MirLand

Annual report
and accounts
2007

Contents

MirLand Development Corporation Plc

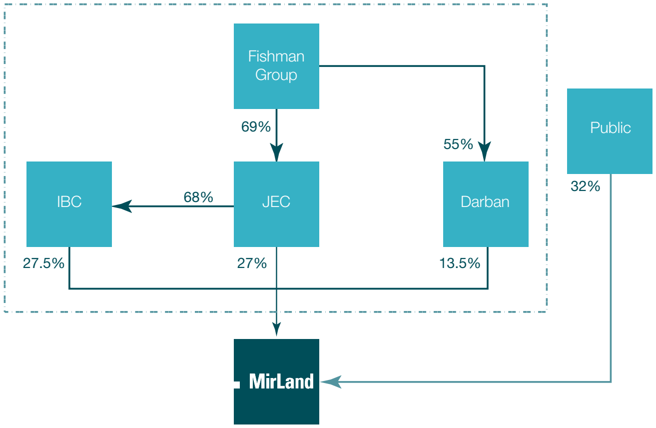
MirLand Development Corporation is one of the leading international residential and commercial property developers in Russia.

MirLand was established in 2004 as part of the Global Fishman Group, an investment group with over US$2bn of combined annual income and a strong international track record of over 20 years of developing, managing and investing in real estate assets via public companies.

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

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

The Company currently holds 13 projects for residential and commercial development across Russia, with a total rentable/sellable area of 1,368,000 sqm. Of these, five were added during 2007 using the proceeds raised at the IPO.

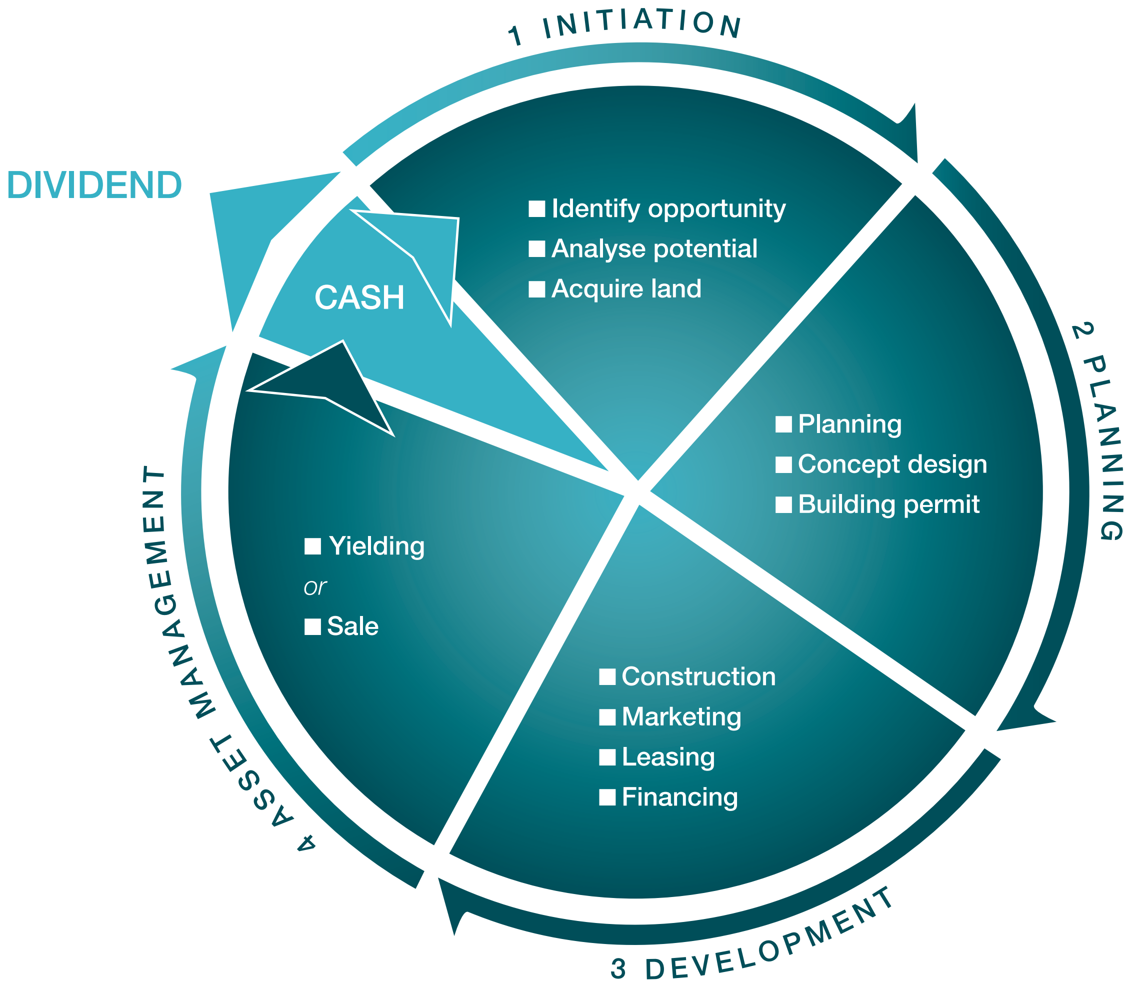


MirLand is mainly involved in the acquisition, development, construction, refurbishment, rental and sale of residential and commercial real estate in Russia.

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

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

MirLand's business model



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

Our Investment Strategy

Focus on successful development of projects

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

Maintain a diversified portfolio

- Maximise opportunity while minimising risks through diversifying location and type of asset
- Maintain a mixed portfolio which holds both yielding and development projects from different sectors, with varying durations, phasing and completion dates
- Residential projects are built for sale; commercial projects are built for investment and are retained for income generation

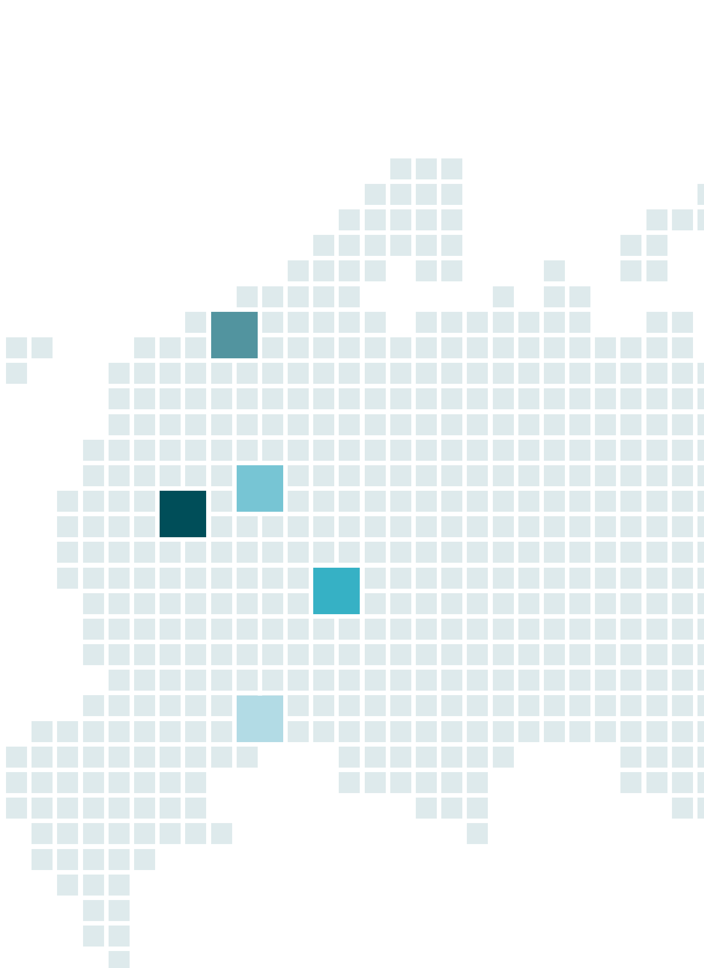
Generate value through active management

- Actively market assets before completion
- Identify market opportunities to increase yields
- Sell properties at optimal timing
- Take advantage of diverse financing opportunities to enhance return on equity

Acquire attractive sites in targeted locations for future development

- Focus on high-quality developments which offer higher yields and capital growth
- Invest in Moscow, St Petersburg and attractive regional cities which have more than 500,000 inhabitants
- Invest in a variety of high yielding sectors

Portfolio at a glance



Kazan

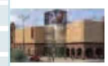
Triumph House
Development of a 35,400 sqm in a three-storey trade centre

Yaroslavl

Vernissage Mall
Development of a single-floor 33,200 sqm shopping centre

Big Box Complex
Development of a 50,000 sqm retail park adjacent to Vernissage Mall

Saratov

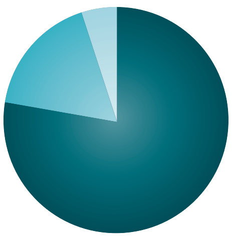


Triumph Mall
Development of 28,000 sqm of modern retail and entertainment centre in Saratov

St Petersburg

Triumph Park
Development of a residential neighbourhood, complete with approximately 9,000 apartments and commercial areas, totalling approximately 707,000 sqm.

Portfolio project status sqm



- Planning **1,070,000 sqm**
- Construction **229,500 sqm**
- Yielding **68,500 sqm**

Moscow & region

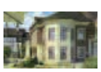
Hydromashservice & MAG
Renovation of 17,900 sqm (Hydro) and 18,350 sqm (MAG) of Class B+ offices

Century Building
Construction of 20,600 sqm of Class B+ offices

Tamiz
Construction of 10,700 sqm of Class B+ offices

Skyscraper
Construction of 91,800 sqm in a 47-storey class A office and retail building

Techagrocom
Development of 156,300 sqm of offices and retail near MKAD



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

Sokolniki
Development of approximately 240 residential units and retail centre in north-east Moscow

Nemchinovka
Development of approximately 1,540 residential units and retail centre near MKAD

Images are for illustration only

Real Estate Market

- The Russian real estate market is driven by high economic growth and remains attractive
- Value of investment in real estate grew by approximately 30% in 2007 to US$4-4.5bn

Commercial Market Characteristics

- Retail: retail was the leading sector in 2007 with US$1.7bn of deals in the first three quarters, showing a high demand for quality retail space; vacancy rates less than 1% in Moscow
- Offices: quality stock increased by 25% in 2007. Despite the extensive construction, low supply will characterise the market for the next years

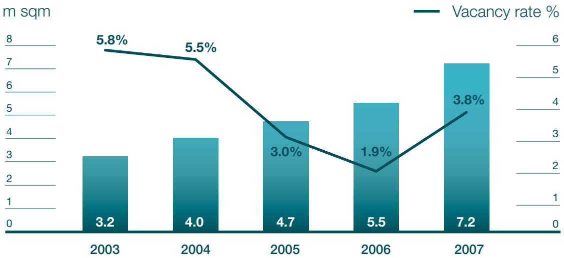
Logistics Market Characteristics

- Yields are among the highest in Europe, with low vacancy rates

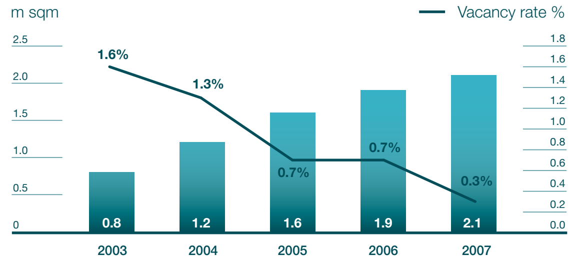
Residential Market Characteristics

- Despite extensive construction, there is still a major shortage of residential space
- Mortgage market experience major growth as interest rates are expected to decline, spreading the affordability of housing to a wider population

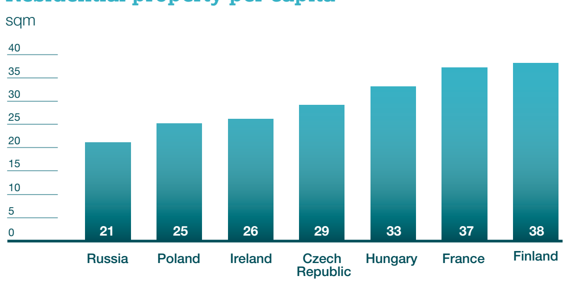
Office stocks and vacancy rates, Moscow



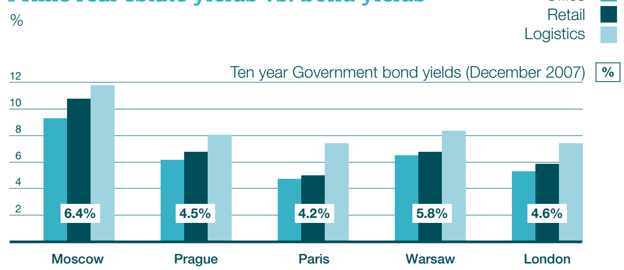
Retail stocks and vacancy rates, Moscow



Residential property per capita

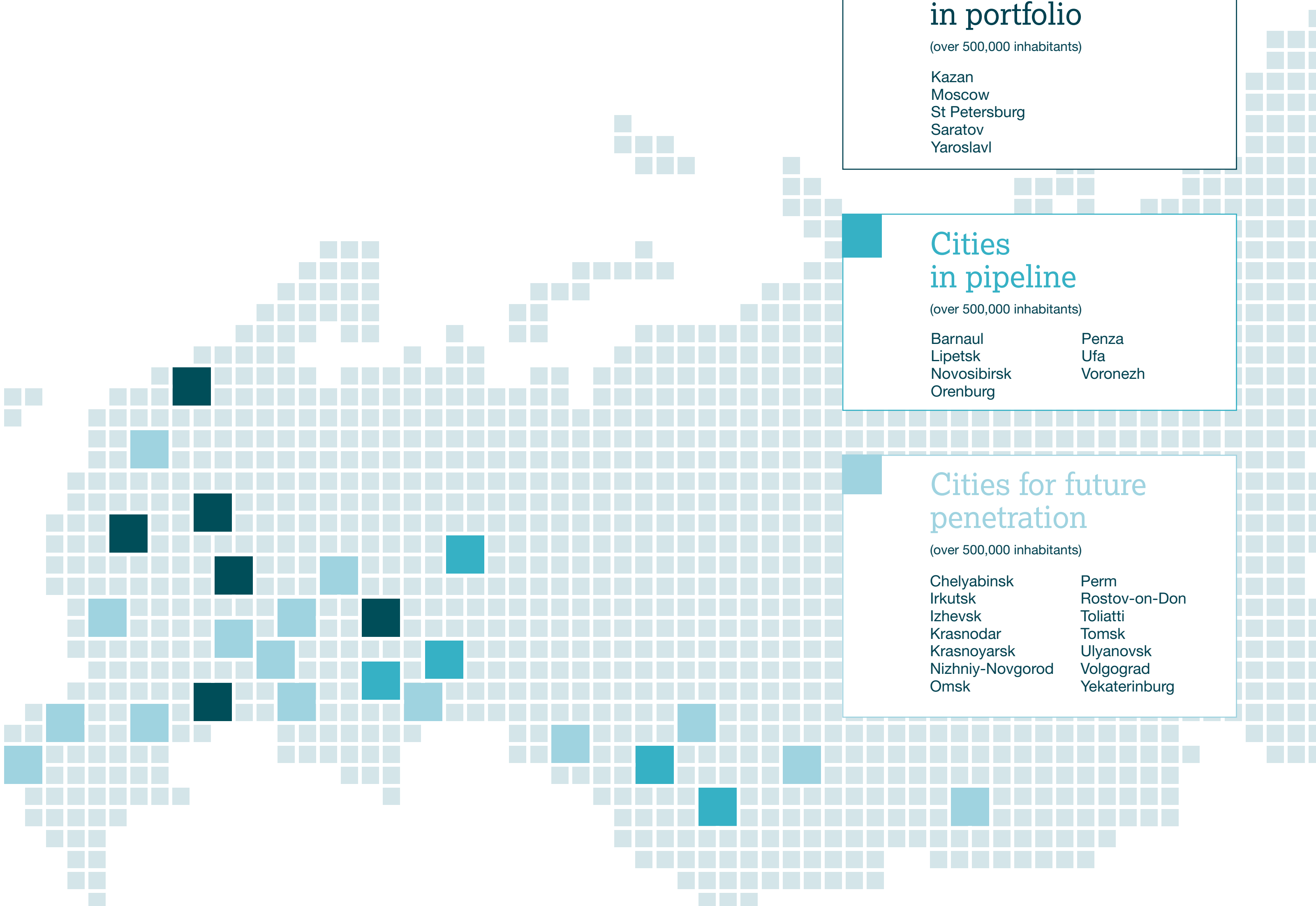


Prime real estate yields vs. bond yields



Source: Alfa Bank and Cushman & Wakefield

Pipeline at a glance



Cities already in portfolio

(over 500,000 inhabitants)

Kazan
Moscow
St Petersburg
Saratov
Yaroslavl

Cities in pipeline

(over 500,000 inhabitants)

Barnaul
Lipetsk
Novosibirsk
Orenburg
Penza
Ufa
Voronezh

Cities for future penetration

(over 500,000 inhabitants)

Chelyabinsk
Irkutsk
Izhevsk
Krasnodar
Krasnoyarsk
Nizhniy-Novgorod
Omsk
Perm
Rostov-on-Don
Toliatti
Tomsk
Ulyanovsk
Volgograd
Yekaterinburg

In 2007 the Company accelerated in the development of its assets, investing a total of US$151m. To support future investments, a bond issuance of US$62m was successfully executed in Israel.

