18 March 2008

MirLand Development Corporation plc ("MirLand" / "Company")

PRELIMINARY RESULTS FOR THE YEAR TO 31 DECEMBER 2007

MirLand Development Corporation, one of the leading international residential and commercial property developers in Russia, today announces preliminary results for the year to 31 December 2007.

The Company successfully raised net proceeds of US$293 million in its IPO on the AIM market of the London Stock Exchange in December 2006. In December 2007 the Company successfully raised net proceeds of US$62 million in a bond issuance on the Tel Aviv stock exchange.

Financial Highlights:

- Profit after tax for the year to 31 December 2007 increased to US$64.9 million (31 December 2006: US$29.9 million), including a revaluation gain of US$82.1 million
- Income for the year to 31 December 2007 increased to US$94.6 million (31 December 2006: US$40.1 million)
- Increase in total assets to US$658.0 million (31 December 2006: US$ 475.5 million; 30 June 2007: US$ 578.4 million)
- Company's equity as at 31 December 2007 amounted to US$472.8m which comprise 72% of total assets
- Company's cash and cash equivalents balance is US$117.8m
- Company's real estate assets valued at US$1.44 billion for 100% freehold/ leasehold rights (31 December 2006: US$0.85 billion; 30 June 2007: US$1.24 billion). MirLand's share in this is US$1.21 billion, up 58% (31 December 2006: US$0.76 billion; 30 June 2007: US$1.04 billion)
- Company's NAV per share as at 31 December 2007 is $US12.0
- Company has now invested US$ 159 million], representing 54%, of the IPO proceeds in developing its existing assets and acquiring additional ones
- Successful financing activities, including a US$62 million bond issuance in Israel

Operational highlights:

- 13 significant ongoing projects which, on completion, will provide approximately 1.37 million sq m of office, retail and residential property
- Five projects acquired during 2007 with the IPO proceeds; and agreed the acquisition of two further logistics projects
- Successful opening of first shopping centre in Yarolslavl in April with 97% of the Centre's lettable space pre-leased
- Commencement of construction of approximately 230,000 sqm of new development
- Considerable progress in the refurbishment and leasing of the Company's Hydro and MAG projects and purchase of two further projects on the same site that will total approximately 31,400 sqm, on completion (The Company's share is approximately 21,100 sqm)

Nigel Wright, Chairman, commented:

"We continue to develop our existing portfolio, secure new pipeline projects and grow our investment properties. We have also increased the depth of our funding sources.

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

Moshe Morag, MirLand's Chief Executive, added:

"In 2008, the Company's strategic goal is to commence construction on its portfolio projects which are currently in their planning stages. MirLand's strong financial backing, achieved among other things by the recent bond issuance, ensures that the Company is well positioned for a year of extensive investments in both new and existing projects.

"We continue to see future growth of the Russian real estate market supported by its steady positive economic indicators. We strongly believe in the quality of our committed and pipeline projects and are sure the many opportunities in the Russian market will enable us to constantly expand our portfolio for the optimal enhancement of shareholder value."

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CHAIRMAN'S STATEMENT

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

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

I am also pleased to confirm significant progress on the funding side. In December 2007, we successfully launched a Corporate Bond Issue in Israel, raising $63 million. We have made further progress towards securing additional banking facilities to finance both existing completed investments and our continuing development programme and I am satisfied that we have adequate resources at our disposal to progress our existing schemes.

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

Results

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

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

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

Portfolio Progress

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

Dividend Policy

As explained in the Company's admission document, the company has adopted a dividend policy that will reflect long-term earnings and cash flow potential while at the same time maintaining both prudent dividend cover and adequate capital resources within the business.

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

Our people

Our Board of Directors consists of dedicated individuals whose expertise has proved invaluable throughout the year. They have ensured the successful implementation of MirLand's corporate strategy and been involved in key decisions throughout. As Chairman, I place considerable emphasis on rigorous Board management and, in addition to formal meetings, I meet and communicate with my non-executive colleagues on a regular basis.

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

Our commitment to sound Corporate Governance remains undiluted, and we continually review our performance against best practice guidelines through regular consultation both internally and externally. Full detailed information on our approach to governance issues, our internal controls and key team members will be provided in our Annual Report & Accounts.

Outlook

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

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

Nigel Wright
Chairman
18 March 2008

CHIEF EXECUTIVE’S STATEMENT

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

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

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

- The opening of the Vernissage shopping mall in Yaroslavl in April 2007 with over 97% of the space let
- Commencement of the construction of over 232,000 sqm of new development across four projects: Perkhushkovo, Nemchinovka, Saratov and Century Buildings
- Further progress and final works in the refurbishment and leasing of the Hydro and MAG projects, and the purchase of two more projects on the same site (Century Buildings and Tamiz) which will expand the total rentable area on the site from 36,000 sqm to 67,000 sqm (MirLand’s stake: 57,000 sqm)
- Entering agreements for the development of two residential projects of 19,000 sqm in Moscow and 118,000 sqm in the Moscow Region in which the company will be eligible for 51% of the profits. The larger of these projects is already under construction
- Acquisition of land for the construction of a commercial centre in Kazan's city centre
- Securing two logistics projects in Ufa and Saratov
- The company's operational base has been expanded with a number of new appointments which will allow the company to successfully manage the expanded project portfolio
- Financing activities, including a $63m bond issuance in Israel; signing agreement with EBRD for a $48.5m project financing for the Saratov shopping centre project; and negotiations for project loans for a total value of over $500m
- The Company has also been very active in pursuing new opportunities over the year. Some of these are in various stages of negotiations, and the Company strives to see them ripen into deals.

