control. The Group restates comparative data in respect of assets and liabilities and operating results from the beginning of the earliest reporting period as if the business combination of the entities under common control had occurred when the merging companies came under common control. Material intragroup balances, transactions, gains and losses are eliminated in full in the consolidated financial statements.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies Continued

m. Investment Properties 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 reporting date. Gains or losses arising from changes in the fair values of investment property are included in the Income Statement when they arise. Investment property is not systematically depreciated.

The fair value model is also applied to investment property that is being constructed for future use as investment property when it 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 stated at cost less, if appropriate, any impairment losses, until either its fair value becomes reliably determinable or construction is completed, whichever is earlier.

An investment property is derecognised on disposal or when the investment property is withdrawn from use and no future economic benefits are expected from its disposal.

The Group determines the fair value of an investment property on the basis of a valuation by an outside independent valuator who holds a recognised and relevant professional qualification.

n. 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%.

o. Borrowing Costs in Respect 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.

The capitalisation of borrowing costs commences when expenses 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.

Exchange differences arising from foreign currency borrowings are capitalised to the extent that they are considered as an adjustment to interest costs.

The Group presents items in the Income Statement as if borrowing costs had been capitalised on Investment properties under construction before measuring them at fair value.

p. Impairment of Non-Financial Assets:

The Group assesses at each reporting date whether events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognised if an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments specific to the asset. Impairment losses are carried to the income statement.

Note 2 Significant Accounting Policies Continued

q. Taxes on Income:

Taxes on income in the Income Statement include current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the Income Statement other than if they relate to items that are directly carried to equity 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: Current income tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

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

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

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

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

   The 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 19d).

r. Share-Based Payment 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 pricing model.

The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in equity, during the period in 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 each reporting date 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.

If a grant of an equity instrument is cancelled, 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 in the next paragraph.

If the Group 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.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies Continued

s. Revenue Recognition:

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

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

Rendering of Services, including Management Fees: Revenue from the rendering of services is recognised by reference to the stage of completion as of 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 Units: Revenues from the sale of residential units are recognised when the principal risks and rewards relating to the ownership have been transferred to the buyer. Revenues are not recognised if there are significant uncertainties regarding the collection of the consideration and the related costs or if there is continuing managerial involvement of the Group with respect to the real estate sold. These criteria are usually met once the apartment is transferred to the buyer.

t. 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.

u. Advertising Expenses:

Advertising expenses are charged to the Income Statement as incurred.

v. 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 intra-Group 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

w. 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 (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss 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. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

x. 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.

y. Standards Issued but not yet Effective:

IFRS 9 – Financial Instruments:

1. In November 2009, the IASB issued IFRS 9, "Financial Instruments", which represents the first phase of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 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 IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortised cost if both of the following conditions are met:

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

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

   Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognised in the statement of income or in other comprehensive income (loss), in accordance with the election of the accounting policy on an instrument-by-instrument basis. Nevertheless, if the equity instruments are held for trading, they must 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 will be effective starting 1 January 2013. Earlier application is permitted. Early adoption will be made with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

   The Group is evaluating the possible effect of the adoption of the new Standard on the consolidated financial statements but is presently unable to assess such effect, if any.

Notes to the Consolidated Financial Statements

Continued

Note 2 Significant Accounting Policies Continued

2. In October 2010, the IASB issued certain amendments to IFRS 9 regarding derecognition of financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition of 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 had 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 the income statement. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in the income statement, then that adjustment should also be presented in the income statement rather than in the statement of other comprehensive income.

   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 2013. Earlier application is permitted provided that the Group also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the first part of Phase 2). Upon initial application, the amendments should be applied retrospectively, except as specified in the amendments.

IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues: The amendment to IAS 32 determines that rights, options or share options to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments if the entity offers the rights, options or share options pro rata to all of its existing owners of the same class of its non-derivative equity instruments.

IAS 1 – Presentation of Financial Statements: According to the amendment to IAS 1, the changes between the opening and the closing balances of each other comprehensive income component may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The amendment will be adopted retrospectively in the financial statements for periods starting from 1 January 2011. Early adoption is possible.

The amendment is not expected to have a material effect on the Group's financial statements.

IFRS 7 – Financial Instruments: Disclosure: The amendments to IFRS 7 deal with the following issues:

1. Clarification of the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures about the nature and extent of risks arising from financial instruments. The Standard also reduces the disclosure requirements for collateral held by the Group and revises the disclosure requirements for credit risk. The amendment should be applied retrospectively commencing from the financial statements for periods beginning on 1 January 2011. Earlier application is permitted.

2. New disclosure requirements about transferred financial assets including disclosures regarding unusual transfer activity near 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 Group 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 should be applied prospectively commencing from the financial statements for periods beginning on 1 January 2012. Earlier application is permitted.

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

Note 2 Significant Accounting Policies Continued

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument may be designated as a financial liability at fair value through profit or loss only upon initial recognition.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

IAS 24 Related Party Disclosures (Amendment): The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, Government-related companies are provided a partial exemption of disclosure requirements for transactions with the Government and other Government-related companies. The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on 1 January 2011. Earlier application is permitted.