US$64.9m

Profit after tax
(2006: US$29.9m), an increase of 117%

US$94.6m

Income for the year
(2006: US$40.1m), an increase of 136%

US$658.0m

Total assets
(31 December 2006: US$475.5m), an increase of 38%

US$1245.5m

Adjusted Net Asset Value
(31 December 2006: US$916.2m), an increase of 36%.

- The Company successfully raised net proceeds of US$62m in a bond issuance on the Tel Aviv stock exchange in December 2007.
- Company's equity as at 31 December 2007 amounted to US$472.8m which comprise 72% of total assets.
- The Company has now invested US$159m, representing 54% of the IPO proceeds, in developing its existing assets and acquiring five new assets, in addition to taking steps to secure the acquisition of two further logistics projects.
- Company's cash and cash equivalents balance is US$117m.
- Company's NAV per share as at 31 December 2007 is US$12 based on Cushman & Wakefield Stiles & Riabokobylko valuation.
- 13 significant ongoing projects which, on completion, will provide approximately 1.37m sqm of office, retail and residential properties.
- Successful opening of the shopping centre in Yarolslavl in April. 97% of the centre lettable space has been pre-leased.
- Commencement of construction of approximately 230,000 sqm of new development.

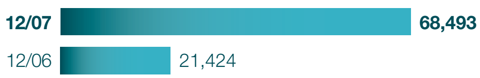
MirLand's vision is to be a leading developer of real estate in Russia; by following its strategy, the Company aims to enhance shareholder value and increase returns. The following metrics represent the key performance indicators used by the Company to evaluate its performance.

Key Performance Indicator

Strategic goal	Performance	Comments

Focus on successful development of projects

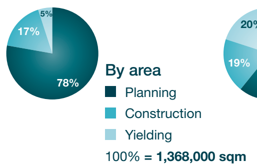
Yielding areas sqm

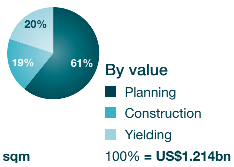


In 2007, yielding projects Hydromashservice and MAG expanded and now lease out larger areas. In addition, the Vernissage mall in Yaroslavl was opened.

Maintain a diversified portfolio

Development stage

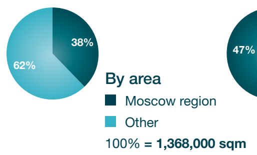


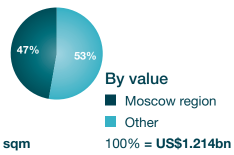


In 2007, the Company began construction of four of its projects: Perkhushkovo and Nemchinovka residential projects, Saratov Triumph Mall, and Century Building offices.

In 2008, the Company is aiming to have all of its current portfolio projects enter the construction stage.

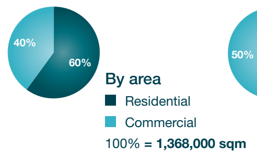
Geographic dispersion

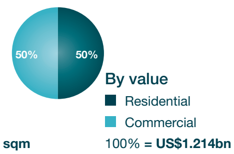




The Company is gradually embarking on projects in regional cities: in 2007 projects in Kazan and Saratov were added to the portfolio. In 2008, the Company plans to enter other promising regional markets.

Segment distribution



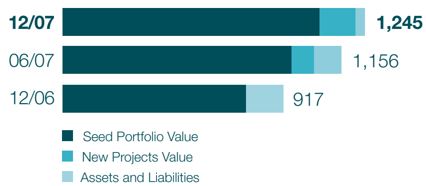


The Company's portfolio includes nine commercial and four residential projects. In 2007, the Company signed an agreement aimed at securing the aquisitions of two logistics projects in the regions.

Strategic goal	Performance	Comments

Generate value through active management

NAV Development US$m

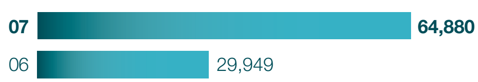


MirLand's portfolio value was enhanced during 2007 through the completion of the Yaroslavl and MAG projects; through substantial progress in planning and/or construction on other portfolio assets; and by adding five new assets to the Company's portfolio. The Company's assets valuation was prepared by an external valuator (Cushman & Wakefield Stiles & Riabokobylko) and published on the Company website.

NAV per Stock US$

The Company's assets were evaluated by an external independent appraiser (Cushman & Wakefield Stiles & Riabokobylko (C&W)) in accordance with the International Valuation Standards as to 31 December 2007 at $1.2bn. The Company's Net Asset Value (NAV) increased as a result of the value appreciation of seed portfolio projects and the addition of new projects to the portfolio during 2007. The appreciation of seed portfolio projects is attributable to the completion of the Vernissage mall in Yaroslavl and MAG, as well as to the progress made in other projects' development and the decrease in yields and discount rates in Russia.

Net Profit US$000



Net Profit per Stock US$000

During 2007, rental income from investment properties grew substantially due to the completion of the Vernissage mall in Yaroslavl and MAG, and the expansion of rentable areas in the Hydromashservice project. Rising rental rates have complemented this progress, together leading to a higher profit. Consequently, the profit per stock increased accordingly. The Company has revalued its investment properties for the financial period ending 31 December 2007 based on the valuations of the Company's yielding projects by an independent appraiser (C&W).

Acquire attractive sites in targeted locations for future development

Portfolio in sqm

In 2007, the Company acquired five new projects and increased its total rentable/sellable area to reach 1.37m sqm on projects' completion, thereby increasing its total net areas by 203,000 sqm.

It is with much satisfaction that I report on the first full year of MirLand's operations as a listed public company. Over the past year, the Company has matured into one of Russia's leading real estate developers and has laid the foundations for further growth during 2008 and beyond.

MirLand's transformation into a major player in the Russian real estate market was achieved in 2007, through the completion and letting of existing projects, and the identification and acquisition of new opportunities. I am pleased to report that during the year we have acquired five new projects in the commercial and residential sectors as well as signed agreements aimed at securing acquisitions of two logistics projects. Four of the signed projects are in Moscow and the Moscow region; the fifth is in Kazan. The two logistic projects are in the Russian regions, in Saratov and Ufa. This geographic spread is in line with our declared strategy of focusing on major regional cities as well as the key areas of Moscow and St Petersburg where we have significant continuing projects.

I am also pleased to confirm significant progress on the funding side. In December 2007, we successfully launched a Corporate Bond issuance in Israel, raising $62m. We made further progress towards securing additional banking facilities, to finance both existing completed investments and our continuing development programme, and I am satisfied that we have adequate resources at our disposal to progress our existing schemes.

I also take this opportunity to address our shareholders, who play a key role in enabling the Company's future prosperity. One of our principal objectives is to keep all shareholders fully informed of the Company's progress and we continually strive to ensure strong relationships with our key stakeholders. Increasing shareholder return through adding value to MirLand is our first and foremost goal – a goal successfully achieved during 2007, as we elaborate later in this report.

Results

Total assets as at December 2007 amounted to US$658.0m in comparison with US$475.5m as at December 2006, and equity as at December 2007 amounted to US$472.8m in comparison with US$366.6 as at December 2006. The main reasons for the increase were the proceeds from the exercise of the overallotment option in January 2007; the proceeds from the bond issuance in Israel in December 2007; and revaluation of assets.

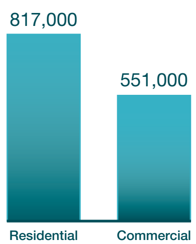
The Company's adjusted net asset value amounted to U$1,245.5m (31 December 2007) in comparison with US$916.2m in December 2006. The Company's real estate assets were valued by an external independent appraiser (Cushman & Wakefield Stiles & Riabokobylko) in December 2007 at US$1,440.3m (for 100% rights from freehold/leasehold), of which MirLand's share is US$1,214.8m in comparison with US$764.6m as at September 2006 in accordance with International Valuation Standards. MirLand's policy is to revalue its assets twice annually, ordinarily on 30 June and 31 December.

The main reasons for the increase were the increase in rental income and fair value adjustments of investment properties.

Portfolio Progress

In 2007, two projects were completed and started generating income. These were the Yaroslavl shopping mall and MAG, a 18,350 sqm office building. Both are over 95% occupied. In the renovation and expansion of Hydromashservice office buildings there was significant progress in 2007. This project is expected to be completed during the second quarter of 2008, however the rental income in 2007 has already grown significantly in comparison to the level in 2006. Four other projects entered the construction stage this year: Perkhushkovo, Saratov, Nemchinovka and Century Buildings. We acquired five new projects this year and secured acquisition for two additional logistics projects.

Segmentation Distribution sqm



Dividend Policy

As explained in the Company's admission document, MirLand has adopted a dividend policy that will 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.

Subject to these factors and where it is otherwise appropriate to do so, the Company intends to declare during 2009 a dividend of 2% of adjusted net asset value as of the date of the IPO for the financial year 2008 and during 2010 a dividend of 7% for the financial year 2009, with a view thereafter to increasing the level of dividend payments in line with the Company's cash flow growth.

Our People

Our Board of Directors consists of dedicated individuals whose expertise has proved invaluable throughout the year. They have ensured the successful implementation of MirLand's corporate strategy 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 Non-executive colleagues on a regular basis.

Once again I pay further tribute to my executive colleagues and all our staff at both Board and operating level. Together they form the backbone of our business and I thank them for their continuing dedication, energy and achievement, the sum of which is reflected in our 2007 year end results.

Our commitment to sound Corporate Governance remains undiluted, and we continually review our performance against best practice guidelines through regular consultation both internally and externally. Full detailed information on our approach to governance issues, our internal controls and key team members is provided in this annual report and accounts.

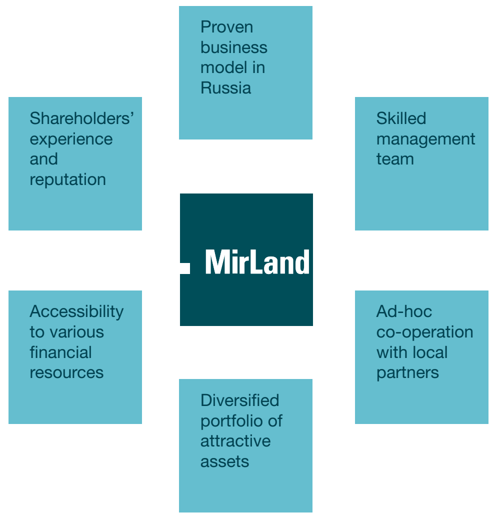
Outlook

In line with our strategy and vision, we continue to develop our existing assets, secure the acquisition of pipeline assets, and work towards expanding our investment portfolio with additional profitable assets, whilst expanding the depth of our financial sources.

MirLand is faced with a great opportunity which it is very well equipped to exploit. With a sound and expert management, a solid financial basis and an exceptional portfolio of opportunities, we look to the future with great optimism. I am confident in the Company's capabilities and in its ability to play a key role in shaping the Russian real estate market.

Nigel Wright
Chairman
8 April 2008

MirLand's Competitive Strengths



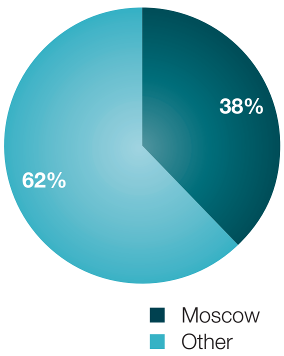
MirLand is focused on the value-enhancing acquisition, refurbishment, construction, lease and sale of residential and commercial real estate in Russia. The Company's business arena was expanded in 2007 and now includes a third sector – logistics, as well as a wider geographic dispersion.

The Company's projects vary in their locations (major and regional cities), sectors (residential, commercial and logistics), and status of development (range from already generating income to the pre-planning stage). For each of MirLand's projects, a local management team is put in place which is responsible for the development and, in the case of investment assets, ongoing management. These teams report on an continuing basis to MirLand's central management team.

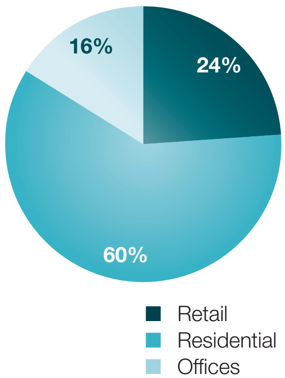
The Company has made significant progress in pursuing its strategy during 2007. Its key achievements include:

- the opening of the Vernissage mall in Yaroslavl in April 2007 with over 97% of the space let;
- commencement of the construction of over 232,000 sqm of new development across four projects: Perkhushkovo, Nemchinovka, Saratov and Century Buildings;
- further progress and final works in the refurbishment and leasing of the Hydromashservice and MAG projects, and the purchase of two more projects on the same site (Century Buildings and Tamiz) which will expand the total rentable area on the site from 36,000 sqm to 67,000 sqm (MirLand's stake: 57,000 sqm);
- entering into agreements for the development of two residential projects of 19,000 sqm in Moscow and 118,000 sqm in the Moscow Region, in which the Company will be eligible for 51% of the profits. The larger of these projects is already under construction;

Geographic Distribution sqm



Segmentation Distribution sqm



Moscow Skyscraper

Land area: **0.9 ha**

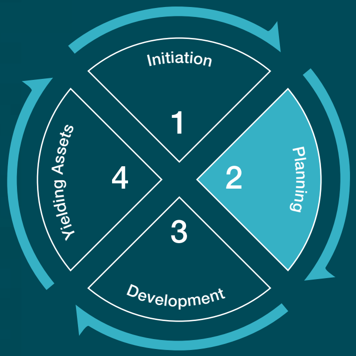
Rentable area: **91,800 sqm**

Expected construction commencement: **Q2 08**

Expected completion: **Q2 11**

Rights from leasehold: **100%**

Image for illustration only



Office sector

Moscow Hydromashservice & MAG

Hydromashservice

Land area: **1.2 ha**

Rentable area: **17,900 sqm**

Expected completion: **Q2 08**

Rights from leasehold: **100%**

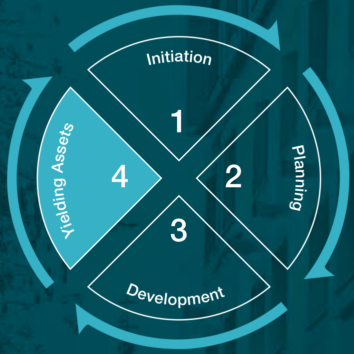
MAG

Land area: **2.2 ha**

Rentable area: **18,400 sqm**

Completed: **Q4 07**

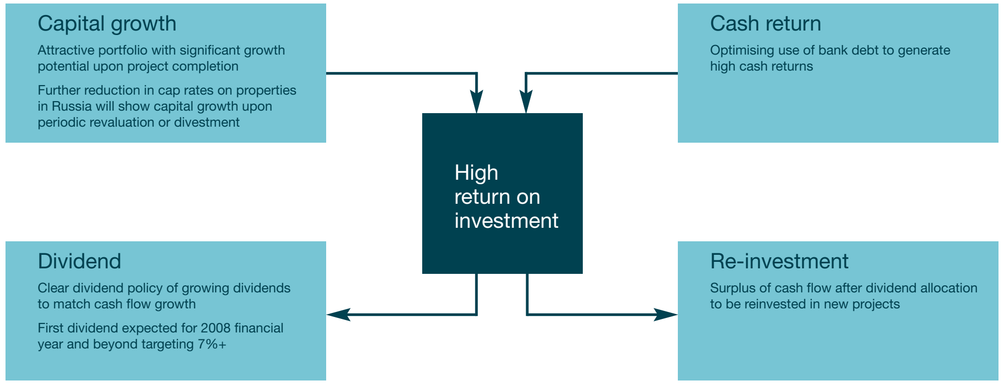
Rights from leasehold: **100%**



- acquisition of land for the construction of a commercial centre in Kazan's city centre;
- securing two logistics projects in Ufa and Saratov;
- the Company's operational base has been expanded with a number of new appointments which will enable it to successfully manage the expanded project portfolio;
- financing activities, including a US$62m bond issuance in Israel; signing agreement with EBRD for a US$48.5m project financing for the Saratov Triumph Mall project; and negotiations for project loans for a total value of over US$500m; and
- the Company has also been very active in pursuing new opportunities over the year. Some of these are in various stages of negotiation, and the Company strives to see them ripen into deals.

