PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITED

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITED

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Independent Auditors' Report

The Board of Directors and Stockholders
Plaza Centers N.V.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Plaza Centers N.V. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statement of profit or loss and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2013 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the EU.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2(d) and Note 34(a) in the consolidated financial statements which describes, among other matters, that the Company has withheld payment of an installment on the Polish bonds; the Board of directors of the Company has decided to withhold payment on the fourth quarter payments of the Israeli bonds; and that the Company filed for reorganization proceedings with the District Court of Amsterdam in the Netherlands. These conditions, along with other matters as set forth in Note 2(d) and Note 34(a), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Without qualifying our opinion, we also draw attention to Note 3(g) and Note 14 to the consolidated financial statements which describes that the Company early adopted IFRS 11 Joint arrangements with a date of initial application of January 1, 2013 and the effect thereof on the consolidated financial statements.

KPMG Hungária Kft.

Michael Carlson
Partner

Budapest, Hungary

March 27, 2014

PLAZA CENTERS N.V.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN '000 EUR

	Note	December 31, 2013	December 31, 2012 Restated (*)	January 1, 2012 Restated (*)
ASSETS				
Cash and cash equivalents	6	26,157	35,374	51,438
Restricted bank deposits	7	6,319	18,759	17,440
Short term deposits		-	-	3,102
Available for sale financial assets	8	-	11,714	25,568
Held for trading financial assets	8	1,246	-	-
Trade receivables	9	3,372	3,399	2,792
Other receivables	10a	4,871	11,492	8,721
Prepayments and advances	10b	1,393	7,821	8,043
Trading properties	11	40,333	612,475	648,674
Total current assets		83,691	701,034	765,778
Trading properties	11	454,841	-	-
Equity accounted investee - discontinued operations	37	-	-	95,475
Equity accounted investees	14	33,102	154,830	141,174
Loan to equity accounted investees	14	7,039	6,949	15,160
Long term deposits and other investments		-	-	50,577
Property and equipment	12	6,520	7,381	8,230
Investment property	13	-	14,489	13,652
Other non-current assets		573	1,135	5,221
Total non-current assets		502,075	184,784	329,489
Total assets		585,766	885,818	1,095,267
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest bearing loans from banks	16	175,338	205,977	208,858
Debentures at fair value through profit or loss	20	97,983	34,966	32,930
Debentures at amortized cost	21	70,636	34,184	22,831
Trade payables	17	2,432	7,569	25,712
Related parties liabilities	18	944	546	2,228
Derivatives	15	910	3,320	-
Provisions	11	15,597	15,597	15,597
Other liabilities	19	11,219	7,648	15,261
Total current liabilities		375,059	309,807	323,417
Interest bearing loans from banks	16	-	5,773	15,696
Debentures at fair value through profit or loss	20	-	81,181	110,320
Debentures at amortized cost	21	-	39,010	86,052
Derivatives	15	-	-	3,561
Other liabilities		-	185	159
Deferred tax liabilities	22	379	6,930	13,189
Total non-current liabilities		379	133,079	228,977
Share capital	23	2,972	2,972	2,972
Translation reserve	23	(40,651)	(26,359)	(10,672)
Capital reserve due to transaction with Non-controlling interests		(20,706)	(20,706)	(19,342)
Other reserves	23	35,133	35,262	31,954
Share premium		261,773	261,773	261,773
Retained earnings (losses)		(28,799)	189,274	275,437
Total equity attributable to equity holders of the Company		209,722	442,216	542,122
Non-controlling interests		606	716	751
Total equity		210,328	442,932	542,873
Total equity and liabilities		585,766	885,818	1,095,267

(*)Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards

March 27, 2014	Ran Shtarkman	Shimon Yitzchaki
Date of approval of the financial statements	Director, President and Chief Executive Officer	Director and Chairman of the Audit Committee

The notes on pages 10 - 98 are an integral part of these consolidated financial statements.

PLAZA CENTERS N.V.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS IN '000 EUR

	Note	For the year ended December 31, 2013	2012 Restated(*)
Continuing operations			
Rental income	26(a)	23,678	23,112
Revenues from entertainment centers	26(b)	3,345	6,911
		27,023	30,023
Cost of operations	27(a)	(9,408)	(9,384)
Cost of operations – entertainment centers	27(b)	(4,025)	(8,267)
Gross profit		13,590	12,372
Loss from disposal of undeveloped Trading Property	34(e)	(346)	(65)
Write-down of Trading Properties	11	(117,913)	(60,293)
Write-down of equity-accounted investees	14	(56,417)	(23,443)
Loss from disposal of equity accounted investees (holding undeveloped Trading Properties)	34(d),(f)	(3,724)	-
Share in results of equity-accounted investees	14	952	1,475
Administrative expenses, excluding restructuring costs	28a	(9,435)	(11,432)
Restructuring costs	28b	(702)	-
Other income	29	413	8,970
Other expenses	29	(11,468)	(1,122)
Results from operating activities		(185,050)	(73,538)
Finance income	30	1,288	20,358
Finance costs	30	(40,632)	(37,531)
Net finance costs		(39,344)	(17,173)
Loss before income tax		(224,394)	(90,711)
Tax benefit	31	6,256	6,592
Loss from continuing operations		(218,138)	(84,119)
Discontinued operation			
Profit (loss) from discontinued operation, net of tax	37	65	(2,044)
Loss for the year		(218,073)	(86,163)
Loss attributable to:			
Owners of the Company		(218,073)	(86,163)
Earnings per share			
Basic and diluted loss per share (in EURO)	24	(0.73)	(0.29)
Earnings per share – continuing operations			
Basic and diluted loss per share (in EURO)	24	(0.73)	(0.28)

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards and to notes 27, 28 and 29 on other reclassifications.

PLAZA CENTERS N.V.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN '000 EUR

	For the year ended December 31,	
	2013	2012 Restated(*)
Loss for the year	(218,073)	(86,163)
Other comprehensive income		
<u>Items that are or may be reclassified to profit or loss:</u>		
Net change in fair value of available for sale financial assets transferred to income statement	(723)	1,222
Change in fair value of available for sale financial assets	(14)	1,297
Foreign currency translation differences - foreign operations (Discontinued operation) – reclassified to profit or loss	-	(9,730)
Foreign currency translation differences - foreign operations (Discontinued operation) – 2012 movements	-	2,818
Foreign currency translation differences - foreign operations (Equity accounted investees) – reclassified to profit or loss	4,360	-
Foreign currency translation differences - foreign operations (Equity accounted investees)	(15,036)	(7,064)
Foreign currency translation differences - foreign operations (Trading properties)	(3,726)	(1,746)
Tax on other comprehensive income due to change in fair value of available for sale financial assets	184	(630)
Other comprehensive income (loss) for the year, net of income tax	(14,955)	(13,833)
Total comprehensive income (loss)for the year	(233,028)	(99,996)
Total comprehensive income (loss)attributable to:		
Owners of the Company:	(232,918)	(99,961)
Non-controlling interests	(110)	(35)
Total comprehensive loss for the year	(233,028)	(99,996)

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards**.**

PLAZA CENTERS N.V.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN '000 EUR

