MirLand Development Corporation Plc
Annual report and accounts 2009

MirLand

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WHO WE ARE

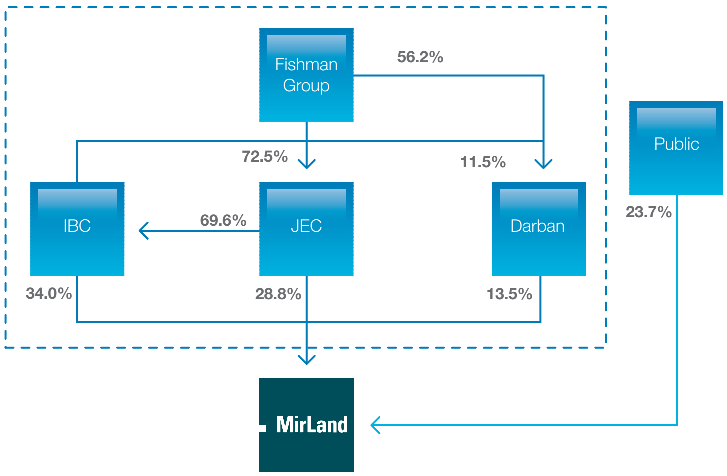
MirLand Development Corporation is one of the leading international residential and commercial property developers in Russia.

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

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

In December 2007, the Company successfully raised net proceeds of US$62m through 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 owns 15 residential and commercial projects across Russia, with a total rentable/saleable area of approximately 1,391,000 sqm. Of these, one was added to the portfolio during 2009.



WHAT WE DO

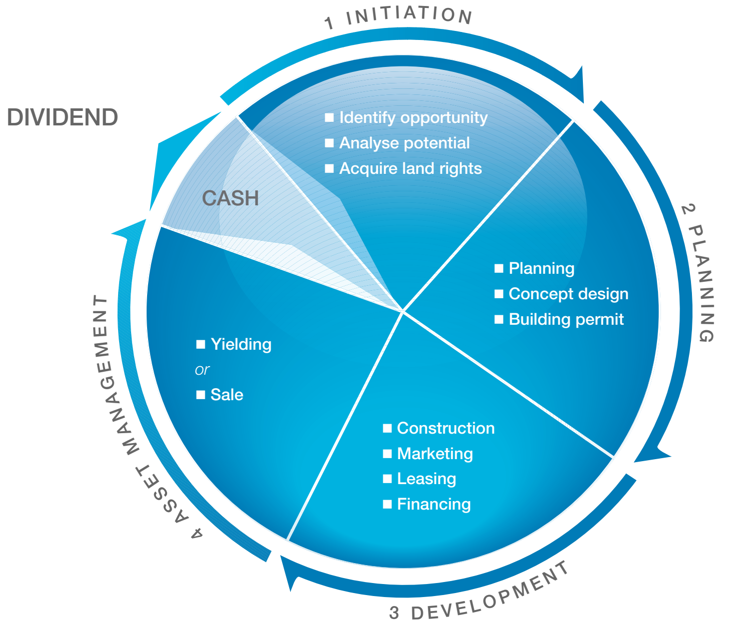
MirLand is mainly involved in the acquisition, development, construction, rental and sale of commercial and residential real estate in Russia.

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

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

OUR BUSINESS MODEL

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



MEASURES AND POLICIES

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

HOW WE PERFORMED IN 2009

Corporate and Financial Highlights

US$23.0m

Loss for the year

(2008: a loss of US$104.8m)

US$17.2m

Revenues for the year

(2008: US$20.4m)

US$616.1m

Total assets

(31 December 2008: US$529.9m), an increase of 16%

US$472.3m

Adjusted Net Asset Value

(31 December 2008: US$487.2m), a decrease of 3%

- Company's equity as at 31 December 2009 amounted to US$319.2m which comprises 52% of total assets.
- The Company invested US$70m in 2009, in developing its portfolio. A total of US$428m has been invested over the past four years.
- Excluding shareholders' loans the Company continues to have modest leverage at 31% of its total assets (38% including shareholders' loans).
- The Company's NAV per share as at 31 December 2009 was US$4.6 based on the Cushman & Wakefield valuation.
- Company owns fifteen significant ongoing projects which, on completion, will provide approximately 1.39 million sqm of office, retail and residential properties.
- Revised strategic focus in 2009 to concentrate on the delivery of projects already under construction and the management of yielding assets.
- Significant progress made on the construction of Western Residence in Perkhushkovo (Phase 1) and the first sub-phase of the Triumph Park project in St Petersburg.
- Triumph Mall in Saratov has either pre-let agreements or letters of intent for approx. 92% of the lettable area in advance of its opening in Q2 2010.
- Good progress at Western Residence in Perkhushkovo with first five houses sold in Q4 2009.
- Succession plans in place with the announcement of replacement of CEO Moshe Morag with current CFO Roman Rozental.

OUR MARKETS

Macroeconomic and Real Estate Markets

- 2009 was a difficult year for the Russian economy as a result of the world's economic crisis and the decrease in oil and gas prices. In the second half of the year, signs of recovery appeared together with the increase in commodity prices, and the country is slowly emerging from the downturn.
- The Real Estate market reached its bottom during 2009. However, at the end of the year the market started to turn around slowly, led by the improvement in the macroeconomic indicators.
- Volume of investment deals in Real Estate totalled to US$2.1bn in 2009 as yields are stabilising and are expected to decrease in the future.

Office Market Characteristics

- The total stock of office space in Moscow increased to 10.6 million sqm in 2009 due to the completion of projects which started before the economic crisis.
- During the first half of the year, demand in the office sector was very depressed and resulted in a fall in rental rates and a significant increase in vacancy rates. However, in Q4 2009 signs of stabilisation in rent and vacancy rates appeared as a result of improvement in the macroeconomic environment.
- It is expected that in 2010 both rental and vacancy rates will remain stable, while the market absorbs an additional 1 million sqm of space that is currently under construction.

Retail Market Characteristics

- During the crisis, consumers started to reduce their spending and increase savings, causing a decline in the demand for quality retail premises and therefore, retailers' turnover. However, the quality retail market in Moscow was least affected by the crisis.
- Despite the crisis, new international retailers entered the Russian market as they took advantage of low rental rates.
- It is expected that in 2010 retail turnover will improve, rental rates will increase and vacancy rates of prime retail will decrease.

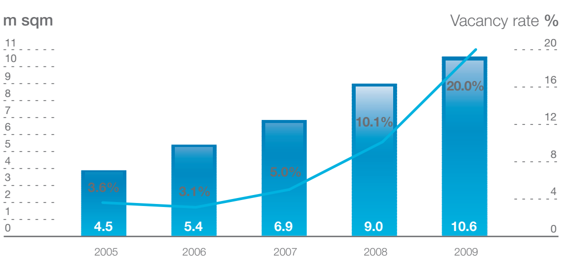
Residential Market Characteristics

- The market for residential property in Russia was severely affected by the crisis with sharp declines during the first half of the year. The number of apartments sold decreased dramatically along with asking prices across the country.
- A slow revival in the market was seen starting in Q4 2009 supported by improving sentiment and reduced interest rates.
- In 2010, activity in the housing market is expected to improve with modest average price growth and a slight increase in sales. This will be supported by limited new stock as well as a low ratio of apartment area per capita in relation to Europe.

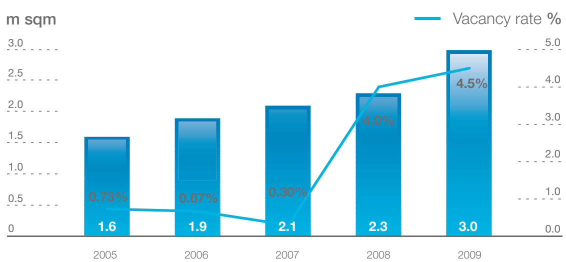
Logistics Market Characteristics

- New construction volume in Moscow decreased during 2009. Several projects were put on hold and land plots were put on the market for sale.
- In Q4 2009, vacancy rate in quality projects stabilised. Rental rates for dry storages stabilised, as rates for cold storages slightly increased.

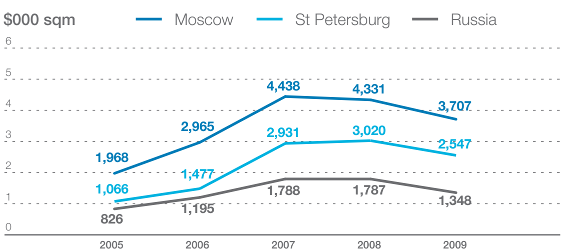
OFFICE STOCKS AND VACANCY RATES, MOSCOW



RETAIL STOCKS AND VACANCY RATES, MOSCOW

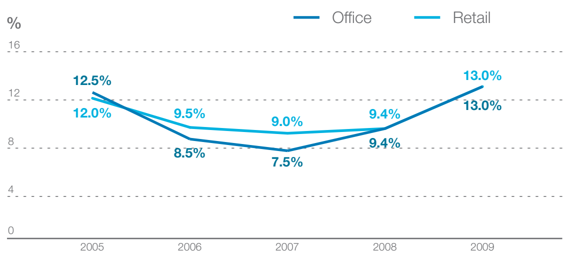


RESIDENTIAL HOUSING PRICES



Source: Rosstat and Cushman & Wakefield

HISTORICAL YIELDS, MOSCOW



CHAIRMAN'S STATEMENT

Once again, I am pleased to report on MirLand's progress during the 2009 financial year. During this year, MirLand has implemented a number of measures that enabled us to endure the financial crisis, and I am pleased to report that our prudent actions have helped us cope with the changing economic environment while also better positioning ourselves to take advantage of the upturn of which we have already started to see encouraging signs.

Nigel Wright Chairman

The Russian economy continued to experience challenges across its financial and real estate markets but, nevertheless, began to show the first steps of emergence from the recession at the end of 2009. As I reported last year, MirLand conducted a comprehensive review of its business plan in order to ensure that the Company's future strategy is aligned with both current and forecasted market conditions, particularly given the ongoing uncertainties facing the world economy, availability of funding liquidity, energy prices and pace of recovery.

The Company's business plan aims to:

- maximise returns from our existing assets;
- successfully complete those projects currently under construction; and
- resume our pipeline projects according to the level and cost of available finance and market demand for the final product

By adjusting its operations to strictly focus on managing cash flow, halting the development of its pipeline projects and completing the construction of final staged projects, along with the continuous support from our main shareholders, the Fishman Group Companies, the Company has successfully endured the recent crisis and is now more strongly positioned to capitalise on opportunities as the market continues to gradually recover.

Business Environment

Although the Russian economy did not suffer as severely as originally anticipated, the 2009 fiscal year was nonetheless extremely difficult – resulting in a significant decline in both output and employment levels and an overall decrease in GDP over the previous year.

During 2009, inflation decreased as a result of a contraction in consumer spending and lower food and service prices. In turn, this caused a reduction in refinancing rates but, as the Central Bank rates largely indicated, the impact was limited and, therefore, the cost of credit still remains very high. For the first time in recent years, a budget deficit occurred as a result of the sharp decrease in oil and gas prices (despite Government support provided to stimulate the economy.) The impact of this deficit was primarily offset by the Reserve and Welfare funds which had been accumulated before the financial crisis, when Russia's economy was flourishing.

Over the last two quarters of 2009, the Russian economy showed signs of recovery and reported growth, largely due to an increase in oil prices. However, as the performance of the Russian economy relies heavily on oil prices, which are also highly volatile, it should be anticipated that the pace of the recovery will be slow and gradual.

2009 Highlights

Despite the challenging conditions of the past year, we believe that as a result of MirLand's revised business model and high-quality portfolio, the Company is well positioned to weather this rapidly changing environment and capitalise on opportunities in the future.

- The Company has a diversified portfolio of assets comprising both residential and commercial projects;
- Our investment portfolio comprises four high-quality, completed and income-producing investment properties, Hydromashservice, MAG, Century office buildings in Moscow, and Vernissage Mall in Yaroslavl. Most of the leasing agreements in these assets are linked to the US Dollar;
- The Triumph Mall in Saratov, which is expected to open towards the second quarter of 2010, continues to see strong demand from potential tenants and MirLand has already received either pre-let agreements or letters of intent for approximately 92% of the lettable area;
- During the fourth quarter of 2009, the first five houses were sold in Perkhushkovo;
- The Company is very modestly leveraged at just 31% of its assets excluding shareholders' loans and 38% including shareholders' loans; and
- As was evident throughout this crisis period, MirLand enjoys significant backing and support from its main shareholders.

CHAIRMAN'S STATEMENT

Financing

Like most other real estate companies, MirLand relies on both short- and long-term financing sources but, over the last period, the global economic situation dramatically changed companies' abilities to arrange bank debt or raise debt on the public markets or as project financing. Despite recent improvements in the economic environment, the financing markets remain difficult.

To date, MirLand's activities have been financed through a combination of equity capital raised during our earlier IPO on AIM, the proceeds of our previous corporate bond issue in Israel, the line of credit backed by our main shareholders, project financing for the Vernissage and Triumph malls, shareholders' loans and, recently, a new corporate loan. Given the current and ongoing difficult credit situation, the Company is taking measures aimed at diversifying these funding sources, including efforts to build strong relationships with national and international banks.

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

Results

Total assets as at 31 December 2009 were US$616.1m as compared with US$529.9m as of 31 December 2008. Equity as of 31 December 2009 was US$319.2m compared with US$342.2m the preceding year. The main reasons for the decrease in 2009 were reductions in income due to the financial crisis and the downward revaluation of our investment properties.

Loss after tax in 2009 amounted to US$23.0m as compared with loss of US$104.8m in 2008. Again, the main reason for this loss is the decline in the value of the Company's investment properties, as a result of deteriorating market conditions. Most of these losses, however, do not impact the cash flow of the Company.

Over the period, rental income and property management fees decreased to US$17.2m, from US$20.4m in 2008. This was due to a decrease in rental rates in our yielding MAG and Hydromashservice projects and an increase in vacancies in these assets.

MirLand's assets are externally valued semi-annually on 30 June and 31 December. The valuation is conducted by Cushman & Wakefield Stiles & Riabokobylko ("Cushman & Wakefield"). As a result of market stabilisation and further investment by the Company during this period, the value of MirLand's portfolio increased by 8.9% to US$687.8m (Company's share) during the year (31 December 2008: US$631.7m). Adjusted NAV based on Cushman & Wakefield's valuation is US$472.3m compared with US$487m in 31 December 2008.

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

Portfolio Development

Due to the deteriorating business environment and the lack of liquidity, MirLand's focus in 2009 was on the ongoing delivery of projects which were already under construction and on the careful management of its yielding assets.

During 2009, significant progress was made on the construction of Phase 1 of Western Residence in Perkhushkovo and the Triumph Mall in Saratov and construction also continued on the Triumph Park project's first sub-phase in St Petersburg (approximately 510 apartments). Moreover, the facade of the Tamiz office building was completed.

By the end of the year, following improved conditions in the Russian economy, activity had slightly increased amongst tenants and buyers. This was evidenced in the Western Residence project in Perkushkovo, where the first five houses were sold in the final quarter of the year. We also saw some improvement in leasing activity. However, both sale prices and rental rates were below pre-crisis levels.

During the year, the acquisitions of the Century buildings and Saratov logistics project which began in 2008 were completed.

Furthermore, the Company continues to make progress on the pre-construction elements of its Skyscraper, Techagrocom, Kazan, Penza and Yaroslavl Phase 2 projects, although commencement of construction will inevitably be dependent upon market conditions and the availability of financing. However, we will continue to prepare the sites and position the assets so that when the markets stabilise, value will be added to the land.

Dividend Policy

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

Despite modest improvements in the Russian economy, conditions are likely to remain challenging for real estate investment and development. Moreover, considering the net loss reported by the Company in this period, and as a means to provide the Company with maximum financial flexibility in the year ahead, the Board has determined that it is inappropriate to declare a dividend for the current financial year.