Strategy

MirLand's principal activity is the acquisition, development, construction, refurbishment, rental and sale of residential and commercial real estate in Russia. Its particular geographic focus is on Moscow, St Petersburg and major regional cities with population of more than 500,000, in which it has identified a significant demand for such properties. The Company invests primarily in projects where it identifies potential for a high return on equity and the generation of high yields, stemming from relatively low costs and high demand and prices.



The key elements of its ongoing strategy are as follows:

- focus on the completion of existing projects: the Company aims for the timely delivery of projects while ensuring they are completed to a high standard;

  marketing of all of the Company's commercial projects is commenced during their development so that they may generate income immediately upon completion; and
- utilisation of acquisition opportunities: the Company will continue to examine development projects in various sectors, locations and development stages.
  - geographic location: the Company intends to spread its investments over Moscow, St Petersburg, and major regional cities. In 2008, it will also examine opportunities in cities of more than 300,000 inhabitants – with high profitability potential. The Company makes its assessments on the basis of economic and demographic data, and the balance between supply and anticipated demand for international standard properties. Potential projects in these cities will be evaluated on the basis of their estimated rates of return on capital.
  - sector: the Company will continue to invest in a balanced mix of residential, retail, office and logistics properties and will consider expansion into other sectors (such as cold storage) as well as mixed-use projects. Each development site will be evaluated for its most appropriate use and highest potential return.
  - the Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. It intends to hold a balanced portfolio of yielding and development properties to obtain a relatively balanced spread in the use of working capital and management attention while at the same time generating an income flow from sales and yielding properties.
- realisation of assets on promising opportunities: the Company will continuously reassess whether to retain yielding properties or realise their market value through disposal, depending on the opportunity and on prevailing market conditions. The Company will use revenues from the yielding assets to diversify its income sources.
- use of diverse financing resources to accelerate business activity and growth: equity, shareholders' loans, bank loans and the recent bond issuance are used to finance the Company's activities. As the Russian credit market develops, the Company intends to take advantage of available financing to enhance returns on equity.
- the extension of relationships with local partners, particularly in the regions. Having a local partner promises daily proximity to projects and therefore a greater level of control and involvement. These relationships are also expected to lead to future investment opportunities.

The Market

Russian Economy

Trends in Russia's economy have been positive over the past few years: strong GDP growth, declining interest rates, and a high volume of foreign investment has been recognised by credit rating agencies which have conferred an investment grade credit rating on Russia. An increase in average wages and disposable income has stimulated retail turnover and expanded housing affordability.

On the back of strong economic growth in Russia, the Russian real estate market has developed significantly. Investments in real estate exceeded US$4bn in 2007, compared with US$3.3bn in 2006. Russia continues to be a dynamic market, offering development opportunities as well as income-producing assets.

Furthermore, attractive development yields and the increasing sophistication of tenants have spurred demand for new international standard real estate.

The subprime crisis has had little impact on Russia's real estate development momentum; in 2008 Russia's economic stability is expected to continue to support the real estate sector, which we believe is likely to withstand the global credit crunch and continue growing.

Office Sector

While still fairly new, Moscow's and St Petersburg's modern office markets are maturing quickly in size and quality. Virtually non-existent a decade ago, Moscow's market is now one of Europe's most dynamic, showing high volumes of new construction and take-up, with the St Petersburg market displaying similar trends.

While the stock of international standard office space has more than trebled since 2000 – 1.5m sqm of quality space was delivered in 2007 alone – the market is still undersupplied, with demand far exceeding supply. The shortage of high-quality office space encourages tenants to pre-let larger premises while they are still under development to ensure that they secure sufficient office space for themselves, and to allow for future growth. Average vacancy rates for class A and B offices remain among the lowest in European cities.

The St Petersburg office market is currently concentrated in the historic centre, a phenomenon that directly relates to the early stage of the market's evolution. As the office market develops, it is expected that modern office space will be built outside the centre.

Capitalisation rates for prime office space are expected to continue to compress over the next three to four years, as a result of Russia's improved credit rating, the increase in the number of investment-grade buildings, and the perception of diminishing political and economic risks.

Retail Sector

The continuing steady growth in disposable incomes makes retail one of the most dynamic and quickly evolving sectors of the country's economy as evidenced by the modern, international standard shopping centres which are appearing across Moscow and large regional cities. While shopping centre stock has trebled since 2003, there is still an under supply of modern shopping space. The average size of shop units is also growing consistently; vacancies at international-standard shopping centres in Moscow remain very low, at less than 1%.

The country has numerous regional cities of more than 300,000 people, which have little or no modern real estate stock. Retail constitutes the most attractive segment of this market, stimulated by the growing purchasing power in Russia's regions and a shortage of good quality retail assets – even in some of the country's largest regional cities. These cities are expected to become fast-growing markets; as a result Russian and international retailers continue to look towards the regions as an attractive growth opportunity.

Office sector

Image for illustration only

Rentable area: **20,600 sqm**

Construction commencement **Q4 07**

Expected completion: **Q4 08**

Building rights ownership: **51%**

* The partner has an option to purchase additional 1%

Moscow Century Building

Moscow Tamiz

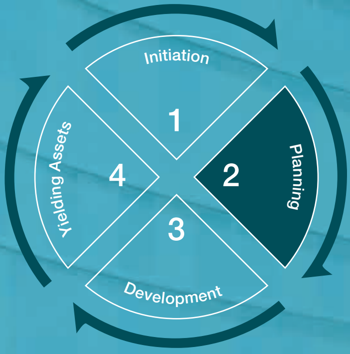
Image for illustration only

Rentable area: **10,700 sqm**

Expected construction commencement: **Q2 08**

Expected completion: **Q2 09**

Building rights ownership: **100%**



Office/Retail sector

Image for illustration only

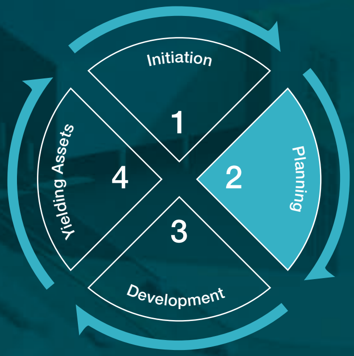
Land area: **22 ha**

Rentable area: **156,300 sqm**

Expected construction commencement: **Q3 08**

Expected completion: **Q3 12**

Rights from freehold: **50%**



Moscow Techagrocom

Kazan Triumph House

Image for illustration only

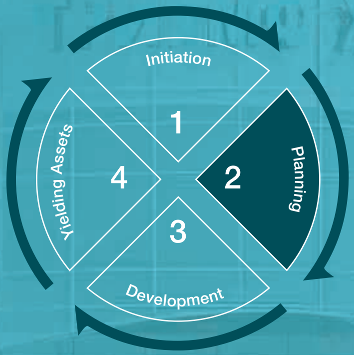
Land area: **2.2 ha**

Rentable area: **34,600 sqm**

Expected construction commencement: **Q3 08**

Expected completion: **Q2 10**

Rights from building ownership: **100%**



Residential Sector

The market for residential property in Russia is characterised by very low supply per capita and ageing stock; despite extensive construction, there is still a major shortage of residential space. The severity of the shortage has resulted in the Russian government making a stated objective to increase housing stock by 4.3% annually until 2017.

Since 1990, the volume of housing stock in Moscow city and the Moscow region has almost doubled. The main reasons for the increase in demand are increases in salaries and disposable income, the expansion of western enterprises and the subsequent increase in employees needing housing. After a slowdown in 2004, the Moscow residential property market rebounded strongly in 2005, with healthy growth in price and demand continuing into 2006 and 2007.

In St Petersburg, the residential real estate market has been experiencing the fastest rate of development over the past couple of years. Housing stock in St Petersburg has grown more or less continuously over the past three centuries. Since many of the old buildings in St Petersburg's centre are low quality and land is relatively scarce, modern, high-quality residential developments in the city's outskirts have become more attractive in recent years. Residential real estate prices in St Petersburg have shown relatively stable growth over the past few years. In 2007 prices increased by 18%.

Key Economic Indicators

	2004	2005	2006	**2007**
Population (m)	143.8	143.4	142.9	**141.4**
GDP per capita (ppp, US$)	9,800	11,000	12,200	**14,600**
GDP growth rate (%)	7.1	6.4	6.7	**7.6**
Annual average inflation rate (%)	10.9	12.7	9.7	**11.9**
Unemployment rate (%)	8.2	7.6	7.1	**6.1**
Average RUR/US$ exchange rate	28.8	28.3	26.3	**24.4**
Credit rating	BB+	BBB	BBB+	**BBB+**

Sources: RosStat, CIA, Central Bank of Russia, Standard & Poor's.

In 2007, across Russia, the 34m sqm of housing space that were delivered into the Russian market were rapidly absorbed by the demand for high-quality housing.

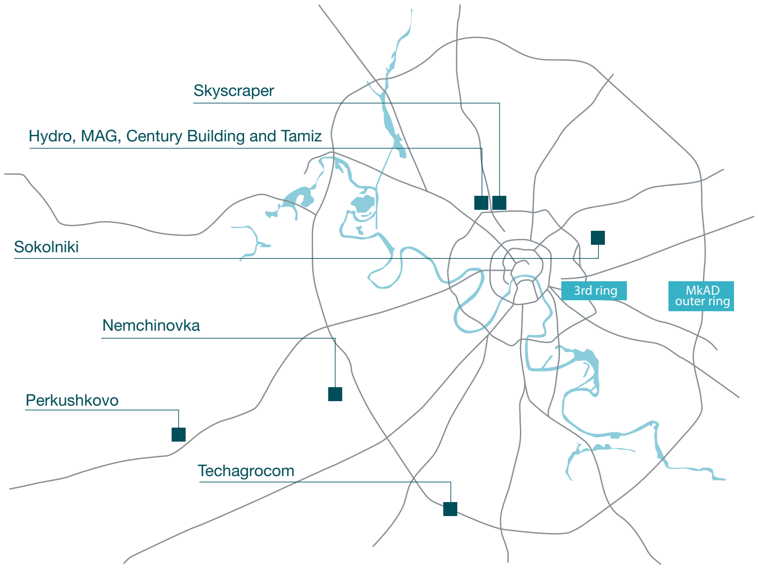
Logistics Sector

The ongoing growth in disposable income in Russia which has led to larger retail turnovers, has increased the need for quality logistics properties. Class A logistics stocks in Russia have increased 30-fold since 2000, with over 1m sqm of space delivered in 2007 alone. There is still a significant shortage of warehouse space in Moscow and St Petersburg which results in low vacancy rates.

Entry into New Sectors

In 2007, MirLand entered the logistics sector securing two new projects in regional cities. This was driven by the growth of the Russian economy, the rise in consumer spending, and the expansion of many retailers to major and developing cities, with a resulting demand for quality logistics property for storage.

In 2008 Mirland will also consider investing in cold storage, a sub-sector of logistics – a sector that is not only in short supply but is also expected to experience high demand.



Portfolio

The Company's investment opportunities have come from a number of different sources, including its previous business relationships with local Russian partners and third parties, such as financial institutions, real estate investors and professional advisors. Direct approaches from third-party property owners have introduced further opportunities.

The Company's portfolio has been valued by Cushman & Wakefield at US$1.2bn (MirLand's share) as at 31 December 2007, based on its rights from freehold/leasehold interest. This value represents an increase of US$350m in the portfolio's value since 2006, of which US$154m represents newly acquired assets, and US$196m – appreciation of existing assets in the portfolio since the beginning of the year.

The Company's main projects are as follows:

Hydromashservice (Hydro), Moscow – Offices

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
- Rentable area: 17,889 sqm
- Expected completion: Q2 2008
- Rights from leasehold: 100%

MAG, Moscow – Offices

Phased renovation and expansion of a class B+ office complex adjacent to the Hydromashservice project has been completed.

- Land area: 2.2 ha
- Rentable area: 18,355 sqm
- Completed: Q4 2007
- Rights from leasehold: 100%

Century Buildings, Moscow – Offices

Construction of office buildings on the Hydromashservice and MAG site.

- Rentable area: 20,600 sqm
- Expected completion: Q4 2008
- Rights from building ownership: 51% (The partner has an option to purchase additional 1%)

Tamiz, Moscow – Offices

Construction of class B+ office buildings at the Hydromashservice and MAG site.

- Rentable area: 10,700 sqm
- Expected construction commencement: Q2 2008
- Expected completion: Q2 2009
- Rights building ownership: 100%

Skyscraper, Moscow – Offices and Retail

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

- Land area: 0.9 ha
- Rentable area: 91,800 sqm
- Expected construction commencement: Q2 2008
- Expected completion: Q2 2011
- Rights from leasehold: 100%

Techagrocom, Moscow Region – Business Park

Three-phase development of a 173,100 sqm business park (100,000 sqm offices and 73,100 retail). The complex is ideally located near the Leninskiy district near Moscow's fourth ring ("MKAD").

- Land area: 22 ha
- Rentable area: 156,300 sqm
- Expected construction commencement: Q3 2008
- Expected completion: Q3 2012
- Rights from freehold: 50%

Perkhushkovo, Moscow Region – Residential

Development of 163 town houses and cottages in the prestigious western outskirts of Moscow. This project targets the growing segment of successful professionals who seek an improved standard of living.

- Land area: 22.5 ha
- Sellable area: 63,200 sqm
- Construction commencement: Q3 2007
- Expected completion: Q2 2009
- Rights from freehold: 100%

Retail sector

Image for illustration only

Land area: **2.2 ha**

Rentable area: **28,000 sqm**

Construction commencement: **Q2 07**

Expected completion: **Q2 09**

Rights from freehold: **95%**

Saratov Triumph Mall

Yaroslavl Vernissage Mall & Big Box Complex

Land area: **12 ha**

Rentable area: **32,250 sqm**

Construction commencement: **Q3 05**

Completed: **Q2 07**

Rights from freehold: **49%**

Phase 2 – Big Box Complex

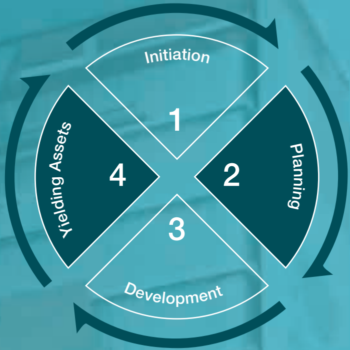
Land area: **18 ha**

Rentable area: **50,000 sqm**

Expected construction commencement: **Q3 08**

Expected completion: **Q1 10**

Rights from freehold: **49%**



Retail/Residential sector

St Petersburg Triumph Park

Land area: **41 ha**

Sellable area: **707,000 sqm**

Expected construction commencement: **Q2 08**

Expected completion: **Q1 14**

Rights from freehold: **100%**

Image for illustration only

Nemchinovka, Moscow Region – Residential Complex with Trade Centre

Development of approximately 1,540 residential units alongside a retail centre in the western part of the outskirts of Moscow near MKAD.

- Land area: 13 ha
- Sellable area: 117,700 sqm
- Construction commencement: Q4 2007
- Expected completion: Q1 2010
- Profit share rights: 51%

Sokolniki, Moscow– Residential and Commercial Complex

Development of approximately 240 residential units and a retail centre in the north-eastern part of Moscow, near the Sokolniki metro station and park.