Geographic distribution by value

Region	% of portfolio by area
Moscow & Moscow Region	53
St. Petersburg & other regional cities	47

Segmentation distribution by value

Use	% of portfolio by area
Residential	50
Commercial	50

Strategy

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

The key elements of its ongoing strategy are as follows:

- Focus on the completion of existing projects: The Company aims for the timely delivery of projects while ensuring they are completed to a high standard.
  Marketing of all of the company's commercial projects is commenced during their development so that they may generate income immediately upon completion.
- Utilization of acquisition opportunities: the Company will continue to examine development projects in various sectors, locations and development stages.
  - Geographic location: the Company intends to spread its investments over Moscow, St. Petersburg, and other major regional cities. In 2008, the Company will also examine opportunities in cities of more than 300,000 inhabitants – cities with high profitability potential. The Company makes its assessments on the basis of economic and demographic data, and the balance between supply and anticipated demand for international standard properties. Potential projects in such cities will be evaluated on the basis of their estimated rates of return on capital.
  - Sector: the Company will continue to invest in a balanced mix of residential, retail, office and logistics properties and will consider expansion into other sectors (such as cold storage) as well as mixed-use

projects. Each development site will be evaluated for its most appropriate use and highest potential return.

- The Company's portfolio includes projects which are of varying duration, phasing and anticipated completion. The Company intends to hold a balanced portfolio of yielding and development properties to obtain a relatively balanced spread in the use of working capital and management attention while at the same time generating an income flow from sales and yielding properties.

▪ Realization of assets upon promising opportunities: The Company will continuously reassess whether to retain yielding properties or realize their market value through disposal, depending on the opportunity and on prevailing market conditions. The Company will use revenues from the yielding assets to diversify its income sources.

▪ Use of diverse financing resources to accelerate business activity and growth: equity, shareholders' loans, bank loans and the recent bond issuance are used to finance the Company's activities. As the Russian credit market develops, the Company intends to take advantage of available financing to enhance returns on equity.

▪ The extension of relationships with local partners, especially in the regions. Having a local partner promises daily proximity to the projects and thus a greater level of control and involvement. In addition, these relationships are expected to lead to future investment opportunities.

The Market

Russian Economy

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

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

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

The subprime crisis has left Russia's real estate development momentum largely unharmed; in 2008 we would expect that Russia's economic stability will continue to support the real estate sector, which is expected to withstand the global credit crunch and continue growing.

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

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

Office sector

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

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

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

Retail sector

With disposable incomes steadily growing, retail continues to be one of the most dynamic and quickly evolving sectors of the country's economy. The modern, international standard shopping centers appearing across Moscow and large regional cities are evidence of this trend. While shopping centre stock has trebled since 2003, there is still an undersupply of modern shopping space. The average size of shop units is also growing consistently; vacancies at international-standard shopping centres in Moscow remain very low, at less than 1%.

The country has numerous regional cities with populations of over 300,000 people, with no or little modern real estate stock. Retail constitutes the most attractive segment of this market, stimulated by the growing purchasing power in Russia's regions and a shortage of good quality retail assets – even in some of the country's largest

regional cities. These cities are expected to become fast growing markets; that is why both Russian and international retailers continue to look towards the regions as an attractive growth opportunity.

Residential sector

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

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

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

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

Logistics sector

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

The market for cold storage warehouses, which experienced slow growth until 2007, became more popular this year, with built-to-suit and speculative projects being developed. In St. Petersburg, demand for modern cold storage is double the current supply and most of the current stock is ageing.

Entry into New Sectors

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

In 2008 the Company will also consider investing in cold storage, a sub-sector of logistics. As previously explained, this is a sector that is not only in short supply but is also expected to experience high demand.

Portfolio

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

The Company's portfolio has been valued by Cushman & Wakefield at $1.2billion (MirLand's share) as of 31/12/2007, based on the company's rights from freehold/leasehold interest. This value represents an increase of $350m in the portfolio's value since 2006**,** of which $154m represents newly acquired assets, and $196m – appreciation of existing assets in the portfolio since the beginning of the year.

The Company's main projects are as follows:

Hydromashservice (Hydro), Moscow – 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
- Rentable area: 17,889 sqm
- Expected completion: 2Q 2008
- Rights from leasehold: 100%

MAG, Moscow – office and retail complex

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

- Land area: 2.3 ha
- Rentable area: 18,355 sqm
- Completed: 4Q 2007
- Rights from leasehold: 100%

Century Building, Moscow – offices

Construction of office buildings on the Hydro & MAG site.

- Rentable area: 20,600 sqm
- Expected completion: 4Q 2008
- Rights from building ownership : 50%

Tamiz, Moscow – offices

Construction of class B+ office buildings at the Hydro & MAG site.

- Rentable area: 10,700 sqm
- Expected construction commencement: 2Q 2008
- Expected completion: 2Q 2009
- Rights building ownership : 100%

Skyscraper, Moscow – offices and retail

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

- Land area: 0.9 ha
- Rentable area: 91,800 sqm
- Expected construction commencement: 2Q 2008
- Expected completion: 2Q 2011
- Rights from leasehold: 100%

Techagrocom, Moscow region – Business Park

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

- Land area: 22 ha
- Rentable area: 156,300 sqm
- Expected construction commencement: 3Q 2008
- Expected completion: 2Q 2011
- Rights from freehold: 50%

Perkhushkovo, Moscow region – residential complex

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

- Land area: 22.5 ha
- Sellable area: 63,200 sqm

- Construction commencement: 3Q 2007
- Expected completion: 2Q 2009
- Rights from freehold: 100%

Nemchinovka, Moscow Region – residential complex with trade centre

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

- Land area: 13 ha
- Sellable area: 117,700 sqm
- Construction commencement: 4Q 2007
- Expected completion: 1Q 2010
- Profit share rights: 51%