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

IAS 12 – Income Taxes: The amendment to IAS 12 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 with the objective of recovering substantially all of the underlying economic benefits through use and not sale, the sale presumption is rebutted and the Group should apply the regular guidelines of IAS 12.

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 should 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.

z. Reclassification:

1. During 2010, the Group reclassified deferred tax assets and deferred tax liabilities as a result of re-examination of the offsetting right, according to IAS 12.

   As a result of the reclassification, deferred tax assets and deferred tax liabilities were decreased in the amount of US$4.3m as of 31 December 2009. The impact on the statement of the financial position as of 31 December 2008 was not material.

2. The Group reclassified long-term VAT in the total amount of approximately US$9m to current assets as of 31 December 2009 in order to reflect the Group's operating cycle. The impact on the statement of financial position as of 31 December 2008 was not material.

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.

The Group's share of the assets and liabilities as of 31 December 2010 and 2009 and income and expenses of the jointly controlled entities for the years ended 31 December 2010, 2009 and 2008, which are proportionally consolidated in the consolidated financial statements, are as follows:

	31 December 2010 US$000	31 December 2009 US$000
Share of the joint ventures' statement of financial position:		
Current assets	**2,418**	9,874
Non-current assets	**91,588**	89,963
Current liabilities	**(5,603)**	(4,993)
Non-current liabilities	**(45,082)**	(49,800)
Net assets	**43,321**	45,044

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Share of the joint ventures' revenue and profit:			
Revenue	**9,357**	5,354	5,562
Cost of maintenance and management	**(2,886)**	(1,439)	(1,831)
Administrative expenses	**(486)**	(1,154)	(713)
Fair value adjustments of investment properties and investment properties under construction	**8,140**	5,204	(11,695)
Finance costs	**(4,437)**	(2,983)	(7,669)
Other income	**2,796**	–	–
Income (loss) before taxes on income	**12,484**	4,982	(16,346)
Taxes on income (tax benefit)	**2,402**	(179)	652
Net income (loss)	**14,886**	4,803	(15,694)

Note 4 Cash and Cash Equivalents

	31 December 2010 US$000	31 December 2009 US$000
Short-term deposits[1]	**551**	–
Cash at banks	**10,423**	20,971
	10,974	20,971

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

Note 5 Other Receivables

	31 December 2010 US$000	31 December 2009 US$000
Prepayments to suppliers	**686**	601
Government authorities	**514**	396
Trade and other receivables	**916**	893
	2,116	1,890

Note 6 Inventories of Buildings for Sale

a. Composition:

Current Assets:

	31 December 2010 US$000	31 December 2009 US$000
Land	**49,462**	49,448
Construction costs	**128,876**	90,862
	178,338	140,310

Non-Current Assets:

	31 December 2010 US$000	31 December 2009 US$000
Land	**10,435**	10,823
Construction costs	**20,048**	11,116
	30,483	21,939

b. Inventories of buildings are intended for construction of residential apartments and vacation 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. Includes capitalised borrowing costs of approximately US$19,262,000 for the year ended 31 December 2010 and approximately US$10,454,000 for the year ended 31 December 2009.

d. During the period, the Company entered into agreements regarding the sale of 10 units in a residential project located near Moscow, for a total consideration of approximately US$10.7m.

e. During the period, due to a change in original construction plans for inventories of land and buildings under construction, the Company decided to classify part of the inventories as non-current assets.

Notes to the Consolidated Financial Statements

Continued

Note 7 Investment Properties

a. Composition:

	31 December 2010 US$000	31 December 2009 US$000
Balance at 1 January	**187,419**	163,987
Additions for the year	**12,278**	1,902
Transfer from investment properties under construction (f)	**98,840**	–
Purchase of jointly controlled entities (d)	**–**	40,831
Fair value adjustments	**7,626**	(15,881)
Exchange rate differences	**(1,112)**	(3,420)
Balance at 31 December	**305,051**	187,419

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. Regarding the fair value adjustments relating to deferred tax, see also Note 19c.

d. 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 acquisition does not constitute a business combination as defined in IFRS 3. In accordance with the purchase agreements, a contractual agreement exists for joint control in Century Companies. A final agreement was signed with the seller on 31 December 2009.

Century Companies are owners of real estate assets which are adjacent to the assets of other subsidiaries of the Group ("Hydro and MAG projects") and includes two buildings. One building is owned by Inomotor LLC and the other by Avtoprioritet LLC.

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 of rights in Century Companies, 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 during the years 2007 and 2008, were capitalised to the equity of Century Companies as part of irrecoverable obligations of the Group in accordance with the above-mentioned purchase agreement. The total amount of remaining loans and the accrued interest are to be repaid from future income of Century Companies.

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. In accordance, the Company had recorded the option's fair value as part of its liabilities.