- Land area: 1.3 ha
- Sellable area: 19,000 sqm
- Expected construction commencement: Q2 2008
- Expected completion: Q4 2009
- Profit share rights: 51%

Triumph Park, St Petersburg – Residential Complex and Trade Centre

This is the Company's flagship project, which includes the development of a residential neighbourhood, complete with approximately 9,000 apartments and commercial areas, near a major road connecting St Petersburg to its airport. The commercial areas will include offices and retail with underground parking, a commercial centre, kindergartens, a school and parks.

- Land area: 41 ha
- Sellable area: 707,000 sqm
- Expected construction commencement: Q2 2008
- Expected completion: Q1 2014
- Rights from freehold: 100%

Vernissage Mall, Yaroslavl – Shopping Centre

Development of a western standard single floor shopping centre in Yaroslavl has been completed in 2007. This project is located at the entrance road to Yaroslavl from Moscow.

- Land area: 12 ha
- Rentable area: 32,250 sqm
- Construction commencement: Q3 2005
- Completed: Q2 2007
- Rights from freehold: 49%

Big Box Complex, Yaroslavl – Second Phase Retail Development

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

- Land area: 18 ha
- Rentable area: 50,000 sqm
- Expected construction commencement: Q3 08
- Expected completion: Q1 2010
- Rights from freehold: 49%

Triumph Mall, Saratov – Shopping Centre

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

- Land area: 2.2 ha
- Rentable area: 28,000 sqm
- Construction commencement: Q2 2007
- Expected completion: Q2 2009
- Rights from freehold: 95%

Triumph House, Kazan – Trade Centre

Development of a three-storey trade centre in the central part of Kazan aimed at home improvement and design stores.

- Land area: 2.2 ha
- Rentable area: 34,600 sqm
- Sellable area: 5,700 sqm
- Expected construction commencement: Q3 2008
- Expected completion: Q2 2010
- Rights from building ownership: 100%

Prospects

The Company is currently in the process of considering several projects for acquisition, the selection of which will be based on prospects of profitability and portfolio enhancement. These projects are located in MirLand's target cities, major and regional, and encompass the retail, offices, residential and logistics sectors.

In 2008, the Company's strategic goal is to begin construction on its portfolio projects. MirLand's strong financial base, achieved among other things by the recent bond issuance, positions it well for a year of extensive investments in both new and existing projects.

However, in order to back the growth of our business, MirLand's human capital will continue to expand.

I thank the MirLand management team for its dedication to the Company and its shareholders; and the Company's employees, who are responsible for the day-to-day success of all our activities. I am confident that this winning team will continue working together to realise MirLand's vision.

We strongly believe in the quality of our committed and pipeline projects and are sure the many opportunities in the Russian market will enable us constantly to expand our portfolio for the optimal enhancement of shareholder value.

Moshe Morag
Chief Executive Officer
8 April 2008

MirLand Development Corporation Assets – Overview of Market Values*

as at 31 December 2007

Ref.	City	Property Name and Address	Portfolio Market Value as at 31 December 2007 Rounded US$	Percentage Owned by MirLand	**MirLand Market Value as at 31 December 2007 Rounded US$**
001	Moscow	Hydromashservice, 2-Khutorskaya str, 38A	102,390,000	100	**102,390,000**
002	Moscow	MAG, 2-Khutorskaya str, 38A	101,080,000	100	**101,080,000**
003	Moscow Region	Perkhushkovo, Odintsovsky district	86,050,000	100	**86,050,000**
004	Saratov	Retail mall, 167 Zarubina street	46,680,000	90	**42,012,000**
005	Moscow	Skyscraper, Dmitrovskoe schosse, 1	168,291,000	100	**168,291,000**
006	St Petersburg	Residential & Trade Centre	462,564,000	100	**462,564,000**
007	Moscow Region	Techagrocom, Kaluzhskoe Highway	93,063,000	50	**46,532,000**
008	Yaroslavl	Phase I Operating Shopping Centre, Kalinina str	90,580,000	49	**44,384,000**
009	Yaroslavl	Phase II (Remaining unimproved Land Plot of 18 ha)	15,979,000	49	**7,830,000**
010	Moscow	Sokolniki Residential	40,673,000	50	**20,337,000**
011	Moscow	Nemchinovka Residential	155,168,000	50	**77,584,000**
012	Moscow	Tamiz Building	24,036,000	100	**24,036,000**
013	Moscow	Century Building	44,066,000	50	**22,033,000**
014	Kazan	Kazan Commercial	9,692,000	100	**9,692,000**
Total			1,440,312,000		**1,214,815,000**

* The full report is published on the Company's website.

Residential sector

Image for illustration only

Sokolniki

Land area: **1.3 ha**

Sellable area: **19,000 sqm**

Expected construction commencement: **Q2 08**

Expected completion: **Q4 09**

Profit share rights: **51%**

Nemchinovka

Land area: **13 ha**

Sellable area: **117,700 sqm**

Construction commencement: **Q4 07**

Expected completion: **Q1 10**

Profit share rights: **51%**

Moscow Sokolniki & Nemchinovka

Moscow Perkhushkovo

Image for illustration only

Land area: **22.5 ha**

Sellable area: **63,100 sqm**

Construction commencement: **Q3 07**

Expected completion: **Q2 09**

Rights from freehold: **100%**

Income for 2007 amounted to US$94.6m and net profit amounted to US$64.9m. Total assets at December 2007 amounted to US$658.0m and equity amounted to US$472.8m. The Company's adjusted net asset value amounted to US$1,245.5m. The Company's real estate assets were valued on 31 December 2007 at US$1,440m (for 100% rights from freehold/leasehold) by an external appraiser out of which MirLand's share is US$1,215m. In December 2007 the Company successfully raised US$62m in a bond issuance in Israel.

Accounting Policy

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

Income Statement

Income for 2007 grew to US$94.6m in comparison with US$40.1m in 2006, a rise of 136%.

The Company's revenue consists of two main items: rental income from investment properties and fair value adjustments of investment properties. Rental income from investment properties grew to US$10.4m from US$3.7m, a rise of 181% due to the completion of the Vernissage mall in Yaroslavl, the completion of the renovation and expansion of MAG office buildings, the expansion of the Hydromashservice office buildings, and due to rising rental rates in MAG & Hydromashservice projects. In accordance with IAS 40 the Company has revalued its "investment properties" for the financial period ended 31 December 2007 and has recognised the resulting movement in valuation through its income statement as "fair value adjustments of investment properties". This amount of US$82.1m has been determined based on the valuations of the Company's Yaroslavl, MAG & Hydromashservice projects prepared by an independent appraiser (Cushman & Wakefield Stiles & Riabokobylko), in accordance with International Valuation Standards.

The principal operating expenses of the Company are embodied in property maintenance costs, which rose from US$0.9m in 2006 to US$6.4m in 2007, due to the increase in the number of operational properties.

The Company's general and administrative expenses for the period rose to $26.7m compared with US$8.8m in 2006, mainly due to the provision of management services for MAG and Hydromashservice, fees paid to professionals, the recruitment of additional professionals, and recognition of cost of the share-based payments.

Total financing costs for the period amounted to US$10.7m out of which US$2.0m was capitalised to properties under construction. Financial revenue, achieved through interest from deposits and currency exchange rate revenues, amounted to US$23.0m.

Tax expenditure in 2007 was US$5.4m. MirLand is resident in Cyprus for tax purposes and is subject to a 10% tax rate. MirLand's subsidiaries in Russia are subject to a 24% tax rate. Additional details are covered in note 7 of the financial statements.

Net profit for 2007 was US$64.9m, in comparison with US$29.9m in 2006, a rise of 117%. This increase is largely due to the increase in rental income and asset revaluations.

Balance Sheet

Total assets as at 31 December 2007 amounted to US$658.0m in comparison with US$475.5m in 2006, a rise of 38%. The main reasons for the increase were the revaluations of three assets which amounted to US$82.1m, the proceeds from the exercise of the overallotment option in January 2007 which amounted to US$30.8m, and the net proceeds of US$62m from the bond issuance in Israel in December 2007.

Equity and Liabilities

Equity as at 31 December 2007 increased to US$472.8m from $366.5m in 2006, a rise of 29%. Equity grew mainly due to the exercise of the overallotment option in January 2007 and from 2007 net profit. To date, the Company has financed its activities mainly by equity, which comprises 72% of total assets.

Long-term liabilities as at 31 December 2007 amounted to US$95.9m compared with US$27.8m at 31 December 2006. This increase is mainly due to the issuance of bonds on the Tel-Aviv stock exchange.

NAV

The Company's real estate assets were valued by an external independent appraiser (Cushman & Wakefield Stiles & Riabokobylko) in accordance with International Valuation Standards at 31 December 2007 at US$1,440m (for 100% rights from freehold/leasehold), of this MirLand's share is US$1,215m. MirLand's policy is to revalue its assets twice annually, ordinarily on 30 June and 31 December.

The Company's Adjusted Net Asset Value ("NAV") based on the Cushman & Wakefield valuation as at December 2007 increased to US$1,244.7m in comparison with US$916.2m in December 2006, a rise of 36%. The increase was contributed mainly from the increase of seed portfolio projects (US$144.8m) and projects added to portfolio in 2007 (US$154.4m). The increase of the seed portfolio projects is attributed by the completion the Vernissage mall in Yaroslavl, the completion of the renovation and expansion of MAG, the expansion of the rentable area of Hydromashservice, the progress that has been made with the construction and planning of the other portfolio assets, and to the decrease in the yields and discount rates in Russia.

Cash Flow

During 2007, the Company used US$150.8m for investment activities, out of which US$125.2m used for investments in subsidiaries and real estate properties. Cash flow from financing activity amounted to US$92.8m, mainly generated from the proceeds of the exercise of the overallotment option during January 2007 and proceeds from the bond issuance in December 2007.

Financial Strategy

In 2007 the Company's activities have primarily been financed with proceeds from the 2006 IPO and corporate bank loans. The Directors anticipate that the debt market in Russia will continue to develop, making Russian bank debt an attractive financing option of which the Company may take advantage in the future. The financing opportunities open to the Company will be reviewed on a case-by-case basis, and will vary between market segments. The Company's policy is to limit its leverage to 66% of the gross value of the Company's assets, including all development, trading and investment properties.

As Russian real estate finance continues to develop, the associated development costs of the Company's commercial projects will be, under optimal circumstances, up to 70% debt financed. On completion, the Company anticipates that its properties will be refinanced on entering the yielding phase, at up to 70% of the relevant property's valuation.

Residential projects, on the other hand, are principally financed with equity as the financing market for residential projects remains relatively undeveloped in Russia. Accordingly, residential projects are constructed in phases, thus allowing the use of capital from pre-sales to finance upcoming development phases. The Directors anticipate that the Company will finance its residential projects by obtaining bank loans in US$.

Wherever possible, the Company seeks to acquire finance on a non-recourse basis to minimise risk. In 2007 the Company signed a US$48.5m loan agreement with the European Bank for Reconstruction and Development ("EBRD") for the Saratov project. The Company is negotiating with several banks for financing some other portfolio projects.

Outlook

In the forthcoming years, MirLand will use its bond issuance proceeds to expand its portfolio, by acquiring and developing more assets. Fixed assets are anticipated to grow during 2008 as a result of investment in properties and lands which will be financed by bank loans and the Company's accumulated cash. In addition, the Company's revenues are anticipated to further grow this year thanks to proceeds from pre-sales of residential projects and the completion of assets.

Market Risks

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

Foreign currency risk: the Company's functional currency across its operating subsidiaries is the Rouble, whereas the Company's functional currency is the US$. The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US$. 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 Roubles linked transactions and therefore the Company will assess its future transactions. The Company is exposed to fluctuations in the Rouble pending receipt of refunds or offsets of excess input VAT under Russia VAT legislation. The Company's policy is generally not to enter into currency hedging transactions but hedging will be considered in relation to those VAT refunds.

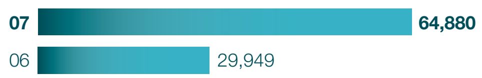
Interest rate risk: whilst the Company does not currently have any significant interest bearing assets, changes in interest rates could affect the cost of current and future financing.

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

Roman Rozental
Chief Financial Officer
8 April 2008

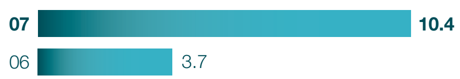
NAV per Stock US$

Net Profit US$000

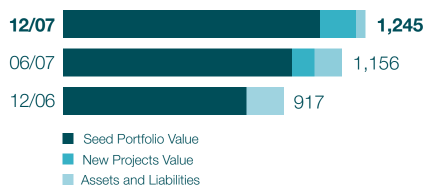


Net Profit per Stock US$000

Income Development US$m



NAV Development US$m



The Company's activities in the Russian Real-Estate market expose it to various risks; managing these risks demands both preparedness and active involvement. The Company's experienced management and its comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's performance. The Audit Committee reviews and monitors, on a periodical basis, the exposure of the activity to various risks and the management mitigation actions related to these risks.

Risk	Mitigation
Market	
Changes in the Russian economic and political environment	Monitoring changes in the Russian environment through on-going research from diversified 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 examined 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 exploits their familiarity with the Russian market.
	The Company conducts bid processes that include also fixed prices.
	The Company purchases insurance for all of its assets.
Financial	
Foreign exchange risk	The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US$.
Interest rate risk	The Company is looking into diversified financing tools such as hedging or fixed rate loans.
Credit risks	Performance of ongoing credit evaluations of tenants, purchasers and contractors.
	Deposits and specific allowances for doubtful accounts.
Additional requirements for capital	The Company is acting to diversify its financing resources through various markets and tools.

Board of Directors

From left: Eyal Fishman, Eliezer Fishman, Elias Eliades, Caroline Brown, Guerman Aliev, Douglas Blausten, Nigel Wright, Moshe Morag and Roman Rozental

Nigel Wright

Non-executive Director and Chairman, age 53

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

Moshe Morag

Chief Executive Officer, age 62

Moshe Morag has over 33 years of general managerial experience and 18 years of experience with real estate operations, most of those as the chief executive officer of IBC, Israel's largest real estate company. Moshe is also active as a board member of several non-profit organisations, including the Friends of the Rabin Medical Centre, Israel's largest medical centre.

Roman Rozental

Chief Financial Officer, Certified Public Accountant, age 40

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

Caroline Brown

Non-executive Director and Chairman of the Audit Committee, qualified accountant, chartered director, age 45

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

Guerman Aliev

Non-executive Director, age 37

Guerman Aliev is deputy chief executive officer and a member of the management board of Rosbank, Russia's seventh largest bank, at which he has also acted as head of strategy development and implementation. He was previously a director of equity and equity-linked capital markets for Dresdner Kleinwort Wasserstein, London as well as a director of equity-linked capital markets for Merrill Lynch International (UK), where he was involved in a broad range of transactions including equity and fixed income derivatives, convertible bonds and acquisition related finance in Russia, South Africa, Israel and Eastern Europe.

Douglas Blausten

Non-executive Director and Chairman of the Remuneration Committee, Fellow of the Royal Institution of Chartered Surveyors and a General Commissioner of Taxes, age 56

Douglas Blausten has wide ranging property expertise and is currently the senior partner of Cyril Leonard, a firm of Chartered Surveyors, where he is responsible for corporate services, investment acquisitions and sales, as well as for their offices in Munich and affiliate offices in the US and Paris. Douglas has acted for corporations such as ALSTOM and Alcatel, providing corporate real estate services and strategic property planning. He has held a number of executive and non-executive directorships in public companies and continues to hold the same in private companies whose activities range from real estate and financial services.

Eliezer Fishman

Non-executive Director, Certified Public Accountant, age 64

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 38

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 including eight different chains. Eyal is a member of the board of directors of Darban Investments Limited, one of the Company's significant shareholders, an office he has held for the past 13 years. Eyal Fishman is the son of Eliezer Fishman.

Elias Eliades

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

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.

Georgios Hadjianastassiou

Non-executive Director, age 68

Georgios Hadjianastassiou resigned from the Board on 11 August 2007.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

Country of Incorporation

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

Principal Activities

During the year the Group continued its activities of property trading and development. It will continue the same activities in 2008.