Sokolniki, Moscow– residential complex with trade centre

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

- Land area: 1.3 ha
- Sellable area: 19,000 sqm
- Expected construction commencement: 2Q 2008
- Expected completion: 4Q 2009
- Profit share rights: 51%

Triumph Park, St. Petersburg – residential complex and trade centre

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

- Land area: 41 ha
- Sellable area: 707,000 sqm
- Expected construction commencement: 2Q 2008
- Expected completion: 1Q 2014
- Rights from freehold: 100%

Vernissage Mall, Yaroslavl – shopping centre

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

- Land area: 12 ha
- Rentable area: 32,250 sqm
- Construction commencement: 3Q 2005
- Completed: 2Q 2007
- Rights from freehold: 49%

Big Box Complex, Yaroslavl – second phase retail development

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

- Land area: 18 ha
- Rentable area: 50,000 sqm
- Expected construction commencement: 3Q 08
- Expected completion: 1Q 2010
- Rights from freehold: 49%

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
- Rentable area: 28,000 sqm
- Construction commencement: 2Q 2007
- Expected completion: 2Q 2009
- Rights from freehold: 95%

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
- Rentable area: 29,700 sqm
- Sellable area: 5,700 sqm
- Expected construction commencement: 3Q 2008
- Expected completion: 2Q 2010
- Rights from freehold: 100%

Prospects

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

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

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

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

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

Moshe Morag
Chief Executive Officer
18 March 2008

Financial Review

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

Accounting Policy

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

Income Statement

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

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

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

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

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

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

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

Balance Sheet

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

Equity and Liabilities

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

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

NAV

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

The Company's Adjusted Net Asset Value ("NAV") based on the Cushman & Wakefield valuation as of December 2007 increased to US$1,244.7m in comparison with US$916.2m in December 2006, a rise of 36%. The increase was contributed mainly from the increase of seed portfolio projects (US$144.8m) and projects added to portfolio in 2007 (US$154.4m). The increase of the seed portfolio projects is attributed by the completion the Vernissage mall in Yaroslavl, the completion of the renovation and expansion of MAG, the

expansion of the rentable area of Hydromashservese, the progress that has been made with the construction and planning of the other portfolio assets, and to the decrease in the yields and discount rates in Russia.

Cash Flow

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

Financial Strategy

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

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

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

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

Outlook

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

Market Risks

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

Foreign currency risk: The Company's functional currency across its operating subsidiaries is the Rouble, whereas the Company's functional currency is the USD. The majority of the Company's revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in USD. Although most transactions are settled in Roubles, the price for real estate property is tightly linked to the USD. However, the current trend in Russia is to move toward Roubles linked transaction and therefore the Company will asses its future transactions. The Company is exposed to fluctuations in the Rouble pending receipt of refunds or offsets of excess input VAT under Russia VAT legislation. The Company's policy is generally not to enter into currency hedging transactions but hedging will be considered in relation to those VAT refunds.

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

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

Roman Rozental
Chief Financial Officer
18 March 2008

CONSOLIDATED INCOME STATEMENT

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

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

CONSOLIDATED BALANCE SHEETS

	Note	31 December 2007	31 December 2006
		U.S. dollars in thousands	
ASSETS			
NON-CURRENT ASSETS:			
Investment properties	9	227,030	65,709
Investment properties under construction	10	87,963	46,930
Long-term loan	13c	14,829	-
Advance on acquisition of subsidiary	14	1,080	1,600
Equipment	15	4,866	1,082
Deferred expenses	26l	796	-
Long-term receivables and prepayments	16	12,891	5,958
Deferred taxes	7c	214	-
		349,669	121,279
CURRENT ASSETS:			
Inventories of land	11	-	76,193
Inventories of buildings under construction	12	103,980	-
Trade and other receivables	18	7,725	10,157
Short-term loans	13a,b	7,692	-
Restricted deposits	19	71,406	*) 71,330
Cash and cash equivalents	17	117,758	*) 196,586
		308,373	354,266
Total assets		658,042	475,545

*) Reclassified – see Note li.

CONSOLIDATED BALANCE SHEETS

	Note	31 December 2007	31 December 2006
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
EQUITY:	20		
Equity attributable to equity holders of the parent:			
Share capital		1,036	1,000
Share premium		359,803	*) 329,028
Employee equity benefits reserve		6,199	2,348
Retained earnings		96,629	*) 31,749
Currency translation reserve		9,151	2,402
		472,818	366,527
Minority interests		25	25
Total equity		472,843	366,552
NON-CURRENT LIABILITIES:			
Debentures	22	62,088	-
Swap agreement	27	50	-
Long-term loans from banks	24b	15,873	*) 21,719
Other long-term liability	25	12,739	4,313
Deferred taxes	7c	5,118	1,755
		95,868	*) 27,787
CURRENT LIABILITIES:			
Accounts payable and accruals	23	11,145	8,669
Short-term loan from bank	24	76,696	*) 71,330
Income tax payable		1,490	1,207
		89,331	*) 81,206
Total liabilities		185,199	108,993
Total equity and liabilities		658,042	475,545

*) Reclassified – see Note li.