	Attributable to the equity holders of the Company									
	Share capital	Share Premium	Share based payment reserves	Translation Reserve	Capital reserve from acquisition of non-controlling interests without a change in control	Financial assets available for sale reserve	Retained earnings (losses)	Total	Non-controlling interests (*)	Total
Balance at January 1, 2012 , as previously reported	**2,972**	**261,773**	**33,290**	**(10,672)**	**(19,342)**	**(1,336)**	**275,437**	**542,122**	**8,040**	**550,162**
Impact of changes in accounting policies	-	-	-	-	-	-	-	-	(7,289)	(7,289)
Restated balance at January 1, 2012	**2,972**	**261,773**	**33,290**	**(10,672)**	**(19,342)**	**(1,336)**	**275,437**	**542,122**	**751**	**542,873**
Change in non-controlling interest	-	-	-	-	(1,364)	-	-	(1,364)	-	(1,364)
Share based payment (refer to note 25)	-	-	1,419	-	-	-	-	1,419	-	1,419
Comprehensive income for the year										
Net loss for the year	-	-	-	-	-	-	(86,163)	(86,163)	-	(86,163)
Foreign currency translation differences	-	-	-	(15,687)	-	-	-	(15,687)	(35)	(15,722)
Available for sale reserve, net of tax	-	-	-	-	-	1,889	-	1,889	-	1,889
Total comprehensive income (loss) for the year	-	-	-	(15,687)	-	1,889	(86,163)	**(99,961)**	**(35)**	**(99,996)**
Balance at December 31, 2012	**2,972**	**261,773**	**34,709**	**(26,359)**	**(20,706)**	**553**	**189,274**	**442,216**	**716**	**442,932**
Share based payment (refer to note 25)	-	-	424	-	-	-	-	424	-	424
Comprehensive income for the year										
Net loss for the year	-	-	-	-	-	-	(218,073)	(218,073)	-	(218,073)
Foreign currency translation differences	-	-	-	(14,292)	-	-	-	(14,292)	(110)	(14,402)
Available for sale reserve, net of tax	-	-	-	-	-	(553)	-	(553)	-	(553)
Total comprehensive loss for the year	-	-	-	(14,292)	-	(553)	(218,073)	**(232,918)**	**(110)**	**(233,028)**
Balance at December 31, 2013	**2,972**	**261,773**	**35,133**	**(40,651)**	**(20,706)**	**-**	**(28,799)**	**209,722**	**606**	**210,328**

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards

PLAZA CENTERS N.V.
CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR

	Note	For the year ended December 31, 2013	2012 Restated (*)
Cash flows from operating activities			
Loss for the year		(218,073)	(86,163)
Adjustments necessary to reflect cash flows used in operating activities:			
Depreciation and impairment of property and equipment	12	423	1,065
Change in fair value of investment property	13	4,267	(837)
Net finance costs	30	39,344	17,173
Equity-settled share-based payment transaction		424	197
Discontinued operations		(65)	2,044
Gain on sale of property and equipment		(23)	(13)
Share of loss of equity-accounted investees, net of tax	14	78,617	19,854
Tax benefit	31	(6,256)	(6,592)
		(101,342)	(53,272)
Changes in:			
Trade receivables		(122)	(581)
Other accounts receivable		10,126	5,821
Trading properties	11	108,831	27,632
Trade payables		(4,028)	(18,122)
Other liabilities, related parties liabilities and provisions		3,498	(8,577)
		118,305	6,173
Interest received		353	3,822
Interest paid		(10,926)	(24,214)
Taxes paid		(295)	(297)
Net cash from (used in) operating activities		6,095	(67,788)
Cash from investing activities			
Purchase of property and equipment	12	(75)	(462)
Proceeds from sale of property and equipment		169	250
Discontinued operations		-	63,885
Proceeds from sale of investment property	34(e)	7,649	-
Proceeds from liquidation of equity accounted investee EPUS	34(h)	32,410	-
Long term deposits redemption		-	50,643
Purchase of marketable debt securities financial assets	8	(1,424)	(16,089)
Proceeds from sale of available for sale financial assets	8	12,012	31,294
Short term deposits, net		-	3,102
Net cash from investing activities		50,741	132,623

The notes on pages 10 - 98 are an integral part of these consolidated financial statements.

PLAZA CENTERS N.V.
CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR (cont.)

		For the year ended December 31,	
	Note	**2013**	**2012 Restated (*)**
Cash from financing activities			
Proceeds from bank loans and financial institutions		659	46,720
Proceeds from utilization and settlement of derivatives		-	238
Proceeds (payments) from hedging activities through sell of options	15	(2,364)	11,683
Repurchase of debentures		-	(18,814)
Changes in restricted cash		9,316	(1,796)
Proceeds from re-issuance of long term debentures	20,21	13,772	-
Repayment of debentures	20,21	(60,319)	(65,320)
Repayment of interest bearing loans from banks	16	(27,490)	(53,554)
Net cash used in financing activities		(66,426)	(80,843)
Effect of movement in exchange rate fluctuations on cash held		373	(56)
Decrease in cash and cash equivalents during the year		(9,217)	(16,064)
Cash and cash equivalents at 1 of January		35,374	51,438
Cash and cash equivalents at 31 of December		**26,157**	**35,374**

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards

NOTE 1 - PRINCIPAL ACTIVITIES AND OWNERSHIP

Plaza Centers N.V. ("the Group" or "the Company") was incorporated and is registered in the Netherlands. The Company's registered office is at Keizersgracht 241, 1016 EA, Amsterdam, the Netherlands. The Company conducts its activities in the field of establishing, operating and selling of shopping and entertainment centers, as well as other mixed-use projects (retail, office, residential) in Central and Eastern Europe (starting 1996), India (from 2006), and, between 2010 and 2012, also in the USA. The consolidated financial statements for each of the periods presented comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The Company is dual listed on the Main Board of the London Stock Exchange ("LSE") and, starting October 2007, on the Warsaw Stock Exchange ("WSE").

The Company's immediate parent company is Elbit Ultrasound (Luxembourg) B.V. / S.à r.l. ("EUL"), which holds 62.5% of the Company's shares, as at the end of the reporting period (December 31, 2012 – 62.5%). The ultimate parent company is Elbit Imaging Limited ("EI"). For the list of the Group entities, refer to note 39.

NOTE 2 - BASIS OF PREPARATION

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

These consolidated financial statements are not intended for statutory filing purposes. The Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. At the date of approving these financial statements the Company had not yet prepared consolidated financial statements for the year ended December 31, 2013 in accordance with the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2014.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of the financial position:

- Investment properties were measured at fair value
- Liabilities for cash-settled share-based payment arrangements are measured at fair value
- Available for sale financial assets are measured at fair value
- Derivative financial instruments are measured at fair value
- Non-Derivative financial instruments at fair value through profit or loss are measured at fair value.

c. Functional and presentation currency

These consolidated financial statements are presented in EURO ("EUR"), which is the Company's functional currency. All financial information presented in EUR has been rounded to the nearest thousand, unless otherwise indicated.

NOTE 2 - BASIS OF PREPARATION (Cont.)

d. Going concern

On November 14, 2013 the Company announced that it would be freezing payments to all its lenders and would be entering into negotiations with these creditors to arrive at an agreed debt arrangement (restructuring plan). The Company's proposed debt arrangement, updated March 26, 2013, includes an equity injection from the owners in the amount of circa 20 million EUR via a rights issuance ("Equity Contribution"), a delay of all the bond series' principal payment by three years, a realization plan under which 19 of the 29 assets are estimated to be realized by 2018 for circa 490 million EUR (net proceeds, being mainly net of asset specific borrowings and taxes), a transfer of 75% of the net proceeds of realizations to the bondholders as early repayment, compensate the bondholders with an additional 1.5% annual interest, and additional compensation to the bondholders by share issuance (without additional proceeds), in a total of 13.5% (post the Equity Contribution) of the Company's outstanding shares.

Management believes that the implementation of the restructuring plan will provide the Company with the ability to resolve its immediate liquidity situation in order to continue operating as going concern and preserve value for its shareholders and creditors.