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 12 to 13 and the Chief Executive's statement on pages 14 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 profit for the financial year of US$64.9m (2006: US$29.9m). The consolidated balance sheet on page 49 shows net assets of US$472.8 thousand (2006: US$366.6 thousand).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2007.

Share Capital and Treasury Shares

On 4 January 2007, the Company issued US$3,558,000 shares to underwriters. The total issue proceeds amounted to US$33,160,560 and the share premium amounted to US$33,124,980. There were no other 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 page 33.

Mr. Elias Eliades was appointed to the Board on 11 August 2007 and Mr. Georgios Hadjianastassiou resigned on the same date.

There were no significant 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 2007, with comparative figures as at 31 December 2006, are as follows:

Director	**Number of shares as at 31 December 2007**	Number of shares as at 31 December 2006
Nigel Wright	**20,500**	20,500
Moshe Morag	**0**	0
Roman Rozental	**0**	0
Caroline Brown	**2,050**	2,050
Guerman Aliev	**0**	0
Douglas Blausten	**18,450**	18,450
Georgios Hadjianastassiou**	**0**	0
Eliezer Fishman*	**200,000**	200,000
Eyal Fishman*	**200,000**	200,000
Elias Eliades	**0**	0

* Eliezer and Eyal Fishman's holding is 200.000 ordinary shares in aggregate, held jointly through an entity controlled by them and their family.

** Mr Hadjianastassiou resigned from the Board on 11 August 2007.

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

Except as disclosed above, as at 31 March 2008, the Company is aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage holding
Jerusalem Economy Ltd	**27.3**	28,236,390
Industrial Buildings Corporation Ltd	**27.4**	28,381,202
Darban Investments Ltd	**13.5**	14,000,001
T Rowe Price Associates, Inc	**6.9**	7,166,400

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

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

Directors' Interests in Significant Contracts

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

On 31 December 2007 the Company signed MOU to acquire 50% of each of OOO Inomotor LLC and OOO Avtoprioritet LLC, companies in which Mr Krichevsky, a Director of certain subsidiaries of the Company, has a controlling interest. Each of these companies has building rights in the Hydromashservice and MAG site. The acquisitions are to be concluded on an arm's-length basis.

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 2007. The Directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

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

Insurance of Directors

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

Financial Risk Management

The financial risks and uncertainties are stated in Note 27 of the consolidated financial statements. The Group is also exposed to other business risks which relate to the markets in which it operates. The Group monitors and manages these risks through various control mechanisms.

Charitable Donations

During the year the Group donated US$25,000 to the community in St Petersburg.

Health and Safety

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

Branches
The Group did not operate through any branches during the year.

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

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

Post Balance Sheet Events
In February 2008, the Company purchased an additional 5% of the share capital of Mall Project Co. Ltd, for approximately $750 thousand.

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

In January and February 2008, the Group granted a loan to Inomotor of approximately $7.4m. In February 2008, in consideration of purchasing the rights in Inomotor and Avtoprioritet, the Group provided the sellers a loan of $1m. In addition, the Group committed to invest $1.6m in Inomotor and $3.3m in Avtoprioritet for the purpose of investing in the project buildings and the repayment of former debts to third parties. It was further agreed that the Group shall provide a loan to Avtoprioritet in the amount of up to $7m bearing an annual interest rate of 11% in order to enable Avtoprioritet to repay debts to third parties.

See note 29 to the financial statements for further details.

By order of the Board

Nigel James Wright
Chairman
8 April 2008

Corporate Social Responsibility

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

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

Employees
The Company is committed to safeguarding the health, safety and welfare of its employees. Since the Company's incorporation, no significant injuries, diseases or other dangerous occurrences have occurred in the Company. Our goal for 2008 is to preserve this clean record. For that purpose the Company provides, and will continue to provide, health and safety education to its managers and employees.

Tenants
The Company is committed to preserving the excellent reputation and the high international building standards of the Fishman Group. In particular, the Company is committed to safeguarding the safety and maintaining the satisfaction of its tenants. Since the Company's incorporation, no significant injuries or other dangerous occurrences have occurred in the Company's facilities and no material complaint was filed by any of its tenants. Our goal for 2008 is to preserve this clean record.

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

Charity
The Board has stated its intention to donate to communities in cities and neighbourhoods in which it holds and develops real estate projects or to other communities that may approach the Company with an appropriate request for a donation. In 2007 the Company donated US$25,000 to the community in St Petersburg. The Company has approved donations for 2008 of US$200,000 without additional approval from the Board of Directors.

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

Board Composition, Roles and Independence

MirLand has a balanced Board, which comprises nine Directors. The Board and all the Board committees are dominated by a majority of Non-executive, independent Directors. Each Non-executive Director participates in at least two of the Corporate Governance committees of the Board. Douglas Blausten is the Senior Independent Non-executive Director.

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

Chairman

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

Chief Executive Officer

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

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

The Combined Code recommends that the Board of Directors of a listed company should include a balance of executive and Non-executive Directors (and, in particular, independent Non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking. The Combined Code states that the Board should determine whether a Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board has considered the independence of its Non-executive Directors in line with the principles of the Combined Code (section A.3.1) and, following careful consideration, assessed the independence of the Non-executive Directors as follows:

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

* Mr Hadjianastassiou resigned from the Board on 11 August 2007.

Of MirLand's nine Directors, five are Non-executive Directors considered by the Board to be independent, which the Directors consider to be a satisfactory balance for the purposes of decision-making at Board level and in line with the provisions of the Combined Code.

Board Conduct

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

The table below sets out the dates of the Board meetings held in 2007 and provides details of the Directors' attendance at each meeting.

	12 March 2007	21 May 2007	16 August 2007	19 November 2007
Nigel Wright	✓	✓	✓	✓
Moshe Morag	✓	✓	✓	✓
Roman Rozental	✓	✓	✓	✓
Caroline Brown	✓	✓	✓	✓
Guerman Aliev	✓	✓	✓	✓
Douglas Blausten	✓	✓	✗	✓
Georgios Hadjianastassiou	✓	✗	Resigned	Resigned
Eliezer Fishman	✓	✗	✓	✗
Eyal Fishman	✓	✓	✓	✓
Elias Eliades	–	–	–	✓

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

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

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

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

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

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

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

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

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

Retirement by Rotation and Re-election

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

As Mr Elias Eliades was appointed to the Board after the last AGM of the Company, his election to the Board is subject to the approval of the shareholders. Under the provisions of the Company's articles of association, one third of the Directors are required to retire by rotation each year and accordingly, Guerman Aliev, Moshe Morag and Caroline Brown 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.

Douglas Blausten, who has been with the Company since November 2006, has announced his intention to not seek re-election as a Non-executive Director at the upcoming AGM. The Board thanks him for his substantial contribution and services to the development of the Company over the past 18 months.

Biographical details of the Directors are given on page 33.

Relations with Shareholders

The Finance Director, the Company's CFO, meets regularly with institutional shareholders and analysts. Additional meetings are arranged to ensure open dialogue throughout the year. It is proposed that Non-executive Directors should also be available for such meetings, subject to institutional shareholder requests.

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

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

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

Investment Committee

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

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

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

Attendance at the meetings of the Investment Committee held in 2007 is shown below.

	11 March 2007	20 May 2007	19 July 2007	18 November 2007
Eyal Fishman (Chairman)	✗	✓	✓	✓
Nigel Wright (Member)	✓	✓	✓	✓
Guerman Aliev (Member)	✓	✗	✗	✓

Nomination Committee

The Nomination Committee consists of three Non-executive Directors. The committee was chaired by Georgios Hadjianastassiou and its other two members are Nigel Wright and Eyal Fishman. Following the resignation of Georgios Hadjianastassiou, Elias Eliades was appointed to the committee in March 2008 and replaced Mr. Hadjianastassiou as the Chairman of the committee. The terms of reference of the Nomination Committee are available on the Group's website and principally relate to preparing selection criteria and appointment procedures for members of the Board and reviewing on a regular basis the structure, size and composition of the Board. The committee will also consider future appointments in respect of the Board's composition as well as make recommendations regarding the membership of the Audit and Remuneration Committees. Attendance of the meeting of the Nomination Committee held in 2007 is shown below:

	11 March 2007
Georgios Hadjianastassiou (Chairman)*	✓
Nigel Wright (Member)	✓
Eyal Fishman (Member)	✗

* Mr Hadjianastassiou resigned from the Board on 11 August 2007.

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

The Audit Committee meets at least four times each year, before each Board meeting, reporting any relevant matters to the Board where appropriate. Attendance of the individual Directors, who all served on the committee throughout the year, is shown below. The Audit Committee comprised three independent Non-executive Directors throughout the period. Caroline Brown has the particular recent, relevant financial experience recommended by the Combined Code.

	5 March 2007	11 March 2007	20 May 2007	15 August 2007	19 November 2007
Caroline Brown (Chairman)	✓	✓	✓	✓	✓
Douglas Blausten (Member)	✓	✓	✓	✗	✓
Guerman Aliev (Member)	✗	✓	✗	✓	✓

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

i) the integrity of the financial statements of the Company, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems;
ii) auditors' reports; and
iii) the terms of appointment and remuneration of the auditor.

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

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

Internal Audit

The Company's internal audit function is outsourced to a certified accountant in Cyprus who was nominated by the Audit Committee and approved by the Board. Baker Tilly Klitou and Partners Limited were nominated to be the internal auditors of the Company in October 2007. The internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the Audit Committee and the Board and is available for any meetings of the Audit Committee or Board. Baker Tilly Klitou and Partners filed its annual report for 2007 in March 2008.

Going Concern

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

Share Dealing Code

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

Controlling Shareholders

The Company's founder shareholders, Jerusalem Economy Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd have effective control of the Company. The Board is satisfied that MirLand is capable of carrying on its business independently of these founder shareholders. To ensure that all transactions and relationships between the parties are at arm's length and on a normal commercial basis, the Company has entered into a relationship agreement with the founder shareholders. If a conflict of interest arises between the founder shareholders and the Company, none of the Directors who is deemed to be related to the founder shareholders will take part in the Board's decisions on the matter. Currently, these Directors are Moshe Morag, and Eliezer and Eyal Fishman.

Report of the Remuneration Committee and Directors' Remuneration Report

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

Remuneration Committee

The Remuneration Committee comprises three independent Non-executive Directors and meets at least twice each year. The Remuneration Committee is chaired by Douglas Blausten; the other members are Caroline Brown and Nigel Wright who was appointed in March 2008 following the resignation of Georgios Hadjianastassiou. The Remuneration Committee determines and reviews, among other matters, the remuneration of Executive Directors and any share incentive plans of the Company. In addition, the Remuneration Committee will prepare an annual report on the remuneration policies of the Company. The committee's terms of reference are available on the Group's website. Attendance of the meetings of the Remuneration Committee held in 2007 is shown below:

Remuneration Committee

	20 May 2007	18 November 2007
Douglas Blausten (Chairman)	✓	✓
Caroline Brown (Member)	✓	✓
Georgios Hadjianastassiou (Member)*	✗	✗

* Mr Hadjianastassiou resigned from the Board on 11 August 2007.

Remuneration Policy

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

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

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

Service Contracts and Letters of Appointment

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

Each Non-executive Director has specific terms of reference. Their letters of appointment provide for an initial three-year period, subject to termination by either side on three months notice. The letters of appointment contain no entitlement of compensation for early termination.

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

	Contract date	Notice period
Nigel Wright	27 November 2006	3 months
Moshe Morag	28 November 2006	6 months
Roman Rozental	28 November 2006	6 months
Caroline Brown	27 November 2006	3 months
Guerman Aliev	27 November 2006	3 months
Douglas Blausten	27 November 2006	3 months
Georgios Hadjianastassiou*	27 November 2006	3 months
Eliezer Fishman	27 November 2006	3 months
Eyal Fishman	27 November 2006	3 months
Elias Eliades	11 September 2007	3 months

* Mr Hadjianastassiou resigned from the Board on 11 August 2007.

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

Other Directorships

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

Non-performance Related Remuneration

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

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

Pensions Directors are not entitled to pension plans.

Performance Related Remuneration

MirLand does not grant performance related remuneration.

Discretionary bonus In 2007 no discretionary bonus was granted.

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

Directors' Remuneration

Chairman and Executive Directors	Nigel Wright US$	Moshe Morag US$	Roman Rozental US$	Total US$
Non-performance related remuneration				
Salary and fees	109,485	512,837	261,405	883,727
Taxable benefits	–	83,958	41,609	125,567
Share incentive plan	–	1,283,667	513,467	1,797,134
Total remuneration for the year ended 31 December 2007	**109,485**	**1,880,462**	**816,481**	**2,806,428**
Total remuneration for the year ended 31 December 2006	9,879	65,765	39,150	114,794

Non-executive Directors	Caroline Brown US$	Guerman Aliev US$	Douglas Blausten US$	Georgios Hadjianastassiou* US$	Eliezer Fishman US$	Eyal Fishman US$	Elias Eliades US$	Total US$
Non-performance related remuneration								
Salary and fees	72,990	79,073	73,953	46,650	–	77,565	20,224	370,455
Taxable benefits	–	–	–	–	–	–	–	–
Share incentive plan	–	–	–	–	–	–	–	–
Total remuneration for the year ended 31 December 2007	**72,990**	**79,073**	**73,953**	**46,650**	**–**	**77,565**	**20,224**	**370,455**
Total remuneration for the year ended 31 December 2006	6,586	7,135	6,586	6,586	–	6,586	–	33,479

* Resigned 11 August 2007.

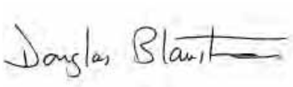
Details of share awards and options exercised in the year are included below.

Director's Share Options

Director	Number of options	Number vested as at 31.12.2008	Exercise price of options US$
Nigel Wright	0	NA	NA
Moshe Morag	1,122,995	0	9.42
Roman Rozental	449,198	0	9.42
Caroline Brown	0	NA	NA
Guerman Aliev	0	NA	NA
Douglas Blausten	0	NA	NA
Georgios Hadjianastassiou (resigned 11 August 2007)	0	NA	NA
Eliezer Fishman	0	NA	NA
Eyal Fishman	0	NA	NA
Elias Eliades	0	NA	NA

Share Price Performance

On behalf of the Board



Douglas Blausten
Chairman of the Remuneration Committee
8 April 2008

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 47 to 79, which comprise the consolidated balance sheets as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in our report of the Board of Directors on pages 34 to 37 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 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
Limassol, Cyprus
18 March 2008

Consolidated Income Statements

	Note	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Revenues:			
Rental income from investment properties		**10,446**	3,707
Revenues from managing and consulting fees		**1,977**	533
Total revenues		**12,423**	4,240
Fair value adjustments of investment properties	9	**82,138**	35,878
Total income		**94,561**	40,118
Operating expenses	4	**(6,384)**	(863)
General and administrative expenses	5	**(26,706)**	(8,839)
Registration of land-lease		**(5,469)**	–
Finance costs	6a	**(8,703)**	(1,226)
Finance income	6b	**23,004**	3,556
Profit before tax expense		**70,303**	32,746
Tax expense	7	**5,423**	2,797
Profit for the year attributable to the equity holders of the parent		**64,880**	29,949
Earnings per share (in US$ per share)	8		
Basic		**0.627**	0.514
Diluted		**0.627**	0.513

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

Consolidated Balance Sheets

	Note	**31 December 2007 US$000**	31 December 2006 US$000
Assets			
Non-current assets			
Investment properties	9	**227,030**	65,709
Investment properties under construction	10	**87,963**	46,930
Long-term loan	13c	**14,829**	–
Advance on acquisition of subsidiary	14	**1,080**	1,600
Equipment	15	**4,866**	1,082
Deferred expenses	26	**796**	–
Long-term receivables and prepayments	16	**12,891**	5,958
Deferred taxes	7c	**214**	–
		34,669	121,279
Current assets			
Inventories of land	11	**–**	76,193
Inventories of buildings under construction	12	**103,980**	–
Trade and other receivables	18	**7,537**	10,157
Short-term loans	13a, b	**7,692**	–
Restricted deposits	19	**71,406**	71,330*
Cash and cash equivalents	17	**117,758**	196,586*
		308,373	354,266
Total assets		**658,042**	475,545
Equity and liabilities			
Equity			
Equity attributable to equity holders of the parent:	20		
Share capital		**1,036**	1,000
Share premium		**359,803**	329,028*
Employee equity benefits reserve		**6,199**	2,348
Retained earnings		**96,629**	31,749*
Currency translation reserve		**9,151**	2,402
		472,818	366,527
Minority interests		**25**	25
Total equity		**472,843**	366,552
Non-current liabilities			
Debentures	22	**62,088**	–
Swap agreement	27	**50**	–
Long-term loans from banks	24b	**15,873**	21,719*
Other long-term liability	25	**12,739**	4,313
Deferred taxes	7c	**5,118**	1,755
		95,868	27,787*
Current liabilities			
Accounts payable and accruals	23	**11,145**	8,669
Short-term loan from bank	24	**76,696**	71,330*
Income tax payable		**1,490**	1,207
		89,331	81,206*
Total liabilities		**185,199**	108,993
Total equity and liabilities		**658,042**	475,545

* Reclassified – see note 1i.