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

Moshe Morag Chief Executive Officer	Roman Rozental Chief Financial Officer

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the company								
	Share capital	Share premium	Employee equity benefits reserve	Retained earnings	Currency translation reserve	Total	Minority interests	Total equity	Total recognized income (expenses)
	U.S. dollars in thousands								
									2,905
At 1 January 2006	7	3,717	-	3,000	(95)	6,629	25	6,654	
Issuance of shares	693	*) 4,197	-	*) (1,200)	-	3,690	-	3,690	-
Capitalization of shareholder loans	-	62,192	-	-	-	62,192	-	62,192	-
Issuance of shares in IPO, net of expenses (1)	300	258,922	-	-	-	259,222	-	259,222	-
Profit for the year	-	-	-	29,949	-	29,949	-	29,949	29,949
Share-based payment	-	-	2,348	-	-	2,348	-	2,348	-
Foreign currency translation adjustments	-	-	-	-	2,497	2,497	-	2,497	2,497
									32,446
At 31 December 2006	1,000	*)329,028	2,348	*) 31,749	2,402	366,527	25	366,552	
Issuance of shares	36	30,775	-	-	-	30,811	-	30,811	-
Profit for the year	-	-	-	64,880	-	64,880	-	64,880	64,880
Share-based payment	-	-	3,851	-	-	3,851	-	3,851	-
Foreign currency translation adjustments	-	-	-	-	6,749	6,749	-	6,749	6,749
									71,629
At 31 December 2007	1,036	359,803	6,199	96,629	9,151	472,818	25	472,843	

(1) Issuance expenses consist of $ 20,328 thousand.
*) Reclassified – see Note li.

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

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 December 2007	2006
		U.S. dollars in thousands	
Cash flows from operating activities:			
Profit before the tax expense		70,303	32,746
Adjustments for:			
Fixed costs		8,703	*) 1,226
Interest paid		(6,881)	(325)
Finance income		(23,004)	(3,556)
Interest received		10,343	478
Fair value adjustments of investment properties		(82,138)	(35,878)
Options granted		3,851	*) 2,348
Addition to residential projects for sale under construction		(22,003)	-
Depreciation of equipment		287	8
Increase in trade and other receivables		(3,067)	(4,475)
Increase in accounts payable and accruals and in provision to service provider		7,747	*) 7,344
Income taxes paid		(1,169)	(1,465)
Net cash flows provided by (used in) operating activities		(40,304)	3,897
Cash flows from investing activities:			
Prepayments		-	(2,315)
Additions to equipment		(3,373)	(892)
Additions to investment properties		(36,056)	(4,031)
Additions to investment properties under construction		(62,658)	(16,333)
Effect of discounting long-term receivables capitalized to investment properties under construction		(1,400)	-
Interest capitalized in investment properties under construction		(2,016)	(3,658)
Additions to inventories of land		-	(48,235)
Interest capitalized in inventories of land		-	(373)
Loans granted		(22,238)	-
Advance on acquisition of subsidiary		(1,080)	(1,600)
Placement of restricted bank deposits		-	*) (71,000)
Payment of amount due in respect of purchase of subsidiaries		-	(1,250)
Acquisition of joint ventures, net of cash acquired		-	(12,875)
Acquisition of subsidiaries, net of cash acquired		-	(5,959)
Net cash flows used in investing activities		(128,821)	*) (168,521)
Cash flows from financing activities:			
Proceeds from issuance of shares by the Company		30,811	259,222
Advances received on account of IPO		1,053	-
Accrued expenses on account of loan		(767)	-
Proceeds from issuance of bonds		61,756	-
Repayment of short-term borrowings from related parties, net		-	(460)
Proceeds from long-term borrowings		-	*) 16,153
Proceeds from short-term borrowings		-	*) 71,000
Proceeds from long-term borrowings from related parties		-	19,286
Repayment of long-term borrowings from related parties		-	(8,812)
Net cash flows provided by financing activities		92,853	356,389
(Decrease) increase in cash and cash equivalents		(72,996)	*) 191,765
Net foreign exchange differences on cash and cash equivalents		(5,832)	*) 4,157
Cash and cash equivalents at beginning of year		196,586	664
Cash and cash equivalents at end of year	17	117,758	*) 196,586
Non-cash transactions:			
Payables included for investment properties under construction		-	1,638
Conversion of shareholders loans to equity		-	62,192

*) Reclassified – see Note li.

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

NOTE 1:- GENERAL

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

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

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

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

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

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

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

NOTE 1:- GENERAL (Cont.)

f. 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	*) 90
MALL PROJECT CO. LTD. ("MALL PROJECT")	CYPRUS	HOLDING COMPANY	*) 90
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

*) The Company holds 90% of the share capital of Mall Project (which holds 100% of the share capital of IIK). The remaining 10% are held by Norman Asset Management Ltd ("NAM") and do not confer any voting rights. The shareholders of Mall Project have entered into an agreement regarding the manner of decision making in the company. Regarding post-balance sheet events, see Note 29.

**) On 23 April 2007, Felixtowe Holdings Ltd's name was changed to Mirland Management Limited.

NOTE 1:- GENERAL (Cont.)

g. 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
MALL MORTGAGE LTD	CYPRUS	FINANCING COMPANY	49

h. Definitions:

In these financial statements:

THE COMPANY	**-**	**MIRLAND DEVELOPMENT CORPORATION PLC.**
THE GROUP	**-**	**MIRLAND DEVELOPMENT CORPORATION PLC AND ITS SUBSIDIARIES AS LISTED ABOVE.**
SUBSIDIARIES	**-**	**COMPANIES OVER WHICH THE COMPANY EXERCISES CONTROL (AS DEFINED IN IAS 27) AND WHOSE ACCOUNTS ARE CONSOLIDATED WITH THOSE OF THE COMPANY.**
JOINTLY CONTROLLED ENTITIES	**-**	**COMPANIES HELD BY A NUMBER OF ENTITIES, AMONG WHICH CONTRACTUAL AGREEMENT EXISTS FOR JOINT CONTROL AND WHOSE FINANCIAL STATEMENTS ARE CONSOLIDATED WITH THE FINANCIAL STATEMENTS OF THE COMPANY ACCORDING TO THE PROPORTIONATE CONSOLIDATION METHOD.**
ASSOCIATES	**-**	**COMPANIES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE, WHICH ARE NOT SUBSIDIARIES NOT JOINT VENTURES AND WHICH ARE RECORDED ACCORDING TO THE EQUITY METHOD.**
PARENT	**-**	**JEC**
ULTIMATE CONTROLLING SHAREHOLDER	**-**	**FISHMAN FAMILY.**
RELATED PARTIES	**-**	**AS DEFINED IN IAS 24.**

NOTE 1:- GENERAL (Cont.)

i. Reclassification of comparative figures:

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

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

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

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

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

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

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

Basis of consolidation:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

b. Acquisition of businesses from companies under common control:

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

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

c. Critical accounting judgments and estimates:

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 recognized in the financial statements:

Operating lease of investment properties:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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:

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 capitalization 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 capitalization rates, the continued lease of the assets by the existing tenants, including during the option periods, and the occupancy rates in the different assets. Fair value is sometimes measured with reference to recent real estate transactions with similar characteristics and location to the estimated asset. Additional information is provided in Note 9.

