

17 November 2010

**MIRLAND DEVELOPMENT CORPORATION PLC**  
**(“MirLand” / “Company”)**

**UNAUDITED INTERIM CONSOLIDATED REPORT FOR THE**  
**NINE MONTHS ENDED 30 SEPTEMBER 2010**

***MIRLAND CONTINUES TO GROW INCOME AS RUSSIAN ECONOMY MAINTAINS GRADUAL***  
***RECOVERY***

MirLand Development Corporation, one of the leading international residential and commercial property developers in Russia, today announces its interim results for the nine months ended 30 September 2010.

**Financial Highlights:**

- Total assets as at 30 September 2010 were US\$674.1m (31 Dec 2009: US\$611.7m), of which 88% are property and land assets;
- Equity as of 30 September 2010 was US\$327.2m (31 Dec 2009: US\$319.2 m), equating to 49% of total assets;
- Net income after tax of US\$8.6m for nine months ended 30 September 2010 (nine months ended 30 September 2009: loss of US\$20.8m);
- Rental income, income from residential sales and property management fees of US\$13.9m for nine months ended 30 September 2010 (nine months ended 30 September 2009: US\$13.0m);
- Successful fundraises completed:
  - on 9 August 2010, the Company successfully raised approximately US\$52m of debt through the issue of series C debentures traded on the Tel-Aviv Stock Exchange
  - following the period end, on 10 November 2010, the Company successfully raised a further US\$18m of debt through the issue of series D debentures traded on the Tel-Aviv Stock Exchange.

**Operational Highlights**

- Triumph Mall, Saratov due to open in December 2010. Pre-let agreements or letters of intent are now in place for approximately 97% of the lettable area;
- To date fifteen houses have been sold in the Western Residence project in Perkhushkovo. Construction of the first phase of 77 houses is 97% complete;
- The Company recommenced the underground works for the first sub phase (510 apartments) of Triumph Park in St. Petersburg;
- Net investment activity during the 9 month period totalled USD\$42.9m during the period, excluding net proceeds from the sale of Techagrocom project.

**Nigel Wright, Chairman, commented:**

“The Board remains focused on the delivery of the Company’s business plan and, in light of improvements in the Russian macroeconomic environment, expects to dedicate resources to completing projects already under construction and commencing those where funding is in place to bring projects on stream as the gradual recovery continues.

## MIRLAND DEVELOPMENT CORPORATION PLC

“MirLand has a high quality portfolio of completed, income producing investment property and this will improve further following the opening of our new shopping mall in Saratov. In addition, our development pipeline should provide both competitive advantage and significant future benefit to shareholders as conditions continue to improve, barring further unforeseen market shocks.”

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### **Financial Dynamics**

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We are pleased to report MirLand's financial results for the nine months ended 30 September 2010. During the period the Russian economy maintained a gradual recovery from the financial crisis, and the Board of MirLand continued to implement measures to successfully deliver on the Company's business plan and strategy, which include the following key goals:

- to maximize returns from our existing diversified portfolio of assets;
- to successfully complete those projects currently under construction;
- the optimization and diversification of financial resources; and
- the resumption of our pipeline projects, depending on the level and cost of available finance, and market demand for the end product.

In addition, due to the improving market conditions and the growing availability of financial sources, MirLand has started to exploit opportunities for new investments, as we believe that there is a window of opportunities for attractive deals in the market.

## **FINANCING**

On 9 August 2010 the Company successfully raised approximately US\$52 million of debt by the issuance of series C debentures (the "C Bonds") traded on the Tel-Aviv Stock Exchange. On 10 November 2010, following the period end, the Company successfully raised a further US\$18 million of debt through the issuance of series D debentures (the "D Bonds") traded on the Tel-Aviv Stock Exchange. The proceeds from both fundraisings will be applied to general working capital purposes and investments in new projects. All bond series of the Company (series A, B, C and D) received a rating of i1BBB with stable horizon from the Israeli affiliate of Standard & Poor's.

During the reporting period the Company received loans from shareholders in the amount of US\$5.0 million and repaid shareholders loans in the amount of US\$12.3 million (principal and interest accrued thereon).

In June, the Company received net proceeds of approximately US\$18.5 million from the completion of the sale of its share in Techagrocom business park development. The net proceeds of this sale, which included approximately US\$3.2 million of capital gain, are being applied to the ongoing consolidation of the Company's financial position.