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

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

Moshe Morag
Chief Executive Officer

Roman Rozental
Chief Financial Officer

Consolidated Statements of Changes in Equity

	Share Capital US$000	Share Premium US$000	Employee Equity Benefits Reserve US$000	Retained Earnings US$000	Currency Translation Reserve US$000	Total US$000	Minority Interest US$000	Total Equity US$000	Total Recognised Income (Expenses) US$000
	Attributable to equity holders of the company								
At 1 January 2006	7	3,717	–	3,000	(95)	6,629	25	6,654	2,905
Issuance of shares	693	4,197*	–	(1,200)*	–	3,690	–	3,690	–
Capitalisation of shareholder loans	–	62,192	–	–	–	62,192	–	62,192	–
Issuance of shares in IPO, net of expenses[1]	300	258,922	–	–	–	259,222	–	259,222	–
Profit for the year	–	–	–	29,949	–	29,949	–	29,949	29,949
Share-based payment	–	–	2,348	–	–	2,348	–	2,348	–
Foreign currency translation adjustments	–	–	–	–	2,497	2,497	–	2,497	2,497
At 31 December 2006	1,000	329,028*	2,348	31,749*	2,402	366,527	25	366,552	32,446
Issuance of shares	36	30,775	–	–	–	30,811	–	30,811	–
Profit for the year	–	–	–	64,880	–	64,880	–	64,880	64,880
Share-based payment	–	–	3,851	–	–	3,851	–	3,851	–
Foreign currency translation adjustments	–	–	–	–	6,749	6,749	–	6,749	6,749
At 31 December 2007	**1,036**	**359,803**	**6,199**	**96,629**	**9,151**	**472,818**	**25**	**472,843**	**71,629**

1 Issuance expenses consist of US$20,328 thousand.
* Reclassified – see note 1i.

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

Consolidated Statements of Cash Flows

	Note	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Cash flows from operating activities:			
Profit before the tax expense		**70,303**	32,746
Adjustments for:			
Finance costs		**8,703**	1,226*
Interest paid		**(6,881)**	(325)
Finance income		**(23,004)**	(3,556)
Interest received		**10,343**	478
Fair value adjustments of investment properties		**(82,138)**	(35,878)
Options granted		**3,851**	2,348*
Addition to residential projects for sale under construction		**(22,003)**	–
Depreciation of equipment		**287**	8
Increase in trade and other receivables		**(3,067)**	(4,475)
Increase in accounts payable and accruals and in provision to service provider		**6,347**	7,344*
Income taxes paid		**(1,169)**	(1,465)
Net cash flows provided by (used in) operating activities		**(38,428)**	3,897
Cash flows from investing activities:			
Prepayments		**–**	(2,315)
Additions to equipment		**(3,373)**	(892)
Additions to investment properties		**(36,056)**	(4,031)
Additions to investment properties under construction		**(62,658)**	(16,333)
Interest capitalised in investment properties under construction		**(2,016)**	(3,658)
Additions to inventories of land		**–**	(48,235)
Interest capitalised in inventories of land		**–**	(373)
Loans granted		**(22,238)**	–
Advance on acquisition of subsidiary		**(1,080)**	(1,600)
Placement of restricted bank deposits		**–**	(71,000)*
Payment of amount due in respect of purchase of subsidiaries		**–**	(1,250)
Acquisition of joint ventures, net of cash acquired		**–**	(12,875)
Acquisition of subsidiaries, net of cash acquired		**–**	(5,959)
Net cash flows used in investing activities		**(127,421)**	(168,521)*
Cash flows from financing activities:			
Proceeds from issuance of shares by the Company		**30,811**	259,222
Advances received on account of IPO		**1,053**	–
Accrued expenses on account of loan		**(767)**	–
Proceeds from issuance of bonds		**61,756**	–
Repayment of short-term borrowings from related parties, net		**–**	(460)
Proceeds from long-term borrowings		**–**	16,153*
Proceeds from short-term borrowings		**–**	71,000*
Proceeds from long-term borrowings from related parties		**–**	19,286
Repayment of long-term borrowings from related parties		**–**	(8,812)
Net cash flows provided by financing activities		**92,853**	356,389
(Decrease)/increase in cash and cash equivalents		**(72,996)**	191,765*
Net foreign exchange differences on cash and cash equivalents		**(5,832)**	4,157*
Cash and cash equivalents at beginning of year		**196,586**	664
Cash and cash equivalents at end of year	17	**117,758**	196,586*
Non-cash transactions:			
Payables included for investment properties under construction		**–**	1,638
Conversion of shareholders loans to equity		**–**	62,192

* Reclassified – see note 1i.

The accompanying notes are an integral part of 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 public company limited by shares. Its registered office is located at Thessalonikis Street, Nicolaou Pentadromos Centre, 6th floor, Limassol 3025, Cyprus.

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

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

d) On 6 December 2007, the Company issued two series of debentures. The par value of both of the series that were issued is NIS 244,134,000 (approximately US$63 million). Issuance expenses of approximately US$1 million were deducted form the consideration. All of the debentures were admitted for trading on the Tel Aviv Stock Exchange (see also Note 20).

e) Following are the principal shareholders of the Company as of 31 December 2007:

Shareholder	Rate of holding
Jerusalem Economic Corporation Ltd. ("JEC") (a company traded on the Tel-Aviv Stock Exchange)	27%
Industrial Buildings Corporation Ltd. ("IBC") (67%-owned subsidiary of JEC and traded on the Tel-Aviv Stock Exchange)	27%
Darban Investments Ltd. (a company traded on the Tel-Aviv Stock Exchange)	14%

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

Note 1 General continued

f) Definitions:

In these financial statements:

The Company	Mirland Development Corporation PLC.
The Group	Mirland Development Corporation PLC and its subsidiaries as listed above.
Subsidiaries	Companies over which the Company exercises control (as defined in IAS 27) and whose accounts are consolidated with those of the Company.
Jointly controlled entities	Companies held by a number of entities, among which contractual agreement exists for joint control and whose financial statements are consolidated with the financial statements of the Company according to the proportionate consolidation method.
Associates	Companies over which the Company exercises significant influence, which are not subsidiaries not joint ventures and which are recorded according to the equity method.
Parent	JEC.
Ultimate controlling shareholder	Fishman family.
Related parties	As defined in IAS 24.

g) Reclassification of comparative figures:

Certain numbers shown in the comparative statements do not correspond to the 2006 financial statements and reflect adjustments made as following in order to present the financial position of the Group in a true and fair value:

a) Reclassification of restricted deposits from cash and cash equivalents to restricted deposits.
b) Reclassification of long-term loans to short-term loans.
c) Update in statements of changes in equity the effect of pooling of interests.
d) All the reclassifications were also adjusted in cash flow statements, together with update of net cash flow of operating activities.

Note 2 Summary Of Significant Accounting Policies

a) Basis of Presentation of the Financial Statements:

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

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Furthermore, the financial statements are prepared in accordance with the requirement of the Cyprus Companies Law, Cap and under historical cost convention except for investment properties, share options and swap agreement which are measured at fair value.

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

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

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

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

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

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

b) Acquisition of Businesses from Companies Under Common Control:

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

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

Note 2 Summary Of Significant Accounting Policies continued

c) Critical Accounting Judgements and Estimates:

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

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

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

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

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

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

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

d) Functional and Foreign Currencies:

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

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

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

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

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

Note 2 Summary Of Significant Accounting Policies continued

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 ("foreign currency translation adjustments of foreign operations").

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

e) Cash Equivalents

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

f) Allowance for Doubtful Accounts

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

g) Inventory of Buildings for Sale Under Construction

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

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

h) Real Estate Under Construction

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

i) Financial Instruments

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

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

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

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

Note 2 Summary Of Significant Accounting Policies continued

Impairment of Financial Assets The Group assesses at each balance sheet 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

Swap transactions The Group measures swap transactions as hedging transactions not recognised for accounting purposes, at fair value through profit and loss.

j) Fixed Assets

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

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

k) Impairment of Non-financial Assets

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

l) Taxes on Income

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

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

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

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

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

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

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

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

The Company did not create deferred taxes in respect of temporary differences arising from changes in the fair value of investment properties in view of management's intention to sell the companies holding these assets rather than the assets themselves (see Note 7).

Note 2 Summary Of Significant Accounting Policies continued

m) Revenue Recognition

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

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

Rendering of Services, Including Management Fees Revenue from the rendering of services is recognised by reference to the stage of completion as of balance sheet date. Stage of completion is measured according to the reporting periods during which the services were rendered. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest Income Interest income is recognised on a cumulative basis using the effective interest rate method.

Revenues From Sale of Residential Apartments Revenues from the sale of residential apartments are recognised when the principal risks and rewards relating to the ownership have been transferred to the buyer. Revenues are not recognised if there are significant uncertainties regarding the collection of the consideration and the related costs or if there is continuing managerial involvement of the Group with respect to the real estate sold. These criteria are usually met once the apartment is transferred to the buyer.

n) Advertising Expenses

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

o) Borrowing Costs in Respect of Qualified Assets

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

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

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

p) Leases

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

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

q) Business Combinations

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

Business Combinations Including Entities Under Common Control IFRS 3, "Business Combinations", does not apply to entities under common control and therefore does not address the accounting treatment for this type of transactions. Pursuant to the provisions of IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", in the absence of an accounting standard or interpretation concerning similar issues and in the absence of guidance as to the treatment of the conceptual framework of International Standards, one may refer to publications of other standards boards whose conceptual framework is not in contradiction to the conceptual framework of International Standards or IFRS. In view of the above, management has considered the adequate accounting treatment in this type of transactions.

Note 2 Summary Of Significant Accounting Policies continued

In accordance with the above, since the conceptual framework underlying US GAAP is not in contradiction to the conceptual framework of International Standards, management has determined the accounting treatment of business combinations including entities under common control to be pursuant to FAS 141 of the FASB according to which transactions between entities under common control will be accounted for using the pooling of interests method.

Since in this type of transactions no change in control takes place, and ultimately, all the entities are controlled by the same parties, both prior and subsequent to the business combination, the pooling of interests best reflects the transaction.

Accordingly, the Group's assets and liabilities are the assets and liabilities as included in the books of the merging companies under common control. Intercompany balances and transactions and significant gains or losses among the Group companies have been eliminated in the consolidated financial statements.

The Company has presented the assets and liabilities, results of operations and cash flows of the Company and transferred companies for all reported periods as if their transfer to the Company had always been in effect.

r) Investment Property

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

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

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

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

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

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

s) Investment Property Under Construction

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

Before assets are classified as investment properties under construction, they are usually first classified as investment properties and treated as such. When development properties are completed, they are reclassified to investment properties and stated at fair value.

Note 2 Summary Of Significant Accounting Policies continued

t) Share-based Payment Transactions

The cost of equity-settled transactions with employees/service providers is measured according to the fair value of the equity instruments on the date of grant. The fair value is determined by an independent appraiser using a standard option-pricing model. See more details in Note 20.

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

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

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

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

u) Earnings (Loss) Per Share

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

v) Changes in Accounting Policy and Disclosures:

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

IFRS 7 Financial Instruments: Disclosures
IAS 1 Amendment – Presentation of Financial Statements
IFRIC 8 Scope of IFRS 2
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 10 Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 27.

Note 2 Summary Of Significant Accounting Policies continued

IFRIC 8 Scope of IFRS 2 This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

w) Standards Issued But Not Yet Effective:

IAS 23 Borrowing Costs A revised IAS 23 Borrowing Costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IAS 1 (Revised) Presentation of Financial Statements The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together will all other items of recognised income and expense, either in one single statement, or in two linked statements.

The effect of the adoption of IAS 1 (Revised) will require the Group to present the above disclosure in the financial statements.

IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 2 (Revised) Share-based Payment The amendment to IFRS 2 Share-based Payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual period beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

Note 2 Summary Of Significant Accounting Policies continued

IFRIC 12 Service Concession Arrangements IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

IFRIC 13 Customer Loyalty Programmes IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position.

x) Provisions

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

y) Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

z) Share Capital

Share capital is recognised at the fair value of consideration received. Any excess over the nominal value of shares is taken to the share premium reserve.

Costs incurred for issuing new share capital when the issuance results in a net increase or decrease to equity are charged directly to equity. Costs incurred for issuing new share capital when the issuance does not result in a change to equity are taken to the income statement.

Note 3 Segment Information

The segment reporting format is determined to be business segments as the Group's risks and rates of return are predominantly affected by differences in the use of real-estate assets of the Company.

Since most of the operating activity of the Company is in Russia, geographical segments are immaterial to the Company's activity.

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 business segments.

	Year Ended 2007			Year Ended 2006		
	Commercial US$000	**Residential US$000**	**Total US$000**	Commercial US$000	Residential US$000	Total US$000
Revenues						
Rental income from investment properties	**10,446**	**–**	**10,446**	3,707	–	3,707
Revenue from management and consulting fees	**1,977**	**–**	**1,977**	533	–	533
Total revenues	**12,423**	**–**	**12,423**	4,240	–	4,240
Fair value adjustments of investment properties	**82,138**	**–**	**82,138**	35,878	–	35,878
Total income	**94,561**	**–**	**94,561**	40,118	–	40,118
Inter segment income	**–**	**–**	**–**	203	–	203
	94,561	**–**	**94,561**	40,321	–	40,321
Segment results	**69,872**[1]	**(1,314)**	**68,558**	33,289	(289)	33,000
Unallocated expenses			**(12,556)**			(2,584)
Net finance income			**14,301**			2,330
Profit before income tax			**70,303**			32,746
Tax expense			**(5,423)**			(2,797)
Profit for the year			**64,880**			29,949
Assets and liabilities						
Segment assets	**346,825**	**103,980**	**450,805**	109,433	98,978	208,411
Unallocated assets	**–**	**–**	**207,237**	–	–	267,134
Total assets			**658,042**			475,545
Segment liabilities	**23,370**	**1,202**	**24,572**	2,743	–	2,743
Unallocated liabilities[2]			**160,627**			106,250
Total liabilities			**185,199**			108,993
Other segment information:						
Capital additions	**100,449**	**22,003**	**122,452**	22,894	48,235	71,129
Purchase of subsidiaries (included in capital additions)	**28,028**	**–**	**28,028**	18,398	–	18,398
Depreciation	**286**	**1**	**287**	8		8

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

Note 4 Operating Expenses

	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Maintenance of property	**4,544**	774
Land lease payments	**195**	49
Fee to management company	**60**	40
Property tax on investment property	**812**	–
Land tax on investment property under construction and inventories of buildings under construction	**773**	–
	6,384	863

Note 5 General and Administrative Expenses

	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Office maintenance	**1,330**	85
Professional fees	**4,968**	1,096
Marketing fees	**674**	–
Salaries[1]	**8,506**	3,152
Depreciation of equipment	**287**	8
Write-down of advance on account of investment	**406**	129
Provision to service provider	**7,643**	3,588
Travelling expenses	**1,440**	738*
Other costs	**1,452**	43*
	26,706	8,839
[1] Includes cost of share-based payment (see Note 20)	**3,851**	2,348

* Reclassified.

The fee in consideration of the audit is in the amount of approximately US$1,398 thousand (2006: US$305 thousand).

The fee to directors is approximately US$521 thousand (2006: US$28 thousand).