Our People

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

In 2009, the Board of Directors announced management changes in two key positions.

The CFO, Roman Rozental, will replace the current CEO, Moshe Morag, as of 1 January 2011 and, until that time, he will continue to act as the CFO of the Company. In order to ensure that the Company will continue to benefit from Mr Morag's experience, he will serve as a non-executive director for an additional six months. During this time, we will continue our search to replace the CFO, while also recruit new candidate for the NE.D.

Project manager of MirLand's flagship Triumph Park project in St Petersburg, Mr Lev Margolin was appointed at the beginning of 2010 to replace Mr Yehuda Marom as Chief Engineer. We would like to thank Mr Marom for his considerable efforts and devotion to leading the developing of our projects during the past three years. I believe that Mr Margolin's extensive experience, including in development projects in Russia, will allow him to lead the development of our portfolio assets.

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

Despite market difficulties, our commitment to sound corporate governance remains firm. As in previous years, fully detailed information regarding our approach to governance issues, our internal controls and key team members will be provided in our annual report and accounts.

Outlook

In view of modest improvements in the Russian macroeconomic environment, MirLand will continue to monitor and adjust its business plan to maximise shareholder return in the future.

The Board has decided to focus the Company's efforts and resources on completing projects already under construction and commencing those where funding is already in place. In conjunction with this, we continue to intensify our efforts to improve our pre-sale and pre-letting activities. As in the past, we will move forward with the planning and design stages of our strategic projects, whilst nurturing the strong income stream from our investment portfolio.

I have previously alluded to signs of modest recovery in the Russian economy and the slight improvement that we have witnessed recently in our current portfolio. Barring any unforeseen market aftershocks and dependent upon market demand and availability of funding, I believe that, as we move forward, MirLand is reasonably well placed to benefit from these improving market conditions.

Nigel Wright
Chairman
17 March 2010

OUR INVESTMENT STRATEGY

FOCUS ON SUCCESSFUL DEVELOPMENT OF PROJECTS

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

MAINTAIN A DIVERSIFIED PORTFOLIO

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

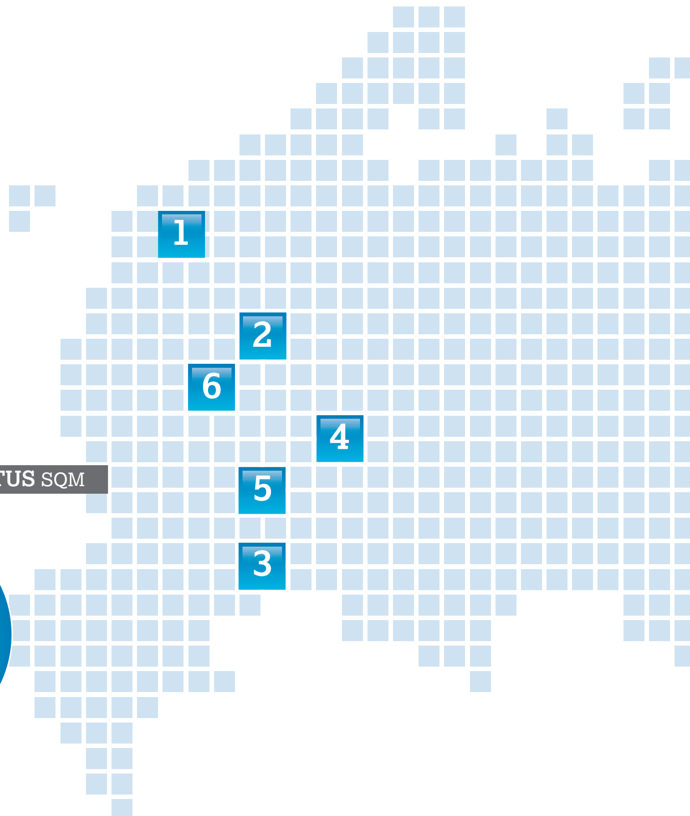
GENERATE VALUE THROUGH ACTIVE MANAGEMENT

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

ACQUIRE ATTRACTIVE SITES IN TARGETED LOCATIONS FOR FUTURE DEVELOPMENT

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

PORTFOLIO AT A GLANCE



1 St Petersburg

Triumph Park
Development of a residential neighbourhood, complete with approximately 9,000 apartments, public and commercial areas, totalling approximately 726,900 sqm.

2 Yaroslavl

Vernissage Mall – Yielding
Development of a single-floor 33,300 sqm shopping centre

Big Box Complex
Development of a 55,200 sqm retail park adjacent to Vernissage Mall

3 Saratov

Triumph Mall
Development of 27,400 sqm of modern retail and entertainment centre in Saratov

Saratov Logistics
Phased development of 104,000 sqm logistics centre in Saratov

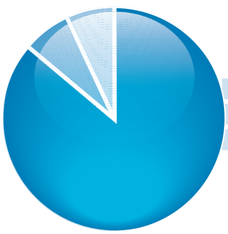
4 Kazan

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

5 Penza

Shopping Centre
Development of a two-storey 17,900 sqm shopping centre

PORTFOLIO PROJECT STATUS SQM



- In planning **1,201,000 sqm**
- Under construction **95,000 sqm**
- Yielding **95,000 sqm**

6 Moscow and Regions

Hydromashservice & MAG – Yielding
Renovation of 18,200 sqm (Hydro) and 19,500 sqm (MAG) of Class B+ offices

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

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

Century Buildings – Yielding
Construction of 24,000 sqm of Class B+ offices

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

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

KEY PERFORMANCE INDICATORS

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

Strategic Goal	Performance	Comments

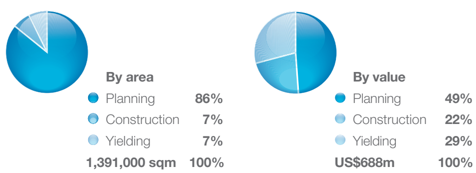
Focus on successful development of projects

YIELDING AREAS sqm

In 2009 the construction of the Century Buildings was completed and these buildings were added to the yielding portfolio.

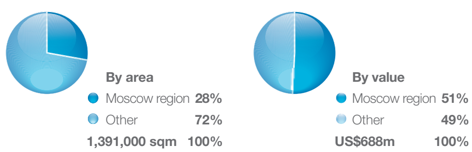
Maintain a diversified portfolio

DEVELOPMENT STAGE



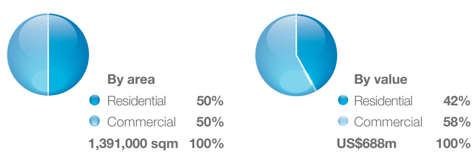
During 2009, significant progress was made on the construction of Perkhushkovo Phase 1 and the Triumph Mall in Saratov and construction also continued on the Triumph Park in St. Petersburg first sub-phase (approximately 510 apartments). Moreover, the facade of the Tamiz office building was completed. Future commencement of construction of projects in planning phase will be dependent upon market conditions and the availability of finance.

GEOGRAPHICAL SPREAD



The Company is gradually entering projects in regional cities; in 2009 only one project in Saratov was added to the portfolio due to market conditions.

SEGMENT DISTRIBUTION



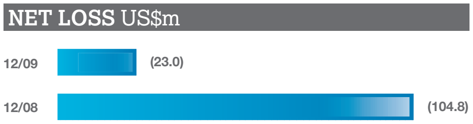
The Company's portfolio includes 13 commercial projects and two residential projects.

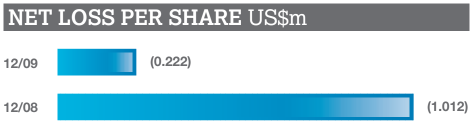
Strategic Goal	Performance	Comments

Generate value through active management

MirLand's portfolio value increased during 2009 by 8.9% attributed to the market stabilization and further investment by the Company during this period. Since the further investments were financed through bank loans and shareholders' loans the NAV during the period decreased by 3%.

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield (C&W) in accordance with International Valuation Standards. As at 31 December 2009 it was valued at US$688m (31 December 2008: US$632m) and net liabilities were US$216m (31 December 2008: US$145m). The full valuation is published on the Company's website.





The reduction in the net loss during 2009 is largely due to the reduction in the negative fair value adjustment of investment properties and the reduction in investment properties under construction which amounted to US$16.5 million for the period compared to US$58.8 million in 2008 as the market stabilised during the year, the reduction in financing costs and the reduction of general and administrative costs resulting from cost reductions implemented as part of the strategic review of the business plan. Consequently, the loss per share decreased accordingly.

Acquire attractive sites in targeted locations for future development

In 2009, one new project was added to the Company's portfolio which is the logistic centre in Saratov. Consequently the total rentable/saleable area increased to 1.39m sqm once all projects are completed.

CHIEF EXECUTIVE'S STATEMENT

MirLand was established in December 2006 to focus on value-enhancing acquisition, construction, lease and sale of residential and commercial real estate in Russia. The Company's projects vary in their locations (major and regional cities), sectors (residential, office, retail and logistics), and status of development (from income producing investment properties to those in the pre-planning stage). For most of MirLand's projects, a local management team is put in place which is responsible for the development and/or the ongoing management of the asset.

Moshe Morag Chief Executive Officer

The Market

Russian Economy

Key economic indicators	2004	2005	2006	2007	2008	**2009**
Population (millions)	144.2	143.5	142.8	142.2	142	**141.9**
GDP per capita (PPP, $)	9,800	11,000	12,200	14,600	15,800	**15,039**
GDP growth rate (%)	7.2	6.4	6.7	7.6	5.6	**-7.9**
Inflation (%)	10.9	12.7	9.7	11.9	13.3	**8.8**
Unemployment rate	8.6	8.2	7.6	6.1	7.7	**8.2**
Average RUR/USD exchange rate	28.8	28.3	27.4	25.7	24.9	**30.2**
Credit rating	BB+	BBB	BBB+	BBB+	BBB	**BBB**

2009 was a difficult year for the Russian economy. In the first half of the year, the main macroeconomic indicators decreased sharply as a result of the world economic crisis, as did the drop in oil prices, which remains the major influencing factor on the Russian economy. GDP showed negative growth for the first time since the crisis in 1998, the level of unemployment rose and industrial output decreased. However, the rate of inflation was lower than in 2008 and the Central Bank cut the refinancing interest rate ten times during the year. The reserve funds that had been accumulated during the previous years were used to offset the budget deficit and the Government implemented additional measures to support the economy. Consequently, in the second half of the year, signs of recovery appeared and the Russian economy reported two consecutive quarters of positive GDP growth demonstrating that the country has started to emerge from the downturn.

The global economic crisis naturally affected Russia's real estate market along with its economy. Across the sector, we faced increasing yields which lead to decreases in our assets' values, increased vacancy rates, coupled with decreasing rental rates, and an overall lack of financial resources. However, at the end of the year, the market started to slowly turn around as a result of the improvement in the macroeconomic situation.

In 2010, Russia's main macroeconomic indicators are expected to continue to improve. GDP is forecast to show modest growth along with a decrease in both unemployment and inflation rates.

The Office Sector

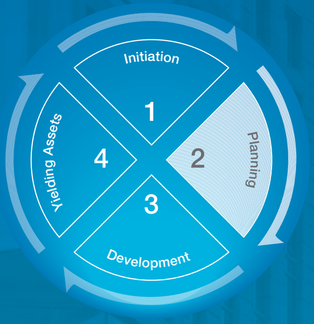
The total stock of office space in Moscow reached 10.6 million sqm in 2009, up from 9 million sqm in 2008. This increase in office space is largely attributed to construction that started prior to the crisis.

During the first half of the year, demand for office space was very depressed and resulted in a fall in rental rates and a significant increase in vacancy rates. However, in the fourth quarter of 2009, signs of stabilisation in rent and vacancy rates began to appear as the macroeconomic environment slowly improved.

It is expected that in 2010 both rental and vacancy rates will remain stable, while the market absorbs an additional 1 million sqm of space that is currently under construction.

Sector Office
Location Moscow
Name skyscraper

Land area: 0.9 ha
Rentable area: 92,000 sqm
Expected construction commencement: Q3 11
Expected completion: Q4 14
Leasehold rights: 100%

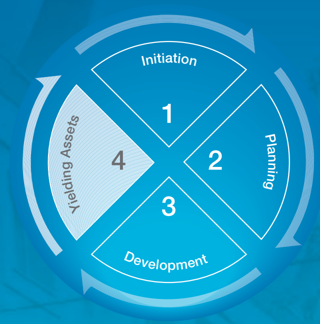


Sector Office
Location Moscow
Name Hydromashservice

Land area: 1.2 ha
Rentable area: 18,200 sqm
Completed: Q4 08
Leasehold rights: 100%

Sector Office
Location Moscow
Name MAG

Land area: 2.2 ha
Rentable area: 19,500 sqm
Completed: Q4 07
Leasehold rights: 100%



CHIEF EXECUTIVE'S STATEMENT continued

The Retail Sector

During the crisis, consumers started to reduce their spending and increase their saving, which caused a decline in retailers' turnover and a concurrent decline in demand for quality retail premises. Nevertheless, the prime retail market in Moscow was the least affected by the crisis. In 2009, the total stock of quality retail space reached 3 million sqm, including more than 650,000 sqm of new high-quality shopping space.

Overall, rental rates decreased by 8% to US$2,200 per sqm and vacancy rates increased by 0.5% to 4.5%. Despite the crisis, new international retailers entered the Russian market to take advantage of low rental rates and expand into the region.

It is expected that in 2010 another 600,000 sqm will be delivered to Moscow's retail market. With consumer demand and retail turnover likely to improve, rental rates are expected to increase and vacancy rates of prime retail to decrease.

The Residential Sector

The market for residential property in Russia was severely affected by the crisis as evidenced by sharp declines during the first half of the year. The number of apartments sold decreased dramatically as did average asking prices. The decrease in sales across Russia was also impacted by a lack of available mortgage financing. However, in the last quarter of 2009, the market started to show signs of increased activity, likely due to increased consumer confidence and reduced interest rates. In St Petersburg, for example, the volume of deals increased by 35% (YoY) over the third quarter of 2009 which represents approximately 300,000 sqm of sales.

In 2010, activity in the housing market is expected to improve with modest to average price growth and a slight increase in sales expected. As very few new construction products were started during the crisis, Russia's limited housing supply and the low ratio of apartment area per capita, in relation to Europe, will create a demand for existing stock.

The Logistics Sector

New construction volume in Moscow totalled 600,000 sqm, down from 620,000 sqm in 2008. Several projects were put on hold and land plots, where construction had not yet started, were put on the market for sale. In the fourth quarter of 2009, the vacancy rate for prime assets stabilised at 13% in Moscow, 30% in St Petersburg and over 50% in regions. Rental rates for dry storage also stabilised, whereas rates for cold storage slightly increased. In 2010, it is expected that just 100,000 sqm of warehouses will be delivered to the Moscow region market.

Strategy

MirLand's principal activities are focussed on acquisition, development, construction, reconstruction, rental and sale of residential and commercial real estate in Russia. Its particular geographic focus is in Moscow, St Petersburg and major regional cities with populations over 500,000 people. MirLand invests primarily in projects where it identifies potential for a high return on equity and generation of strong yields and income, stemming from demand for good quality commercial and residential real estate assets that has not otherwise been met.

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

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

- **Focus on the completion of existing projects:** The Company aims for the timely delivery of projects while ensuring they are completed to a high standard. Marketing of all of the Company's commercial projects is commenced during their development phase so that they can generate income immediately upon completion.
- **Portfolio diversification:** To mitigate risk, the Company's portfolio is balanced between various sectors, locations and development stages.
  - Geographic location: investments are spread across Moscow, St Petersburg, and other major regional cities. Investment decisions are made following a detailed feasibility study and the close examination of local and national economic and demographic data, as well as the balance between supply and anticipated demand for international standard properties.
  - Sector: the Company invests in a balanced mix of residential, retail, office and logistics, as well as mixed-use projects.
  - The Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. The Company holds both yielding and development properties to obtain a relatively balanced spread in the use of working capital and demand for management's attention, that can, at the same time, generate an income flow from sales and yielding properties.
- **Realisation of assets:** The Company will continuously assess whether to retain yielding properties or realise their market value through disposals, depending on the opportunity and on prevailing market conditions. The Company uses revenues from yielding assets to diversify its income sources.