To date, MirLand's activities have been financed through a combination of equity capital raised during its IPO in December 2006, the proceeds of the corporate bond issue in Israel, the line of credit backed by the Company's main shareholders, project financing for the Vernissage and Triumph malls, shareholders' loans, and a corporate loan. Due to the improvement in the market conditions in Russia the Company is continuing to take active measures aimed at diversifying its funding sources further in order to finance its existing development activities, as well as potential investments in new assets. The Company continues to have modest leverage at 45% of assets, including shareholders' loans of US\$43m, amounting to US\$306.5m (31 December 2009: 42%; US\$255.8m);

## OPERATIONAL UPDATE

- **Triumph Mall, Saratov:**
  - The opening of the Mall was briefly delayed to enable the Company to incorporate additional fire safety measures recommended by the Local Authorities. This work is now fully completed and we anticipate receipt of our Opening Permit in the near future.
  - MirLand has already signed pre-let agreements or letters of intent for 97% of the lettable area.
- **Western Residence project in Perkhushkovo;** to date, 15 houses have been sold in the Western Residence project. Unit prices have continued to increase throughout the year and the construction of the first phase of 77 houses is 97% complete.
- **Triumph Park, St. Petersburg;** in light of early signs of market improvement Mirland has recommenced foundation and sub-basement works to enable acceleration of the development of the first sub-phase of 510 apartments.
- **Vernissage Mall, Yaroslavl;** the occupancy rate in the shopping centre is 97%, however, following a recent agreement signed with M-Video, one of the leading Russian electrical retail chains, the occupancy rate is now almost 100%. Furthermore, the Company has signed an agreement with M-Video to construct an additional 1,000 sqm of space at the centre, which the retailer will lease on completion. Construction of this additional space has now commenced.”

## MARKET UPDATE

The Russian economy continues to show constant and gradual recovery. Real GDP from January to September 2010 grew by 3.4% following a 7.9% contraction in 2009 (Ministry of Economic Development). Other macroeconomic indicators also demonstrated positive signs during the reported period as industrial production increasing sharply by 8.9% (YoY), real disposable income grew by 5%, retail trade grew by 5.9% (YoY) and the inflation rate decelerated (Ministry of Economic Development). These positive trends in the economy were slightly undermined by the heat, forest fires and fog during the summer and caused some inflation pressures led by the increase in prices of food goods.

Oil prices and exchange rates stabilised during the period, lowering the expected budget deficit. This, together with a decreasing inflation rate and improving employment levels, has supported a recovery in investor and consumer confidence, which had hit record lows during the recession. These improved growth statistics are now resulting in upgrades in forecasts for the Russian economy over the coming years.

Improvements in macroeconomic indicators are gradually influencing the real estate sector. Investment activity in the first nine months of the year increased and capitalisation rates continued to compress. These improvements were followed by a noticeable increase in tenant and commercial occupier activity which have led to decrease in vacancy rates. The reductions of the refinancing interest rate by the central bank from 13% in December 2008 to 7.75% as of June 2010, together with the improved market conditions, has led to a gradual increase in the availability of financing for the real estate sector from leading local banks. This increase in availability of financing is expected to support the continued recovery of the real estate sector.

However, as the performance of the Russian economy relies heavily on oil prices, which can be highly volatile, and as the full outcome of recent events in Greece and other European countries is still unclear, it should be anticipated that the recovery will be gradual.

## **MANAGEMENT**

As previously announced, Mr Roman Rozental, who is currently the CFO of the Company, will become CEO with effect from 1 December 2010 and the Company's current CEO, Mr Moshe Morag, will become a non-executive director from the same date, in order to ensure that the Company continues to benefit from his experience.

In October, the Company was pleased to announce that Mr Emil Budilovsky is joining the Company to become CFO as of 1 December 2010.

## **OUTLOOK**

The Board remains focused on the delivery of the Company's business plan and, in light of improvements in the Russian macroeconomic environment, expects to dedicate resources to completing projects already under construction and commencing those where funding is in place to bring projects on stream as the gradual recovery continues. Additionally, the current market conditions may create good opportunities for new projects and the Board is willing to exploit them should they arise, taking into account the availability of financial sources.

Together 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 acting to protect and enhance the strong income stream from our investment portfolio.