Note 6 Finance Costs and Revenue

	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
a) Finance Costs:		
Interest costs – financial liabilities not at fair value through profit and loss	**(10,669)**	(5,257)
Net capitalised interest costs	**2,016**	4,031
Effect of discounting of long-term receivables capitalised to investment properties under construction	**1,400**	–
Fair value adjustment of swap agreement	**(50)**	–
Effect of discounting of long-term receivables	**(1,400)**	–
	(8,703)	(1,226)
b Finance Income:		
Interest income – from cash and cash equivalents and restricted deposits	**10,744**	399
Interest income from loans provided	**843**	–
Interest income from financial assets not at fair value through profit and loss	**11,587**	399
Other (mainly foreign exchange differences)	**11,417**	3,157
	23,004	3,556

Note 7 Taxation

a) Tax expense:

	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Current taxes	**2,659**	993
Prior year taxes	**–**	908
Deferred taxes	**2,764**	896
Tax expense in income statements	**5,423**	2,797

Note 7 Taxation continued

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

	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Profit before tax expense	**70,303**	32,746
Tax at the statutory tax rate in Cyprus (10%)	**7,030**	3,275
Increase/(decrease) in respect of:		
Temporary differences in respect of which no deferred tax was recorded*	**(17,918)**	(8,611)
Effect of different tax rate in Russia (24%) and Hungary (16%)	**13,224**	5,220
Effect of change in tax law in Russia	**–**	1,289
Prior year taxes	**–**	908
Losses for which deferred tax assets were not recorded	**2,852**	403
Income not subject to tax	**(641)**	–
Other	**876**	313
Income tax expense	**5,423**	2,797

* The fair value adjustments of the investment properties result in a temporary difference between the carrying value of the properties and their tax basis. Since it is the intention of management to sell the shares in companies holding those properties rather than the properties themselves, deferred taxes on the above differences have not been recorded (see Note 9).

Taxation in Russia The taxation of companies under the Russian Federation is as follows:

Income tax	–	24% of profits;
VAT	–	18% of sales;
Asset tax	–	2.2% of the net book value of fixed assets.

Taxation in Cyprus The Company is resident in Cyprus for tax purposes. The taxation of companies is based on tax residence and all companies are taxed at the standard rate of 10%.

In certain cases, Special Defense Contribution at the rate of 10% is imposed on interest received and deemed interest income. Dividend income from Cyprus tax resident companies and profits from the sale of shares and certain other titles are exempt from taxation. Dividend income received from abroad is exempt from Income Tax and provided that certain conditions are met could also be exempt from Special Defense Contribution.

There is no withholding tax on payments of dividends to non-resident shareholders or shareholders that are companies resident in Cyprus. Payments of dividend to shareholders who are individuals resident in Cyprus are subject to a 15% withholding tax.

Companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special Defense Contribution at 15% will be payable on such deemed dividends to the extent that the shareholders (companies or individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year. The Special Defense Contribution is payable for the account of the shareholders.

Note 7 Taxation continued

c) Deferred taxes:

	31 December 2007 US$000	31 December 2006 US$000
Opening balance	**1,755**	301
Additions from purchase of subsidiaries	**–**	436
Charged to the income statements	**2,764**	896
Exchange rate differences	**385**	122
Closing balance	**4,904**	1,755

d) The loss carried forward of the Company (including subsidiaries) amounts to approximately U$398 thousand and a deferred tax asset amounting to U$92 thousand has been recognised.

Note 8 Earnings Per Share

	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Weighted average number of ordinary shares used for computing basic earnings per share (in thousands)	**103,558**	58,814[1]
Weighted average number of ordinary shares used for computing diluted earnings per share (in thousands) (see note 2c)	**103,558**[2]	58,963[1]
Income used for computing basic and diluted earnings per share	**64,880**	29,949

1 Retrospectively adjusted for the pooling of interests and for the share subdivision.
2 The options have no dilutive impact in 2007, since as of 31 December 2007, the exercise price of the options is higher than the share price.

Note 9 Investment Properties

a) Composition

	US$000
At 1 January 2006	12,863
Additions from acquisition of subsidiaries	6,239
Additions for the year	4,031
Fair value adjustments	35,878
Exchange rate differences	6,698
At 31 December 2006	65,709
Transfer from investment properties under construction[1]	32,081
Additions for the year	36,056
Fair value adjustments	82,138
Exchange rate differences	11,046
At 31 December 2007	**227,030**

1 Construction of a mall in Yaroslavl was finished during 2007 and therefore the asset was reclassified from investment properties under construction to investment properties. See Note 10.

Note 9 Investment Properties continued

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

c) The fair value adjustments of the investment properties result in a temporary difference between the carrying value of the properties and their tax basis. Since it is the intention of management to sell the shares in companies holding these properties rather than the properties themselves, deferred taxes on the above differences have not been recorded. However, the fair values of the properties have been reduced in 2007 and 2006 by US$28,644 thousand and US$17,202 thousand, respectively, to reflect the fair values of the deferred tax liabilities that the Company would transfer to a buyer upon the sale of the companies owning the properties. The reduction was calculated based on the 24% income tax rate in Russia. The Company's management believes that the actual amount of the reduction might be substantially lower due to economic benefits that the buyer will be entitled to, based upon the differences arising from the method of disposal, i.e. direct asset sale or share sale

Note 10 Investment Properties Under Construction

	US$000
At 1 January 2006	11,358
Additions from purchase of joint ventures	12,875
Additions for the year	17,971
Capitalised interest	3,658
Exchange rate differences	1,068
At 31 December 2006	46,930
Transfer to investments properties under construction[1]	(32,081)
Additions for the year	61,020
Capitalised interest and effect of discounting of long-term receivables	3,416
Exchange rate differences	8,678
At 31 December 2007	**87,963**

1 See Note 9.

a) Investment properties under construction are presented at cost.

b) On 3 January 2007, the Company completed the initial stage of an agreement to acquire 100% of the share capital of Gasconade, a Cypriot company that holds 58% of the shares of RealService, which owns leasehold rights to a plot of land in Moscow, in order to set up a skyscraper on the plot of land. The overall consideration was US$13m, of which US$1.6m was paid by the Company in 2006. The Company also entered into an agreement to acquire 100% of the share capital of Laykapark, a Cypriot company which holds 21% of the shares of RealService in consideration of US$4.5m. In October 2007, the Company signed an amendment to the agreement, which included the acquisition of the remaining 21% of RealService's shares for an additional US$3.9m by the end of 2007 and for the assigning of shareholders' loans totalling approximately US$600 thousand.

Note 10 Investment Properties Under Construction continued

c) On 30 July 2007, a subsidiary of the Company entered into an agreement for acquiring the share capital of two Russian companies which together hold the rights to constructing an office building in Moscow.

The Company intends to complete the construction of the office building. The acquisition consideration amounted to approximately US$6.3m.

d) In October 2007, a wholly-owned subsidiary of the Company signed an agreement for acquiring a building in Kazan, Russia for an overall cost of approximately US$1.3m. Signing the agreement represents a first step in the exercise of the Company's memorandum of understandings signed with the municipality of Kazan for acquiring rights to a complex in the city for erecting a commercial centre.

Note 11 Inventories of Land

	US$000
At 1 January 2006	24,736
Additions for the year	48,235
Capitalised interest	373
Exchange rate differences	2,849
At 31 December 2006	76,193
Reclassification to inventories of buildings under construction (see note 12)	(76,193)
Capitalised interest	–
Exchange rate differences	–
At 31 December 2007	**–**

Inventories of land are intended for construction of residential apartments and vacation homes that are to be sold, and are presented at cost.

Note 12 Inventories Of Buildings Under Construction

	US$000
At 1 January 2007	–
Reclassification to inventories of buildings under construction (see note 11)	76,193
Additions for the year	22,003
Exchange rate differences	5,784
At 31 December 2007	**103,980**

Inventories of land are intended for construction of residential apartments and vacation homes that are to be sold, and are presented at cost.

Note 13 Loans Provided

a) In December 2007, a wholly-owned subsidiary of the Company granted a loan to a third party for purchasing land in Saratov, Russia for buildings and a logistic centre that is secured by a mortgage. The subsidiary intends to acquire the rights to the land during the year 2008, upon fulfillment of certain conditions. The loan bears annual interest of 7% and is repayable on demand of the subsidiary.

b) On 31 December 2007, a wholly-owned subsidiary of the Company entered into a memorandum of understandings with two private companies ("the sellers") for the purchase of 51% of the sellers' shares in the companies Inomotor and Avtoprioritet, both incorporated under the laws of the Russian Federation.

The Project is adjacent to Hydro and Mag Projects and is composed of two buildings. One building is owned by Inomotor and the other is owned by Avtoprioritet, which after their renovation and expansion shall include the project complex and project buildings.

The subsidiary granted a loan of approximately US$6.5m to Avtoprioritet for purchasing this company. The loan bears 11% annual interest and is repayable no later than three years from its receipt.

Regarding post-balance sheet date events, see Note 29c.

c) In May 2007, the Group signed a master agreement ("the agreement") with a local Russian company for setting up two real estate projects in Moscow ("the projects").

The Group will extend loans totalling approximately US$116.5m to the local company for the purpose of erecting the residential projects, subject to the completion of a due diligence study, entering into detailed agreements and the occurrence of certain conditions determined in the agreement. The loans will bear 10% interest per annum.

In June 2007, the Group provided a loan of approximately US$14m to the local company, bearing interest of 10% per annum, in order to support the initial planning and development stages of the projects.

The Group is acting to record mortgages on the real estate properties produced as a guarantee for the repayment of the loan, which as of the date of these financial statements, are still in various recording stages in such a manner that to date, the loan is not secured by any guarantee.

The loan is carried at amortised cost. The loan is to be repaid after the local company constructs the residential projects.

Note 14 Advance on Account of Investment

a) In 2006, the Company paid a total of US$1,600 thousand in the context of a master agreement for the acquisition of the entire issued share capital of Cypriot companies holding 100% of the shares of a Russian company which owns the leasehold rights to a skyscraper project in Moscow for the lease of offices.

On 28 December 2006, the acquisition transaction was finalised (see Note 10d).

b) In March 2007, the Company signed a letter of intent for the acquisition of 100% of the share capital of a Russian company holding a plot of land in Ufa, Russia for the purpose of erecting a logistic centre. The Company paid a sum of US$1m as an advance which the Company believes will be recovered should the transaction fail to be executed. As of the date of the approval of the financial statements, the acquisition agreement has not been signed.

Note 15 Equipment

	US$000
At 1 January 2006, net of accumulated depreciation	104
Additions for the year	892
Depreciation for the year	(8)
Exchange rate differences	94
At 31 December 2006, net of accumulated depreciation	1,082
Additions for the year	3,373
Depreciation for the year	(287)
Exchange rate differences	698
At 31 December 2007, net of accumulated depreciation	4,866
At 31 December 2005	
Cost	108
Accumulated depreciation	(4)
Net carrying value	104
At 31 December 2006	
Cost	1,094
Accumulated depreciation	(12)
Net carrying value	1,082
At 31 December 2007	
Cost	5,165
Accumulated depreciation	(299)
Net carrying value	4,866

Note 16 Long-Term Receivables and Prepayments

	31 December 2007 US$000	31 December 2006 US$000
Prepayments	**–**	2,315
Long-term receivables	**12,891**	3,643
	12,891	5,958

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

Note 17 Cash and Cash Equivalents

	31 December 2007 US$000	31 December 2006 US$000
Cash in banks[1]	**65,476**	7,112
Short-term deposits[2]	**52,282**	189,474
	117,758	196,586

1 Cash in banks earns interest at floating rates based on daily bank deposit rates.
2 The short-term deposits are deposited in the bank for terms under three months that bear an annual interest of 1.5%-5.9%.

Note 18 Trade and Other Receivables

	31 December 2007 US$000	31 December 2006 US$000
Trade receivables[1]	**268**	2,896
Prepayments to suppliers	**1,195**	1,622
Government authorities (mainly VAT)	**4,696**	1,606
Advances paid for IPO	**–**	1,053
Other	**1,378**	2,980
	7,537	10,157

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

Note 19 Restricted Deposits

Deposits held to secure the Company's compliance with liabilities to banks, see Note 24. The deposits are for periods of one day to one month and are renewed each period.

	Interest Rate %	31 December 2007 US$	31 December 2006 US$
Restricted deposits	4.2	**71,406**	71,330

Note 20 Equity

	31 December 2007 US$	31 December 2006 US$
Authorised shares of US$0.01 par value each	**1,200,000**	1,200,000
Issued and fully paid shares of US$0.01 par value each	**1,035,580**	1,000,000

Note 20 Equity continued

The Company was incorporated with an issued share capital of C£5,000, divided into 5,000 ordinary shares of C£1 par value each. On 10 October 2005, the Company's authorised share capital was subdivided into 7,110 ordinary shares of US$1 par value each and was paid. The following changes in share capital of the Company are as follows:

		Number of	Number of Issued and Fully Paid Shares			Share	
Date	Nature of Change	Authorised Shares After the Change	Before the Change	The Change	After the Change	Capital US$000	par Value US$
29 September 2006	Issues of shares in respect of pooling of interests	17,775	7,110	10,665	17,775	17	1
13 November 2006	Subdivision of share capital	1,777,500	–	–	1,777,500	17	0.01
13 November 2006	Increase in authorised share capital	70,000,000	–	–	–	17	0.01
13 November 2006	Issuance of bonus shares	70,000,000	1,777,500	68,222,500	70,000,000	700	0.01
13 November 2006	Increase in authorised share capital	120,000,000	70,000,000	–	70,000,000	700	0.01
18 December 2006	Issuance of shares in consideration of capitalisation of loans	120,000,000	70,000,000	5	70,000,005	700	0.01
18 December 2006	Issue of shares	120,000,000	70,000,005	30,000,000	100,000,005	1,000	0.01
4 January 2007	Issue of shares	120,000,000	100,000,005	3,558,000	103,558,005	1,036	0.01

On 18 December 2006, the Company issued 30m ordinary shares at a price of GBP 4.78 per share in an initial public offering ("IPO"), and all of its ordinary shares were submitted for trading on the AIM, a market operated by the London Stock Exchange. The proceeds received from the IPO amounted to US$259,222 thousand, net of issuance expenses of US$20,328 thousand.

As part of the IPO process, an underwriting agreement was signed between the issuance underwriters, the Company, its controlling shareholders and the Board members whereby JEC, Industrial Buildings and Darban, subject to exceptions determined in the underwriting agreement, committed not to sell their shares in the Company to the public for a period of one year from the date of the IPO.

On 4 January 2007, the Company issued about an additional 3,558 thousand shares to Merrill Lynch and Credit Suisse as a result of the options granted to them as accompanying underwriters in the public offering. In return for the exercise of the options, the Company received US$30,811 thousand after issuance expenses of US$2,389 thousand. The share price at the date of the exercise of the option is GBP 4.88 per share.

Dividend Policy The Company adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Company, taking into account the Company's capital requirements, while at the same time maintaining an appropriate level of dividend cover. Subject to these factors, and where it is otherwise appropriate to do so, the Company intends to declare a dividend of 2% of the Adjusted NAV on Admission (taking into account the net proceeds of the Placing) for the financial year 2008, and 7% of the Adjusted NAV on Admission (market value of Company's property assets, as determined by a third party valuation, adjusted to reflect the percentage interests held by the Group, plus its non-property assets minus its total liabilities minus assumed amounts payable under certain management services agreements with Senior Managers) for the financial year 2009, with a view to increasing the dividend in line with the Company's cash flow growth in the future.

Share Option Scheme The Company has share option plans, adopted by the Company on 19 November 2006 ("the adoption date"), according to which a certain portion of the options was granted immediately and the remaining options will be granted in the future.

In the issuance that took place on 18 December 2006, options to purchase 1,871,658 ordinary shares were granted under the share option plan to employees ("employee options"). The exercise price of the employee options is equivalent to the price in the offering of the ordinary shares (GBP 4.78 per share). The employee options 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 are not yet vested expired. The options will expire within five years from the date of grant or within three months from the date of termination of employment, whichever is sooner.

Also, in the issuance that took place on 18 December 2006, options to purchase 1,497,326 ordinary shares were granted under the share option plan to officers of subsidiaries of the Company ("options to officers").