Acquisitions of subsidiaries that are not business combinations:

On the day of acquisition of subsidiaries and operations, the Company assesses whether business is acquired in accordance with IFRS 3. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present, the transferred set of activities and assets shall be presumed to be a business. When no business is acquired, according to IFRS 3, the consideration is allocated between the identifiable assets and liabilities acquired on the basis of relative fair values, without allocating to goodwill or deferred taxes.

Deferred tax assets:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Functional and foreign currencies:

1. Functional currency:

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

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

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

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

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

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

e) All translation differences are recorded as a separate item in shareholders' equity ("foreign currency translation adjustments of foreign operations").

2. Foreign currency transactions:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash equivalents:

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

f. Allowance for doubtful accounts:

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

g. Inventory of buildings for sale under construction:

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

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

h. Real estate under construction:

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

i. Financial instruments:

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

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

Loans and receivables:

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 amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Interest-bearing loans and borrowings:

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

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 amortized cost:

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

Swap transactions:

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

j. Fixed assets:

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

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

k. Impairment of non-financial assets:

The Company assesses at each reporting date whether events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognized 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Taxes on income:

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

1. Current income taxes:

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

2. Deferred income taxes:

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

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Revenue recognition:

Revenue is recognized 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 recognized:

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 recognized by reference to the stage of completion as of balance sheet date. Stage of completion is measured according to the reporting periods during which the services were rendered. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Interest income:

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

Revenues from sale of residential apartments:

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

n. Advertising expenses:

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

o. Borrowing costs in respect of qualified assets:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Leases:

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

Operating leases:

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

q. Business combinations:

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

Business combinations including entities under common control:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

r. Investment property:

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Investment property under construction:

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

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

t. Share-based payment transactions:

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Earnings (loss) per share:

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

v. Changes in accounting policy and disclosures:

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

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

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

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

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

IAS 1 Presentation of Financial Statements

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRIC 8 Scope of IFRS 2

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

IFRIC 9 Reassessment of Embedded Derivatives

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

IFRIC 10 Interim Financial Reporting and Impairment

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

w. Standards issued but not yet effective:

IAS 23 Borrowing Costs

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 1 (Revised) Presentation of Financial Statements

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

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

IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements

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

IFRS 2 (Revised) Share-based Payment

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments

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

IFRIC 12 Service Concession Arrangements

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

IFRIC 13 Customer Loyalty Programmes

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

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Provisions

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

y. Dividend distribution

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

z. Share capital

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

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

NOTE 3:- SEGMENT INFORMATION

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

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

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

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

NOTE 3:- SEGMENT INFORMATION (Cont.)

	Year ended 31 December 2007			Year ended 31 December 2006		
	Commercial	Residential	Total	Commercial	Residential	Total
	U.S. dollars in thousands					
Revenues						
Rental income from investment properties	10,446	-	10,446	3,707	-	3,707
Revenue from management and consulting fees	1,977	-	1,977	533	-	533
Total revenues	12,423	-	12,423	4,240	-	4,240
Fair value adjustments of investment properties	82,138	-	82,138	35,878	-	35,878
Total income	94,561	-	94,561	40,118	-	40,118
Inter segment income	-	-	-	203	-	203
	94,561	-	94,561	40,321	-	40,321
Segment results	(1) 69,872	(1,314)	68,558	33,289	(289)	33,000
Unallocated expenses			(12,556)			(2,584)
Net finance income			14,301			2,330
Profit before income tax			70,303			32,746
Tax expense			(5,423)			(2,797)
Profit for the year			64,880			29,949
Assets and liabilities						
Segment assets	352,072	100,133	452,205	109,433	98,978	208,411
Unallocated assets	-	-	207,237	-	-	267,134
Total assets			659,442			475,545
Segment liabilities	23,370	1,202	24,572	2,743	-	2,743
Unallocated liabilities (2)			160,627			106,250
Total liabilities			185,199			108,993
Other segment information:						
Capital additions	100,449	22,003	122,452	22,894	48,235	71,129
Purchase of subsidiaries (included in capital additions)	28,028	-	28,028	18,398	-	18,398
Depreciation	286	1	287	8	-	8

(1) Includes an expense for registration of land lease of $ 5,469 thousand.

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

NOTE 4:- OPERATING EXPENSES

	Year ended 31 December	
	2007	2006
	U.S. dollars in thousands	
Maintenance of property	4,544	774
Land lease payments	195	49
Fee to management company	60	40
Property tax on investment property	812	-
Land tax on investment property under construction and inventories of buildings under construction	773	-
	6,384	863

NOTE 5:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2007	2006
	U.S. dollars in thousands	
Office maintenance	1,330	85
Professional fees	4,968	1,096
Marketing fees	674	-
Salaries (1)	8,506	3,152
Depreciation of equipment	287	8
Write-down of advance on account of investment	406	129
Provision to service provider	7,643	3,588
Traveling expenses	1,440	*) 738
Other costs	1,452	*) 43
	26,706	8,839
(1) Includes cost of share-based payment (see Note 21)	3,851	2,348

*) Reclassified.