- **Use of diverse financing sources to accelerate business activity and growth:** Equity, shareholders' loans, bank loans (some of which have been guaranteed by our main shareholders) and bond issuances are used to finance the Company's activities and projects.
- **The extension of relationships with local partners, especially in the regions:** Having a local partner provides daily surveillance of the projects and thus a greater level of control over quality, costs and delivery for the Company. In addition, these relationships are expected to lead to future investment opportunities.

The global financial turmoil, which had a significant impact on the Russian real estate market during 2009, has led the Company to adjust its operational focus to be more focused on managing its core activities and available financial resources.

This has been achieved through:

- a focus on the progression of those development projects which have the greatest potential to deliver the best returns despite current market conditions;
- the further phasing of larger projects;
- the development of the remaining projects according to changes in the market demand and to the availability of financial sources;
- a strong emphasis on keeping high occupancy rates in yielding commercial projects;
- a high prioritisation on financing; and
- a reduction of costs in OPEX, general and administrative, professional services and "in-house" expenses.

MirLand believes that by adjusting its operational focus in the aforementioned ways, it can firmly establish its position as one of the leading international real estate companies in Russia.

During 2009, MirLand enjoyed financial support from its key shareholders through loans and guarantees. This crucial ongoing backing, together with the diversification of financial sources, will enable MirLand to continue to develop and maintain its portfolio and help fulfil its mission of creating value for its shareholders.

Portfolio

As at 31 December 2009, MirLand had 15 projects, of which four are yielding assets, four are under construction, and seven projects are at various stages of the planning phase and in the process of gaining permits. During the year, the acquisitions of the Century buildings and Saratov logistics project (which began in 2008) were completed.

The Company's portfolio has been valued by Cushman & Wakefield at US$688m (MirLand's share) as of 31 December 2009, based on the Company's freehold/leasehold rights. This value represents an increase of 8.9% since 30 June 2009 and is due to the advancement in development projects and decrease in yields due to market stabilisation.

Yielding Projects:

Hydromashservice (Hydro), Moscow – office and retail complex

Class B+ office complex located in the northern part of Moscow's Novoslobodsky business district. The site enjoys good transport links and excellent access.

- Land area: 1.2 ha
- Leasable area: 18,200 sqm
- Completed: Q4 2008
- Leasehold rights: 100%

MAG, Moscow – office and retail complex

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

- Land area: 2.2 ha
- Leasable area: 19,500 sqm
- Completed: Q4 2007
- Leasehold rights: 100%

Century Building, Moscow – offices

Recently completed class B+ office buildings at the Hydro & MAG site.

- Leasable area: 24,000 sqm
- Completed: Q1 2009
- Building ownership rights: 51%*

Vernissage Mall, Yaroslavl – shopping centre

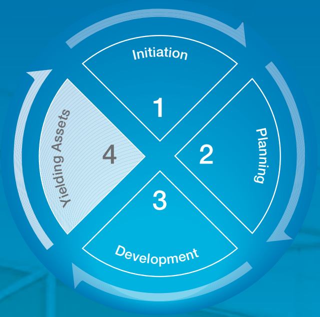
A Western standard single floor shopping centre in Yaroslavl, completed in 2007. This project is located at the entrance road to Yaroslavl from Moscow.

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

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

Sector Office
Location Moscow
Name
Century Buildings

Rentable area: 24,000 sqm
Construction commencement: Q4 07
Completion: Q1 09
Building ownership rights: 51%*



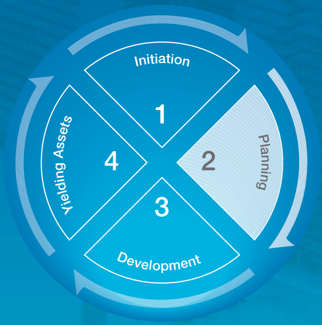
* The Company granted the partners the option to buy back 1%.

Sector Office
Location Moscow
Name Tamiz

Rentable area: 12,200 sqm
Construction commencement: Q3 08
Expected completion: Q4 10
Building ownership rights: 100%

Sector
Office and Retail
Location Moscow
Name Techagrocom

Land area: 22 ha
Rentable area: 163,400 sqm
Expected construction commencement: Q3 11
Expected completion: Q2 16
Freehold rights: 100%



Sector Retail
Location Kazan
Name Triumph House

Land area: 2.2 ha
Rentable area: 31,500 sqm
Expected construction commencement: Q1 11
Expected completion: Q1 13
Building ownership rights: 100%

CHIEF EXECUTIVE'S STATEMENT continued

Projects Under Construction:

Triumph Park, St Petersburg – residential complex and trade centre

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

- Land area: 41 ha
- Saleable area: 630,900 sqm
- Leasable area: 96,000 sqm
- Construction commencement of sub-phase 1: Q3 2008
- Planned completion of total project: Q1 2019
- Freehold rights: 100%

Western Residence Perkhushkovo, Moscow region – residential complex

Development of 163 town houses and cottages in the prestigious western outskirts of Moscow, implemented in two phases. This project targets the growing segment of successful professionals who are seeking an improved standard of living.

- Land area: 22.5 ha
- Saleable area: 65,500 sqm
- Construction commencement of phase 1: Q3 2007
- Planned completion: Q3 2013
- Freehold rights: 100%
- Sales: first five houses were sold in the last quarter of 2009

Triumph Mall, Saratov – shopping centre

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

- Land area: 2.2 ha
- Leasable area: 27,400 sqm
- Construction commencement: Q2 2007
- Planned completion: Q2 2010
- Freehold rights : 100%
- Marketing: 92% is pre-let or with signed letters of intent
- Financing: US$48.5 million financed by the European Bank for Reconstruction and Development (EBRD)

Tamiz, Moscow – offices

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

- Leasable area: 12,200 sqm
- Construction commencement: Q3 2008
- Planned completion: Q4 2010
- Leasehold rights: 100%

Projects in Planning:

Skyscraper, Moscow – offices and retail

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

- Land area: 0.9 ha
- Leasable area: 92,000 sqm
- Planned construction commencement: Q3 2011
- Planned completion: Q4 2014
- Leasehold rights: 100%

Techagrocom, Moscow region – Business Park

A three phase development of a business park, which will include Class B+ office buildings and a trade centre. The complex is ideally located near the Leninskiy district near Moscow's fourth ring ("MKAD").

- Land area: 22 ha
- Leasable area: 163,400 sqm
- Planned construction commencement of phase 1: Q3 2011
- Planned completion of project: Q2 2016
- Freehold rights: 50%

Big Box Complex, Yaroslavl – retail development

Development of a retail park adjacent to the Vernissage mall.

- Land area: 18 ha
- Leasable area: 55,200 sqm
- Planned construction commencement: Q1 2012
- Planned completion: Q4 2013
- Freehold rights: 49%

Shopping Centre, Kazan

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

- Land area: 2.2 ha
- Leasable area: 26,300 sqm
- Sellable area: 5,200 sqm
- Planned construction commencement: Q1 2011
- Planned completion: Q1 2013
- Building ownership rights: 100%

CHIEF EXECUTIVE'S STATEMENT continued

Penza – shopping centre

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

- Land area: 5.3 ha
- Leasable area: 17,900 sqm
- Planned construction commencement: Q2 2012
- Planned completion: Q4 2013
- Freehold rights: 100%

Saratov – logistics

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

- Land area: 26 ha
- Leasable area: 104,000 sqm
- Construction commencement: Q4 2011
- Planned completion: Q3 2014
- Freehold rights: 100%

Outlook

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

- focusing on gradual and prudent development of key projects according to demand and market conditions;
- focusing on the maintenance of occupancy and therefore rental rates at its yielding properties;
- constantly monitoring and analysing the market to resume its pipeline projects. The Company will prioritise the progression of projects according to the availability of financial sources and specific market conditions surrounding each project.
- looking for additional diversified sources of financing to fill the gap left by the lack of institutional finance for real estate;

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

We strongly believe in the quality of our portfolio projects and believe that our prudent and selective approach to the management and development of our projects, especially in the challenging business environment in which we operate, together with our committed Directors and managers, will lead to an increased value for our shareholders' investments.

Moshe Morag
Chief Executive Officer
17 March 2010

Sector Retail
Location Saratov
Name Triumph Mall

Land area: 2.2 ha
Rentable area: 27,400 sqm
Construction commencement: Q2 07
Expected completion: Q2 10
Freehold rights: 100%

Sector Retail
Location Yaroslavl
Name Vernissage Mall & Big Box Complex

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

Phase 2 – Big Box Complex
Land area: 18 ha
Rentable area: 55,200 sqm
Expected construction commencement: Q1 12
Expected completed: Q4 13
Freehold rights: 49%

Sector Residential and Commercial
Location St Petersburg
Name Triumph Park

Land area: 41 ha
Saleable area: 630,900 sqm
Rentable area: 96,000 sqm
Construction commencement: Q2 08
Expected completion: Q1 19
Freehold rights: 100%

MIRLAND DEVELOPMENT CORPORATION ASSETS – OVERVIEW OF MARKET VALUES as at 31 December 2009

City	Property Name and Address	Portfolio Market Value as at 31 December 2009 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as at 31 December 2009 (Rounded)
Moscow	Hydromashservice, 2-Khutorskaya str., 38A	US$59,500,000	100%	US$59,500,000
Moscow	MAG, 2-Khutorskaya str., 38A	US$63,200,000	100%	US$63,200,000
Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	US$84,200,000	100%	US$84,200,000
Saratov	Triumph Mall, 167 Zarubina street	US$79,800,000	100%	US$79,800,000
Moscow	Skyscraper, Dmitrovskoe schosse,1	US$51,400,000	100%	US$51,400,000
St Petersburg	Triumph Park, Residential	US$202,600,000	100%	US$202,600,000
St Petersburg	Triumph Park, Trade Centre	US$12,500,000	100%	US$12,500,000
Moscow Region	Techagrocom, Kaluzhskoe Highway	US$37,600,000	50%	US$18,800,000
Yaroslavl	Vernissage Mall, Kalinina str.	US$64,900,000	49%	US$31,801,000
Yaroslavl	Phase II	US$4,300,000	49%	US$2,107,000
Moscow	Tamiz Building	US$27,300,000	100%	US$27,300,000
Moscow	Century Buildings	US$85,300,000	51%*	US$43,503,000
Kazan	Triumph House	US$7,600,000	100%	US$7,600,000
Penza	Retail Centre	US$2,500,000	100%	US$2,500,000
Saratov	Logistics Complex	US$1,000,000	100%	US$1,000,000
Total		US$783,700,000		US$687,811,000

* 1% of the Group's interest in this project is subject to an option in favour of the joint venture partner.

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

Sector Residential

Location

Perkushkovo

Moscow region

Name

Western Residence

Land Area: 22.5 ha
Saleable area: 65,500 sqm
Construction commencement: Q3 07
Expected completion: Q3 13
Freehold rights: 100%

FINANCIAL REVIEW

Revenues for 2009 were US$17.2m and the net loss was US$20.4m. Total assets at December 2009 amounted to US$616.1m and equity amounted to US$319.2m. The Company's adjusted net asset value was US$472.3m. The Company's real estate assets were valued on 31 December 2009 at US$783.7m (for 100% rights from freehold/ leasehold) by an external appraiser, of which MirLand's share is US$687.8m.

Roman Rozental Chief Financial Officer

Accounting Policy

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

Income Statement

The loss for 2009 amounted to US$23.0m in comparison to the loss of US$104.8m in 2008.

The Company's revenues consist of rental income and fees from managing investment properties. Rental income and fees from investment properties decreased to US$17.2m from US$20.4m, which is a decrease of 18%. This decline is attributed to the financial crisis that influenced the real estate sector in Russia causing a decrease in rental rates, discounts granted to tenants and an increase in vacancies. These conditions had particular influence on two of the Company's yielding assets, MAG and Hydromashservice.

In accordance with IAS 40, the Company has revalued its investment properties and investment properties under construction for the financial period ending 31 December 2009 and has recognised the resulting movement in valuation through its income statement as fair value adjustments of investment properties and investment properties under construction. The loss of US$16.5m was based on the valuations of the Company's investment properties and investment properties under constructions prepared by an independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards.

The cost of maintenance and management of the Company are embodied in property maintenance and management costs, which rose only marginally from US$7.3m in 2008 to US$7.4m in 2009.

The Company's general and administrative expenses for the period decreased to $16.3m in comparison with US$22.3m in 2008, mainly resulting from cost reductions implemented as part of the strategic review of the business plan.

Total financing costs for the period decreased to US$5.7m compared with US$44.7m in 2008, mainly a result of foreign exchange differences caused by the sharp devaluation of the Rouble in 2008. Due to US Dollar denominated financing sources of the Russian companies, the devaluation of the Rouble caused significant financing costs during 2008 in contrast to a lower devaluation in the currency in 2009. Financing income from deposits, loan interests and financial assets not at fair value that were recognised through the profit and loss statement amounted to US$8.7m.

Tax expenditure in 2009 amounted to US$5.1m compared with US$1.0m in 2008 mainly due to deferred taxes. MirLand is a resident of Cyprus for tax purposes and is subject to a 10% tax rate. MirLand's subsidiaries in Russia are subject to a 20% tax rate (24% in 2008). Additional details are covered in note 19 to the financial statements.

The net loss for 2009 was US$23.0m, in comparison with a net loss of US$104.8m in 2008. This improvement is largely due to the reduction in the negative fair value adjustment of investment properties and the reduction in investment properties under construction which amounted to US$16.5m for the period compared to US$58.8m in 2008, the reduction in financing costs as explained above, and the reduction of general and administrative costs.

Balance Sheet

Total assets as at 31 December 2009 amounted to US$616.1m in comparison with US$529.9m in 2008, an increase of 16%. The main reason for the overall increase was the addition of investment properties, investment properties under construction and inventories of buildings for sale to the portfolio, which were financed through corporate loans, loans from shareholders and new loans for the Triumph Mall in Saratov.

Equity and Liabilities

Equity as at 31 December 2009 decreased to US$319.2m from US$342.2m in 2008, a decrease of 7%. Equity decreased mainly due to foreign currency translation adjustments and net loss that occurred in 2009. MirLand's equity comprises 52% of its total assets.

Financial liabilities as at 31 December 2009 amounted to US$210.8m (excluding shareholders' loans) compared with $141.9m for 31 December 2008. The increase is mainly due to a US$15m corporate loan received from Uniastrum bank and a US$48.5m loan received from the EBRD to finance the construction of the Triumph Mall in Saratov. Shareholders' loans also increased during 2009 from US$9.0m to US$45.0m. These loans were granted to MirLand from its main shareholder, the Fishman Group, in order to finance the current operations and development of the Company's assets. In addition, the short-term loans are guaranteed by the Company's main shareholders; therefore, the Company assumes that these loans will revolve if necessary.

The Company raised approximately US$63m by issuing two series of debentures on the Tel Aviv stock exchange in December 2008. The debentures are to be redeemed in six equal, annual payments at the end of each year starting in 2010 up until 2015. For further details, please review note 16 of the financial statements.

Net Asset Value ("NAV")

The Company's real estate assets were valued by an external independent appraiser, Cushman & Wakefield, in accordance with International Valuation Standards on 31 December 2009 at US$783.7m (for 100% rights from freehold/leasehold), of which MirLand's share is US$687.8m.