Note 7 Investment Properties Continued

e. On 20 March 2010, a fire broke out in an office building which is owned by a subsidiary of the Company and leased to third parties (“the Office Building”). The Office Building constitutes a part of the “MAG” building complex located in the northern area of Moscow (“the MAG project”). The fair value of the Office Building as presented in the Group’s financial statements as of 31 December 2010, is approximately US$14m and the value of the entire MAG project is US$60m.

In accordance with the Group’s insurance policy for its real estate properties that it owns (including the Office Building), the Group has notified the insurance company about the fire. As of the date of the financial statements, the investigation being conducted by the firefighting authority and the District Attorney regarding the circumstances that caused the fire has not been completed yet.

Following the fire, the Group engaged the services of an independent appraiser to determine the value of the Office Building, taking into consideration the damages caused by the fire. In accordance with such evaluation, the Group has recorded in its financial statements as of 31 March 2010, an impairment of value of the Office Building in the amount of approximately US$7m which was included in “fair value adjustment of investment property and invested property under construction” in the income statement.

The MAG project is pledged in favour of a bank to secure a bank loan, the balance of which as of 31 December 2010 amounts to approximately US$12.9m. As of 31 December 2010, the Group is complying with the financial covenants agreed upon between the Group and the bank.

f. On 16 December 2010, the Group opened its newly completed Triumph Mall in Saratov, wholly owned by a subsidiary of the company. As a result, the asset was reclassified from investment property under construction to investment property.

Note 8 Investment Properties Under Construction

a. Composition:

	2010 US$000	2009 US$000
At 1 January	**185,043**	127,037
Additions for the year	**30,708**	49,684
Transfer to investment properties (e)	**(98,840)**	–
Disposal (d)	**(15,545)**	–
Classification from loans	**–**	6,048
Fair value adjustments	**21,987**	(582)
Exchange rate differences	**(760)**	2,856
At 31 December	**122,593**	185,043

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%-23%.

c. Regarding the fair value adjustments relating to deferred tax, see Note 19c.

Notes to the Consolidated Financial Statements

Continued

Note 8 Investment Properties Under Construction Continued

d. On 3 June 2010, the Group completed the sale of Techagrocom-2, a joint venture company which owns a business park development in Russia. The consideration for the Group's share (50%) was US$20m gross and US$18.5m net of transaction costs. As a result, the Group has recorded a gain from sale of jointly controlled entity of approximately US$3.2m in the financial statements as of 31 December 2010 (see Note 25).

e. See Note 7(f).

f. As of the date of signing the financial statements, the Company has not yet received an extension of the permit for the usage and zoning of the Skyscraper project for constructing an office tower from the municipality of Moscow. The permit had been extended several times in the past, the latest of which extensions ended in 2010. Based on the above-mentioned usage permit, the Company applied for a building permit but due to the prolongation of proceedings, no such permit has been obtained by the end of the effective date of the usage permit. In May 2010, the city of Moscow adopted a general urban development scheme for 2010-2025 based on which the approved zoning of the project area is for the construction of an office tower as discussed above. A draft of Moscow's real estate zoning and usage regulations also provides for the usage and zoning of the real estate for the construction of an office tower. However, although the zoning and usage regulations had undergone public hearings in late 2009, as of the date of these financial statements, the regulations have yet to be finally approved, the last date for approving said regulations being January 2012. The Company's management estimates that upon the final and formal adoption of said regulations, the Company's application for a building permit will be granted.

Note 9 Long-Term Loans Receivable

Loans to jointly controlled entities bear annual interest of 11% and are repayable from future income of the entities. There will be no dividend distribution in the jointly controlled entities until the loans are repaid to the Company. See also Note 7d.

Note 10 Fixed Assets, Net

	2010 US$000	2009 US$000
Cost:		
At 1 January	**2,294**	2,781
Additions	**872**	193
Disposals	**(393)**	(620)
Exchange rate differences	**(48)**	(60)
At 31 December	**2,725**	2,294
Depreciation:		
At 1 January	**1,062**	627
Additions	**610**	504
Disposals	**(390)**	(64)
Exchange rate differences	**(9)**	(5)
At 31 December	**1,303**	1,062
Net carrying value	**1,422**	1,232

Note 11 Vat Receivable

a. Comprises of VAT which 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 on its estimated present value using a discount rate of 7.75%.

b. Future expected VAT receivable as of 31 December 2010, is as follows:

	US$000
First year	25,249
Second year	2,318
Third year	636
Fourth year	2,811
Total	31,014

c. During the period, the Group reassessed recoverability of VAT receivable and reclassified part of VAT receivable to current assets.

Note 12 Credit from Banks

The bank loans bear annual interest rates of LIBOR plus 1.35% to 3.7%. During September 2008, the Company's main shareholders (companies that are part of the Fishman Group) have reinstated guarantees in favour of certain bank institutions that have 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.