Whilst we are encouraged by these results, business conditions in Russia remain testing. There are however signs in most real estate sectors that markets are improving. MirLand has a high quality portfolio of completed, income producing investment property and this will improve further following the opening of our new shopping mall in Saratov. In addition, our development pipeline should provide both competitive advantage and significant future benefit to shareholders as conditions continue to improve, barring further unforeseen market shocks.

**Nigel Wright**

**Chairman**

**17 November 2010**

**Moshe Morag**

**Chief Executive**

**17 November 2010**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>September 30,</u>		<u>December 31,</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	24,020	13,961	20,971
Short-term loans	779	1,187	1,164
Trade receivables	494	994	655
Other receivables	4,812	1,287	1,890
VAT receivable	21,131	4,862	5,796
Inventories of buildings for sale	167,316	134,760	140,310
	<u>218,552</u>	<u>157,051</u>	<u>170,786</u>
<b>NON-CURRENT ASSETS:</b>			
VAT receivable	7,918	18,752	21,909
Investment properties	188,952	153,510	187,419
Investment properties under construction	213,769	173,463	185,043
Inventories of buildings for sale	21,825	22,052	21,939
Long-term loans	18,939	58,028	19,311
Financial derivative	-	1,567	1,675
Fixed assets, net	1,204	1,368	1,232
Deferred expenses	1,202	889	753
Deferred taxes	1,749	*) 1,141	*) 1,656
	<u>455,558</u>	<u>430,770</u>	<u>440,937</u>
<b>TOTAL ASSETS</b>	<u><u>674,110</u></u>	<u><u>587,821</u></u>	<u><u>611,723</u></u>

\*) Reclassified. See Note 2d.

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>September 30,</b>		<b>December 31,</b>
	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>U.S. dollars in thousands</b>		
<b>EQUITY AND LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks	70,178	71,762	68,964
Current maturities of long-term loans from banks and debentures and other short-term loans	29,872	-	15,455
Loans from shareholders	37,955	33,039	20,672
Government authorities	2,011	1,881	2,475
Trade payables	6,816	10,023	11,584
Deposit from tenants	4,896	5,370	4,253
Other accounts payable	5,234	2,264	2,750
	<u>156,962</u>	<u>124,339</u>	<u>126,153</u>
<b>NON-CURRENT LIABILITIES:</b>			
Loans from banks	55,378	51,188	74,077
Loans from shareholders	5,378	7,302	24,282
Debentures	107,744	63,392	52,345
Other non-current liabilities	5,228	5,777	5,082
Deferred taxes	16,219	*) 8,782	*) 10,583
	<u>189,947</u>	<u>136,441</u>	<u>166,369</u>
<b>TOTAL LIABILITIES</b>	<u>346,909</u>	<u>260,780</u>	<u>292,522</u>
<b>EQUITY:</b>			
Equity attributable to equity holders of the parent:			
Issued capital	1,036	1,036	1,036
Share premium	359,803	359,803	359,803
Capital reserve for share-based payment transactions	9,974	8,665	9,974
Capital reserve for transactions with controlling shareholders	2,702	2,747	2,702
Foreign currency translation reserve	(23,728)	(16,242)	(23,153)
Accumulated deficit	(22,611)	(28,993)	(31,186)
	<u>327,176</u>	<u>327,016</u>	<u>319,176</u>
Non controlling interests	25	25	25
<b>TOTAL EQUITY</b>	<u>327,201</u>	<u>327,041</u>	<u>319,201</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>674,110</u>	<u>587,821</u>	<u>611,723</u>

\*) Reclassified. See Note 2d.