Management acknowledges that material uncertainty remains over the Group's ability to meet its funding requirements and to refinance or repay its debts as they fall due. If for any reason the Group is unable to reach an approved restructuring plan, and more specifically, if the Group will not be able to raise EUR 20 million equity from shareholders which is a pre-condition to the debt restructuring plan approval (refer to Note 34(A) section 'To shareholders') then this would likely have an adverse impact on the Group's ability to realise assets at their recognised values, and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements and ultimately result in the Group being unable to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to successfully complete its proposed debt arrangement as further discussed in Note 34(A).

e. Investment property vs. trading property classification

The Company has designated its properties into three types (Completed trading property projects, plots scheduled for construction and plots under planning stage).

In respect of its completed trading property projects, and as written above, the Company still faces material uncertainties in respect of the time needed to sell the properties. However the Group has not changed its business model and is actively seeking buyers. Therefore it is clear from the Company's perspective that these completed properties are trading properties, rather than investment properties.

In respect of plots under planning stage held, which are not intended to be constructed in the near future, the Company is actively looking for buyers and does not hold the plots passively with the intention to gain from a potential value increase. Plots scheduled for construction are intended to be developed and sold in the normal course of business once circumstances allow. Therefore we also believe that these are appropriately classified as trading properties.

f. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

NOTE 2 - BASIS OF PREPARATION (Cont.)

f. Use of estimates and judgments (cont.)

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about other critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following note:

- Note 11 - Suspension of borrowing costs capitalization
- Note 11 – Classification of trading properties as current vs. non-current
- Note 11 – Trading property vs. Investment property

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Notes 11 – key assumptions used in determining the net realisable value of trading properties
- Note 11, 33 – provisions and contingencies
- Note 25 – measurement of share-based payments

Functional currency

The EUR is the functional currency for Group companies (with the exception of Indian companies – in which the functional currency is the Indian Rupee – INR, and the investment in the USA held until June 30, 2012 - in which the functional currency was the USD) since it is the currency of the economic environment in which the Group operates. This is because the EUR (and in India and the USA – the INR and USD, respectively) is the main currency in which management, determines its pricing with tenants, potential buyers and suppliers, determine its financing activities and budgets and assesses its currency exposures.

Operating cycle determination

The Normal Operating Cycle (“NOC”) of the Group is driven by its business model to buy, develop and sell, primarily shopping centers, and comprises the estimated amount of time required to complete the process from the acquisition of undeveloped land through its development, preparation for sale and ultimate disposal. Based on the Group’s experience, mainly from the period from 1996-2008, this period of time was three to five years (and in respect of large scale, multi-phase/mixed-use projects, up to eight years). For example, for completed shopping centres, these steps include achieving a stabilized tenants list, improving the tenant mix, increasing occupancy rates, completion of certain tenant improvements and finding the qualified buyers. For plots, this includes obtaining permits, finance and construction.

NOTE 2 - BASIS OF PREPARATION (Cont.)

The Company maintains its existing business model; however with the financial crisis as background the level of uncertainty of the actual amount of time needed to complete all steps in the process has become much higher than what the Company believes is a normal level.

Over the period 2009 – 2012, the Company has had difficulty selling completed properties at prices reflecting management's view of reasonable estimated values, as well as experienced a lack of available finance for development of plots.
The return to what management considers more normal conditions, primarily in the CEE markets where it has properties, has been longer than expected.

In view of these uncertainties and abnormalities, the Company has taken a position of reclassifying its entire trading properties asset to long term, with the exception of a property where a sale and purchase agreement exists as described in Note 11, until the abnormal level of uncertainty is reduced.

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

a. IFRS 10 Consolidated Financial Statements (2011) – early adoption
b. IFRS 11 Joint Arrangements – early adoption
c. IFRS 12 Disclosure of Interests in Other Entities – early adoption
d. IFRS 13 Fair Value Measurement
e. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

(a) Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013, and concluded that there has been no impact on the recognised assets, liabilities and comprehensive income of the Group.

(b) Joint arrangements

Joint arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has right to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement).

NOTE 3 - CHANGES IN ACCOUNTING POLICIES (cont.)

(b) Joint arrangements (cont.)

When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. The Group has re-evaluated its involvement in its various joint arrangements and, deeming them to be joint ventures rather than joint operations because in all cases the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement rather than to the assets and liabilities of the arrangement, therefore, the Group has changed the accounting treatment for all its jointly controlled entities (previously accounted according to proportional consolidation method) to be accounted for as joint ventures applying the equity method, thus impacting the recognised assets, liabilities and comprehensive income of the Group.

The quantitative impact of the change is set out in (g) below.

(c) Disclosure of interests in other entities

As a result of IFRS 12, the Group has expanded its disclosures about its equity-accounted investees (refer to Note 14). The Group does not have interests in unconsolidated structured entities.

(d) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regard (refer to Notes 11, 14). In addition, due to the significant impact of the valuation of Trading properties on their carrying amounts the Group has included additional disclosures similar to those required by this standard in note 11.

(e) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(f) Materiality considerations

Material joint ventures are considered equity accounted investees existing as of December 31, 2013 which their total assets approximates 5 percent of the total consolidated assets as of December 31, 2013 and/or December 31, 2012, or its revenues exceeded 15 per cent of the total consolidated revenues for the year ended December 31, 2013.

(g) Summary of quantitative impact

The below tables includes a summary of the adjustments made to the Group's statements of financial position at December 31, 2012, its statements of profit or loss and cash flows for the year period ended December 31, 2012 as a result of the implementation of the equity method instead of proportionate consolidation, as required by IFRS 11.

NOTE 3 - CHANGES IN ACCOUNTING POLICIES (cont.)

(g) Summary of quantitative impact

(1) Effect on the statement of financial position

	December 31, 2012		
	As presented in the past	Effect of retrospective application of IFRS 11	As presented in these financial statements
	€ 000'	€ 000'	€ 000'
Assets			
Cash and cash equivalents	64,440	(29,066)	35,374
Restricted bank deposits	25,518	(6,759)	18,759
Available for sale financial assets	11,714	-	11,714
Trade receivables	4,687	(1,288)	3,399
Other receivables	38,928	(27,436)	11,492
Prepayments and advances	7,821	-	7,821
Trading properties	780,963	(168,488)	612,475
Total current assets	934,071	(233,037)	701,034
Equity accounted investees	-	154,830	154,830
Loans to equity accounted investee	-	6,949	6,949
Property and equipment	8,109	(728)	7,381
Investment property	14,489	-	14,489
Restricted bank deposits	978	(199)	779
Other non-current assets	358	(2)	356
Total non-current assets	23,934	160,850	184,784
Total assets	958,005	(72,187)	885,818
Liabilities			
Interest bearing loans from banks	264,296	(58,319)	205,977
Debentures at fair value through profit or loss	34,966	-	34,966
Debentures at amortized cost	34,184	-	34,184
Trade payables	8,748	(1,179)	7,569
Related parties	511	35	546
Provisions	15,597	-	15,597
Derivatives	3,320	-	3,320
Other liabilities	14,094	(6,446)	7,648
Total current liabilities	375,716	(65,909)	309,807
Interest bearing loans from banks	5,773	-	5,773
Debentures at fair value through profit or loss	81,181	-	81,181
Debentures at amortized cost	39,010	-	39,010
Other liabilities	232	(47)	185
Deferred tax liabilities	6,947	(17)	6,930
Total non-current liabilities	133,143	(64)	133,079
Total liabilities	508,859	(65,973)	442,886
Non-controlling interests	6,930	(6,214)	716
Equity attributable to owners of the Company	442,216	-	442,216
Total equity	449,146	(6,214)	442,932
Total liabilities and equity	958,005	(72,187)	885,818

NOTE 3 - CHANGES IN ACCOUNTING POLICIES (cont.)