Note 13 Loans from Banks

a. In February 2006, a jointly controlled entity received a loan of approximately US$42m from Gazprom Bank, bearing annual interest of 12%. As collateral for this loan, the jointly controlled entity pledged 100% of Inverton (Company's subsidiary) shares to the bank. The Group's relative share in the loan is approximately US$14m as of 31 December 2010. With respect to the extension and revision of the loan after the reporting date, see also Note 30a.

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

Following the above-mentioned agreement, during 2009, IIK received funds from the above-mentioned loan from EBRD of approximately US$48m. The loan is repayable in annual instalments, commencing from 2010. The loan bears interest of 2.5%-5% (2.9%-5.4% as of 31 December 2009).

Notes to the Consolidated Financial Statements

Continued

Note 13 Loans from Banks Continued

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 thousand that are not in compliance with the bank approved project budget.

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.

As of 31 December 2010, IIK complies with all the covenants regarding this loan.

c. 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 rate of 10.7% and was repayable on 3 December 2010. However, the loan can be extended for a one-year period by a written application of MAG. The maturity date of the loan extensions cannot exceed 10 years. During December 2010, the loan repayment date was extended until 3 December 2011. 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. fair value of the pledged assets shall not be lower than twice the carrying amount of the loan.

As collateral for this credit, MAG had pledged its rights in investment properties presented at fair value of US$96.2m as of 31 December 2010 and another subsidiary of the Company (Hydro) had provided a guarantee for this credit. As for guarantees provided by the Company, see also Note 28h.

As of 31 December 2010, MAG complies with all the covenants regarding this loan.

d. The maturity dates of long-term loans subsequent to the reporting date are as follows:

	31 December 2010 US$000	31 December 2009 US$000
First year – current liabilities	**5,344**	4,830
Second year	**4,100**	18,190
Third year	**4,219**	2,925
Fourth year and after	**59,270**	52,962
	72,933	78,907

Note 14 Other Accounts Payable

	31 December 2010 US$000	31 December 2009 US$000
Accrued expenses	**378**	692
Other payables	**750**	1,245
	1,128	1,937

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 previously granted to the Company.

The Group measures the fair value of those benefits received from shareholders and recorded as expense in the total amount of US$687,000 for the year ended 31 December 2010 (2009: US$1,540,000).

b. On 11 December 2008, the Company signed a loan facility agreement with its main shareholders. According to the agreement the Company received in December 2008 loans in the amount of US$8m. The loans bear interest of 12% and are repayable on 31 March 2010.

During 2009, the Company received additional loans of approximately US$23m, bearing the same terms.

According to an amendment of an agreement dated 16 November 2009 with the controlling shareholders of the Company, the repayment of the principal amounting to US$22m and accrued interest thereon will be deferred to 31 March 2011 and the interest rate on the loans provided by shareholders will be 15% during the extension period.

According to an amendment of an agreement dated 11 March 2010 with the controlling shareholders of the Company, the repayment of the principal balance of loans due to the controlling shareholders amounting to US$9m and accrued interest thereon will be deferred to 31 March 2011 and the interest rate will be 15% during the extension period.

c. During 2009, the Company received loans from principal shareholders (companies owned by the Fishman Group) of approximately US$10m, repayable on 31 December 2010. These loans bear an annual interest rate of 15%.

During September 2010, the Company has repaid shareholders' loans in a total amount of approximately US$10m (2009: US$12.3m, including interest payment).

d. On 17 May 2010 the Company has signed a loan framework agreement for a total amount of US$5m with its major shareholders, according 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.

e. After the balance sheet date, the Company has repaid shareholders' loans in a total amount of approximately US$20m.

Notes to the Consolidated Financial Statements

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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%. The Company has entered into a swap agreement regarding this series, see also Note 18f.

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 New Israeli Shekel ("NIS") 200,000,000 Series C bonds (the "Series C Bonds") to institutional investors and the public in Israel.

The Series C Bonds are registered for trading on the Tel-Aviv Stock Exchange.

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 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 Consumer Price Index ("CPI").

In addition, the Company issued to the public in Israel, for no additional consideration, 660,800 warrants series 1 (the "Warrants"). Each Warrant is convertible into NIS 100 par value Series D Bonds against cash payment in the amount of NIS 99.

The Series D Bonds and Warrants are registered for trading on the Tel-Aviv Stock Exchange.

In December 2010, the Company (through one of its subsidiaries) acquired 622,533 Warrants, for a total consideration of approximately NIS 125,000.

On 2 December 2010, the Warrants acquired by the Company's subsidiary were exercised. As a result, the Company issued to its subsidiary 62,253,300 Series D Bonds.

On 5 December 2010, the Warrants issued to the public expired.

After the balance sheet date, the Company's subsidiary sold 37,495,591 Series D Bonds to third parties in total consideration of approximately US$10.6m.

Note 16 Debentures Continued

	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	3.22%	**43,383**
Series C	200,000	8.84%	**58,137**
Series D	66,080*	6.24%	**18,682**
			129,981

* Net of debentures held by Company's subsidiary.