Based on the Cushman & Wakefield valuation as at December 2009, the Company's Adjusted NAV decreased to US$472.3m (31 December 2008: US$487.0m), a decrease of 3%. As a result, the NAV per share as at 31 December 2009 was reduced to US$4.6 in comparison with US$4.7 as at 31 December 2008.

Cash Flow

During 2009, the Company used US$69.7m for investment in real estate properties in comparison with US$176.0m in 2008. Cash flow used for operating activities amounted to US$70.3m. Cash flow provided by financing activities amounted to US$104.8m.

Financial Strategy

In 2009, MirLand's activities were primarily financed by shareholders' loans, corporate bank loans guaranteed by the Company's main shareholders, a construction loan to the Triumph Mall project in Saratov and by revenues. The Company's policy is to limit its leverage to 66% of the gross value of its assets, including all development, trading and investment properties. However, the Company anticipates that the debt markets in Russia will continue to be difficult, making project financing and other sources of financing limited.

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

Wherever possible, the Company seeks to acquire finance on a non-recourse basis to minimise risk. In 2009, the Company signed one new corporate loan agreement and it is currently negotiating with several banks for financing some of its portfolio projects.

Market Risks

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

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

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

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

Roman Rozental
Chief Financial Officer
17 March 2010

NAV PER SHARE US$

NET LOSS US$m

NET LOSS PER SHARE US$m

TOTAL REVENUES US$m

NAV US$m

HOW WE MANAGE RISK

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

Risk	Mitigation
Market	
Changes in the Russian economic and political environment	Monitoring changes in the Russian environment through ongoing research from diverse sources.
Real estate market risks	The Company's management has extensive experience in the real estate development sector, enabling it to deal with a changing market environment.
	The investment strategy is to maintain a diversified portfolio regarding geographical location, sector and stage of development.
Development	
Dependence on contractors and subcontractors risks	Contractors are thoroughly investigated before engagement. Contractors' operations are supervised and monitored by the senior management.
Planning, general construction and development risks	The Company's partners and managers hold substantial knowledge of the Russian market.
	The Company works with international advisors and also exploits their familiarity with the Russian market.
	The Company conducts bid processes that require also fixed prices.
	The Company purchases insurance for all of its assets.
Financial	
Foreign exchange risk	The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US$.
Interest rate risk	The Company is looking into diversified financing tools such as hedging or fixed rate loans.
Credit risks	Performance of ongoing credit evaluations of tenants, purchasers and contractors.
	Deposits and specific allowances from tenants.
Additional requirements for capital	The Company is acting to diversify its financing resources through various markets and tools.

BOARD OF DIRECTORS

Nigel Wright

Moshe Morag

Roman Rozental

Caroline Brown

Eliezer Fishman

Eyal Fishman

Elias Eliades

Steven Holm

Nigel Wright

Non-executive Director and Chairman, age 55

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 64

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

Roman Rozental

Chief Financial Officer, Certified Public Accountant, age 42

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, Chairman of the Audit Committee and Senior Independent Director, age 47

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

Eliezer Fishman

Non-executive Director, Certified Public Accountant, age 66

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 40

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

Elias Eliades

Non-executive Director and Chairman of the Nomination Committee, age 62

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

Steven Holm

Non-executive Director and Chairman of the Remuneration Committee, age 57

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

Guerman Aliev

Non-executive Director, age 39

Guerman Aliev resigned from the Board on 29 January 2009.

DIRECTORS' REPORT

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

Country of Incorporation

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

Principal Activities

During the year the Group continued its activities of property trading and development. It will continue the same activities in 2010.

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

Review of Business Development and Prospects

Development of the Group's activities and its prospects are reviewed in the Chairman's statement on pages 5 to 7 and the Chief Executive's statement on pages 12 to 22.

Results for the Year

The results of the Group are set out in the consolidated income statement on page 46 which shows a loss for the financial year of US$23.0m (2008: loss of US$104.8m). The consolidated balance sheet on page 44 shows net assets of US$319.2 thousand (2008: US$342.2 thousand).

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2009.

Share Capital and Treasury Shares

There were no changes in the share capital of the Company during the year.

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

Directors

The Directors of the Company who served during the year are listed on pages 28 and 29.

Mr Guerman Aliev resigned on 29 January 2009.

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

Directors' and Other Interests

The interests of the Directors in the shares of the Company at 31 December 2009, with comparative figures as at 31 December 2008, are as follows:

Director	**Number of Shares as at 31 December 2009**	Number of Shares as at 31 December 2008
Nigel Wright	**20,500**	20,500
Moshe Morag	**17,300**	17,300
Roman Rozental	**0**	0
Caroline Brown	**2,050**	2,050
Guerman Aliev†	**0**	0
Steven Holm	**0**	0
Eliezer Fishman*	**200,000**	200,000
Eyal Fishman*	**350,000**	200,000
Elias Eliades	**0**	0

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

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

Details of Directors' share options are given on page 42.

In addition to the disclosures above, as at 17 March 2010, the Company was aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage Holding
Jerusalem Economy Ltd	**29,796,868**	28.8
Industrial Buildings Corporation Ltd	**35,253,622**	34.0
Darban Investments Ltd	**14,000,001**	13.5
Capital Venture Worldwide Group Limited	**7,059,630**	6.8

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

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

DIRECTORS' REPORT continued

Directors' Interests in Significant Contracts

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

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

Statement of Directors' Responsibilities

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period and comply with International Financial Reporting Standards (IFRS). The Directors are responsible for ensuring that applicable accounting standards have been followed and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements for the year ended 31 December 2009. 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 18 of the consolidated financial statements. The Group is also exposed to other business risks which relate to the markets in which it operates. The Group monitors and manages these risks through various control mechanisms.

Charitable Donations

During the year the Group donated US$7,000 to charitable causes in Russia.

Health and Safety

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

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

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

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

Post-Balance Sheet Events
There were no significant post-balance sheet events that require disclosure in the financial statements.

Nigel James Wright
Chairman
17 March 2010

CORPORATE SOCIAL RESPONSIBILITY

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

Investors

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

Employees

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

As shareholders are aware, a fire occurred in one of the office properties of the Company's fully-owned subsidiary, Mashinostroenie & Hydravilka OJSC. Tragically, one fire officer lost his life in the fire. The Company is investigating this incident with a view to ensuring the health and safety of its employees and the community in which it works.

Tenants

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

The Environment

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

Charity

The Board has stated its intention to donate to communities in cities and neighbourhoods in which it holds and develops real estate projects or to other communities that may approach the Company with an appropriate request for a donation. In 2009 the Company donated US$7,000 to charitable causes in Russia.

CORPORATE GOVERNANCE REPORT

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

Board Composition, Roles and Independence

During the financial year, MirLand's Board comprised nine Directors as Mr Aliev resigned on 29 January 2009. Caroline Brown is the Senior Independent Non-executive Director.

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

Chairman

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

Chief Executive Officer

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

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

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

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

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

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

Board Conduct

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

The table below sets out the dates of the Board meetings held in 2009 and provides details of the Directors' attendance at each meeting.

	16 March 2009	18 May 2009	14 August 2009	16 October 2009	16 November 2009
Caroline Brown	✓	✓	✓	✓	✓
Elias Eliades	✓	✓	✗	✓	✓
Eliezer Fishman	✗	✗	✗	✗	✗
Eyal Fishman	✓	✓	✓	✗	✓
Guerman Aliev*	N/A	N/A	N/A	N/A	N/A
Moshe Morag**	✓	✓	✓	✓	✓
Nigel Wright	✓	✓	✓	✓	✓
Roman Rozental***	✓	✓	✓	✓	✓
Steven Holm	✓	✓	✗	✓	✓

* Mr Aliev resigned on 29 January 2009.
** Mr Morag's appointment as CEO has been extended until 31 December 2010. After that, it is intended that he will serve as a Non-executive Director.
*** Mr Rozental will be appointed as CEO with effect from 1 January 2011.

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

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

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

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

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

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

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

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

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

Retirement by Rotation and Re-election

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

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

Biographical details of the Directors are given on page 31.

Relations with Shareholders

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

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

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

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

Investment Committee

On Admission, MirLand formed an Investment Committee. The committee is chaired by Eyal Fishman; its other member is Nigel Wright.

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

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

Attendance at the meetings of the Investment Committee held in 2009 is shown below.

	16 March 2009	18 May 2009	14 August 2009	16 November 2009
Eyal Fishman (Chairman)	✓	✓	✓	✓
Nigel Wright (member)	✓	✓	✓	✓

Nomination Committee

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

During the course of the year, the Nomination Committee discussed the vacancy on the board for an additional non-executive director on several occasions on an informal basis. The committee did not identify any suitable candidates and, accordingly, no formal meetings were held. The committee is mindful of the vacancy and intends to continue its efforts to find a suitable additional independent non-executive director.

Internal Control

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

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

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

Audit Committee

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

	21 January 2009	11 March 2009	15 March 2009**	16 March 2009**	13 May 2009	18 May 2009	11 August 2009	12 November 2009	15 November 2009**	16 November 2009**
Caroline Brown (member)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Guerman Aliev (former member)*	✓	–	–	–	–	–	–	–	–	–
Nigel Wright	✓	✓	✓	✓	✓	✓	✓***	✓	✓	✓
Roman Rozental	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Steven Holm (member)	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓

* Guerman Aliev resigned as Director on 29 January 2009
** Continuation of meetings
*** Nigel Wright acted as Alternate Director to Steven Holm
N.B. Mr Rosental attended all Audit Committee meetings in the financial year.

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

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

ii) auditors' reports; and

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

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

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

Internal Audit

The Company's internal audit function is outsourced to a certified accountant in Cyprus who was nominated by the Audit Committee and approved by the Board. Baker Tilly Klitou and Partners Limited were nominated to be the internal auditors of the Company in October 2007. The internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the Audit Committee and the Board and is available for any meetings of the Audit Committee or Board. Baker Tilly Klitou and Partners filed its reports for 2009 in the months of March, May, August and November 2010.

Going Concern

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

Share Dealing Code

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

Controlling Shareholders

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

REPORT OF THE REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION REPORT

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

Remuneration Committee

The Remuneration Committee comprises three independent Non-executive Directors and meets at least twice each year. The Remuneration Committee is chaired by Steven Holm; the other members are Caroline Brown and Nigel Wright. The Remuneration Committee determines and reviews, among other matters, the remuneration of Executive Directors and any share incentive plans of the Company. In addition, the Remuneration Committee will prepare an annual report on the remuneration policies of the Company. The committee's terms of reference are available on the Group's website. Attendance at the meetings of the Remuneration Committee held in 2009 is shown below:

	15 March 2009	16 October 2009
Caroline Brown	✓	✓
Nigel Wright	✓	✓
Steven Holm	✓	✓

Remuneration Policy

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

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

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

Service Contracts and Letters of Appointment

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

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

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

	Contract Date	Notice Period
Nigel Wright	27 November 2006	3 months
Moshe Morag***	28 November 2006	N/A
Roman Rozental**	28 November 2006	6 months
Caroline Brown	27 November 2006	3 months
Guerman Aliev*	27 November 2006	3 months
Steven Holm	17 November 2008	3 months
Eliezer Fishman	27 November 2006	3 months
Eyal Fishman	27 November 2006	3 months
Elias Eliades	11 September 2007	3 months

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

* Mr Aliev resigned from the Board on 29 January 2009.
** Mr Rozental will be appointed CEO with effect from 1 January 2011.
*** Mr Morag's contract as CEO has been extended until 31 December 2010. After this date, it is intended that he will serve as a Non-executive Director.

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 2009 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	150,277	386,398	214,056	750,731
Other taxable benefits		96,238	51,631	147,869
Share incentive plan		982,526	393,010	1,375,536
Total remuneration for the year ended 31 December 2009	150,277	1,465,162	658,697	2,274,136
Total remuneration for the year ended 31 December 2008	171,259	1,209,048	555,423	1,935,730

Non-executive Directors	Caroline Brown US$	Guerman Aliev* US$	Douglas Blausten** US$	Eliezer Fishman US$	Eyal Fishman US$	Elias Eliades US$	Steven Holm*** US$	Total US$
Non-performance related remuneration								
Salary and fees	81,601	27,245	–	–	81,601	69,047	71,790	
Other taxable benefits								
Share incentive plan								
Total remuneration for the year ended 31 December 2009	81,601	27,245	–	–	81,601	69,047	71,790	331,284
Total remuneration for the year ended 31 December 2008	93,742	100,953	66,423	–	93,742	79,320	11,525	445,705

* Resigned 29 January 2009.
** Resigned 19 May 2008.
*** Appointed on 17 November 2008.

REPORT OF THE REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION REPORT continued

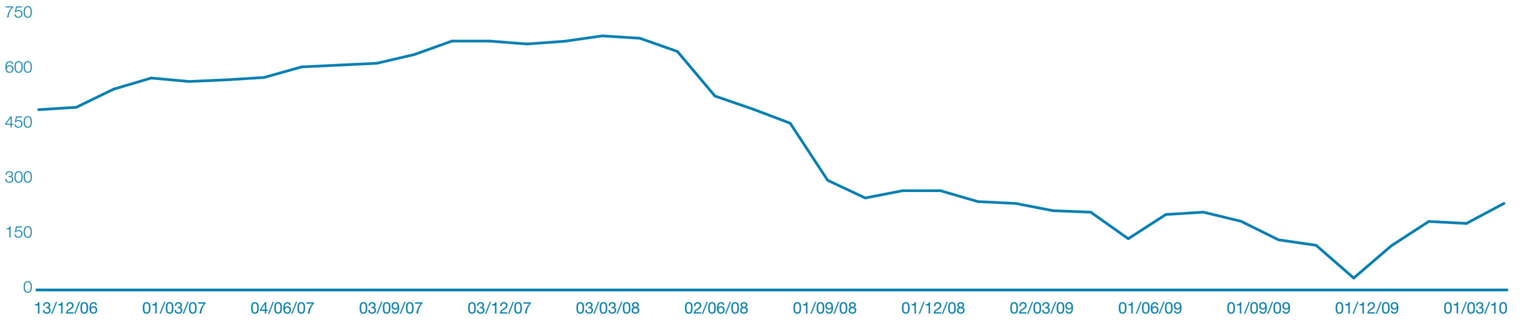
Details of share awards and options exercised in the year are included below.

Directors' Share Options

Director	Number of Options	Number Vested as at 31.12.2009	Exercise Price of Options GBP
Nigel Wright	0	N/A	N/A
Moshe Morag	1,122,995	1,122,995	2.5
Roman Rozental*	449,198	449,198	2.5
Caroline Brown	0	N/A	N/A
Guerman Aliev (resigned 29 January 2009)	0	N/A	N/A
Steven Holm	0	N/A	N/A
Eliezer Fishman	0	N/A	N/A
Eyal Fishman	0	N/A	N/A
Elias Eliades	0	N/A	N/A

* Mr Rozental will be granted a further 673,797 share options on or before his appointment as CEO of the Company. The exercise price for these options shall be equal to the aggregate of shareholder equity (as shown in the Company's consolidated balance sheet as at 30 June 2010) divided by the Company's fully diluted share capital, subject to such price being not less than the Company's share price as at the date of the grant.

Share Price Performance



On behalf of the Board

Steven Holm
Chairman of the Remuneration Committee
17 March 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MIRLAND DEVELOPMENT CORPORATION PLC

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Mirland Development Corporation Plc (the "Company") and its subsidiaries (the "Group") on pages 44 to 91, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal and Regulatory Requirements

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

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

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young Cyprus Ltd
Certified Public Accountants and Registered Auditors
Limassol
16 March 2010

CONSOLIDATED BALANCE SHEET

	Note	31 December 2009 US$000	31 December 2008 US$000
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	**20,971**	9,822
Short-term loans		**1,164**	–
Trade receivables		**655**	328
Other receivables	5	**7,686**	7,238
Inventories of buildings for sale	6	**140,310**	137,200*
		170,786	154,588*
NON-CURRENT ASSETS:			
Long-term receivables	11	**21,909**	16,172
Investment properties	7	**187,419**	163,987
Investment properties under construction	8	**185,043**	127,037*
Inventories of buildings for sale	6	**21,939**	–
Long-term loans	9	**19,311**	58,525
Advance on acquisition of subsidiary		**–**	584
Financial derivative		**1,675**	719
Fixed assets, net	10	**1,232**	2,154
Deferred expenses		**753**	1,936
Deferred taxes	19d	**6,020**	4,246
		445,301	375,360*
TOTAL ASSETS		**616,087**	529,948

* Reclassified.