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



**CONSOLIDATED INCOME STATEMENTS**

	<b>Nine months ended 30 September</b>		<b>Year ended 31 December</b>
	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>U.S. dollars in thousands (except per share data)</b>		
<b>Revenues:</b>			
Rental income from investment properties	10,489	11,115	14,754
Income from sale of inventories	1,089	-	-
Revenues from management fees	<u>2,366</u>	<u>1,865</u>	<u>2,459</u>
Total revenues	13,944	12,980	17,213
Cost of sales	(1,231)	-	-
Cost of maintenance and management	<u>(7,921)</u>	<u>(5,105)</u>	<u>(7,438)</u>
Gross profit	4,792	7,875	9,775
General and administrative expenses	(11,085)	(10,990)	(16,314)
Adjustment of provision to service providers	781	1,252	2,802
Fair value adjustments of investment properties and investment properties under construction	18,138	(15,508)	(16,463)
Other income (expenses), net	<u>3,159</u>	<u>-</u>	<u>(698)</u>
Operating income (loss)	15,785	(17,371)	(20,898)
Finance income	4,264	5,516	7,090
Finance costs	(4,604)	(1,860)	(4,089)
Net foreign exchange gains (losses)	<u>(394)</u>	<u>(2,702)</u>	<u>21</u>
Income (loss) before taxes on income	15,051	(16,417)	(17,876)
Taxes on income	<u>6,476</u>	<u>4,374</u>	<u>5,108</u>
Net income (loss)	<u>8,575</u>	<u>(20,791)</u>	<u>(22,984)</u>
Net earnings (loss) per share (in U.S. dollars per share):			
Basic and diluted net earnings (loss)	<u>0.083</u>	<u>(0.201)</u>	<u>(0.222)</u>

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

MIRLAND DEVELOPMENT CORPORATION PLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended 30 September		Year ended 31 December
	2010	2009	2009
	Unaudited		Audited
	U.S. dollars in thousands		
Net income (loss)	8,575	(20,791)	(22,984)
Other comprehensive income (loss):			
Transfer of exchange differences to income statement for sale of subsidiary	815	-	-
Exchange differences on translation of foreign operations	(1,390)	2,843	(4,068)
Total comprehensive income (loss)	8,000	(17,948)	(27,052)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Parent							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Accumulated deficit	Total		
U.S. dollars in thousands									
Balance at 1 January 2010 (audited)	1,036	359,803	9,974	2,702	(23,153)	(31,186)	319,176	25	319,201
Total comprehensive income	-	-	-	-	(575)	8,575	8,000	-	8,000
Balance at 30 September 2010 (unaudited)	1,036	359,803	9,974	2,702	(23,728)	(22,611)	327,176	25	327,201
	Attributable to equity holders of the Parent								
	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Accumulated deficit	Total	Non-controlling interests	Total equity
U.S. dollars in thousands									
Balance at 1 January 2009 (audited)	1,036	359,803	8,080	579	(19,085)	(8,202)	342,211	25	342,236
Total comprehensive income (loss)	-	-	-	-	2,843	(20,791)	(17,948)	-	(17,948)
Share-based payment	-	-	585	-	-	-	585	-	585
Shareholders' contribution	-	-	-	2,168	-	-	2,168	-	2,168
Balance at 30 September 2009 (unaudited)	1,036	359,803	8,665	2,747	(16,242)	(28,993)	327,016	25	327,041

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Parent						Non- controlling interests	Total equity	
	Share capital	Share premium	Capital reserve for share- based payment	Capital reserve for transactions with controlling shareholders	Foreign currency translation reserve	Accumulated deficit			Total
U.S. dollars in thousands									
Balance at 1 January 2009 (audited)	1,036	359,803	8,080	579	(19,085)	(8,202)	342,211	25	342,236
Total comprehensive loss	-	-	-	-	(4,068)	(22,984)	(27,052)	-	(27,052)
Share-based payment transactions	-	-	1,894	-	-	-	1,894	-	1,894
Shareholders' contribution	-	-	-	2,123	-	-	2,123	-	2,123
Balance at 31 December 2009 (audited)	<u>1,036</u>	<u>359,803</u>	<u>9,974</u>	<u>2,702</u>	<u>(23,153)</u>	<u>(31,186)</u>	<u>319,176</u>	<u>25</u>	<u>319,201</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended 30 September		Year ended 31 December
	2010	2009	2009
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	8,575	(20,791)	(22,984)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Deferred taxes, net	5,737	2,583	3,289
Depreciation and amortization	225	269	504
Finance costs (income), net	502	(954)	(2,066)
Share-based payments	-	585	1,894
Fair value adjustments of investment properties and investment properties under construction	(18,138)	15,508	16,463
Fair value adjustment of financial derivative	232	-	(956)
Gain from sale of consolidated subsidiary	(3,159)	-	-
	(14,601)	17,991	19,128
Changes in asset and liability items:			
Increase in trade and other receivables	(2,787)	(622)	(317)
Decrease (increase) in VAT receivable	142	1,889	(6,466)
Increase in inventories of buildings for sale	(16,167)	(16,145)	(18,473)
Increase (decrease) in trade payables	(4,462)	(1,217)	284
Increase (decrease) in other accounts payable	2,726	(2,296)	(3,038)
	(20,548)	(18,391)	(28,010)
Cash paid and received during the period for:			
Interest paid	(9,346)	(5,124)	(8,030)
Interest received	48	4	236
Taxes paid	(218)	(650)	(1,736)
Taxes received	-	-	537
	(9,516)	(5,770)	(8,993)
Net cash flows used in operating activities	(36,090)	(26,961)	(40,859)