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

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

NOTE 6:- FINANCE COSTS AND INCOME

	Year ended 31 December	
	2007	2006
	U.S. dollars in thousands	
a. Finance costs:		
Interest costs - financial liabilities not at fair value through profit and loss	(10,669)	(5,257)
Net capitalized interest costs	2,016	4,031
Effect of discounting of long-term receivables capitalized to investment properties under construction	1,400	-
Fair value adjustment of swap agreement	(50)	-
Effect of discounting of long-term receivables	1,400	-
	(8,703)	(1,226)
b. Finance income:		
Interest income – from cash and cash equivalents and restricted deposits	10,744	399
Interest income from loans provided	843	-
Interest income from financial assets not at fair value through profit and loss	10,857	321
Other (mainly foreign exchange differences)	11,417	3,157
	23,004	3,556

NOTE 7:- TAXATION

a. Tax expense:

	Year ended 31 December	
	2007	2006
	U.S. dollars in thousands	
Current taxes	2,659	993
Prior year taxes	-	908
Deferred taxes	2,764	896
Tax expense in income statements	5,423	2,797

NOTE 7:- TAXATION (Cont.)

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

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

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

Taxation in Russia

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

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

NOTE 7:- TAXATION (Cont.)

Taxation in Cyprus

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

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

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

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

c. Deferred taxes:

	31 December	
	2007	2006
	U.S. dollars in thousands	
Opening balance	1,755	301
Additions from purchase of subsidiaries	-	436
Charged to the income statements	2,764	896
Exchange rate differences	385	122
Closing balance	4,904	1,755

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

NOTE 8:- EARNINGS PER SHARE

	Year ended 31 December	
	2007	2006
Weighted average number of Ordinary shares used for computing basic earnings per share (in thousands)	103,558	(1) 58,814
Weighted average number of Ordinary shares used for computing diluted earnings per share (in thousands) (see Note 20)	(2) 103,558	(1) 58,963
Income used for computing basic and diluted earnings per share (in thousands of U.S. dollars)	64,880	30,233

(1) Retrospectively adjusted for the pooling of interests and for the share subdivision.

(2) The options have no dilutive impact in 2007, since as of 31 December 2007, the exercise price of the options is higher than the charge price.

NOTE 9:- INVESTMENT PROPERTIES

a. Composition:

	U.S. dollars in thousands
At 1 January 2006	12,863
Additions from acquisition of subsidiaries	6,239
Additions for the year	4,031
Fair value adjustments	35,878
Exchange rate differences	6,698
At 31 December 2006	65,709
Transfer from investment properties under construction (1)	32,081
Additions for the year	36,056
Fair value adjustments	82,138
Exchange rate differences	11,046
At 31 December 2007	227,030

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

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

NOTE 9:- INVESTMENT PROPERTIES (CONT.)

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

NOTE 10:- INVESTMENT PROPERTIES UNDER CONSTRUCTION

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

(1) See Note 9.

a. Investment properties under construction are presented at cost.

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

NOTE 10:- INVESTMENT PROPERTIES UNDER CONSTRUCTION (Cont.)

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

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

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

NOTE 11:- INVENTORIES OF LAND

	U.S. dollars in thousands
At 1 January 2006	24,736
Additions for the year	48,235
Capitalized interest	373
Exchange rate differences	2,849
At 31 December 2006	76,193
Reclassification to inventories of buildings under construction (see Note 12)	(76,193)
Capitalized interest	-
Exchange rate differences	-
At 31 December 2007	-

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

NOTE 12:- INVENTORIES OF BUILDINGS UNDER CONSTRUCTION

	U.S. dollars in thousands
At 1 January 2007	-
Reclassification to inventories of buildings under construction (See Note 11)	76,193
Additions for the year	22,003
Exchange rate differences	5,784
At 31 December 2007	103,980

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

NOTE 13:- LOANS PROVIDED

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

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

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

The subsidiary granted a loan of approximately $ 6.5 million to Avtoprioritet for purchasing this company. The loan bears 11% annual interest and is repayable no later than 3 years from its receipt.

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

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

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

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

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

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

NOTE 14:- ADVANCE ON ACCOUNT OF INVESTMENT

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

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

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

NOTE 15:- EQUIPMENT

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

NOTE 16:- LONG-TERM RECEIVABLES AND PREPAYMENTS

	31 December	
	2007	2006
	U.S. dollars in thousands	
Prepayments	-	2,315
Long-term receivables	12,891	3,643
	12,891	5,958

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

NOTE 17:- CASH AND CASH EQUIVALENTS

	31 December	
	2007	2006
	U.S. dollars in thousands	
Cash in banks	65,476	7,112
Short-term deposits (1)	52,282	189,474
	117,758	196,586

(1) The short-term deposits are deposited in the bank for terms under 3 months that bear an annual interest of 1.5%-5.9%.

NOTE 18:- TRADE AND OTHER RECEIVABLES

	31 December	
	2007	2006
	U.S. dollars in thousands	
Trade receivables (1)	268	2,896
Prepayments to suppliers	1,195	1,622
Government authorities (mainly VAT)	4,696	1,606
Advances paid for IPO	-	1,053
Other	1,566	2,980
	7,725	10,157

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

NOTE 19:- RESTRICTED DEPOSITS

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

	Interest rate	31 December 2007	31 December 2006
	%	U.S. dollars	
Restricted deposits	4.2	71,312	71,330

NOTE 20:- EQUITY

	31 December 2007	31 December 2006
	U.S. dollars	
Authorized shares of $ 0.01 par value each	1,200,000	1,200,000
Issued and fully paid shares of $ 0.01 par value each	1,035,580	1,000,000

NOTE 20:- EQUITY (Cont.)