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

CONSOLIDATED BALANCE SHEET

	Note	31 December 2009 US$000	31 December 2008 US$000
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Credit from banks	12	**68,964**	60,282
Current maturities of long-term loans from banks and debentures	13,16	**15,455**	1,914
Loans from shareholders	15	**20,672**	–
Government authorities		**2,475**	2,476
Trade payables		**11,584**	11,615
Other accounts payable	14	**7,003**	5,417
		126,153	81,704
NON-CURRENT LIABILITIES:			
Loans from banks	13	**74,077**	17,443
Loans from shareholders	15	**24,282**	9,032
Debentures	16	**52,345**	62,267
Other non-current liabilities	17	**5,082**	8,112
Deferred taxes	19d	**14,947**	9,154
		170,733	106,008
TOTAL LIABILITIES		**296,886**	187,712
Equity attributable to equity holders of the Parent:			
Issued capital	20	**1,036**	1,036
Share premium		**359,803**	359,803
Capital reserve for share-based payment transactions	22	**9,974**	8,080
Capital reserve for transactions with controlling shareholders	15	**2,702**	579
Foreign currency translation reserve		**(23,153)**	(19,085)
Accumulated deficit		**(31,186)**	(8,202)
		319,176	342,211
Non controlling interests		**25**	25
TOTAL EQUITY		**319,201**	342,236
TOTAL EQUITY AND LIABILITIES		**616,087**	529,948

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

16 March 2010

Date of approval of the financial statements

Moshe Morag
Chief Executive Officer

Roman Rozental
Senior Officer Responsible for Financial Matters

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Rental income from investment properties		**14,754**	17,949	10,446
Revenues from managing fees		**2,459**	2,411	1,977
Total revenues		**17,213**	20,360	12,423
Cost of maintenance and management	23	**(7,438)**	(7,291)	(6,384)
Gross profit		**9,775**	13,069	6,039
General, administrative and marketing expenses	24	**(16,314)**	(22,259)	(19,063)
Adjustment of provision to service provider		**2,802**	5,160	(7,643)
Fair value adjustments of investment properties and investment properties under construction		**(16,463)**	(58,768)	82,138
Other expenses, net	25	**(698)**	(6,186)	(5,469)
Operating income (loss)		**(20,898)**	(68,984)	56,002
Finance income	26	**8,675**	9,883	23,004
Finance costs	26	**(5,653)**	(44,725)	(8,703)
Income (loss) before taxes on income		**(17,876)**	(103,826)	70,303
Taxes on income	19b	**(5,108)**	(1,005)	(5,423)
Net income (loss)		**(22,984)**	(104,831)	64,880
Net earnings (loss) per share (in US Dollars per share):	21			
Basic and diluted net earnings (loss)		**(0.222)**	(1.012)	0.627

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Net income (loss)	**(22,984)**	(104,831)	64,880
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations	**(4,068)**	(28,236)	6,749
Total other comprehensive income (loss)	**(4,068)**	(28,236)	6,749
Total comprehensive income (loss)	**(27,052)**	(133,067)	71,629

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Parent								
	Note	Share capital US$000	Share premium US$000	Capital reserve for share-based payment transactions US$000	Retained earnings (accumulated deficit) US$000	Currency translation reserve US$000	Capital reserve for transactions with controlling shareholders US$000	Total US$000	Non-controlling interests US$000	Total equity US$000
At 31 December 2006		1,000	329,028	2,348	31,749	2,402	–	366,527	25	366,552
Income for the year		–	–	–	64,880	–	–	64,880	–	64,880
Other comprehensive income		–	–	–	–	6,749		6,749	–	6,749
Total comprehensive income		–	–	–	64,880	6,749	–	71,629	–	71,629
Issue of share capital (net of issue expenses)		36	30,775	–	–	–	–	30,811	–	30,811
Share-based payment transactions		–	–	3,851	–	–	–	3,851		3,581
At 31 December 2007		1,036	359,803	6,199	96,629	9,151	–	472,818	25	472,843
Loss for the year		–	–	–	(104,831)	–	–	(104,831)	–	(104,831)
Other comprehensive loss						(28,236)		(28,236)	–	(28,236)
Total comprehensive loss		–	–	–	(104,831)	(28,236)	–	(133,067)	–	(133,067)
Share-based payment transactions	22	–	–	1,881	–	–	–	1,881	–	1,881
Shareholders' contribution (see Note 15)		–	–	–	–	–	579	579	–	579
At 31 December 2008		1,036	359,803	8,080	(8,202)	(19,085)	579	342,211	25	342,236
Loss for the year		–	–	–	(22,984)	–	–	(22,984)	–	(22,984)
Other comprehensive loss		–	–	–	–	(4,068)	–	(4,068)	–	(4,068)
Total comprehensive loss		–	–	–	(22,984)	(4,068)	–	(27,052)	–	(27,052)
Share-based payment transactions	22	–	–	1,894	–	–	–	1,894	–	1,894
Shareholders' contribution (see Note 15)		–	–	–	–	–	2,123	2,123	–	2,123
At 31 December 2009		**1,036**	**359,803**	**9,974**	**(31,186)**	**(23,153)**	**2,702**	**319,176**	**25**	**319,201**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Cash flows from operating activities:			
Net income (loss)	**(22,984)**	(104,831)	64,880
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	**2,629**	958	2,764
Depreciation and amortisation	**556**	343	287
Finance costs (income), net	**(3,022)**	34,842	(14,301)
Share-based payment	**1,894**	1,881	3,851
Fair value adjustment of investment properties and investment properties under construction	**16,463**	58,768	(82,138)
Impairment of investment properties under construction	**–**	4,289	–
Fair value adjustment of financial derivative	**(956)**	(769)	50
	17,564	100,312	(89,487)
Changes in asset and liability items:			
Decrease/(increase) in trade receivables	**(317)**	(60)	2,628
Increase in other accounts receivable	**(6,466)**	(2,614)	(5,695)
Increase in buildings for sale	**(18,473)**	(62,666)*	(21,401)*
Impairment of advances on account of investment	**–**	1,256	406
Increase/(decrease) in trade payables	**284**	5,016	(600)
Increase/(decrease) in other accounts payable	**(1,422)**	(2,820)	9,150
	(26,394)	(61,888)*	(15,512)*
Cash paid and received during the year for:			
Interest paid	**(8,030)**	(8,135)	(6,881)
Interest received	**236**	3,156	10,343
Taxes paid	**(1,736)**	(1,909)	(1,169)
Taxes received	**537**	–	–
	(8,993)	(6,888)	2,293
Net cash flows used in operating activities	**(40,807)**	(73,295)*	(37,826)*

* Reclassified.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Cash flows from investing activities:			
Additions to investment properties	**(1,902)**	(29,206)	(36,056)
Additions to investment properties under construction	**(49,684)**	(50,096)*	(63,260)*
Capitalisation of financing expenses to investment properties under construction	**–**	–	(2,016)
Purchase of fixed assets	**(193)**	(679)	(3,373)
Proceeds from the sale of fixed assets	**504**	–	–
Advances on account of investments	**–**	(600)	(1,080)
Grant of long-term loans	**–**	(47,408)	(22,238)
Collection of short-term loans	**–**	14,829	–
Proceeds from restricted bank deposits, net	**–**	71,406	–
Net cash flows used in investing activities	**(51,275)**	(41,754)*	(128,023)*
Cash flows from financing activities:			
Issue of shares (net of issue expenses)	**–**	–	30,811
Advances received on account of IPO	**–**	–	1,053
Issue of debentures (net of issue expenses)	**–**	–	61,756
Short-term credit from banks and others, net	**–**	(12,433)	–
Receipt of long-term loans from shareholders	**32,772**	7,991	–
Receipt of long-term loans	**77,330**	–	–
Repayment of long-term loans	**(3,895)**	–	–
Deferred expenses on account of loan receipt	**(1,364)**	(1,500)	(767)
Net cash flows from (used in) financing activities	**104,843**	(5,942)	92,853
Exchange differences on balances of cash and cash equivalents	**(1,612)**	13,055	(5,832)
Increase (decrease) in cash and cash equivalents	**11,149**	(107,936)	(78,828)
Cash and cash equivalents at the beginning of the year	**9,822**	117,758	196,586
Cash and cash equivalents at the end of the year	**20,971**	9,822	117,758

* Reclassified.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL

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

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

c) The following are the principal shareholders of the Company as of 31 December 2009:

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

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

d) Definitions:

In these financial statements:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 1 GENERAL continued

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

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

f) List of jointly controlled entities:

Name of company	Country of incorporation	Activity	% of holding
Inverton Enterprises LLC	Cyprus	Holding company	49
Astraestate & Co. Limited Partnership ("Astra")	Cyprus	Partnership for holding a company, erecting commercial projects and lease of buildings	50
Winta Holdings Ltd	Cyprus	Limited partner in partnership for holding a company, erecting commercial projects and lease of buildings	50
Global 1 LLC)"Global")	Russia	Lease of commercial property	49
Techagrocom-2 ("Techagrocom")	Russia	Erecting commercial projects	50
Inomotor LLC	Russia	Lease of buildings	51*
Avtoprioritet LLC	Russia	Lease of buildings	51*
Mall Mortgage Ltd	Cyprus	Financing company	49

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

NOTE 1 GENERAL continued

g) For the year ended 31 December 2009, the Company recorded a net loss of approximately US$23m, and had negative cash flows from operating activities of approximately US$23m (excluding cash outflows for additions to costs of construction of residential projects for sale of approximately US$18m).

Based on management plans and as reflected in the Company's forecasted cash flows, the Company expects to finance its activities in 2010 among others by obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 31 December 2009 amounting to approximately US$119m, and by generating revenues from sales of building projects that are expected to be completed during 2010, as well as by the Company's operating cash flows.

In addition, the Company's short-term loans from banks amounting to approximately US$71m are secured by non-cancellable bank guarantees of the controlling shareholders until the full repayment of the loans.

Also, according to an amendment of an agreement dated 12 March, 2010 with the controlling shareholders of the Company, the repayment of the principal balance of loans due to the controlling shareholders amounting to US$9m and accrued interest thereon will be deferred to 31 March 2011.

The Company's policy is to continue construction of projects for which the Company is able to obtain the necessary construction financing from external sources.

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

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 to IFRS and IAS: IFRIC and SIC.

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

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

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

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

IAS 1 (Revised) – Presentation of Financial Statements: Pursuant to a revision to IAS 1 (Revised), an additional separate statement, "Statement of Comprehensive Income", may be presented and display net income taken from the Income Statement and all items carried in the reported period to equity that do not result from transactions with the shareholders in their capacity as shareholders (Other Comprehensive Income (loss) and the tax effect of these items carried to equity, allocated between the Company and the minority interests. Alternatively, the items of Other Comprehensive Income may be displayed along with the items of the Income Statement in a single statement entitled "Statement of Comprehensive Income".

The revision was adopted on 1 January, 2009 with a retrospective restatement of comparative figures. The Company presents "Statement of Comprehensive Income" as an additional separate statement.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

IAS 23 (Revised) – Borrowing Costs: Pursuant to a revision to IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets and inventories. The possibility of immediately recording these costs as an expense has been removed.

The revision was adopted as a prospective change on 1 January, 2009.

The adoption of the Standard did not have any material effect on the presentation of consolidated financial statements.

IFRIC 15 – Agreements for the Construction of Real Estate: IFRIC 15 establishes rules for distinguishing between agreements for the construction of real estate within the scope of IAS 11 and similar agreements within the scope of IAS 18. When an agreement is specifically negotiated for the construction of an asset or a combination of assets when the buyer is able to specify the major structural elements and specify any changes therein, the agreement is within the scope of IAS 11. Accordingly, revenue will be recognised by reference to the stage of completion. In contrast, when the buyer has only limited ability to influence the design or to specify only minor variations, the agreement is an agreement for the sale of real estate within the scope of IAS 18.

The Interpretation was applied retrospectively from 1 January, 2009. The initial adoption of the Interpretation did not have any material effect on the consolidated financial statements.

IAS 40 – Investment Property: Pursuant to an amendment to IAS 40, investment property under construction or development for future use as an investment property will be classified as investment property if the fair value model is applied and it can be measured reliably. Investment property under construction will be measured at cost if fair value cannot be measured reliably until such time as the fair value becomes reliably measurable or construction is completed, whichever comes earlier.

The amendment was adopted as a prospective change from 1 January, 2009.

IFRS 2 – Share-Based Payment: Pursuant to an amendment to IFRS 2, the definition of vesting terms will only include service conditions and performance conditions and the cancellation of a grant that includes non-vesting conditions by the Company or the counterparty will be accounted for by way of acceleration of vesting and not by forfeiture. Conditions that are other than service and performance conditions will be viewed as non-vesting conditions and must therefore be taken into account when estimating the fair value of the instrument granted.

This amendment was adopted on 1 January, 2009 with a retrospective restatement of comparative figures. The initial adoption of the Standard did not have any material effect on the consolidated financial statements.

IFRS 7 Financial Instruments: Disclosures: The amendment to IFRS 7 requires additional disclosures about fair value measurement and liquidity risk. According to the amendment, additional disclosures should be made, among others, as to the source of inputs used in making the measurements, using a three level fair value hierarchy for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is required (source of inputs that is not based on market data), as well as disclosure of significant transfers between levels in the fair value hierarchy.

The amendment was adopted as a prospective change from the financial statements for the year beginning 1 January, 2009 (there is no need to provide comparative information).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

b) Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

c) Basis of consolidation:

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

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

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

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

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

d) Functional and Foreign Currencies:

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

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

a) Assets and liabilities in all balance sheets presented (including comparative data) are translated at the closing rate as of each balance sheet presented.

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

e) 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. Impaired debts are derecognised when they are assessed as uncollectible.

f) Inventory of Buildings for Sale:

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

Inventories of buildings 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.

g) The Operating Cycle:

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

h) Financial Instruments:

Financial Assets financial assets within the scope of IAS 39 are initially recognised at fair value through profit and loss in respect of which transaction costs are carried to the statement of income.

Loans and Receivables: Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are recognised or impaired, as well as through the amortisation process.

Interest-Bearing Loans and Borrowings: Loans and borrowings are initially recognised at the fair value less directly attributable transaction costs. After initial recognition, loans, including debentures, are measured based on their terms at amortised cost using the effective interest method. Short-term borrowings are measured based on their terms normally at nominal value. Gains and losses are recognised in the Income statement when the financial assets are derecognised as well as through asset amortisation process.

Offsetting Financial Instruments:

Financial assets and liabilities are offset and the net amount is presented in the balance sheet if there is a legally enforceable right to set off the recognised amount and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognised in the statement of income. If the exchange or modification is immaterial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognised from the exchange.

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.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

i) Leases:

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

The Group as Lessee:

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

The Group as Lessor:

Operating Leases: Lease agreements where the Group does not actually transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases. Initial direct costs incurred in respect of the lease agreement, except those relating to investment property which are carried to the Income Statement, are added to the carrying amount of the leased asset and recognised as an expense in parallel with the lease income. Lease income is recognised as revenue in the Income Statement on a straight-line basis over the lease term.

j) Business Combinations and Goodwill:

Business combinations, excluding business combinations involving entities under common control, are accounted for by applying the acquisition method pursuant to IFRS 3. Under this method, the assets and liabilities of the acquired business are identified at fair value on the acquisition date and all minority interest in the acquired entity reflects the minority shareholders' proportionate interest in the net fair value of these items. The acquisition consideration is measured at the fair value of the assets given, the equity instruments issued and the liabilities incurred on the acquisition date plus direct acquisition costs.