(g) Summary of quantitative impact

(1) Effect on the statement of financial position (cont.)

	January 1, 2012		
	As presented in the past	**Effect of retrospective application of IFRS 11**	**As presented in these financial statements**
	€ 000'	**€ 000'**	**€ 000'**
Assets			
Cash and cash equivalents	58,261	(6,823)	51,438
Restricted bank deposits	21,428	(3,988)	17,440
Short term deposits	3,102	-	3,102
Available for sale financial assets	25,568	-	25,568
Trade receivables	5,432	(2,640)	2,792
Other receivables	12,941	(4,220)	8,721
Prepayments and advances	33,089	(25,046)	8,043
Trading properties	850,229	(201,555)	648,674
Total current assets	1,010,050	(244,272)	765,778
Equity accounted investee - discontinued operation	-	95,475	95,475
Equity accounted investees	-	141,174	141,174
Loans to equity accounted investee	-	15,160	15,160
Long term deposits and other investments	51,646	(1,069)	50,577
Property and equipment	9,026	(796)	8,230
Investment property	272,348	(258,696)	13,652
Other non-current assets	5,456	(235)	5,221
Total non-current assets	338,476	(8,957)	329,489
Total assets	1,348,526	(253,259)	1,095,267
Liabilities			
Interest bearing loans from banks	296,235	(87,377)	208,858
Debentures at fair value through profit or loss	32,930	-	32,930
Debentures at amortized cost	22,831	-	22,831
Trade payables	27,329	(1,617)	25,712
Related parties	2,228	-	2,228
Provisions	15,597	-	15,597
Other liabilities	27,464	(12,203)	15,261
Total current liabilities	424,614	(101,197)	323,417
Interest bearing loans from banks	152,387	(136,691)	15,696
Debentures at fair value through profit or loss	110,320	-	110,320
Debentures at amortized cost	86,052	-	86,052
Derivatives	3,561		3,561
Other liabilities	5,757	(5,598)	159
Deferred tax liabilities	15,673	(2,484)	13,189
Total non-current liabilities	373,750	(144,773)	228,977
Total liabilities	798,364	(245,970)	552,394
Non-controlling interests	8,040	(7,289)	751
Equity attributable to owners of the Company	542,122	-	542,122
Total equity	550,162	(7,289)	542,873
Total liabilities and equity	1,348,526	(253,259)	1,095,267

NOTE 3 - CHANGES IN ACCOUNTING POLICIES (cont.)

(g) Summary of quantitative impact (cont.)

(2) Effect on the income statement

	For the year ended December 31, 2012			
	As presented in the past	**Effect of retrospective application of IFRS 11**	**Other reclassifications (Refer to notes 27 ,28,29)**	**As presented in these financial statements**
	€ 000'	**€ 000'**	**€ 000'**	**€ 000'**
Continuing operations				
Rental income	41,593	(11,570)	(6,911)	23,112
Revenue from entertainment centers	-	-	6,911	6,911
	41,593	(11,570)	-	30,023
Write-down of Trading Properties	(78,833)	26,151	52,682	-
Cost of operations	(20,385)	6,205	4,796	(9,384)
Cost of operations-entertainment centers	-	-	(8,267)	(8,267)
Gross profit (loss)	(57,625)	20,786	49,211	12,372
Write-down of Trading Properties	-	-	(60,293)	(60,293)
Loss from disposal of undeveloped Trading Property	-	-	(65)	(65)
Write-down of equity-accounted investees	-	(23,443)	-	(23,443)
Share in results of equity-accounted investees	-	-	1,475	1,475
Administrative expenses	(16,848)	1,945	3,471	(11,432)
Other income	2,763	(1,469)	7,676	8,970
Other expenses	(1,122)	-	-	(1,122)
Results from operating activities	(72,832)	(2,181)	1,475	(73,538)
Finance income	20,515	(157)	-	20,358
Finance costs	(37,055)	(476)	-	(37,531)
Net finance costs	(16,540)	(633)	-	(17,173)
Share in results of equity-accounted investees	(68)	1,543	(1,475)	-
Loss before income tax	(89,440)	(1,271)	-	(90,711)
Tax benefit	5,463	1,129	-	6,592
Loss from continuing operations	(83,977)	(142)	-	(84,119)
Discontinued operation				
Loss from discontinued operation, net of tax	(1,950)	(94)	-	(2,044)
Loss for the period	(85,927)	(236)	-	(86,163)
Loss attributable to:				
Owners of the Company (1)	(86,163)	-	-	(86,163)
Non-controlling interests	236	(236)	-	-
Earnings per share				
Basic and diluted loss per share (in EURO)	(0.29)	-	-	(0.29)
Earnings per share – continuing operations				
Basic and diluted loss per share (in EURO)	(0.28)	-	-	(0.28)

NOTE 3 - CHANGES IN ACCOUNTING POLICIES (cont.)

(g) Summary of quantitative impact (cont.)

(3) Effect on the statement of cash flows

	For the year ended December 31, 2012		
	As presented in the past	Effect of retrospective application of IFRS 11	As presented in these financial statements
	€ 000'	€ 000'	€ 000'
Net cash used in operating activities	(54,581)	(13,207)	(67,788)
Net cash from investing activities	194,476	(61,853)	132,623
Net cash used in financing activities	(133,758)	52,915	(80,843)
Effect of exchange rate fluctuations on cash and cash equivalents	42	(98)	(56)
Net increase (decrease) in cash and cash equivalents	6,179	(22,243)	(16,064)
Cash and cash equivalents as at the beginning of the period	58,261	(6,823)	51,438
Cash and cash equivalents at the end of the period	64,440	(29,066)	35,374

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 3, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Certain comparative amounts in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flow have been reclassified to conform to the current year's presentation, mainly due to implementation of IFRS 11 (refer to Notes 14, 27, 28).

a. Basis of consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group in the consolidated financial statements.

2. Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

2. Interests in equity-accounted investees (cont.)

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

3. Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

4. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency differences arising from the translation of available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss) are recognised in other comprehensive income.

2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Foreign currency (cont.)

When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in other comprehensive income and accumulated in the translation reserve.

c. Financial instruments

(1) Non-derivative financial assets and financial liabilities – recognition and de-recognition.

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Refer to note 32 for the list of Non-derivative financial assets and financial liabilities.

(2) Non-derivative financial assets – measurement

<u>Cash and cash equivalents and restricted bank deposits</u>

In the consolidated statement of cash flows, cash and cash equivalents includes bank deposits deposited for periods which do not exceed three months. Restricted bank deposits are deposit restricted due to bank facilities.

<u>Loans and receivables</u>

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. The collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off in the period in which they are identified. Doubtful receivables are impaired when there is objective evidence that the Group will not collect all amounts due. These types of assets are discussed in note 9, 10a and 10b.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Financial instruments (cont.)

Held for trading financial assets

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognised in statement of profit or loss.

Available-for-sale financial assets

These assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments (refer to 3(h) below), are recognised in other comprehensive income and accumulated in equity. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(3) Non-derivative financial liabilities

Financial Liabilities at fair value through profit or loss

Financial Liabilities at fair value through profit or loss include selected unsecured non-convertible Debentures series A and series B (refer to note 20).

Upon initial recognition a financial liability may be designated by the Company at fair value through profit or loss. Financial instruments are designated at fair value through profit or loss if the Group manages such instruments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy, or to eliminate or significantly reduce a measurement or recognition inconsistency. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other non-derivative financial liabilities

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The Group has the following non-derivative financial liabilities: interest bearing loans, debentures not designated as fair value through profit or loss (refer to note 21), trade payables, related parties and other liabilities.