	Quantity of the debentures in thousands	Effective annual interest rate	31 December 2009 US$000
Series A	39,260	6.82%	11,816
Series B	204,874	3.22%	51,154
			62,970

c. The expected maturities after the reporting date for the year ended 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	Four to five years US$000	More than five years US$000	Total US$000
Series A	**1,970**	**1,970**	**1,970**	**1,970**	**1,970**	**–**	**9,850**
Series B	**8,751**	**8,751**	**8,751**	**8,751**	**8,751**	**–**	**43,755**
Series C	**–**	**11,744**	**11,744**	**11,744**	**11,744**	**11,744**	**58,720**
Series D	**–**	**–**	**–**	**4,722**	**4,722**	**9,444**	**18,888**
	10,721*	**22,465**	**22,465**	**27,187**	**27,187**	**21,188**	**131,213**
Less discount							**(1,232)**
Total							**129,981**

* Not including interest accrued, in the amount of US$2,215 as of 31 December 2010.

The expected maturities after the reporting date for the year ended 31 December 2009:

	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	1,911	1,911	1,911	1,911	1,911	1,911	11,466
Series B	8,714	8,714	8,714	8,714	8,714	8,714	52,284
	10,625	10,625	10,625	10,625	10,625	10,625	63,750
Less discount							(780)
Total							62,970

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

Notes to the Consolidated Financial Statements

Continued

Note 17 Other Non-Current Liabilities

	31 December 2010 US$000	31 December 2009 US$000
Deposits from tenants[1]	**785**	1,105
Provision regarding an agreement with government authorities (see Note 28g)	**4,172**	3,417
Other	**532**	560
	5,489	5,082

1 The deposits do not bear interest and usually represent one or two months of rent to be repaid at the end of the rent period.

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 2010 US$000	31 December 2009 US$000
Financial assets		
Cash and cash equivalents	**10,974**	20,971
Loans and receivables	**21,309**	22,825
Financial derivatives	**–**	1,675
Financial liabilities		
Financial liabilities at amortised cost	**(336,564)**	(271,347)

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 Ruble, New Israeli Shekels ("NIS") and Hungarian Forint ("HUF"). The Group is exposed to changes in the value of these foreign currencies due to changes in exchange rates against the US Dollar. The Group's policy is not to enter into any hedging transactions in order to hedge against exchange rate risks.

a. The following table represents the sensitivity to a reasonably possible change in the US Dollar/Ruble exchange rates in the year 2010:

	2010 Effect on profit before tax US$000	2009 Effect on profit before tax US$000
Increase 5% in US Dollar/Ruble	**(3,821)**	(1,260)
Decrease 5% in US Dollar/Ruble	**3,821**	1,260

Note 18 Financial Instruments Continued

b. The following table represents the sensitivity to a reasonable possible change in US Dollars/NIS exchange rates in the year 2010:

	2010 Effect on profit before tax US$000	2009 Effect on profit before tax US$000
Increase 5% in US Dollar/NIS	4,301	(73)
Decrease 5% in US Dollar/NIS	(4,301)	73

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 an 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:

	2010 Effect on profit before tax US$000	2009 Effect on profit before tax US$000
Increase 1% in interest	(1,568)	(1,778)
Decrease 1% in interest	1,568	1,778

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 of 31 December 2010 and 2009 based on contractual undiscounted payments.

	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
Long-term loans from banks	8,727	9,378	9,064	8,749	58,387	94,305
Long-term loans from shareholders	40,772	6,682	–	–	–	47,454
Debentures	20,059	30,782	29,103	32,099	52,607	164,650
Short-term loans from banks	71,512	–	–	–	–	71,512
Accounts payable	18,940	–	–	–	–	18,940
	160,010	46,842	38,167	40,848	110,994	396,861

Notes to the Consolidated Financial Statements
Continued

Note 18 Financial Instruments Continued

	31 December 2009					
	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
Long-term loans from banks	–	2,520	7,257	37,465	53,439	100,681
Long-term loans from shareholders	–	–	25,581	23,225	–	48,806
Debentures	–	–	14,741	52,072	11,295	78,108
Short-term loans from banks	68,964	–	–	–	–	68,964
Accounts payable	15,340	–	–	–	–	15,340
	84,304	2,520	47,579	112,762	64,734	311,899

d. Israeli Consumer Price Index Risk:

1. The Series A, C and D Bonds issued by the Company are linked to the Israeli Consumer Price Index ("CPI"). The total amount of financial instruments which are linked to CPI is US$86,598,000 and US$11,816,000 as of 31 December 2010 and 31 December 2009, respectively.

2. The table below represents sensitivity to a reasonable possible change in CPI in the year 2010:

	2010 Effect on profit before tax US$000	2009 Effect on profit before tax US$000
Increase 2% in CPI	**(1,732)**	(237)
Decrease 2% in CPI	**1,732**	237

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 of 31 December 2010 and 31 December 2009:

	31 December 2010		31 December 2009	
	Carrying amount US$000	**Fair value US$000**	Carrying amount US$000	Fair value US$000
Long-term loans[1]	**(27,336)**	**(25,532)**	(19,363)	(19,311)
Debentures (Series A)[2]	**(9,779)**	**(10,701)**	(11,816)	(9,516)
Debentures (Series B)[2]	**(43,383)**	**(43,012)**	(51,154)	(49,161)
Debentures (Series C)[2]	**(58,137)**	**(64,148)**	–	–
Debentures (Series D)[2]	**(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.