Goodwill acquired in a business combination is initially measured as the difference between the cost of the acquisition and the Group's interest in the net fair value of the acquired business identifiable assets, liabilities and contingent liabilities. If the acquisition consideration is less than the fair value of the net assets of the acquired business, the difference is recognised as a gain in the Income Statement (negative goodwill). After initial recognition, goodwill is measured at cost less, if appropriate, any accumulated impairment losses. Goodwill is not systematically amortised.

k) Acquisitions of Subsidiaries that are not Business Combinations:

Pursuant to IFRS 3, upon the acquisition of subsidiaries and operations that do not constitute a business as defined in IFRS 3, the acquisition consideration is only allocated between the acquired business identifiable assets and liabilities based on their relative fair values on the acquisition date without attributing any amount to goodwill or to deferred taxes, whereby the minority, if any, participates at its relative share of the fair value of the net identifiable assets on the acquisition date. In the acquisition of minority interests in subsidiaries, as above, the difference between the consideration paid and the relative minority interest acquired on the date of acquisition is attributed to assets and liabilities as described above.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

l) Investment Properties and Investment Properties under Construction.

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

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

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

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

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

m) Fixed Assets:

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

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

n) Borrowing Costs in Respect of Qualifying Assets:

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

o) 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.

p) Taxes on Income:

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

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

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

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

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

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

Deferred 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 also Note 19e).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

q) Share-Based Payment Transactions:

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

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

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

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

r) Revenue Recognition:

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

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

Rendering of Services, Including Management Fees: Revenue from the rendering of services is recognised by reference to the stage of completion as of the 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

s) Finance Income and Expenses:

Finance income comprises interest income on amounts invested and exchange differences. Interest income is recognised as it accrues using the effective interest method. Revenues from dividend are recognised when the Group's right to receive the payment is established.

Finance costs comprise interest expenses on borrowings and changes in the time value of provisions. Borrowing costs that are not capitalised to qualifying assets are recognised in the Income Statement using the effective interest method.

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

t) Advertising Expenses:

Advertising expenses are charged to the Income Statement as incurred.

u) Operating Segments:

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

1) is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intra-Group transactions;

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

3) for which separate financial information is available.

v) 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 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.

w) Provisions:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

x) Standards Issued but not yet Effective:

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

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

- The definition of a business was broadened so that it contains also activities and assets that are not managed as a business as long as the seller is capable of operating them as a business.

- IFRS 3 currently prescribes that goodwill, as opposed to the acquiree's other identifiable assets and liabilities, will be measured as the excess of the cost of the acquisition over the acquirer's share in the fair value of the identifiable assets, net on the acquisition date. According to the Standards, non-controlling interests, including goodwill, can be measured either at fair value or at the proportionate share of the acquiree's fair value of net identifiable assets, this in respect of each business combination transaction measured separately.

- Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, are not simultaneously recognised as goodwill adjustments. If the contingent consideration is classified as a liability it will be measured at fair value through profit or loss.

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

- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be against profit or loss and not as adjustment to goodwill.

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

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

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

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

IFRS 9 – Financial Instruments: In November 2009, the IASB issued IFRS 9, "Financial Instruments", which represents the first phase of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortised cost if both of the following conditions are met:

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

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

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

The Standard will be effective starting 1 January 2013. Earlier application is permitted. Early adoption will be made with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

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

IAS 1 – Presentation of Financial Statements: The amendment to IAS 1 deals with current or non-current classification of the liability component of a convertible instrument. Pursuant to the amendment, terms of a liability that can, at the option of the counterparty, be settled by the issue of the entity’s equity instruments do not affect its classification as current or non-current. The amendment will be prospectively adopted starting from the financial statements for periods beginning on 1 January 2010. Earlier application is permitted.

The Company believes that the effect of the amendment on the financial statements is not expected to be material.

IAS 17 – Leases: The amendment to IAS 17 (“the amendment”) deals with the classification of land and buildings. Pursuant to the amendment, the specific criteria for classification of land were removed. Consequently, the requirement to classify a lease of land as an operating lease when title does not pass at the end of the lease no longer exists but the classification of a lease of land is examined by reference to the general guidance in IAS 17 which addresses the classification of a lease as finance or operating while taking into account that land, normally, has an indefinite economic life.

The amendment will be retrospectively or prospectively adopted starting from the financial statements for periods beginning on 1 January 2010. Earlier application is permitted. For the retrospective adoption, at the date of adoption of the amendment, the classification of the land shall be reassessed on the basis of information existing at the inception of the lease and if there has been a change in the lease classification, the guidance of IAS 17 shall be applied retrospectively at the inception of the lease. However, if the entity does not have the information necessary to apply the amendment retrospectively, it shall apply the amendment prospectively on the basis of the information existing at the date it adopts the amendment and recognise the asset and liability relating to the land lease newly classified as a finance lease at the fair value on that date. Any difference between the fair value of the asset and the fair value of the liability will be recognised in retained earnings.

The Company believes that the effect of the amendment on the financial statements is not expected to be material.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

IAS 36 – Impairment of Assets: The amendment to IAS 36 defines the required accounting unit to which goodwill will be allocated for impairment testing of goodwill. Pursuant to the amendment, the largest unit permitted for impairment testing of goodwill acquired in a business combination is an operating segment as defined in IFRS 8, "Operating Segments" before the aggregation for reporting purposes. The amendment will be prospectively adopted starting from the financial statements for periods beginning on 1 January 2010. Earlier application is permitted.

The Company believes that the effect of the amendment on the financial statements is not expected to be material.

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations: According to the amendment to IFRS 5, when the parent decides to sell part of its interest in a subsidiary so that after the sale the parent retains a non-controlling interest, such as rights conferring to significant influence, all the assets and liabilities attributed to the subsidiary will be classified as held for sale if the relevant criteria of IFRS 5 are met, including the presentation as a discontinued operation. Further, an additional amendment specifies the disclosures required in respect of non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. Pursuant to the amendment, only the disclosures required in IFRS 5 will be provided. Disclosures in other IFRSs apply to such assets only if they require specific disclosures in respect of non-current assets or disposal groups. The amendment will be prospectively adopted starting from the financial statements for periods beginning on 1 January 2010. Earlier application is permitted.

The Company believes that the effect of the amendment on the financial statements is not expected to be material.

IFRIC 17 – Distributions of Non-Cash Assets to Owners: IFRIC 17 ("the Interpretation") provides guidance on how to account for a non-cash asset distribution to owners that are not controlling shareholders, including fixed assets, a business as defined in IFRS 3 and ownership interests in another entity. The Interpretation will be prospectively adopted starting from the financial statements for periods beginning on 1 January 2010. Earlier application is permitted.

According to the Interpretation, a liability to distribute is recognised when it is appropriately authorised by the entity. The liability is measured at the fair value of the asset to be distributed and carried directly to retained earnings in equity. At each balance sheet date, until the derecognition of the asset, the liability is measured at the fair value of the assets and the changes in fair value are carried to retained earnings. At the date of derecognition, a gain or loss is recognised in the statement of income in the amount of the difference between the amount of the liability and the carrying amount of the asset until the date of derecognition. Further, the scope of IFRS 5 was amended to include non-cash asset distributions to owners.

The Company believes that the effect of the new Interpretation on the financial statements is not expected to be material.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments: IFRIC 19 ("the Interpretation") which was published in November 2009 addresses the accounting treatment of transactions in which financial liabilities are settled by issuing equity instruments. According to the Interpretation, equity instruments issued as a replacement of a debt instrument are measured at fair value of the equity instruments issued unless the fair value can not be reliably measured. If the fair value of the equity instruments issued can not be reliably measured, then the equity instruments are measured to reflect the fair value of the financial liability extinguished when extinguished. The difference between the carrying amount of the financial liability extinguished and the fair value of the equity instruments issued is recognised in the statement of income.

The Interpretation will be adopted for annual periods beginning on or after 1 January 2010.

y) Change in classification

During the year, the Company has changed the classification of part of its inventories of buildings for sale to the investment properties under construction in the balance sheet, in order to properly reflect the nature of the reclassified asset. Comparative periods were reclassified for consistency such that an amount of US$7,002 thousand and US$5,202 thousands were reclassified from inventories of buildings for sale to investment properties under construction as of 31 December 2008 and 2007, respectively.

NOTE 3 INTEREST IN JOINTLY CONTROLLED ENTITIES

The list of jointly controlled entities provided in Note 1h.

The Group's share of the assets and liabilities as at 31 December 2009 and 2008 and income and expenses of the jointly controlled entities for the years ended 31 December 2009, 2008 and 2007, which are proportionally consolidated in the consolidated financial statements, are as follows:

	31 December 2009 US$000	31 December 2008 US$000
Share of the joint venture's statement of financial position		
Current assets	**3,095**	2,017
Non-current assets	**74,662**	46,394
Current liabilities	**(8,367)**	(6,438)
Non-current liabilities	**(16,060)**	(18,156)
Equity	**(53,330)**	(23,817)

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Share of the joint venture's revenue and profit			
Revenue	**5,354**	5,562	3,547
Cost of sales	**(1,439)**	(1,831)	(1,390)
Administrative expenses	**(1,154)**	(713)	(428)
Fair value adjustments of investment properties and investment properties under construction	**5,204**	(11,695)	2,499
Finance costs	**(2,983)**	(7,669)	317
Income (loss) before taxes on income	**4,982**	(16,347)	4,544
Taxes on income	**(179)**	652	(586)
Net income (loss)	**4,804**	(15,695)	3,958

NOTE 4 CASH AND CASH EQUIVALENTS

	31 December 2009 US$000	31 December 2008 US$000
Cash at banks	**20,971**	9,822
	20,971	9,822

NOTE 5 OTHER RECEIVABLES

	31 December 2009 US$000	31 December 2008 US$000
Prepayments to suppliers	**601**	716
Government authorities (mainly VAT)[1]	**6,192**	6,318
Other	**893**	204
	7,686	7,238

1 See also Note 11.

NOTE 6 INVENTORIES OF BUILDINGS FOR SALE

a) Composition:

Current assets:

	31 December 2009 US$000	31 December 2008 US$000
Land[1]	**65,062**	72,691*
Apartments under construction	**75,248**	64,509*
	140,310	137,200*

* Reclassified

1 Includes development costs US$19,380 thousand and US$16,913 thousand as of 31 December 2009 and 2008, respectively.

Non current assets:

	31 December 2009 US$000	31 December 2008 US$000
Land[1]	**12,515**	–
Apartments under construction	**9,424**	–
	21,939	–

1 Includes development costs of approximately US$5,489 thousand.

b) Inventories of building are intended for construction of residential apartments and vacation houses. The inventory is measured at lower of cost and net realised value in accordance with IAS 2.

c) Includes capitalised borrowing costs of approximately US$10,454 thousand for the year ended 31 December, 2009 and approximately US$2,075 thousand for the year ended 31 December 2008.

d) During the period, due to a change in original construction plans for inventories of land and buildings under construction, the Company decided to reclassify approximately US$21m of the inventories as non-current assets.

e) During the period the Company entered into agreements regarding the sale of five vacation houses in residential project near Moscow in consideration to approximately US$3.2m. See also Note 14 regarding the advances from buyers.

NOTE 7 INVESTMENT PROPERTIES

a) Composition:

	31 December 2009 US$000	31 December 2008 US$000
Balance at 1 January	**163,987**	227,030
Additions for the year	**1,902**	29,206
Purchase of new jointly controlled entities (see Note 7d)	**40,831**	–
Fair value adjustments	**(15,881)**	(58,768)
Exchange rate differences	**(3,420)**	(33,481)
Balance at 31 December	**187,419**	163,987

b) Investment property is stated at fair value which has been determined based on valuations performed by independent external valuation experts who hold recognised and relevant professional qualifications and who have experience in the location and category of the property being valued less the adjustments made by the Company. The valuation was prepared pursuant to international valuation standards. The fair value represents the amounts on the valuation date at which the properties will be exchanged between the buyer and seller in an arm's-length transaction after the parties have acted rationally and with caution and without coercion. The fair value was measured with reference to recent real estate transactions for similar properties in the same location as the property owned by the Company, if any, and based on the expected future cash flows from the property. In assessing cash flows, their inherent risk is taken into account. In computing the fair value, the valuators used a discount rate of 12.5%-17%.

c) Fair value adjustments of investment property result in temporary differences between the carrying amount of the assets and their tax base. Since management has the intention to sell the shares of the companies holding the assets rather than the assets themselves, no deferred tax liability was recognised in respect of these differences. Nevertheless, the fair value of the assets has been reduced in order to reflect the fair value of the deferred tax liabilities that the Company would have transferred to the buyer upon the sale of the companies holding the assets. This reduction was calculated according to the income tax rate in Russia, which is 20%. Management is of the opinion that the actual amount of the reduction may be significantly lower due to the economic benefits to which the buyer is entitled upon the sale of shares. As for the tax laws applicable to the Company, see Note 19.

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

On 31 December 2009, the Company signed an agreement with the Sellers. The acquisition does not constitute a business combination as defined in IFRS-3. In accordance with the purchase agreements, a contractual agreement exists for joint control in Century Companies.

Century Companies are owners in a real estate project which is adjacent to the projects of subsidiaries of the Company ("Hydro and MAG Projects") and comprises two buildings. One building is owned by Inomotor and the other by Avtoprioritet. The buildings are part of the investment properties of the company.

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

In consideration of purchase of rights in Century Companies, the Company paid to the Sellers an amount of US$1m. In addition, US$19m out of loans provided by the Company to Century Companies during the years 2007 and 2008, is to be capitalised to the equity of Century Companies as part of irrecoverable obligations of the Company in accordance with the above mentioned purchase agreement. The total amount of remaining loans and the accrued interest are to be repaid from future income of Century Companies.

NOTE 8 INVESTMENT PROPERTIES UNDER CONSTRUCTION

	US$000
a) At 1 January 2008	93,165*
Additions for the year	50,096*
Classification from fixed assets	2,981
Impairment	(4,289)
Effect of discounting of long-term receivables	2,200
Exchange rate differences	(17,116)
At 31 December 2008	127,037*
Additions for the year	49,684
Classification from loans	6,048
Fair value adjustments	(582)
Exchange rate differences	2,856
At 31 December 2009	185,043

* Reclassified.

b) The fair value of investment property under construction is either determined on the basis of the residual or the discounted cash flow (DCF) methods, as deemed appropriate by the valuation expert. The estimated fair value is based on the expected future income from the completed project using yields adjusted for the significant risks which are relevant to the construction process, including construction costs and rent that are higher than the current yields of similar completed property. The remaining expected costs of completion plus development profit are deducted from the estimated future income, as above. In computing the fair value, the valuators used a discount rate of 14.5%- 25%.

c) Fair value adjustments of investment property under construction, result in temporary differences between the carrying amount of the assets and their tax base. Since management has the intention to sell the shares of the companies holding the assets rather than the assets themselves, no deferred tax liability was recognised in respect of these differences. Nevertheless, the fair value of the assets has been reduced in order to reflect the fair value of the deferred tax liabilities that the Company would have transferred to the buyer upon the sale of the companies holding the assets. This reduction was calculated according to the income tax rate in Russia, which is 20%. Management is of the opinion that the actual amount of the reduction may be significantly lower due to the economic benefits to which the buyer is entitled upon the sale of shares. As for the tax laws applicable to the Company, see Note 19a.

NOTE 9 LONG-TERM LOANS

Loans to jointly controlled entities bear annual interest of 11% and are repayable from future income of the entities. There will be no dividend distribution in the jointly controlled entities until the loans will not be repaid to the Company. See also Note 7d.