(4) Derivative financial instruments

The Group holds (or held) derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

d. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effect. Costs attributable to listing existing shares are expensed as incurred.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Trading properties

Properties that are being constructed or developed for sale in the ordinary course of business and empty plots acquired to be developed for such a sale are classified as trading properties (inventory) and measured at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to complete construction and selling expenses. If net realisable value is less than the cost, the trading property is written down to net realisable value.

In each subsequent period, a new assessment is made of net realisable value. When the circumstances that previously caused trading properties to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.

The amount of any write-down of trading properties to net realisable value and all losses of trading properties are recognised as a Write-down of trading properties expense in the period the write-down or loss occurs. The amount of any reversal of such write downs arising from an increase in net realisable value is recognised as a reduction in the expense in the period in which the reversal occurs.

Lands which are designated for development of trading properties projects are not written down below costs if the completed projects are expected to be sold at or above cost.

Costs comprise all costs of purchase, direct materials, direct labour costs, subcontracting costs and other direct overhead costs incurred in bringing the properties to their present condition.

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the costs of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they incurred.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditure and borrowing costs are being incurred. Capitalization of borrowing costs may continue until the asset is substantially ready for its intended use (i.e. upon issuance of certificate of occupancy).

In certain cases, where the construction phase is suspended for an unplanned period expected to exceed 25% of the total scheduled time for construction, cessation of the capitalisation of borrowing cost will apply, until construction phase is resumed.

Non–specific borrowing costs are capitalised to such qualifying asset, by applying a capitalization rate to the expenditures on such asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowing made specifically for the purpose of obtaining a qualifying asset.

The amount of borrowing costs capitalized during the period does not exceed the amount of borrowing costs incurred during that period.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

g. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (refer to accounting policy 3(h)).If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property and equipment are as follows:

	Years
Land – owned	0
Office buildings	25-50
Equipment, fixture and fittings	10-15
Aircrafts	20
Other (*)	3-18

(*) Consists mainly of motor vehicles, equipment, computers, peripheral equipment, etc.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

h. Impairment

(1) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment (cont.)

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; Subsequent recovery in the fair value of available for sale equity instruments are reversed through other comprehensive income.

(2) Non – financial assets and interests in equity accounted investees

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (property and equipment) and interests in equity accounted investees to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

h. Impairment (cont.)

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is never reversed. For other assets, an impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

i. Provisions

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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

<u>Construction costs</u>

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized 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. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

<u>Warranties</u>

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

<u>Restructuring plan</u>

A provision for restructuring is recognised when a formal Restructuring plan was approved by all relevant bodies, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

j. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group’s activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and specifics of each arrangement.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Revenue (cont.)

Rental income

The Group leases real estate to its customers under leases that are classified as operating leases. Rental income from investment property and trading property is recognized in profit or loss on a straight-line basis over the term of the lease. Lease origination fees and internal direct lease origination costs are deferred and amortized over the related lease term. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

The leases generally provide for rent escalations throughout the lease term. For these leases, the revenue is recognized on a straight line basis so as to produce a constant periodic rent over the term of the lease. The leases may also provide for contingent rent based on a percentage of the lessee's gross sales or contingent rent indexed to further increases in the Consumer Price Index ("CPI").

Where rentals that are contingent upon reaching a certain percentage of the lessee's gross sales, the Group recognizes rental revenue when the factor on which the contingent lease payment is based actually occurs. Rental revenues for lease escalations indexed to future increases in the CPI are recognized only after the changes in the index have occurred.

Revenues from selling of trading properties and investment properties

Revenues from selling of trading properties and investment properties are measured at the fair value of the consideration received or receivable. Revenues are recognized when all the following conditions are met:

a. the Group has transferred to the buyer the significant risks and rewards of ownership**;**
b. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold;
c. the amount of revenue can be measured reliably;
d. it is probable that the economic benefits associated with the transaction will flow to the Group (including the fact that the buyer's initial and continuing investment is adequate to demonstrate commitment to pay);
e the costs incurred or to be incurred in respect of the transaction can be measured reliably; and
f. there are no remaining significant performance obligations.

Determining whether these criteria have been met for each sale transaction, requires certain degree of judgment by the Group management. The judgment is made in determination whether, at the end of the reporting period, the Group has transferred to the buyer the significant risks and rewards associated with the real estate assets sold.

Such determination is based on an analysis of the terms included in the sale agreement executed with the buyer as well as an analysis of other commercial understandings with the buyer in respect of the real estate sold. In certain cases, the sale agreement with the buyer is signed during the construction period and the consummation of the transaction is subject to certain conditions precedents which have to be fulfilled prior to delivery. Revenues are, therefore, recognized when all the significant conditions precedent included in the agreement have been fulfilled by the Group and/or waived by the buyer prior to the end of the reporting period.

Generally, the Group is provided with a bank guarantee from the buyer for the total estimated proceeds in order to secure the payment by the buyer at delivery. Therefore, the Group is not exposed to any significant risks in respect of payment of the proceeds by the buyer.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Operating lease payments

Payments made under operating leases (in respect of plots of land under usufruct) are recognized in profit or loss on a straight line basis over the term of the lease but are capitalized in relation to land used for the development of trading properties during the construction period (similar to borrowing costs).

l. Finance income and cost

For the composition of finance income and cost refer to note 30. For capitalisation of borrowing costs please refer to Note 11.

Interest income and expense which are not capitalized are recognized in the income statement as they accrue, using the effective interest method. For the Group's policy regarding capitalization of borrowing costs refer to note 3(e).

m. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

<u>Current tax</u>

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

<u>Deferred tax</u>

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Income tax (cont.)

Deferred tax assets and deferred tax liabilities are offset if:

- there is a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
    1) the same taxable entity; or
    2) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

n. Segment reporting

Segment results that are reported to the Group’s CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate debt, assets (primarily the Company’s headquarters), head office expenses, and tax assets and liabilities.

o. Employee benefits

1. Bonuses

The Group recognizes a liability and an expense for bonuses, which are based on agreements with employees or according to management decisions based on Group performance goals and on individual employee performance. The Group recognizes a liability where contractually obliged or where past practice has created a constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. Share-based payment transactions

The fair value of options granted to employees to acquire shares of the Company is recognized as an employee expense or capitalized if directly associated with development of trading property, with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees as measured at the date of modification. The fair value of the amount payable to employees in respect of share-based payments, which may be settled in cash, at the option of the holder, is recognized as an expense, with a corresponding increase in liability, over the period in which the employees become unconditionally entitled to payment. The fair value is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as an additional cost in salaries and related expenses in the income statement. As of the end of the reporting period share-based payments which may be settled in cash are options granted to only one person and can be cash settled at the option of the holder.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

q. Discontinued operation

A discontinued operation is a component of the Group’s business, the operations and cash flows of which can be clearly distinguished from the rest of the Group, that either has been disposed of or is classified as held for sale and:

1. represents a separate major line of business or geographical area of operations;
2. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
3. is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and statement of comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year.

r. New standards not yet adopted

Several new standards and amendments to standards are not yet effective for the year ended December 31, 2013, and has not been applied in preparing these consolidated financial statements.

- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities ((Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made) do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

  The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

  1. not contingent on a future event; and
  2. enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

  The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

r. New standards not yet adopted (cont.)

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities; (Effective for annual periods beginning on or after 1 January 2014; early adoption is permitted; to be applied retrospectively subject to transitional provisions) provide an exception to the consolidation requirements in IFRS 10 and requires qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them.

  The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.

  An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity:

  1. obtains funds from investors to provide those investors with investment management services;
  2. commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
  3. Measures and evaluates the performance of substantially all of its investments on a fair value basis.

  The amendments also set out disclosure requirements for investment entities.

  The Group does not expect the new standard to have any impact on the financial statements, since the Parent Company does not qualify as an investment entity.

- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13).

  The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period.

  The Amendments also require the following additional disclosures when impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal:

  1. the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised;
  2. for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;
  3. for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

  The Company does not expect the new Standard will have a material impact on the financial statements

r. New standards not yet adopted (cont.)

- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted:

  The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:

  1. The novation is made as a consequence of laws or regulations
  2. A clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument
  3. Changes to the terms of the derivative are limited to those necessary to replace the counterparty

  The Company does not expect the new standard to have any impact on the financial statements, since the entity does not currently apply hedge accounting.

NOTE 5 - MEASUREMENT OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. The Company's finance department reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes, is used to measure fair values, then the finance department assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs)
- Note 8 – available for sale financial assets
- Note 15 - Derivatives
- Note 20 – Debentures at fair value through profit or loss
- Note 25 – Employee share option plan
- Note 32 – Financial instruments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6 - CASH AND CASH EQUIVALENTS

Bank deposits and cash denominated in	Interest rate as of December 31, 2013	December 31, 2013	December 31, 2012 Restated (*)
EUR	See (1) below	13,894	20,982
United States Dollar (USD)	See (1) below	3,250	5,967
Polish Zlotys (PLN)	Overnight Wibor*0.7	3,393	3,469
Indian Rupee (INR)	Mainly 0%	1,541	1,704
New Israeli Shekel (NIS)		3,375	2,272
Other currencies		704	980
Cash and cash equivalents in the statement of financial position		26,157	35,374

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

(1) Main EUR and USD deposits as of December 31, 2013 are held on corporate level and bear money market interest rates which are mainly between 0% and 0.5%.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 32.

NOTE 7 - RESTRICTED BANK DEPOSITS

	Interest rate as of December 31, 2013	December 31, 2013	December 31, 2012 Restated (*)
Short term restricted bank deposits			
In EUR	See (1) below	5,579	8,337
In USD	See (2) below	-	6,946
In NIS	See (2) below	-	2,426
In other currencies		740	1,050
Total short term		6,319	18,759

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

(1) As of December 31, 2013, EUR 5.6 million is restricted mainly in respect of bank facilities agreements signed to finance Projects in Poland, Serbia, and the Czech Republic. These amounts carry an annual interest rate of mainly Overnight rates.
(2) Restriction over 2012 USD balance was removed following the insurance refund in June 2013 (refer also to note 34(J)). Restriction over 2012 NIS balance was removed following the repayment of NIS denominated loan

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8 - AVAILABLE FOR SALE FINANCIAL ASSETS

Available-for-sale financial assets ("AFS") portfolio consisted of mainly traded debt securities issued by banks and corporates.

	For the year ended	
	December 31, 2013	December 31, 2012
Interest income from AFS	233	712
Gain (loss) from selling AFS	723	(1,222)
Total for the year	956	(510)
Balance as at January 1	11,714	25,568
Purchase of AFS (*)	155	16,089
Sale/redemption of AFS	(12,012)	(31,294)
Discount amortization	157	54
Changes in market value of AFS	(14)	1,297
Balance as at December 31	-	11,714

The fair value of available-for-sale financial assets was determined by reference to their quoted closing bid price at the reporting date.

(*) – An additional EUR 1.27 million of debt securities bonds were purchased and recorded as held for trading financial assets adjusted to fair value at year end.

NOTE 9 - TRADE RECEIVABLES

	December 31, 2013	December 31, 2012 Restated(*)
Trade receivables	4,887	4,727
Less - Allowance for doubtful debts	(1,515)	(1,328)
	3,372	3,399

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 10 - OTHER RECEIVABLES, PREPAYMENTS AND ADVANCES

a. Other receivables

	December 31, 2013	December 31, 2012 Restated(*)
Insurance company receivable (refer to note 34(J))	-	7,611
Receivable in respect of disposal of equity-accounted investee Uj Udvar (refer to note 14,34(F))	2,350	-
VAT and tax receivables	1,877	2,218
Related parties	-	936
Others	644	727
	4,871	11,492

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

b. Prepayments and advances

	December 31, 2013	December 31, 2012 Restated(*)
Prepayment in respect of plot purchase (1)	-	5,157
Prepaid expenses	617	1,294
Advances to suppliers	776	1,370
	1,393	7,821

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

(1) The 2012 amount represents two components, with both amounts impaired in the course of 2013:

A) Prepayment in respect of the Kochi project in India in the amount of EUR 4.3 million.

On 11 November, 2013 the Company has demanded and exercised the corporate guarantee in the amount of EUR 4.3 million including the interest thereon up till such date (the “Reimbursement Payment”) provided by EI in the frame of the Indian JV Agreement on the ground of EI’s default to finalize and conclude the transfer of the Kochi Project Rights to the Indian JV Vehicle.

EI in its reply letter has refused to repay the Reimbursement Payment. The Company is in the view that, based on the mentioned JV Agreement and its ancillary documents (including the mentioned corporate guarantee issued by EI in favour of the Company), it has valid claim to get back the mentioned amount of EUR 4.3 million.

Despite the above, and in view of uncertainties regarding amounts and/or time, the Company decided to record the prepayment.

B) Prepayment in respect of the Targu Mures project in the amount of circa EUR 1 million. The Company decided to record this prepayment in view of uncertainty associated with the development of the project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 11 - TRADING PROPERTIES

	December 31, 2013 (**)	December 31, 2012 Restated(*)
Balance as at 1 January	612,475	648,674
Acquisition and construction costs	3,728	21,254
Capitalized borrowing costs (1)	6,530	19,091
Write-down of trading properties (2)	(117,913)	(60,293)
Effect of movements in exchange rates	(7,831)	(2,800)
Trading properties disposed (refer to note 34(E))	(1,815)	(13,451)
Balance as at 31 December (3)	495,174	612,475
Completed trading properties (operating shopping centers)	222,976	252,178
Plots scheduled for construction (3),(4)	206,236	254,110
Plots under planning stage	65,962	106,187
Total	495,174	612,475

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.
(**) As of December 31, 2013, the Koregaon park trading property is the only trading property presented as short term, owing to the existence of a sale and purchase agreement on the trading property. All other trading properties are classified as long term.

(1) Regarding accounting policy of capitalizing borrowing costs refer to note 4 (e). The Company temporarily suspended capitalization of borrowing costs starting July 1, 2013, following temporary suspension of active development of the majority of its trading properties due to the Group's liquidity crisis.

(2) Breakdown of write -down of trading properties:

Project name (location)	The year ended December 31, 2013	2012
Iasi (Iasi, Romania)	1,582	19,881
Koregaon Park (Pune, India)	15,564	14,523
Belgrade Plaza (Belgrade, Serbia)	29,347	5,014
Helios Plaza (Athens, Greece)	12,267	-
Liberec (Liberec, Czech Republic)	11,578	3,141
Belgrade Plaza Visnjicka (Belgrade, Serbia)	6,825	-
Lodz Plaza (Lodz, Poland)	6,400	-
Casaradio - Turbines (Bucharest, Romania)	6,305	1,912
Zgorzelec (Zgorzelec, Poland)	2,013	4,136
Constanta (Constanta, Romania)	4,972	-
Ciuc (Ciuc, Romania)	4,414	-
Kragujevac (Kragujevac, Serbia)	751	4,125
Timisoara (Timisoara, Romania)	3,968	-
Roztoky (Prague, Czech Republic)	3,500	-
Kielce (Kielce, Poland)	828	2,698
Sofia (Sofia, Bulgaria)	-	1,685
Other, aggregated	7,599	3,178
	117,913	60,293

NOTE 11 - TRADING PROPERTIES (Cont.)