Note 18 Financial Instruments Continued

f. On 31 December 2007, the Company entered into a transaction agreement with Bank Leumi (UK) plc. According to the agreement, payments of the Company on account of Series A debentures (see Note 16) will be linked to the NIS/US Dollar rate as of 31 December 2007, and the interest payments will be according to LIBOR (for Dollar deposits for a six-month period), plus a margin of 3.72%. The hedging transaction is not recognised for accounting purposes, therefore the changes in fair value are not treated as hedging transaction and therefore recorded each period in the income statement.

During 2010, the Company sold the SWAP for a consideration of US$1,443,000. As a result, a loss in the amount of US$232,000 was recorded in the income statement.

g. The Group's capital management objectives are to maintain healthy capital ratios in order to support its business activity and maximise shareholders' 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, premium, retained earnings, capital reserves and shareholders' loans and excludes currency translation adjustment reserves and treasury shares.

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

31 December 2010:

	US Dollar US$000	**RUB 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**

31 December 2009:

	US Dollar US$000	RUB US$000	Other linkage basis US$000	Total US$000
Cash and cash equivalents	19,039	1,872	60	20,971
Loans and receivables	22,150	655	–	22,825
	41,189	2,527	60	43,776

Notes to the Consolidated Financial Statements

Continued

Note 18 Financial Instruments Continued

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

31 December 2010:

	US Dollar US$000	**RUB 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**

31 December 2009:

	US Dollar US$000	RUB US$000	Other linkage basis US$000	Total US$000
Trade and other payables	5,698	8,064	689	15,001
Loans from banks and related parties and debentures	244,530	–	11,816	256,346
	250,228	8,064	12,505	271,347

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 – 25% (26% in 2009).
Hungary – corporate tax rate – 10% (for January to June 2010 – 19%)

b. Tax expense:

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Current income tax	**875**	1,819	1,844
Prior year taxes	**–**	–	(849)
Deferred taxes	**1,401**	3,289	10
Tax expense in income statement	**2,276**	5,108	1,005

Note 19 Income Tax Continued

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 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Income (loss) before tax expense	**25,431**	(17,876)	(103,826)
Tax at the statutory tax rate in Cyprus (10%)	**2,543**	(1,788)	(10,383)
Increase (decrease) in respect of:			
Temporary differences in respect of which no deferred tax was recorded	**(1,936)**	3,293	6,846
Effect of different tax rate in Russia (20%) and Hungary (16%)	**(1,402)**	2,102	6,375
Effect of change in tax law in Russia	**–**	–	196
Prior year taxes	**–**	–	(849)
Losses for which deferred tax assets were not recorded	**2,089**	2,544	416
Previous years' losses for which deferred tax assets were recorded during the year	**(870)**	–	–
Use of losses for which deferred taxes were not recorded	**(257)**	–	–
Inter-company expenses for which deferred tax liabilities were recorded	**1,882**	–	–
Exempt income	**(316)**	(821)	(716)
Others	**543**	(222)	(880)
Income tax expense	**2,276**	5,108	1,005

d. Deferred taxes:

	Consolidated statement of financial position		Consolidated income statement		
	31 December 2010 US$000	31 December 2009 US$000	**31 December 2010 US$000**	31 December 2009 US$000	31 December 2008 US$000
Deferred tax liabilities:					
Measurement of investment property	**14,048**	10,583	**3,778**	4,960	5,025
Deferred tax assets:					
Carry-forward tax losses	**3,910**	1,656	**(2,377)**	(1,671)	(5,015)
Deferred tax expenses			**1,401**	3,289	10
Deferred tax liabilities, net	**10,138**	8,929*			

* Reclassified, see Note 2z.

Notes to the Consolidated Financial Statements

Continued

Note 19 Income Tax Continued

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. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes on the above differences have not been recorded. However, the fair values of the properties have been reduced in 2010 and 2009 by US$30,098,000 and US$28,302,000, respectively, to reflect the fair values of the deferred tax liabilities 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 Group's management believes that the actual amount of the reduction might be substantially lower due to economic benefits that the buyer will be entitled to, based upon the differences arising from the method of disposal (i.e. direct asset sale or share sale).

f. The tax losses carried forward by the Group companies amount to approximately US$175m. A deferred tax asset amounting to US$14m has been recognised. Deferred tax assets in the total amount of US$21m, on tax losses carried forward in the amount of approximately US$105m, were not recorded.

Note 20 Equity

	31 December 2010 US$	31 December 2009 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.

Due to the global financial crisis and the downturn of the Russian real estate market, the Group decided not to declare a dividend for the year 2009 and for the year 2010. The Group intends to continue to evaluate its ability to declare a dividend during 2011, taking into account, inter alia, the cash flow levels of the Group and the economical conditions of the Russian real estate market.