NOTE 10 FIXED ASSETS, NET

	US$000
At 1 January 2008, net of accumulated depreciation	4,866
Additions for the year	679
Classification to investment properties under construction	(2,981)
Depreciation for the year	(343)
Exchange rate differences	(67)
At 31 December 2008, net of accumulated depreciation	2,154
Additions for the year	193
Disposal during the year	(504)
Depreciation for the year	(556)
Exchange rate differences	(55)
At 31 December 2009, net of accumulated depreciation	1,232
At 31 December 2008	
Cost	2,796
Accumulated depreciation	(642)
Net carrying value	2,154
At 31 December 2009	
Cost	2,314
Accumulated depreciation	(1,082)
Net carrying value	1,232

NOTE 11 LONG-TERM RECEIVABLES

a) Comprises VAT which was paid upon the purchase of land and construction, and which the Group expects to recover from VAT to be collected from customers over a period of four years from the balance sheet date. The receivable is shown on its estimate present value using a discount rate of 9%.

b) Future expected VAT receivables as of 31 December 2009 are as follows:

	US$000
First year	5,796
Second year	10,633
Third year	8,520
Fourth year	4,939
Total	29,888

NOTE 12 CREDIT FROM BANKS

The bank loans bear annual interest at rates of LIBOR plus 1.75% to 3.8%. During September 2008, the Company's main shareholders (companies that are part of the Fishman Group) have reinstated guarantees in favor of certain banking institutions that have granted the Company lines of credit in the aggregate amount of US$70m. See also Note 15a.

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

NOTE 13 LOANS FROM BANKS

a) In February 2006, a jointly controlled entity received a loan of approximately US$42m from bank, bearing annual interest of 12%. As collateral for this loan, the jointly controlled entity pledged 100% of Inverton shares to the bank. Company's relative share in the loan is approximately US$18m as of 31 December 2009.

b) During the period, a subsidiary of the Company (IIK) received a loan from EBRD of approximately US$48m. The loan is repayable in annual installments, commencing 2011. The loan bears interest of 2.5%-5% (2.9%-5.4% as of 31 December, 2009). The loan is a part of a credit agreement with the bank, as described below:

On 29 May 2007, IIK entered into an agreement with a bank whereby the bank extended to IIK during 2009 a loan of approximately US$48.5m to IIK for a period of 15 years to be repaid in quarterly installments.

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

1) The project will be completed by 31 December 2011.
2) IIK's debt coverage ratio will not fall below 1.3.
3) The ratio of equity to total liabilities will not fall below 0.5 before the project is completed and 0.4 after the project is completed.
4) No dividends will be distributed until the project is completed.
5) No investments will be made of an aggregate amount exceeding US$250 thousand that are not in compliance with the bank approved project budget.

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

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

As of 31 December 2009, IIK complies all the covenants regarding this loan.

c) During December 2009, a subsidiary of the Company (MAG) signed an agreement with CB Uniastrum Bank LLC (the Bank). In accordance with the agreement, the bank has approved a credit line of approximately US$30m. On 17 December, 2009 MAG received a loan of approximately US$15m as part of the approved credit line. The loan bears an annual interest of 10.7% and is to be repaid on 3 December 2010. However, the loan can be extended for a one-year period by a written application of MAG and MAG intends to prolong the loan on December 2010. The maturity date of the loan extensions cannot exceed ten years. The rest of the approved credit line will be granted to MAG in accordance to future rental revenues. The covenants of the loan are as following: a) rental income to the loan payments ratio should be at least 1.3 :1; b) fair value of the pledged assets shall not be lower than twice the carrying amount of the loan.

As collateral for this credit, MAG has pledged its rights in investment properties presented at fair value of US$88m as of 31 December 2009 and other subsidiary of the Company (Hydro) had provided a guarantee for this credit.

As of 31 December 2009, MAG complies all the covenants regarding this loan.

NOTE 13 LOANS FROM BANKS continued

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

	31 December 2009 US$000	31 December 2008 US$000
First year – current maturities	**4,830**	1,914
Second year	**18,190**	2,059
Third year	**2,925**	15,384
Fourth year and after	**52,962**	–
	78,907	19,357

NOTE 14 OTHER ACCOUNTS PAYABLE

	31 December 2009 US$000	31 December 2008 US$000
Rent received in advance	**2,684**	2,047
Deposits from tenants[1]	**1,569**	2,065
Advances from buyers	**813**	–
Accrued expenses and other payables	**1,937**	1,305
	7,003	5,417

1 The deposits do not bear interest.

NOTE 15 LOANS AND GUARANTEES FROM SHAREHOLDERS

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

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

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

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

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

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

NOTE 16 DEBENTURES

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

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

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

	Quantity of the debentures in thousands	Effective semi-annual interest rate	**2009 31 December US$000**
Series A	39,260	3.41%	**11,816**
Series B	204,874	1.61%	**51,154**
			62,970

	Quantity of the debentures in thousands	Effective semi-annual interest rate	2008 31 December US$000
Series A	39,260	3.41%	10,583
Series B	204,874	2.84%	51,684
			62,267

b) The expected maturities after the balance sheet date for the year ended 31 December 2009:

	Less than one year US$000	**One to two years US$000**	**Two to three years US$000**	**Three to four years US$000**	**Four to five years US$000**	**More than five years US$000**	**Total US$000**
Series A	**1,911**	**1,911**	**1,911**	**1,911**	**1,911**	**1,911**	**11,466**
Series B	**8,714**	**8,714**	**8,714**	**8,714**	**8,714**	**8,714**	**52,284**
	10,625	**10,625**	**10,625**	**10,625**	**10,625**	**10,625**	**63,750**
Less discount							**780**
Total							**62,970**

The expected maturities after the balance sheet date for the year ended 31 December 2008:

	Less than one year US$000	One to two years US$000	Two to three years US$000	Three to four years US$000	Four to five years US$000	More than five years US$000	Total US$000
Series A	–	1,784	1,784	1,784	1,784	3,570	10,706
Series B	–	8,714	8,714	8,714	8,714	17,433	52,289
	–	10,498	10,498	10,498	10,498	21,003	62,995
Less discount							728
Total							62,267

c) Regarding acquisitions by related parties, see Note 27 b.

NOTE 17 OTHER NON-CURRENT LIABILITIES

	31 December 2009 US$000	31 December 2008 US$000
Provision to service provider[1]	**–**	3,374
Deposits from tenants	**1,105**	1,141
Provision regarding an agreement with government authorities (see Note 28j)	**3,417**	3,328
Other	**560**	269
	5,082	8,112

1 According to the management services agreements signed between MAG and Hydro ("the Companies") and FIN ("the Service Provider"), in return for the service provider's assistance in sourcing the project, the Service Provider shall be entitled to a payment equal to 10% of the net profit (as defined below) of the Companies from their ongoing operation as well as in case of the sale of properties, if they are sold to a third party. See also Notes 28b and 28h.

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

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

NOTE 18 FINANCIAL INSTRUMENTS

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

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

a) The following table represents the sensitivity to a reasonably possible change in the US Dollar/Ruble exchange rates in the year 2009:

	Effect on equity	
	Increase 5% US$000	Decrease 5% US$000
Long-term receivables	(1,147)	1,147
Lease agreements	(113)	113

b) The following table represents the sensitivity to a reasonable possible change in US Dollars/NIS exchange rates in the year 2009:

	Effect on profit before tax	
	Increase 5% US$000	Decrease 5% US$000
Debentures (series A) and swap agreement	(73)	73

NOTE 18 FINANCIAL INSTRUMENTS continued

2) Credit Risk: The Group performs ongoing evaluations of the prospects of collecting debts of customers and buyers and, if necessary, it records a provision in the books reflecting the losses anticipated by management. The financial statements do not include an allowance for doubtful accounts since management believes, from past experience, that the chances of collecting all the debts of customers and buyers are good. The maximum credit risk is the carrying amount of the financial assets in the reporting period.

Credit risk may arise to the Company from concentration of revenues to a major client. The rental income of the Company from this client amounted in the year 2009 to approximately 15% of total rental income from investment properties.

3) Interest Rate Risk: In December 2007, the Group issued debentures (see Note 23). 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 US Dollars in the year 2009:

	Effect on equity	
	Increase 5% US$000	Decrease 5% US$000
Financial derivatives	(6)	6
Long term receivables	353	(353)
Lease agreements	(2,034)	2,126
Rent agreements	(91)	99

b) The following table represents the sensitivity to a reasonable possible change in interest on balances in US Dollars in the year 2009:

	Effect on profit before tax	
	Increase 5% US$000	Decrease 5% US$000
Debentures (series A) and swap agreement	(237)	237

4) Significant risk exposure:

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

b) The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted payments.

	31 December 2009					
	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	–	1,006	3,824	27,364	46,713	78,907
Long-term loans from shareholders	–	–	20,672	24,282	–	44,954
Debentures	–	–	10,495	41,980	10,495	62,970
Short-term loans from banks	68,964	–	–	–	–	68,964
Accounts payable and accruals	–	3,342	11,998	–	–	15,340
	68,964	4,348	46,989	93,626	57,208	271,135

NOTE 18 FINANCIAL INSTRUMENTS continued

	31 December 2009					
	On demand US$000	Less than three months US$000	Three to 12 months US$000	One to five years US$000	More than five years US$000	Total US$000
Long-term loans from banks	–	479	1,436	17,443	–	19,358
Long-term loans from shareholders	–	–	–	9,032	–	9,032
Debentures	–	–	–	41,511	20,756	62,267
Short-term loan from bank	60,282	–	–	–	–	60,282
Accounts payable and accruals	–	4,539	9,551	–	–	14,090
	60,282	5,018	10,987	67,987	20,756	165,029

c) 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 2009 and 2008:

	31 December 2009 Carrying amount US$000	**31 December 2009 Fair value US$000**
Long-term loans	**19,311**	**19,363**
Long-term receivables and prepayments	**21,909**	**21,909**
Trade and other receivables	**8,341**	**8,341**
Cash and cash equivalents	**20,971**	**20,971**
Loans from shareholders	**(44,954)**	**(44,954)**
Debentures (series A) and swap agreement[1]	**(11,816)**	**(9,516)**
Debentures (series B)	**(51,154)**	**(40,161)**
Long-term loans from banks (including current maturities)	**(78,907)**	**(78,907)**
Accounts payable and accruals, including income tax	**(21,062)**	**(21,062)**

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

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

NOTE 18 FINANCIAL INSTRUMENTS continued

d) On 31 December 2007, the Company entered into a transaction agreement with Bank Leumi (UK) plc. According to the agreement, payments of the Company on account of Series A debentures (see Note 16) will be linked to the NIS/US Dollar rate as of 31 December 2007, and the interest payments will be according to LIBOR (for Dollar deposits for a six-month period), plus a margin of 3.72%. The transaction hedging is not recognised for accounting purposes, therefore it is recorded in each period in profit and loss account according to the fair value. The fair value of the swap agreement at 31 December 2008 amounted to US$719 thousand and the fair value of the swap agreement at 31 December 2009 amounted to US$1,675 thousand.

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

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

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

f) On 11 December 2008, the Company signed a loan facility agreement with its main shareholders (see Note 15). The fair value of this transaction is recorded in the equity of the Company ("shareholders' contributions") and is amortised in the subsequent periods through profit and loss.

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

	US$	**RUB**	**Other linkage basis**	**Total**
31 December 2009:				
Cash and cash equivalents	**19,039**	**1,852**	**60**	**20,971**
Loans and receivables	**20,571**	**23,968**	**–**	**50,725**
	39,610	**32,006**	**60**	**71,696**

	US$	RUB	Other linkage basis	Total
31 December 2008:				
Cash and cash equivalents	4,828	4,963	31	9,822
Loans and receivables	60,553	21,711	2	82,266
	65,381	26,674	33	92,088

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

	US$	**RUB**	**Other linkage basis**	**Total**
31 December 2009:				
Trade and other payables	5,698	7,134	689	14,521
Loans from banks and related parties	243,979	–	11,816	255,795
	249,677	7,134	12,505	269,316

NOTE 18 FINANCIAL INSTRUMENTS continued

	US$	RUB	Other linkage basis	Total
31 December 2008:				
Trade and other payables	45	12,848	22	12,915
Loans from banks and related parties	144,122	–	10,644	154,766
	144,167	12,848	10,666	167,681

NOTE 19 INCOME TAX

a) Tax Applicable to the Group Companies The Company is considered to be a Cypriot tax resident company, holding directly or through subsidiaries which are considered to be Cyprus tax resident companies ("Cypriot Holding Companies") Russian tax resident companies which are involved in residential and commercial projects in Russia ("Russian Companies"). The Company is financing its activities through a Hungarian tax resident subsidiary ("Hungarian subsidiary"). The Hungarian subsidiary is operating through a Swiss financing branch. An Israeli tax resident subsidiary of the Company ("Israeli Company") is providing consulting services to the Russian Companies. Furthermore, a Cypriot tax resident subsidiary ("Cypriot consultant Company") is providing technical services to the Russian Companies.

As far as the Company is aware, control and management of the Company and its subsidiaries (except for the Israeli Company) is not exercised from Israel, and there is no economical substance in Israel for each one of the subsidiaries in accordance with tax laws in Israel. Therefore, the Company's income is not of Israeli source and the Company's income is not expected to be taxable in Israel (except for the income of the Israeli Company).

Taxation in Cyprus:

- Companies the management and control of which is exercised from Cyprus are subject to Corporate Income Tax in Cyprus at a rate of 10% on their worldwide profit from business operations, taking into account certain exemptions.

- Dividends received by the Company and the Cypriot Holding Companies are exempt from Corporate Income Tax in Cyprus.

Dividends received by Cypriot tax resident companies from non-tax resident subsidiaries ("foreign companies") are exempt from Defence Tax in Cyprus provided certain requirements are met. Dividend income received from the Russian companies shall be exempt from Defence Tax exempt in Cyprus in accordance with Cyprus tax laws provided these companies either derive at least 50% of their income (either directly or indirectly) from activities not leading to investment income or provided the foreign tax burden on their profits has not been substantially lower than 5%. On this basis dividends to be received by the Company and the Cypriot Holding Companies from the Russian Companies should reasonably be exempt from Defence Tax in Cyprus.

- The distribution of dividends by the Cypriot Holding Companies to the Company is not subject to tax in Cyprus. If the Cypriot Holding Companies do not distribute at least 70% of their accounting profits (excluding revaluations and fair value adjustments) within a two-year period to the Company, then a deemed distribution of 70% of such profits shall be constituted which is subject to Defence Tax at a rate of 15%.

- A gain from the sale of shares of the Russian companies or Cypriot Holding Companies by the Company shall be exempt from Corporate Income Tax and shall not be subject to Capital Gains Tax in Cyprus.

Taxation in Russia:

- Income from the sale or lease of real estate in Russia, net of legally deductible expenses, should be subject to corporate tax of 20% in Russia.

- The Russian companies must pay property tax at a maximum rate of 2.2% of the value of the properties in the financial statements of those Russian companies, prepared in accordance with Russian GAAP. In view of the Company's policy to acquire companies rather than properties, this tax liability is immaterial.

NOTE 19 INCOME TAX continued

- Russian companies that own real estate are liable to pay real estate tax at a maximum rate of 1.5% of the value of the real estate in the Land Registrar's Office.

- The distribution of dividends by the Russian companies to the Company or to the Cypriot holding companies will be subject to withholding tax in Russia at a rate of 5% according to the treaty between Russia and Cyprus.

- Losses for tax purposes are deductible from taxable revenues during ten years after tax are formed.

- A capital gain from the sale of shares of the Russian companies by the Company or the Cypriot holding companies is tax exempt in Russia subject to certain conditions, in accordance with the treaty for the prevention of double taxation signed between Russia and Cyprus.