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

Date	Nature of Change	Number of authorized shares after the change	Number of issued and fully paid shares			Share capital (in thousands)	Par value
			Before the change	The change	After the change		
29 September 2006	Issues of shares in respect of pooling of interests	17,775	7,110	10,665	17,775	17	$ 1
13 November 2006	Subdivision of share capital	1,777,500	-	-	1,777,500	17	$ 0.01
13 November 2006	Increase in authorized share capital	70,000,000	-	-	-	17	$ 0.01
13 November 2006	Issuance of bonus shares	70,000,000	1,777,500	68,222,500	70,000,000	700	$ 0.01
13 November 2006	Increase in authorized share capital	120,000,000	70,000,000	-	70,000,000	700	$ 0.01
18 December 2006	Issuance of shares in consideration of capitalization of loans	120,000,000	70,000,000	5	70,000,005	700	$ 0.01
18 December 2006	Issue of shares	120,000,000	70,000,005	30,000,000	100,000,005	1,000	$ 0.01
4 January 2007	Issue of shares	120,000,000	100,000,005	3,558,000	103,558,005	1,036	$ 0.01

NOTE 20:- EQUITY (Cont.)

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

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

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

Dividend policy

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

Share option scheme

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

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

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

NOTE 20:- EQUITY (Cont.)

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

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

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

Details on equity-settled share-based payment transaction:

	2007	2006
	U.S. dollars in thousands	
Fair value of the options	8,823	8,823
Less - recognized as expense in the income statement	(6,199)	(2,348)
Expense to be recognized in the future	2,624	6,475
Fair value per option	2.62	2.62

There has been no movement in options granted.

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

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

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

NOTE 20:- EQUITY (Cont.)

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.

NOTE 21:- RELATED PARTIES

a. Transactions with related parties:

	Year ended 31 December	
	2007	**2006**
	U.S. dollars in thousands	
Interest expense to shareholders *)	97	4,498
*) Includes amounts capitalized	-	3,626

b. Balances with related parties:

	31 December	
	2007	**2006**
	U.S. dollars in thousands	
Debentures acquired by shareholders (see Note 22)	24,687	-

Terms and conditions of loans:

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

NOTE 21:- RELATED PARTIES (Cont.)

d. Compensation of key management personnel of the Group

	31 December	
	2007	**2006**
	U.S. dollars in thousands	
Salaries (1)	856	40
Share-based payments	3,851	101
	4,707	141

(1) Key personnel were appointed at the end of 2006.

NOTE 22:- DEBENTURES

On 7 December 2007, the Company raised approximately $ 63 million by issue of 2 series (A and B) of debentures in NIS on the Tel-Aviv Stock Exchange of NIS 1 par value. Both series are redeemed in 6 annual equal and consecutive payments on 31 December for each of the years 2010-2015 (inclusive). Issuance expenses were discounted from the debentures and will be recognized according to the effective interest method. Issuance expenses of approximately $ 1 million were deducted from the consideration.

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

Series B - is in NIS, linked to the NIS/U.S. 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%.

			31 December 2007
	Number in thousands	**Effective interest rate**	**U.S. dollars in thousands**
Series A	39,260	4.16% (1)	10,048
Series B	204,874	3.84%	52,040
			62,088

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

Regarding acquisitions by related parties, see Note 28.

NOTE 23:- ACCOUNTS PAYABLE AND ACCRUALS

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

NOTE 24:- CREDIT FROM BANKS

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

	Weighted interest rate	31 December	
		2007	2006
	%	U.S. dollars in thousands	
Short-term credit from banks	Libor + 1.25	71,406	71,330
Current maturities of long-term loans		5,290	-
		76,696	71,330

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

NOTE 24:- CREDIT FROM BANKS (Cont.)

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

	31 December 2007	31 December 2006
	U.S. dollars in thousands	
First year - current maturities	5,290	-
Second year	5,290	5,430
Third year	5,290	5,430
Fourth year	5,293	10,859
	21,163	21,719

NOTE 25:- OTHER LONG-TERM LIABILITY

	U.S. dollars in thousands
At 1 January 2006	582
Provision to service provider	3,588
Exchange rate differences	143
At 31 December 2006	4,313
Provision to service provider	7,643
Exchange rate differences	783
At 31 December 2007	12,739

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

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

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

NOTE 26:- COMMITMENTS AND CONTINGENCIES

a. Group as lessee:

The Group entered into commercial lease agreements for real estate. These leases are irrevocable and have a life of 4-45 years with a renewal option. One of the lease contracts contains a condition allowing the Company to update the lease fees on an annual basis according to changes in market conditions.

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

	U.S. dollars in thousands
First year	178
After one year but no more than five years	587
More than five years	4,305
Total	5,070

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

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

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

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

NOTE 26:- COMMITMENTS AND CONTINGENCIES (Cont.)

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

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

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

h. In December 2006, RealService entered into an agreement with FIN for providing management services. The terms of the agreement are identical to the terms of Hydro's engagement with FIN. The adequate expenses were included in RealService's books. In addition, FIN will be entitled to 10% of the net profits from the sale of the project after completion.

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

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

NOTE 26:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

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

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

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

2. IIK's debt coverage ratio will not be below 1.3.

3. The ratio of equity to total liabilities will not be below 0.5 before the project is completed and 0.4 after the project is completed.

4. No dividends will be distributed until the project is completed.

5. No investments in a total exceeding $ 250 thousand that are not in compliance with the bank approved project budget will be performed.