Share Option Schemes

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

On 16 October 2009, the Group amended existing share option plan as follows: the exercise price will be equivalent to GBP 2.5 and the options will vest at 19 December 2012. See also Note 22.

On 2 December 2010, the Group granted a share option plan to the CEO. See also Note 22.

Note 20 Equity Continued

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 2010	Year ended 31 December 2009	Year ended 31 December 2008
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)[1]	**105,523**	103,558	103,558
Income (loss) used for computing basic and diluted earnings per share (in thousands of US Dollars)	**23,155**	(22,984)	(104,831)

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 GBP 2.5 per share until 19 December 2012. According to the binomial model, the value of the share options is GBP 948,722.

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 GBP 2.5 per share and exercisable until 19 December 2012. The Group recognised US$266,000 as expenses with respect to these share options granted.

Notes to the Consolidated Financial Statements

Continued

Note 22 Share-Based Payments Continued

On 16 October 2009, 374,331 share options were granted to a service provider at an exercise price of GBP 2.5 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 GBP 2.30 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 first and second instalments vesting on the second and third anniversary of the date of grant, respectively.

The Group recognised US$605,000 as expenses with respect to this grant during 2010.

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:

	2010 US$000	2009 US$000
Fair value of the options	**1,615**	9,974
Less – recognised as expense in the income statement	**(605)**	(9,974)
Expense to be recognised in the future	**1,010**	–

In the years 2010 and 2009, 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 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Maintenance of property	**7,253**	4,678	4,783
Land lease payments	**341**	264	241
Fee to management company	**328**	371	813
Property tax on investment property	**2,434**	2,125	1,454
	10,356	7,438	7,291

Note 24 General, Administrative and Marketing Expenses

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Salaries[1]	**6,847**	7,339	7,530
Office maintenance	**1,263**	1,317	1,652
Professional fees[2]	**3,891**	3,339	6,236
Marketing fees	**1,231**	768	2,386
Write-down of advances on account of investments	**–**	60	1,256
Travelling expenses	**553**	453	1,090
Depreciation	**610**	556	343
Other costs	**1,780**	2,482	1,766
	16,175	16,314	22,259
1 Includes cost of share-based payment (see Note 22)	**605**	1,894	1,881

2 Includes consideration for audit fees an amount of approximately US$1,318,000 (2009: US$1,719,000) and the Directors' fees of approximately US$454,000 (2009; US$459,000).

Note 25 Other Income (Expenses)

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Gain from sale of jointly controlled entity (see Note 8d)	**3,159**	–	–
Loss from acquisition of jointly controlled entities	**–**	(698)	–
Change in provision regarding an agreement with government authorities and service providers	**(186)**	2,802	3,263
Impairment of investment properties under construction and inventories of buildings under construction	**–**	–	(4,289)
	2,973	2,104	(1,026)

Notes to the Consolidated Financial Statements

Continued

Note 26 Finance Costs and Income

a. Finance income:

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Interest income from cash and cash equivalents and restricted deposits	**86**	–	3,420
Interest income from loans provided	**1,940**	6,134	4,420
Fair value adjustment of financial derivative	**–**	956	769
Effect of discounting of long-term receivables	**3,208**	–	–
	5,234	7,090	8,609

b. Finance costs:

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Interest costs – financial liabilities from banks	**(15,634)**	(11,249)	(8,807)
Interest costs – debentures	**(10,487)**	(3,294)	(4,106)
Net capitalised interest costs	**21,587**	10,454	2,075
Loss from disposal of financial derivative	**(232)**	–	–
Effect of discounting of long-term receivables	**(467)**	(602)	(3,933)
Effect of discounting of long-term receivables capitalised to investment properties under construction and residential projects for sale under construction	**–**	602	3,933
	(5,233)	(4,089)	(10,838)

Note 27 Related Parties

a. Transactions with related parties:

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Interest paid to shareholders	**6,466**	3,815	1,494
Private jet expenses	**117**	17	279

b. Balances with related parties:

	31 December 2010 US$000	31 December 2009 US$000
Debentures held by shareholders	**20,466**	24,909
Guarantees provided and benefits received regarding loans received from majority shareholders	**3,207**	2,702
Loans received from majority shareholders	**44,865**	44,954

Note 27 Related Parties Continued

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:

	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000
Salaries	**1,399**	1,371	1,227
Share-based payments	**605**	1,602	1,881
	2,004	2,973	3,108

e. Global, which owns a commercial centre in Yaroslavl has entered into a lease agreement with Home Centres LLC ("Home Centre"), a company controlled by the Fishman family, the controlling shareholders of the Company. The area leased to Home Centre 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 Centre with an overall area of approximately 730 sqm used for office purposes. The monthly lease fee is approximately US$22,000. The lease period terminates on 30 September 2011. The engagement is in accordance with market conditions.

g. Regarding loans and guarantees received from main shareholders, see Note 15.