(2) Breakdown of write -down of trading properties (cont.):

The write downs were caused mainly by the following factors:

- There were significant decreases in Net Realizable Values of certain projects below the carrying amount due to worsening market condition in the certain countries in which the Group operates including mainly Romania and Serbia.
- In accordance with the Group's accounting policy plots of lands held for development are not written down below costs if the completed projects are expected to be sold at or above cost. Following management reassessment of the business plans of certain undeveloped plots of land, and the difficulty to assess whether they will be developed or not, and to recover their costs, the carrying amount of the plots were written down to their Net Realizable Values.
- The disposal, or contracted disposal, of certain properties at a selling price below their carrying amount triggered write down of these properties to their contractual selling price (refer to note 34(E) and 34(G))

(3) Including cost of Casaradio project in Romania in a total amount of EUR 153 million (2012 – EUR 158 million).

(4) The value of the Casaradio project in Romania includes two non-operative gas turbines with a total carrying amount of EUR 3 million (following write down). These turbines were purchased in the past with the purpose of supplying energy to the completed project due to lack of sufficient energy infrastructure capabilities in Bucharest at the time. Following an improvement in the energy infrastructure in recent years the turbines became redundant and efforts were made to dispose of them. In the course of 2013 the turbines were written down (EUR 6.3 million) to their Net Realizable Values based on most recent offering prices received from potential buyers. Refer to note 38 (B) for the selling of the turbines.

<u>Casaradio note</u>

1. <u>General</u>

In 2006 the Company entered into an agreement according to which it acquired 75% interest in a company ("Project SPV") which under a Public-Private Partnership agreement ("PPP") with the Government of Romania is to develop the Casa Radio site in central Bucharest ("Project"). .After signing the PPP agreement, the Company holds indirectly 75% of the shares in the Project SPV, the remaining 25% are held by the Romanian authorities (15%) and another third party (10%).

As part of the PPP, the Project SPV was granted with development and exploitation rights in relation to the site for a period of 49 years, starting December 2006. In addition, the Project SPV has committed to construct a Public Authority Building ("PAB") measuring approximately 11.000 square meters for the Romanian Government at its own cost.

Large scale demolition, design and foundation works were performed on the construction site which amounted to circa EUR 85 million until 2010, when current construction and development were put on hold due to lack of progress in the renegotiation of the PPP Contract with the Authorities (refer to point 3 below).

2. <u>Obtaining of the Detailed Urban Plan ("PUD") permit</u>

The Project SPV obtained the PUD related to this project in September 2012. Furthermore, on 13 December 2012, the Court took note of the waiver of the claim submitted by certain plaintiffs and rejected the litigation aiming to cancel the approval of the Zonal Urban Plan ("PUZ") related to the Project. The court decision is irrevocable.

NOTE 11 - TRADING PROPERTIES (Cont.)

Casaradio note (cont.)

2. Obtaining of the Detailed Urban Plan ("PUD") permit (cont.)

As the PUD is based on the PUZ, the risk that the PUD would be cancelled as a result of the cancellation of the PUZ was removed following the date when the PUZ was cleared in court on December 13, 2012.

3. Discussions with Authorities on construction time table deferral

As a result of point 2, following the Court decision, the Project SPV was required to submit a request for building permits within 60 days from the approval date of the PUZ/PUD and commence development of its project within 60 days after obtaining the building permit.

However, due to substantial differences between the approved PUD and stipulations in the PPP Contract as well as changes in the EU directives concerning buildings used by Public Authorities, and in order to ensure a construction process that will be adjusted to current market conditions, the Project SPV started preliminary discussions with the Romanian Authorities (which are both shareholders of the Project SPV and a party to the PPP) regarding the future development of the project.

The Project SPV also officially notified the Romanian Authorities in order to renegotiate the existing PPP contract on items such as time table, structure and milestones (e.g the construction of the Public Authority Building ("PAB"), whose' estimated costs are provisioned for in these financial statement – refer to point 4 below).

The Company estimates that although there is no formal obligation from the Romanian Authorities to renegotiate the PPP agreement, such obligation is expressly provided for the situation when extraordinary economic circumstances arise. Management believes that an agreement will be reached with the Authorities regarding the future development of the project (management cannot assess at this stage the timing of reaching such agreement) and that the current discussions with the Authorities bear no material exposure for the Company's financial position as of 31 December 2013.

4. Provision in respect of PAB

As mentioned in point 1 above, when the Company entered into an agreement to acquire 75% interest in the Project SPV it assumed a commitment to construct the PAB at its own costs for the benefit of the Romanian Government. Consequently, the Company had recorded a provision in the amount of EUR 17.1 million in respect of the construction of the PAB. The Company utilized the amount of EUR 1.5 million out of this provision, but in the last 3 years has made no change in the provision, in view of significant changes that might be implemented to the project, mainly with the timing of the construction, and the construction specifications depending upon the outcome of the negotiations with the Authorities. Management believes that the current level of provision is an appropriate estimation in the current circumstances.

Upon reaching concrete agreements with Authorities, the Company will be able to update the provision.

Security over trading properties

As of December 31, 2013, a total carrying amount of EUR 223 million (December 31, 2012 – EUR 252 million) which represent operating shopping centers is pledged against secured bank loans of approximately EUR 173 million.

NOTE 11 - TRADING PROPERTIES (Cont.)

Write-down of trading properties

Trading properties are measured at the lower of cost and net realizable value. Determining net realizable value is inherently subjective as it requires estimates of future events and takes into account special assumptions in the valuations, many of which are difficult to predict.

Actual results could be significantly different than the Company's estimates and could have a material effect on the Company's financial results. Trading Properties accumulated write-downs from cost as of December 31, 2013, amounted to EUR 222 million or 31% percent of gross trading properties balance (2012 – EUR 108 million or 15% of gross trading property balance).

These valuations becomes increasingly difficult as it relates to estimates and assumptions for projects in the preliminary stage of development in addition to current economic uncertainty and the lack of transactions in the real estate market in the CEE and India for same or similar properties.

Management is responsible for determining the net realizable value of the Group's Trading Properties. In determining net realizable value of the vast majority of Trading Properties, management utilizes the services of an independent third party recognized as a specialist in valuation of properties (As at December 31, 2013 98% of the value of trading properties was based on valuations done by the independent third party valuation service (2012 - 99%). The remaining properties were valued internally.

On an annual basis, the Company reviews the valuation methodologies utilized by the independent third party valuator service for each property. The main features included in each valuation are:

1. Completed trading properties (operating shopping centers)

The Net Realizable Value of operating shopping centers reflects rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The Net Realizable Value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. The Group uses professional appraisers for determining the Net Realizable Value of the operating shopping centers.

Independent valuation reports are prepared by Cushman & Wakefield by using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at the reporting date.

The principal assumptions underlying management's estimation of Net Realizable Values are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions made by the Group and those reported by the market, if available. Expected future rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

2. Incomplete trading properties (undeveloped plots of lands)

The net realizable value in case of an undeveloped project is determined by either:

- comparison with the sale price of land for comparable development ; or
- assessment of the value of the project as completed and deduction of the costs of development (including developer's profit) to arrive at the underlying land value. This is known as the residual method.

NOTE 11 - TRADING PROPERTIES (Cont.)

2a – Comparative method

Valuation by comparison is essentially objective in that it is based on an analysis of the price achieved for sites with broadly similar development characteristics. Valuation by comparison is generally used if evidence of actual sales can be found and analyzed on a common unit basis, such as site area, developable area or habitable room.