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

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

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

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

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

NOTE 26:- COMMITMENTS AND CONTINGENCIES (Cont.)

o. 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	
	2007	**2006**
	U.S. dollars in thousands	
First year	16,498	11,086
Second year until five years	55,577	44,314
More than five years	24,712	-
	96,787	55,400

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

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

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

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

NOTE 27:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

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

1. Exchange rate risk:

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

a) The following table represents the sensitivity to a reasonably possible change in the U.S. dollar/Ruble exchange rates in the year 2007:

	Effect on equity			
	Increase		Decrease	
	10%	5%	10%	5%
	U.S. dollars in thousands			
Cash and cash equivalents	588	294	(588)	(294)
Trade and other receivables	689	344	(689)	(344)
Long-term receivables	1,569	785	(1,569)	(785)
Trade and other payables	(1,002)	(502)	1,002	502

b) The following table represents the sensitivity to a reasonable possible change in U.S. dollars/NIS exchange rates in the year 2007:

	Effect on equity			
	Increase		Decrease	
	10%	5%	10%	5%
	U.S. dollars in thousands			
Cash and cash equivalents	4	2	(4)	(2)
Trade and other receivables	(9)	(4)	9	4

	Effect on profit before tax			
	Increase		Decrease	
	10%	5%	10%	5%
	U.S. dollars in thousands			
Debentures (series A) and swap agreement	(194)	(98)	194	98

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

c) The following table represents the sensitivity to a reasonable possible change in U.S. dollars/HUF exchange rate differences in the year 2007:

	Effect on equity			
	Increase		Decrease	
	10%	5%	10%	5%
	U.S. dollars in thousands			
Trade and other receivables	(55)	(28)	28	55

2. Credit risk:

The Group performs ongoing evaluations of the prospects of collecting debts of customers and buyers and, if necessary, it records a provision in the books reflecting the losses anticipated by management. The financial statements do not include an allowance for doubtful accounts since management believes the chances of collecting all the debts of customers and buyers are good. The maximum credit risk is the carrying amount of the financial assets in the balance sheet.

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

3. Interest rate risk:

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

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

	Effect on profit before tax			
	Increase		Decrease	
	10%	5%	10%	5%
	U.S. dollars in thousands			
Debentures (series A) and swap agreement	117	60	(126)	(62)

b) The following table represents the sensitivity to a reasonable possible change in interest on balances in U.S. dollars in the year 2007:

	Effect on profit before tax			
	Increase		Decrease	
	10%	5%	10%	5%
	U.S. dollars in thousands			
Rent agreements	(2)	(1)	2	1
Long-term loan	(177)	(89)	181	91
Lease agreements	91	47	(108)	(52)
Long-term loans	465	235	(239)	(483)

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

4. Linkage to Israeli CPI risk:

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

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

	Effect on profit before tax			
	Increase		Decrease	
	10%	5%	10%	5%
	U.S. dollars in thousands			
Debentures (series A) and swap agreement	38	19	(38)	(19)

5. Significant risk exposure:

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

b. Fair value of financial instruments:

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

	31 December 2007	
	Carrying amount	Fair value
	U.S. dollars in thousands	
Long-term loan	14,829	15,016
Long-term receivables and prepayments	15,691	15,691
Trade and other receivables	7,725	7,905
Short-term loans	7,692	7,692
Restricted deposits	71,312	71,312
Cash and cash equivalents	117,758	117,758
Debentures (series A) and swap agreement (1)	(10,098)	(10,257)
Debentures (series B)	(52,040)	(52,040)
Long-term loans from banks	(21,163)	(21,128)
Accounts payable and accruals, including income tax	(12,635)	(13,069)

(1) The fair value represents the market value of the debenture on the TA Stock Exchange.

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

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

d. Capital management:

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

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

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

	31 December 2007					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	U.S. dollars in thousands					
Long-term loans	-	-	-	-	14,829	14,829
Long-term receivables and prepayments	-	-	7,400	5,491	-	12,891
Trade and other receivables	-	6,436	-	-	-	6,436
Short-term loans	-	-	7,692	-	-	7,692
Restricted deposits	71,406	-	-	-	-	71,406
Cash and cash equivalents	117,758	-	-	-	-	117,758
	189,164	6,436	15,092	5,491	14,829	231,012

	31 December 2006					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	U.S. dollars in thousands					
Long-term receivables and prepayments		-	-	-	3,643	3,643
Trade and other receivables	8,535	-	-	-	-	8,535
Restricted deposits	71,330	-	-	-	-	71,330
Cash and cash equivalents	196,586	-	-	-	-	196,586
	276,451	-	-	-	3,643	280,094

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

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

	31 December 2007					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	U.S. dollars in thousands					
Long-term loans from banks	-	1,958	5,872	19,683	-	27,513
Debentures and swap agreement	-	-	4,683	57,418	22,465	84,566
Other long-term liability	-	-	-	-	12,739	12,739
Short-term loan from bank	75,667	-	-	-	-	75,667
Accounts payable and accruals	10,619	-	-	-	-	10,619
	86,286	1,958	10,555	77,101	35,204	211,104

	31 December 2006					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	U.S. dollars in thousands					
Long-term loans from banks	-	635	1,905	27,512	-	30,052
Other long-term liability	-	-	-	-	4,313	4,313
Short-term loan from bank	75,587	-	-	-	-	75,587
Accounts payable and accruals	7,886	-	-	-	-	7,886
	83,473	635	1,905	27,512	4,313	117,838

NOTE 28:- AGREEMENTS WITH RELATED PARTIES

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

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

NOTE 28:- AGREEMENTS WITH RELATED PARTIES (Cont.)

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

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

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

e. In December 2006, approximately $ 62 million of shareowners' loans were capitalized to Company's equity and approximately $ 9 million shareholders' loans were repaid to the shareholders.

NOTE 29:- SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE SHEET DATE

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

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

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

NOTE 30:- DATE OF APPROVAL OF THE FINANCIAL STATEMENTS

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