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 of 31 December 2010 are as follows:

	US$000
First year	317
After one year but no more than five years	1,268
More than five years	8,126
Total	9,711

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 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 above-mentioned future profit, in a total amount of US$35m, and which will bear interest at the rate of 11%. As of the balance sheet date, the agreement has not been signed.

Notes to the Consolidated Financial Statements

Continued

Note 28 Commitments and Contingencies Continued

c. In December 2006, RealService (a 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 sale of the project after completion and to 2% of the lease fees actually received by RealService from its tenants. As of the balance sheet 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. In February 2010, IRS (a subsidiary of the Company) entered into a rent agreement with a third party that is unrelated to the Company and/or the controlling shareholder therein ("the lessor") in the context of which IRS is renting office spaces from the lessor in an area of some 150 sqm (as well as three parking spaces) in Herzliya, Israel. The rent period is for three years starting from 15 March 2010 and IRS has an option to extend the term by three more years. The rental fees total approximately NIS 10,000 a month plus linkage differences and VAT as required by law. IRS also pays management fees in return for management services rendered for the leasehold based on the mechanism prescribed in the agreement.

f. 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 2010 US$000	31 December 2009 US$000
First year	**31,497**	20,707
Second year until five years	**108,031**	81,616
More than five years	**27,239**	52,555
	166,767	154,878

g. 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.

h. 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 13c.

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 into 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 2010		
	Commercial US$000	**Residential US$000**	**Total US$000**
Segment revenues	**20,506**	**1,078**	**21,584**
Segment results	**36,809**	**(1,435)**	**35,374**
Unallocated expenses			**(9,105)**
Finance cost, net			**(838)**
Profit before taxes on income			**25,431**

	Year ended 31 December 2009		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	17,213	–	17,213
Segment results	(7,384)	(1,521)	(8,905)
Unallocated expenses			(11,993)
Finance income, net			3,022
Loss before taxes on income			(17,876)

	Year ended 31 December 2008		
	Commercial US$000	Residential US$000	Total US$000
Segment revenues	20,360	–	20,360
Segment results	(59,150)	(2,246)	(61,396)
Unallocated expenses			(7,588)
Finance cost, net			(34,842)
Loss before taxes on income			(103,826)

Notes to the Consolidated Financial Statements

Continued

Note 29 Segment Information Continued

	Year ended 31 December 2010		
	Commercial US$000	Residential US$000	Total US$000
Assets:			
Segments assets	**470,831**	**221,956**	**692,787**
Unallocated assets			**15,634**
Total assets			**708,421**
Liabilities:			
Segments liabilities	**96,659**	**12,000**	**108,659**
Unallocated liabilities			**258,739**
Total liabilities			**367,398**

	Year ended 31 December 2009		
	Commercial US$000	Residential US$000	Total US$000
Assets:			
Segments assets	397,732	181,411	579,143
Unallocated assets			32,580
Total assets			611,723
Liabilities:			
Segments liabilities	106,165	11,898	118,063
Unallocated liabilities			174,459
Total liabilities			292,522

Note 30 Subsequent Events

a. The Group has refinanced two loan facilities totalling approximately US$43.1m. This refinancing, undertaken by two leading Russian 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 49% ownership interest, making it 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 Project”. The “Century Project” is owned by one of MirLand’s 51% held investees.

   The loan amount relating to this asset is $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.

b. 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 New Israeli Shekel (“NIS”) 56,126 Series C bonds and 425,000 Warrants (the “Series C Bonds”) to institutional investors and the public in Israel.

The Series C Bonds are registered for trading on the Tel-Aviv Stock Exchange.

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 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 42,500,000 Series C Bonds and 1,000,000 Warrants (Series 3) convertible into 100,000,000 Series D Bonds.

c. Subsequent to balance sheet date, 71,615 Warrants (Series 2) and 58,155 Warrants (Series 3) were exercised into 7,161,500 Bond C and 5,815,500 Bond D, respectively, for a total consideration of approximately US$4m.

Note 31 Date of Approval of the Financial Statements

The Board of Directors approved these consolidated financial statements for issue on 16 March 2011.

Shareholders' Information

Financial Calendar

Annual General Meeting	16 May 2011
Announcement of 2011 first quarter results	May 2011
Announcement of 2011 interim results	August 2011
Announcement of 2011 third quarter results	November 2011

Share Price

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

Price at 31 December 2010	280p
Lowest price during the year	165p
Highest price during the year	290p

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

Website

www.mirland-development.com

Shareholders' Enquiries

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

Computershare

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

Secretary and Registered Office

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

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

Company registration number 153919

Advisers

Nominated Adviser

Credit Suisse, Securities (Europe) Limited, London

PR Agency

Financial Dynamics, London

Legal Advisers

Berwin Leighton Paisner LLP, London
Hogan and Hartson, Moscow

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

Real Estate Consultant

Cushman & Wakefield, Moscow
Jones Lang LaSalle, Moscow
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