Note 20 Equity continued

The terms of half of the options to officers are identical to the terms of options to employees. The options to officers will vest over three years from the grant date, in equal tranches from the anniversary of the grant date. Termination of employment renders the options that are not yet vested expired.

Half of the options to officers are vested on the grant date. The exercise price will be paid by a cashless exercise according to a mechanism determined by the Company's Board (so that in practice, the number of shares allocated to the optionee will only be in respect of the bonus component upon the exercise, where the exercise price is not paid by the optionee). The options are to be exercised within five years from the grant date, otherwise they expire.

Also in the context of the issuance that took place on 18 December 2006, the underwriters accompanying the issuance received an option to purchase 3,558,000 shares of the Company for an exercise price of Stgf 4.78 per share. The option was exercisable until 6 January 2007. On 4 January 2007, the option was exercised. The weighted average share price at that date was Stgf 4.78 per share. The above grant had no effect on the financial statements since it was accounted as transaction of the issuance of the shares carried to equity.

Details on equity-settled share-based payment transaction:

	2007 US$000	2006 US$000
Fair value of the options	**8,823**	8,823
Less – recognised as expense in the income statement	**(6,199)**	(2,348)
Expense to be recognised in the future	**2,624**	6,475
Fair value per option	**2.62**	2.62

There has been no movement in options granted.

The following table lists the binomial model used for the plans for the year ended 31 December 2007:

	Vested on Grant Date
Expected volatility (%)	31.89
Risk-free interest rate (%)	5
Expected life of option (months)	6
Weighted average share price (Stgf)	4.78

	Vested over Three Years
Expected volatility (%)	31.89
Risk-free interest rate (%)	5
Expected life of option (months)	24
Weighted average share price (Stgf)	4.78

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

No options were exercised as of the balance sheet date.

The options were appraised by an independent appraisal company.

Note 21 Related Parties

a) Transactions with related parties:

	Year Ended 31 December 2007 US$000	Year Ended 31 December 2006 US$000
Interest expense to shareholders*	**97**	4,498
*Includes amounts capitalised	**–**	3,626

b) Balances with related parties:

	31 December 2007 US$000	31 December 2006 US$000
Debentures acquired by shareholders (see Note 22)	**24,687**	–

c) For details of agreements with related parties – see Note 28.

d) Compensation of key management personnel of the Group

	31 December 2007 US$000	31 December 2006 US$000
Salaries[1]	**856**	40
Share-based payments	**3,851**	101
	4,707	141

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

Note 22 Debentures

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

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

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

	Number 000	Effective Interest Rate	31 December 2007 US$000
Series A	39,260	4.16%[1]	**10,048**
Series B	204,874	3.84%	**52,040**
			62,088

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

Regarding acquisitions by related parties, see Note 28.

Note 23 Accounts Payable and Accruals

	31 December 2007 US$000	31 December 2006 US$000
Trade payables	**6,640**	2,385
Property tax payable	**570**	–
Income tax payable	**526**	–
Rent received in advance	**2,761**	783
Payment due on account of purchase of subsidiary	**–**	300
Other creditors in connection with IPO	**–**	3,413
Accrued expenses and other payables	**648**	1,788
	11,145	8,669

Note 24 Credits from Banks

a) In October 2006, the Company received approximately US$71.4 million as on-call loans from banks guaranteed by shareholders. The guarantees were cancelled in the course of 2007. The bank loans bear annual interest at rates of LIBOR plus 1.1% to 1.25%. Bank deposits have been placed to secure the Company's liabilities in respect of these loans (see also Note 19).

	Weighted interest rate %	31 December 2007 US$000	31 December 2006 US$000
Short-term credit from banks	Libor + 1.25	**71,406**	71,330
Current maturities of long-term loans		**5,290**	–
		76,696	71,330

b) In February 2006, a jointly controlled entity received a loan of approximately US$42 million from the Company, bearing annual interest of 12%. The jointly controlled entity's relative share in the loan is approximately US$21 million. The loan is carried at amortised cost.

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

	31 December 2007 US$000	31 December 2006 US$000
First year – current maturities	**5,290**	–
Second year	**5,290**	5,430
Third year	**5,290**	5,430
Fourth year	**5,293**	10,859
	21,163	21,719

Note 25 Other Long-Term Liability

	US$000
At 1 January 2006	582
Provision to service provider	3,588
Exchange rate differences	143
At 31 December 2006	4,313
Provision to service provider	7,643
Exchange rate differences	783
At 31 December 2007	**12,739**

According to the management services agreement signed between MAG and Hydro ("the companies") and FIN ("the service provider"), the service provider shall be entitled to receive a one-time payment equal to 10% of the net profit (as defined below) of the companies from the sale of properties, if they are sold to a third party, this in return for the service provider's assistance in sourcing the project. See also notes 26b and 26i.

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

The Company's books include income from the revaluation of investment properties. Accordingly, a liability measured at fair value has been recorded based on the fair value of the properties as recorded in the financial statements at each balance sheet date. The changes in the fair value of the liability in the reported period are carried to the income statement.

Note 26 Commitments and Contingencies

a) Group as lessee:
The Group entered into commercial lease agreements for real estate. These leases are irrevocable and have a life of four to 45 years with a renewal option. One of the lease contracts contains a condition allowing the Company to update the lease fees on an annual basis according to changes in market conditions.

Future minimum lease payments at 31 December 2007 are as follows:

	US$000
First year	178
After one year but no more than five years	587
More than five years	4,305
Total	5,070

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

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

Note 26 Commitments and Contingencies continued

c) On 10 February 2006, IIK entered into a management agreement with Norman Project LLC (“Norman Project”), a subsidiary of NAM (“Norman Asset Management”). According to the management agreement, Norman Project agreed to assume upon itself the current management of IIK and in return, IIK agreed to pay Norman Project US$200 thousand. The agreement is for an indefinite period. Either party may terminate the agreement at its discretion by providing prior written notice to the other party.

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

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

f) The Company extended a loan to Mall Project whose balance as of 31 December 2006 and 2007 is US$3,616 thousand and US$3,826 thousand, respectively, for the financing of the acquisition of the property under development in Saratov. According to the shareholders’ agreement, the minority shareholders in Mall Project will be entitled to receive rights to shares subsequent to the repayment of the loan and the accrued interest. The intercompany balances regarding this loan were eliminated in the consolidated financial statements.

g) On 16 March 2006, IIK entered into a consulting agreement with Norman Project according to which the latter undertook to provide consulting services to IIK in connection with the development and construction of a commercial project in Saratov, in consideration of the equivalent of approximately US$1 million excluding VAT. The agreement expires on the performance in full by the parties of their obligations under the agreement.

h) In December 2006, RealService entered into an agreement with FIN for providing management services. According to the agreement, FIN will be entitled to 10% of the net profits from the sale of the project after completion.

i) In February 2006, MAG and FIN entered into a management service agreement. The terms of the agreement are identical to Hydro’s engagement with FIN. MAG’s books include the adequate expenses.

j) On 24 May 2007, IIK entered into a contracting agreement with a Russian company controlled by Denya Cebus Ltd. (“Denya”) for the construction of the commercial centre in Saratov as a main contractor in consideration of an overall US$50.8 million principally paid at the rate of the project’s progress. As of 31 December 2007, Denya commenced supplying services as detailed in the agreement. The overall expense recorded as of 31 December 2007 in the financial statements of the Company is approximately US$5m, which was capitalised to investment property under construction.

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

The loan will bear interest of Libor + 0.5%. The Company guaranteed IIK’s liabilities towards the bank until the conditions undertaken by IIK towards the bank are met as detailed below:

1) The project will be completed by 31 December 2011.
2) IIK’s debt coverage ratio will not be below 1.3.
3) The ratio of equity to total liabilities will not be 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 in a total exceeding US$250 thousand that are not in compliance with the bank approved project budget will be performed.

Note 26 Commitments and Contingencies continued

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

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

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

m) On 30 November 2006, Creative entered into an agreement for receiving management services from FIN. In return for the management services, FIN will be entitled to an amount equal to 2% of the net selling price obtained by Creative from the sale of residential units. The direct expenses relating to the recruiting and hiring of additional employees in FIN for providing said management services will be paid by Creative.

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

o) Expected Rental Income The lease agreements of the Company's subsidiaries are for periods of up to ten years.

The minimum rental income is as follows:

	31 December 2007 US$000	31 December 2006 US$000
First year	**16,498**	11,086
Second year until five years	**55,577**	44,314
More than five years	**24,712**	–
	96,787	55,400

p) The previous owners of a plot of land in Yaroslavl, which is currently owned by the Group and on which the Group has erected a commercial centre, have entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the value of the built area on said land.

The Company's management estimates that based on the analysis of the series of agreements regarding said engagement, it is not materially exposed in respect of the built stage of the project.

q) On 1 August 2007, Creative entered into an agreement with a third party for the construction of a residential project of semi-detached houses in consideration of a total of approximately US$24m to be paid according to the rate of completion of the project's construction.

r) As for events subsequent to balance sheet date, see Note 29.

Note 27 Financial Instruments

a) Financial Risk Factors The Group's activities in the Russian market expose it to various financial risks such as market risk (including foreign currency risk, fair value risk in respect of interest rate and price risk) and credit risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performances.

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

a) The following table represents the sensitivity to a reasonably possible change in the US$/Ruble exchange rates in the year 2007:

	Effect on Equity			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Cash and cash equivalents	588	294	(588)	(294)
Trade and other receivables	570	284	(570)	(284)
Long-term receivables	1,289	645	(1,289)	(726)
Trade and other payables	(726)	(364)	726	364

b) The following table represents the sensitivity to a reasonable possible change in US$/NIS exchange rates in the year 2007:

	Effect on Equity			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Cash and cash equivalents	4	2	(4)	(2)
Trade and other receivables	(9)	(4)	9	4

	Effect on Profit Before Tax			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Debentures (series A) and swap agreement	(194)	(98)	194	98

c) The following table represents the sensitivity to a reasonable possible change in US$/HUF exchange rate differences in the year 2007:

	Effect on Equity			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Trade and other receivables	(55)	(28)	28	55

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 the chances of collecting all the debts of customers and buyers are good. The maximum credit risk is the carrying amount of the financial assets in the balance sheet.

Maximum credit risk exposure is the carrying amount of financial assets. All the assets are not past due or impaired.

Note 27 Financial Instruments continued

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

a) The following table represents the sensitivity to a reasonable possible change in interest on balances in NIS in the year 2007:

	Effect on Profit Before Tax			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Debentures (series A) and swap agreement	117	60	(126)	(62)

b) The following table represents the sensitivity to a reasonable possible change in interest on balances in US$ in the year 2007:

	Effect on Profit Before Tax			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Rent agreements	2,269	1,118	(2,141)	(1,086)
Long-term loan	(177)	(89)	181	91
Lease agreements	91	47	(108)	(52)
Long-term loans	465	235	(239)	(483)

4) Linkage to Israeli CPI risk:

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

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

	Effect on Profit Before Tax			
	Increase		Decrease	
	10% US$000	5% US$000	10% US$000	5% US$000
Debentures (series A) and swap agreement	38	19	(38)	(19)

5) Significant risk exposure:

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

Note 27 Financial Instruments continued

b) Fair Value of Financial Instruments Set out below is a comparison by category of carrying amounts and fair values of all the financial instruments of the Group in 2007 (in the year 2006 – all the instruments are presented at their fair value):

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

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

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

d) Capital Management The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

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

	31 December 2007					
	On Demand US$000	Less than Three Months US$000	Three to 12 Months US$000	One to Five Years US$000	More than Five Years US$000	Total US$000
Long-term loans	–	–	–	–	14,829	14,829
Long-term receivables and prepayments	–	–	7,400	5,491	–	12,891
Trade and other receivables	–	6,342	–	–	–	6,342
Short-term loans	–	–	7,692	–	–	7,692
Restricted deposits	71,406	–	–	–	–	71,406
Cash and cash equivalents	117,758	–	–	–	–	117,758
	189,164	6,342	15,092	5,491	14,829	230,918

Note 27 Financial Instruments continued

	31 December 2006					
	On Demand US$000	Less than Three Months US$000	Three to 12 Months US$000	One to Five Years US$000	More than Five Years US$000	Total US$000
Long-term receivables and prepayments	–	–	–	–	3,643	3,643
Trade and other receivables	7,498	–	–	–	–	7,498
Restricted deposits	71,330	–	–	–	–	71,330
Cash and cash equivalents	196,586	–	–	–	–	196,586
	275,414	–	–	–	3,643	279,057

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

	31 December 2007					
	On Demand US$000	**Less than Three Months US$000**	**Three to 12 Months US$000**	**One to Five Years US$000**	**More than Five Years US$000**	**Total US$000**
Long-term loans from banks	**–**	**1,958**	**5,872**	**19,683**	**–**	**27,513**
Debentures and swap agreement	**–**	**–**	**4,683**	**57,418**	**22,465**	**84,566**
Other long-term liability	**–**	**–**	**–**	**–**	**12,739**	**12,739**
Short-term loan from bank	**75,667**	**–**	**–**	**–**	**–**	**75,667**
Accounts payable and accruals	**8,384**	**–**	**–**	**–**	**–**	**8,384**
	84,051	**1,958**	**10,555**	**77,101**	**35,204**	**208,869**

	31 December 2006					
	On Demand US$000	Less than Three Months US$000	Three to 12 Months US$000	One to Five Years US$000	More than Five Years US$000	Total US$000
Long-term loans from banks	–	635	1,905	27,512	–	30,052
Other long-term liability	–	–	–	–	4,313	4,313
Short-term loan from bank	75,587	–	–	–	–	75,587
Accounts payable and accruals	7,886	–	–	–	–	7,886
	83,473	635	1,905	27,512	4,313	117,838

Note 28 Agreements with Related Parties

a) From time to time, the Company purchases foreign travel services for members of the Board and senior officers in their line of duty. The flight services are purchased, among other things, from a third party, Merhav, which maintains and operates the private jet owned by a private company that is indirectly wholly owned by Mr Fishman and his family. Merhav charges the Company for the actual flight hours and the number of hours of the jet's stay abroad.

b) In December 2006, IRS entered into a lease agreement with Ackerstein Towers Ltd. ("Ackerstein"), a subsidiary of IBC, under which IRS leases offices from Ackerstein. The lease period is for five years starting February 2007 and IRS has an option for extending the lease period by two additional years. The lease fees approximate US$60 thousand per annum.

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

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

d) Hydro leases to Home Centre offices with an overall area of some 730 sqm used for office purposes. The monthly lease fees approximate US$22 thousand. It was also agreed that Hydro will bear the offices' refurbishment expenses totalling US$186 thousand. The lease period terminates on 30 September 2011. The engagement is under market conditions.

e) In December 2006, approximately US$62m of shareowners' loans were capitalised to Company's equity and approximately US$9m shareholders' loans were repaid to the shareholders.

Note 29 Significant Events Subsequent to Balance Sheet Date

a) In February 2008, the Company purchased an additional 5% of the Mall Project, for approximately US$750 thousand.

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

c) In January and February 2008, the Group granted a loan to Inomotor of approximately US$7.4m. In February 2008, in consideration of purchasing the rights in Inomotor and Avtoprioritet, the Group provided the sellers a loan of US$1m. In addition, the Group committed to invest US$1.6m in Inomotor and US$3.3m in Avtoprioritet for the purpose of investing in the project buildings and the repayment of former debts to third parties. It was further agreed that the Group shall provide a loan to Avtoprioritet in the amount of up to US$7m bearing an annual interest rate of 11% in order to enable Avtoprioritet to repay debts to third parties.

Note 30 Date of Approval of The Financial Statements

The Board of Directors approved these financial statements on 18 March 2008.

Shareholders' Information

Financial Calendar

Annual General Meeting	19 May 2008
Announcement of 2008 first quarter results	May 2008
Announcement of 2008 interim results	August 2008
Announcement of 2008 third quarter results	November 2008

Share Price

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

Price at 31 December 2007	515p
Lowest price during the year	451p
Highest price during the year	707p

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

Website

www.mirland-development.com

Shareholders' Enquiries

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

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Nominated Adviser

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PR Agency

Financial Dynamics, London

Legal Advisers

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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
Colliers International, Moscow
Knight Frank, Moscow
CB Richard Ellis, Moscow

Corporate Finance Consultant

Magna Capital, Tel Aviv

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