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended 30 September		Year ended 31 December
	2010	2009	2009
	Unaudited		Audited
U.S. dollars in thousands			
<u>Cash flows from investing activities:</u>			
Additions to investment properties	(10,027)	(502)	(1,902)
Additions to investment properties under construction	(16,682)	(45,715)	(49,684)
Purchase of fixed assets	(393)	(66)	(193)
Proceeds from sale of fixed assets	54	159	556
Proceeds from sale of financial derivative	1,443	-	-
Proceeds from sale of consolidated subsidiary (1)	18,500	-	-
Proceeds from repayment of loans granted	2,645	-	-
Net cash flows used in investing activities	<u>(4,460)</u>	<u>(46,124)</u>	<u>(51,223)</u>
<u>Cash flows from financing activities:</u>			
Issuance of bond, net	52,149	-	-
Short-term credit from banks and others	2,868	13,800	8,998
Receipt of loans from shareholders	5,000	30,321	32,772
Repayment of loans from shareholders	(10,000)	-	-
Receipt of long-term loans	-	36,000	68,332
Repayment of other loans	(1,837)	-	-
Repayment of loans from banks	(5,694)	(1,454)	(3,895)
Deferred expenses on account of loan receipt	-	-	(1,364)
Net cash flows provided by financing activities	<u>42,486</u>	<u>78,667</u>	<u>104,843</u>
Net increase in cash and cash equivalents	1,936	5,582	12,761
Exchange differences on balances of cash and cash equivalents	1,113	(1,443)	(1,612)
Cash and cash equivalents at beginning of period	<u>20,971</u>	<u>9,822</u>	<u>9,822</u>
Cash and cash equivalents at end of period	<u><u>24,020</u></u>	<u><u>13,961</u></u>	<u><u>20,971</u></u>
<u>(1) Proceeds from sale of consolidated subsidiary:</u>			
Investment property under construction	15,545	-	-
Trade and other receivables	180	-	-
Foreign currency translation reserve	(815)	-	-
Transaction costs	431	-	-
Gain from sale of consolidated subsidiary	<u>3,159</u>	<u>-</u>	<u>-</u>
	<u><u>18,500</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

- a. These interim consolidated financial statements have been prepared in a condensed format as of 30 September 2010 and for the nine months period then ended ("interim condensed consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of 31 December 2009 and for the year then ended ("annual financial statements").
- b. For the nine months ended 30 September 2010, the Company had negative cash flows from operating activities of approximately \$ 20 million (excluding cash outflows for additions to costs of construction of residential projects for sale of approximately \$ 16 million).

Based on management plans and as reflected in the Company's forecasted cash flows, the Company expects to finance its activities in the following 12 months among others by issuance of debentures, obtaining loans from banks in Russia which will be secured by properties which are presently unsecured with a fair value as of 30 September 2010 amounting to approximately \$ 162 million, and revenues from sales of building projects that are expected to be completed during the next 12 months.

In addition, the short-term loans from banks amounting to approximately \$ 70 million are secured by non-cancelable bank guarantees of the controlling shareholders until the full repayment of the loans.

On 8 August 2010, the Company has issued debentures in consideration of approximately \$ 52 million (NIS 200 million). See also Note 4f.

After the balance sheet date, on 10 November 2010, the Company has issued debentures in consideration of approximately \$ 18 million (NIS 65 million). See also Note 5.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. Basis of preparation of the interim financial statements:

The interim condensed consolidated financial statements for the nine months ended 30 September 2010 have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for the interim periods, as prescribed in International Financial Reporting Standard IAS 34 ("Interim Financial Reporting"), and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The significant accounting policies and methods of computation followed in the preparation of the interim condensed consolidated financial statements are identical to those followed in the preparation of the latest annual financial statements, except for the adoption of new Standards and Interpretations as noted below:

*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") are effective for annual financial statements for periods beginning on 1 January 2010.