In accordance with minutes of the tax agreement between Russia and Cyprus (which has not been ratified yet and therefore is not yet valid), capital gain from sale of shares of Russian Companies, whose assets consists more than 50% real estate assets is to be taxable in Russia at 20%. This change is not expected to occur before 1 January 2015 (four years from the date the minutes were ratified).

Taxation in Hungary:

- Net interest income is subject to corporate income tax in Hungary at a rate of 16%. It is also subject to solidarity tax of 4%.

- According to the thin capitalisation rules, if the average debt exceeds three times the Company's average equity, the excess interest expense (interest expense on the debt potion exceeding the 3:1 ratio) will not be tax deductible in the fiscal year in which it was created and could not be carried forward for use in subsequent years.

Taxation in Israel:

- In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

- The Company is subject to the Income Tax (Inflationary Adjustments) Law, 1985 according to which, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to 31 December 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
b) Tax expense:			
Current income tax	**1,819**	1,844	2,659
Prior year taxes	**–**	(849)	–
Deferred taxes	**3,289**	10	2,764
Tax expense in Income Statement	**5,108**	1,005	5,423

NOTE 19 INCOME TAX continued

c) A reconciliation between the tax expense in the Income Statement and the product of profit before tax multiplied by the current tax rate can be explained as follows:

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Profit (loss) before tax expense	**(17,876)**	(103,826)	70,303
Tax at the statutory tax rate in Cyprus (10%)	**(1,788)**	(10,383)	7,030
Increase (decrease) in respect of:			
Temporary differences in respect of which no deferred tax was recorded	**3,293**	6,846	(17,918)
Effect of different tax rate in Russia (20%) and Hungary (16%)	**2,102**	6,375	13,224
Effect of change in tax law in Russia	**–**	196	–
Prior year taxes	**–**	(849)	–
Losses for which deferred tax assets were not recorded	**2,544**	416	2,852
Income not subject to tax	**(821)**	(716)	(641)
Other	**(222)**	(880)	876
Income tax expense	**5,108**	1,005	5,423

d) Deferred taxes:

	31 December 2009 US$000	31 December 2008 US$000
Opening balance – net credit balance	**4,908**	4,904
Charged to the Income Statement	**3,289**	10
Purchase of new jointly controlled entities (see Note 7d)	**660**	–
Exchange rate differences	**70**	(6)
Closing balance – net credit balance	**8,927**	4,908

e) 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 2009 and 2008 by US$16,463 thousand and US$58,768 thousand, respectively, to reflect the fair values of the deferred tax liabilities that the Company would transfer to a buyer upon the sale of the companies owning the properties. The reduction was calculated based on the 20% income tax rate in Russia. The Company's management believes that the actual amount of the reduction might be substantially lower due to economic benefits that the buyer will be entitled to, based upon the differences arising from the method of disposal, (i.e. direct asset sale or share sale).

f) The tax losses carried forward of the Group companies amount to approximately US$27m and a deferred tax asset amounting to US$6m has been recognised.

NOTE 20 EQUITY

	31 December 2009 US$	31 December 2008 US$
Authorised shares of US$0.01 par value each	**1,200,000**	1,200,000
Issued and fully paid shares of US$0.01 par value each	**1,035,580**	1,035,580

Dividend Policy

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

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

Share Option Schemes

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

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

The Company also granted at the same date, options to purchase 1,497,326 ordinary shares that were granted under the share, option plan to officers of subsidiaries of the Company ("Options to Officers"). For additional information see Note 22.

Shareholders' Contributions:

The shareholders' contributions are comprised of the following:

1) The fair value surplus from the provision of shareholders' loans at below market interest rate.

2) The fair value surplus from the financial guarantees provided by the shareholders with respect to the bank loans.

NOTE 21 EARNINGS PER SHARE

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007
Weighted average number of ordinary shares used for computing basic earnings per share (in thousands)	**103,558**	103,558	103,558
Weighted average number of ordinary shares used for computing diluted earnings per share (in thousands) (see Note 20)[1]	**103,558**	103,558	103,558
Income (loss) used for computing basic and diluted earnings per share (in thousands of US Dollars)	**(22,984)**	(104,831)	64,880

1 The options have no dilutive impact in 2009, 2008 and 2007.

NOTE 22 SHARE-BASED PAYMENTS

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

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

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

b) The following table lists the binomial model used for the plans for the year ended 31 December 2009:

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

	Vested over three years
Expected volatility (%)	31.89
Risk-free interest rate (%)	5
Expected life of option (months)	12
Weighted average share price (GBP)	4.78

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

No options were exercised as of the balance sheet date.

The options were appraised by an independent appraisal company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 22 SHARE-BASED PAYMENTS continued

c) On 16 October 2009, the Board announced that Mr Roman Rozental, who is currently the CFO of the Company, will be appointed CEO with effect from 1 January 2011 and will continue to be employed as CFO of the Company until that time.

Mr. Morag's appointment as CEO of the Company has been extended until 31 December 2010. After that, it is intended that he will serve as a Non-executive Director for a further period of six months in order to ensure the Company will continue to benefit from his experience over that period.

On 16 October 2009, 1,122,995 share options have been granted to Mr Morag, at an exercise price of 250 pence per share and exercisable until 19 December 2012. The Company acknowledged US$663 thousands expenses regarding this granting.

At the same time, Mr Morag's existing share options, granted at the time of the Company's IPO, will be cancelled. Under the rules of the Company's share option scheme, shareholder consent is required to extend the life of the options beyond three months from Mr Morag ceasing his anticipated non-executive directorship and accordingly it is expected that shareholder consent will be sought for this extension at the Company's next General Meeting which will be held in May 2010.

On 16 October 2009, 449,198 share options have been granted to Mr Rozental at an exercise price of 250 pence per share and exercisable until 19 December 2012. The Company acknowledged US$266 thousands expenses regarding this granting.

At the same time, Mr Rozental's existing share options, granted at the time of the Company's IPO, will be cancelled. It has also been agreed with Mr Rozental that, on or before his appointment as CEO of the Company, he will be granted a further 673,797 share options. The exercise price for these options shall be equal to the aggregate of shareholder equity (as shown in the Company's consolidated balance sheet as at 30 June 2010) divided by the Company's fully diluted share capital, subject to such price not being less than the Company's share price as at the date of grant.

On 16 October 2009, 374,331 share options were granted to service provider at an exercise price of 250 pence per share and exercisable until 19 December, 2012. The Company acknowledged US$221 thousands expenses regarding this granting.

	Vested on grant date
Expected volatility (%)	82.59
Risk-free interest rate (%)	0.6
Expected life of option (months)	0
Weighted average share price (GBP)	2.50

d) Details on equity-settled share-based payment transaction:

	2009 US$000	2008 US$000
Fair value of the options	**9,974**	8,823
Less – recognised as expense in the income statement	**(9,974)**	(8,080)
Expense to be recognised in the future	**–**	743

In the years 2009 and 2008, there were no exercise of any of the options granted to Employees or Officers.

e) The weighted average remaining contractual life for the share options outstanding as at 31 December 2009 is:

Shares issued 18 December 2006: 1.97
Shares issued 16 October 2009 (see Note 22c above): 2.97

NOTE 23 OPERATING EXPENSES

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Maintenance of property	**4,678**	4,783	3,831
Land lease payments	**264**	241	195
Fee to management company[1]	**371**	813	773
Property tax on investment property	**2,125**	1,454	812
Land tax on investment property under construction and inventories of buildings under construction	**–**	–	773
	7,438	7,291	6,384

1 In beginning of 2009, subsidiary ceased it's agreement with a management company, see Note 28f.

NOTE 24 GENERAL, ADMINISTRATIVE AND MARKETING EXPENSES

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Salaries[1]	7,339	7,530	8,506
Office maintenance	1,317	1,652	1,330
Professional fees[2]	3,339	6,236	4,968
Marketing fees	768	2,386	674
Write-down of advances on account of investments	60	1,256	406
Traveling expenses	453	1,090	1,440
Depreciation	556	343	287
Other costs	2,482	1,766	1,452
	16,314	22,259	19,063
1 Includes cost of share-based payment (see Note 22)	1,894	1,881	3,851

2 Includes in consideration of the audit amount of approximately US$1,719 thousand (2008 – US$2,080 thousand) and the fee to directors is approximately US$459 thousand (2008 – US$617 thousand).

NOTE 25 OTHER EXPENSES

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Loss from acquisition of jointly controlled entities (see Note 7d)	698	–	–
Update of provision regarding an agreement with government authorities	–	1,897	–
Registration of land lease	–	–	5,469
Impairment of investment properties under construction and inventories of buildings under construction	–	4,289	–
	698	6,186	5,469

NOTE 26 FINANCE COSTS AND INCOME

a) Finance costs:

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Interest costs – financial liabilities not at fair value through profit and loss	(14,543)	(12,913)	(10,669)
Net capitalised interest costs	10,454	2,075	2,016
Effect of discounting of long-term receivables	(602)	(3,933)	(1,400)
Fair value adjustment of financial derivative	–	–	(50)
Effect of discounting of long-term receivables to investment properties under construction and residential projects for sale under construction	602	3,933	1,400
Other (mainly foreign exchange differences)[1]	(1,564)	(33,887)	–
	(5,653)	(44,725)	(8,703)

b) Finance income:

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Interest income from cash and cash equivalents and restricted deposits	–	3,420	10,744
Interest income from loans provided	6,134	4,420	843
Fair value adjustment of financial derivative	956	769	–
Other (mainly foreign exchange differences)	1,585	1,274	11,417
	8,675	9,883	23,004

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

NOTE 27 RELATED PARTIES

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
a) Transactions with related parties:			
Interest expense to shareholders	3,815	1,494	97
Private jet expenses	17	279	515

b) Balances with related parties:

	31 December 2009 US$000	31 December 2008 US$000
Debentures held by shareholders	**24,909**	22,016
Guarantees and benefit regarding loans received from majority shareholders	**2,702**	529
Loans received from majority shareholders	**44,954**	9,032

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

d) Compensation of key management personnel of the Group:

	Year ended 31 December 2009 US$000	Year ended 31 December 2008 US$000	Year ended 31 December 2007 US$000
Salaries	**1,371**	1,227	856
Share-based payments	**1,602**	1,881	3,851
	2,973	3,108	4,707

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

f) Hydro leases offices to Home Centre with an overall area of approximately 730 sqm used for office purposes. The monthly lease fee is approximately US$22 thousand. The lease period terminates on 30 September 2011. The engagement is in accordance with market conditions.

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

NOTE 28 COMMITMENTS AND CONTINGENCIES

a) Group as lessee:

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

Future minimum lease payments as at 31 December 2009 are as follows:

	US$000
First year	277
After one year but no more than five years	1,107
More than five years	7,544
Total	8,928

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

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

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

d) On 27 November 2006, Global 1 (subsidiary of the Company) entered into an agreement with a third party for the commercial centre in Yaroslavl, which began its operations in April 2007. The agreement was in effect until March 2009. In exchange for said management services Global 1 paid monthly fees to the third party based on a mechanism established in the agreement. An adequate expense was recorded in Global 1's books in respect of the agreement.

From 11 May 2009, the project has been managed by another third party. During 2009 Global 1 paid such third party approximately US$678 thousand.

e) On 16 March 2006, IIK (subsidiary of the Company) entered into a consulting agreement with a third party according to which the latter undertook to provide consulting services to IIK in connection with the development and construction of a commercial project in Saratov, in consideration of the equivalent of approximately US$1.1m.

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

In May 2009 the agreement expired and, as of the date hereof, IIK is managed by the Group.

f) In December 2006, RealService (subsidiary of the Company) entered into an oral agreement with FIN for the provision of certain services that include sourcing of the investment and project management services. According to the agreement and in consideration for these services FIN will be entitled to receive 10% of the net profits from the project, including from sale of the project after completion and to 2% of the lease fees actually received by RealService from its tenants.

NOTE 28 COMMITMENTS AND CONTINGENCIES continued

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

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

On 25 February 2009, IIK signed an additional agreement with Denya in which the overall amount of the agreement, subject to certain terms and conditions, was enlarged by US$3m.

i) Expected rental income:

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

The minimum rental income is as follows:

	31 December 2009 US$000	31 December 2008 US$000
First year	**20,707**	17,398
Second year until five years	**81,616**	50,286
More than five years	**52,555**	18,032
	154,878	85,716

j) The previous owners of a plot of land in Yaroslavl, which is currently owned by the Group and on which the Group has constructed a shopping centre, have entered into an agreement with the municipality of Yaroslavl whereby the municipality of Yaroslavl will be entitled to 8% of the built area on said land. The Company has recorded a provision regarding this agreement. See also Note 17.

NOTE 29 SEGMENT INFORMATION

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

The commercial segment leases real estate for commercial purposes; the residential segment develops real estate assets for sale for residential purposes.

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

	Year ended 31 December 2009 Commercial US$000	**Year ended 31 December 2009 Residential US$000**	**Year ended 31 December 2009 Total US$000**	Year ended 31 December 2008 Commercial US$000	Year ended 31 December 2008 Residential US$000	Year ended 31 December 2008 Total US$000
Revenues						
Rental income from investment properties	**14,754**	**–**	**14,754**	17,949	–	17,949
Revenue from management fees	**2,459**	**–**	**2,459**	2,411	–	2,411
Total revenues	**17,213**	**–**	**17,213**	20,360	–	20,360
Fair value adjustments of investment properties and investment properties under construction	**(16,463)**	**–**	**(16,463)**	(58,768)	–	(58,768)
Total income (loss)	**750**	**–**	**750**	(38,408)	–	(38,408)
	750	**–**	**750**	(38,408)	–	(38,408)
Segment results	**(7,384)**	**(1,521)**	**(8,905)**	(59,150)	(2,246)	(61,396)
Unallocated expenses[1]			**(11,993)**			(7,588)
Net finance income (costs)			**3,022**			(34,842)
Profit (loss) before income tax			**(17,876)**			(103,826)
Tax expense			**(5,108)**			(1,005)
Profit (loss) for the year			**(22,984)**			(104,831)
Assets and liabilities						
Segment assets	**397,732**	**181,411**	**579,143**	323,546	147,170	470,716
Unallocated assets			**36,914**			59,232
Total assets			**616,087**			529,948
Segment liabilities	**106,165**	**11,898**	**118,063**	34,333	9,485	43,818
Unallocated liabilities[2]			**178,823**			143,894
Total liabilities			**296,886**			187,712

1 Includes in 2008 an expense for registration of land lease of US$5,469 thousand.
2 Includes mainly tax, financing assets and genuine central assets.

NOTE 29 SEGMENT INFORMATION continued

	Year ended 31 December 2007 Commercial US$000	Year ended 31 December 2007 Residential US$000	Year ended 31 December 2007 Total US$000
Revenues			
Rental income from investment properties	10,446	–	10,446
Revenue from management fees	1,977	–	1,977
Total revenues	12,423	–	12,423
Fair value adjustments of investment properties	82,138	–	82,138
Total income (loss)	94,561	–	94,561
Inter-segment income	–	–	–
	94,561	–	94,561
Segment results	69,872	(1,314)	68,558
Unallocated expenses			(12,556)
Net finance income (costs)			14,301
Profit (loss) before income tax			70,303
Tax expense			(5,423)
Profit (loss) for the year			64,880
Assets and liabilities			
Segment assets	352,027	98,778	450,805
Unallocated assets			207,237
Total assets			658,042
Segment liabilities	23,370	1,202	24,572
Unallocated liabilities[2]			160,627
Total liabilities			185,199

2 Includes mainly tax, financing assets and genuine central assets.

NOTE 31 DATE OF APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors approved these consolidated financial statements for issue on 16 March 2010.

SHAREHOLDERS INFORMATION

Financial Calendar

Annual General Meeting	17 May 2010
Announcement of 2010 first quarter results	May 2010
Announcement of 2010 interim results	August 2010
Announcement of 2010 third quarter results	November 2010

Share Price

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

Price at 31 December 2009	150p
Lowest price during the year	34p
Highest price during the year	260p

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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