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



**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, will be allocated between the parent company and non-controlling interests, even if the non-controlling 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 revision was adopted as a prospective change on 1 January 2010.

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

*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 was adopted as a prospective change on 1 January 2010.

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

*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 was adopted as a prospective change on 1 January 2010.

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

*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 recognized when it is appropriately authorized 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 recognized 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.

The interpretation was adopted as a prospective change on 1 January 2010.

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

*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 was adopted as a prospective change on 1 January 2010.

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

b. Early adoption of IFRS standards:

**IFRS 3 - Business Combinations:**

The amendments prescribed by the revised IFRS 3 are as follows:

Measurement of non-controlling interests:

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at the present ownership instruments' share in the recognized amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for types of non-controlling interests that entitle their holders to present ownership interests and a proportionate share to the entity's net assets in the event of liquidation (usually shares). In contrast, other types of non-controlling interests (such as options that represent equity instruments in the acquiree) do not allow such choice and must be measured at fair value on the acquisition date, unless another measurement basis is required by IFRSs such as in IFRS 2.

Share-based payment awards in a business combination:

The amendment elaborates the accounting treatment of a business combination that refers to the exchange of the acquiree's share-based payment transactions (whether it is obligated or chooses to exchange them) with the acquirer's share-based payment transactions. Accordingly, the acquirer must allocate a value on the acquisition date and an expense in the period following the acquisition date. However, if the award expires as a result of the business combination and is exchanged for a new award, the value of the new award in accordance with IFRS 2 will be recognized as an expense in the period following the acquisition date and will not be included in the purchase price. Furthermore, if share-based payment awards are not exchanged, then, if the instruments have vested, they will form part of the non-controlling interests and are measured pursuant to the provisions of IFRS 2. If the instruments have not vested, they will be measured at the value that would have been used had they been re-granted on the acquisition date whereby this amount is allocated between the non-controlling interests and the post-acquisition expense.

c. Standards issued but not yet applied:

*IFRS 7 - Financial Instruments: Disclosure:*

The amendment to IFRS 7 clarifies the disclosure requirements prescribed by the Standard. The Standard highlights the connection between the quantitative and qualitative disclosures and the nature and scope of the risks arising from financial instruments. The disclosure requirements regarding securities held by the company have been minimized and the disclosure requirements regarding credit risk have been revised. The amendment will be adopted retrospectively in the financial statements for periods starting from 1 January 2011. Early adoption is possible.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

*IAS 34 - Interim Financial Reporting:*

Pursuant to the amendment to IAS 34, new disclosure requirements were introduced to interim financial reporting regarding the circumstances that are likely to affect the fair value of financial instruments and their classification, the transfers of financial instruments between different fair value levels, changes in the classification of financial assets and changes in contingent liabilities and contingent assets. The amendment will be adopted retrospectively in the financial statements for periods starting from 1 January 2011. Early adoption is possible.

The required disclosures will be included in the Company's financial statements.

*IAS 1 - Presentation of Financial Statements:*

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

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

*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.

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 amortized 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, if any, on the principal amount outstanding.

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized 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 January 1, 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.

d. **Reclassification:**

During 2010, the Company reclassified deferred tax assets and deferred tax liabilities as a result of reexamination of the offsetting right, according to IAS 12.

As a result of the reclassification, deferred tax assets and deferred tax liabilities were decreased in the amount of \$ 4.3 million and \$ 2.1 million as of 31 December 2009 and 30 September 2009, accordingly.

**NOTE 3:- SEGMENTS**

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
	<u>U.S. dollars in thousands</u>		
<b>Nine months ended 30 September 2010:</b>			
Segment revenues	<u>12,855</u>	<u>1,089</u>	<u>13,944</u>
Segment results	<u>22,156</u>	<u>(1,067)</u>	21,089
Unallocated expenses			(5,304)
Finance costs, net			<u>(734)</u>
Income before taxes on income			<u>15,051</u>

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 3:- SEGMENTS (Cont.)**

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
<b>Nine months ended 30 September 2009:</b>	<u>U.S. dollars in thousands</u>		
Segment revenues	<u>12,980</u>	<u>-</u>	<u>12,980</u>
Segment results	<u>(8,676)</u>	<u>(1,250)</u>	<u>(9,926)</u>
Unallocated expenses			<u>(7,445)</u>
Finance income, net			<u>954</u>
Loss before taxes on income			<u>(16,417)</u>
	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
	<u>Unaudited</u>		
<b>Year ended December 31, 2009:</b>	<u>U.S. dollars in thousands</u>		
Segment revenues	<u>17,213</u>	<u>-</u>	<u>17,213</u>
Segment results	<u>(7,384)</u>	<u>(1,521)</u>	<u>(8,905)</u>
Unallocated expenses			<u>(11,993)</u>
Finance income, net			<u>3,022</u>
Loss before taxes on income			<u>(17,876)</u>

**NOTE 4:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD**

- a. On 20 March 2010, a fire broke out in an office building which is owned by a subsidiary of the Company and leased to third parties ("the **"Office Building"**). The Office Building constitutes a part of the "MAG" building complex located in the northern area of Moscow (the **"MAG"** Project). The value of the Office Building as presented in the Company's financial statements as of 30 September, 2010, is approximately \$ 12.5 million and the value of the MAG Project is \$ 55.4 million.

In accordance with the Company's insurance policy for the real estate properties that it owns (including the Office Building), the Company has notified the insurance company about the fire. As of the date of the financial statements, the appraiser acting on behalf of the insurance company has not yet completed his report estimating the damages caused by the fire. In addition, the investigation being conducted by the firefighting authority regarding the circumstances that caused the fire has yet to be completed.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)**

Following the fire, the Company engaged the services of an independent appraiser to determine the value of the Office Building, taking into consideration the damages caused by the fire. In accordance with such evaluation, the Company has recorded in its financial statements as of 30 September 2010, an impairment of value of the Office Building in the amount of approximately \$ 8 million which was included in "fair value adjustment of investment property and invested property under construction" in income statement.

The MAG project is pledged in favor of a bank to secure a loan extended to the Company by the bank, the balance of which as of 30 September 2010 amounts to approximately \$ 14.3 million. As of 30 September 2010, the Company is complying with the financial covenants agreed upon between the Company and the bank.

- b. On 15 March 2010, the repayment of a loan from the Company's shareholders in the amount of \$ 9 million, as well as the accrued and unpaid interest thereon, was deferred to 31 March 2011, with terms identical to those in the appendix to the agreement dated 16 November 2009, as detailed in Note 15b to the Company's financial statements as of 31 December 2009.
- c. During the period, the Company was extended loans by its major shareholders in an aggregate amount of \$ 5 million, which mature on 15 April 2012, bearing interest at a rate of 15% per annum, which is in accordance with the loan framework agreement entered into on 17 May 2010.
- d. During September 2010, the Company has repaid shareholders loans in total amount of approximately \$ 10 million (\$ 12.3 million, including interest payment).
- e. On 3 June 2010, the Company completed the sale of Techagrocom-2, a joint venture company which owns a business park development in Russia. Consideration for the Company's share (50%) was \$ 20 million gross and, \$ 18.5 million net of transaction costs. As a result, the Company has recorded an approximate capital gain of \$ 3.2 million in the financial statements as of 30 September 2010.
- f. On 8 August 2010, the Company published a Shelf Offering Report in Israel according to which it raised approximately \$ 52 million by the issuance of New Israeli Shekel ("**NIS**") 200,000,000 Series C bonds (the "**Series C Bonds**") to institutional investors and the public in Israel.

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

The Series C Bonds are to be redeemed in five annual, equal and consecutive payments on 31 August 2012 to 2016 (inclusive). Interest is payable on the Series C Bonds, in semi-annual payments, at the annual rate of 8.5% linked to the Israeli Consumer Price Index ("CPI"). In the event of any downgrading of the rating of the Series C Bonds, the interest rate will be increased by 0.5%. The effective interest rate is 8.6%.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5:- SUBSEQUENT EVENTS**

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

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

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

In addition, the Company issued to the public in Israel, for no additional consideration, 660,800 warrants series 1 (the Warrants). Each Warrant is convertible in to NIS 100 par value Series D Bonds against cash payment in the amount of 99 NIS. The Warrants which will not be exercised until December 5, 2010 shall expire.

The Series D Bonds and Warrants are registered for trading on Tel – Aviv stock exchange.