Where comparable development cannot be identified in the immediate area of the subject site or when sales information is not clearly available through common channels of information (internet, newspapers, trade journals, periodic market research) it is necessary to look further out for suitable comparables and to make necessary adjustments to the price in order to account for dissimilarities between the comparables development and the subject site. Such adjustments include, but not limited to:

- Adjustment because of the time of the transaction. Market conditions at the time of the sales transaction of a comparable property may differ from those on the valuation date of the property being valued. Factors that impact market conditions include rapidly appreciating or depreciating property values, changes in tax laws, building restrictions or moratoriums, fluctuations in supply and demand, or any combination or forces working in concert to alter market conditions from one date to another.

- Adjustment because of asking price and condition of payment. The special motivations of the parties to the transaction in many situations can affect the prices paid and even render some transactions as non-market. Examples of special conditions of sale include a higher price paid by a buyer because the parcel has synergistic, or marriage value; a lower price paid because a seller was in a hurry to conclude the sale; a financial, business, or family relationship between the parties involved in the transaction, unusual tax considerations; lack of exposure of the property in the (open) market; or the prospect of lengthy litigation proceedings.

- Adjustment because of size, shape and surface area. Where the physical characteristics of a comparable property vary from those of the subject property, each of the differences is considered, and the adjustment is made for the impact of each of these differences on value.

- Adjustment because of location. The locations of the comparable sale properties and the subject property are compared to ascertain whether location and the immediate environment are influencing the prices paid. The better location a property is located in the more it is worth per square meter; and conversely the worse location a property is in the less it is worth per square meter. An adjustment is made to reflect such differences based on the valuers' professional experience. Extreme location differences may indicate that a transaction is not truly comparable and are disqualified.

2b – Residual method

The residual method, in contrast, relies on an approach that is a combination of comparison and cost and it requires making a number of assumptions – any of which can affect the outcome in varying degrees.

Having established the development potential a residual valuation can be expressed as a simple equation: (value of completed development) – (development costs + developers profit) = land value. Each element of this equation is discussed in the following paragraphs.

NOTE 11 - TRADING PROPERTIES (Cont.)

<u>2b – Residual method (cont.)</u>

<u>Value of completed development</u>

The value of the completed development is the market value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.

<u>Development costs</u>

The development costs include planning and design costs, construction costs, site related costs, holding costs, finance costs and contingencies.

Some larger schemes such as Casaradio in Romania, Bangalore and Chennai in India are phased over time. Is such case the phasing is reflected in the cash flows as deferment of some of costs to a date when it might be reasonable to expect them to be incurred. Similarly, not all receipts occur simultaneously.

<u>Developer's profit</u>

The nature of the development determines the selection of the profit margin, or rate of return and the percentage to be adopted varies for each case. The developers profit is expressed as a percentage of the cost of the completed development.

All of the trading properties were valued using the Residual technique (or the Discounted Cash Flows technique for operating shopping centres) with the exception of four projects (2012: six projects) with a total amount of EUR 15.5 million (2012: EUR 25.7 million) using the comparative method.

All the trading properties carrying amounts equals their net realizable values with the exception of Torun, Suwalki and Lodz residential in Poland and Casaradio project in Romania. (2012: Torun, Suwalki and Lodz residential in Poland, Casaradio and Timisoara in Romania and Belgarde Plaza visnjicka project in Serbia), where the carrying amount reflects the cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 11 - TRADING PROPERTIES (Cont.)

3. Significant estimates

The following table shows the valuation techniques used in measuring the net realizable values of trading properties, including those held by joint ventures which are equity accounted:

Group of assets	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Operating shopping centers – Poland	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the shopping centers. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated rental prices per SQM (EUR 3–40.0, weighted average EUR 6.56). • Estimated exit yield is 8.75%. • Discount rate is 10.25% • Based on 100% occupancy rate to be achieved within 2 years	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the Estimated yield rates were lower (higher); • the Estimated discount rates were lower (higher); • The occupancy of the mall was higher (lower).
Operating shopping center – Latvia (Joint Venture)	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the shopping centers. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated rental prices per SQM (EUR 5.10–72.0, weighted average EUR 12.50). • Estimated exit yield is 8.00%. • Discount rate is 9.25% • Based on 100% occupancy rate to be achieved within 1 year	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the Estimated yield rates were lower (higher); • the Estimated discount rates were lower (higher); The occupancy of the mall was higher (lower).
Operating shopping center – Serbia	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the shopping centers. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated rental prices per SQM (EUR 8–25.0, weighted average EUR 13.91). • Estimated exit yield is 9.00%. • Discount rate is 11.00% • Based on 100% occupancy rate	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the Estimated yield rates were lower (higher); • the Estimated discount rates were lower (higher); • The occupancy of the mall was higher (lower).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 11 - TRADING PROPERTIES (Cont.)

Significant estimates (cont.)

Group of assets	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Operating shopping center – Czech Republic	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the shopping centers. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated rental prices per SQM (EUR 6.00–42.0, weighted average EUR 16.00). • Estimated exit yield is 8.35%. • Discount rate is 10.02% • Based on 100% occupancy rate to be achieved within 1 year	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the Estimated yield rates were lower (higher); • the Estimated discount rates were lower (higher); • The occupancy of the mall was higher (lower).
Plots in CEE (except Casaradio)	Residual method: The valuation model considers the net present value (based on an NPV factor) based on the estimated value of the project upon completion less the estimated development cost including a provision for the profit for the potential development;	• Estimated weighted average rental prices per SQM is between EUR 14.00 to EUR 20.00; • The Estimated Exit Yield for the projects are between 8.00% • The construction cost of the projects are between 400 EUR/sqm for retail parks to 1,100 EUR /sqm for the malls; • The development finance rate is 7.00% • The occupancy of the projects at opening are estimated at 95%.	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the Estimated yield rates were lower (higher); • the Estimated discount rates were lower (higher); • The construction cost of the project were lower (higher); • The developer's profit provision for the project were lower (higher); • The development finance provision for the project were lower (higher); • The estimated completion of the project were shorter (longer); • The occupancy of the mall were higher (lower); • The land prices for comparable transactions on the market would be higher (lower) • The characteristics of the project would be changed;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 11 - TRADING PROPERTIES (Cont.)

Significant estimates (cont.)

Group of assets	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Casaradio	Residual method: The valuation model considers the net present value (based on an NPV factor) based on the estimated value of the project upon completion less the estimated development cost including a provision for the profit for the potential development	• Estimated weighted average rental prices per SQM EUR 29.00; • The Estimated Exit Yield is 7.00% for the mall and 8.00% for the office component • The construction cost of the project is 1,400 EUR/sqm for the mall; 850 EUR/sqm for the offices; 600 EUR/sqm for the residential component • The development finance rate is 7.00% • The occupancy of the project at opening is estimated at 95% • The scheme would compose the following components: (i) retail; (ii) offices; (iii) residential	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the estimated yield rates were lower (higher); • The construction cost of the project were lower (higher); • The developer's profit provision for the project were lower (higher); • The development finance provision for the project were lower (higher); • The estimated completion of the project were shorter (longer); • The occupancy of the mall were higher (lower); • The characteristics of the project would be changed
Bangalore and Chennai (Joint Ventures)	Residual method was used as well as follows: The valuation model considers the net present value (based on an NPV factor) based on the estimated value of the project upon completion less the estimated development cost including a provision for the profit for the potential development	For residual approach: • The sales price per sqm for the development is between INR 92,000 and INR 126,000 subject to the size, location and the quality of the asset class • The construction cost per sqm for the development is INR 21,000 to INR 38,000 subject to location and the quality of the asset class	The estimated residual fair value would increase (decrease) if: • the estimated sales prices per sqm were higher (lower); • the estimated construction cost were lower (higher); • The development finance provision for the project were lower (higher); • The estimated completion of the project were shorter (longer); • The characteristics of the project would be changed; • The developer's profit provision for the project were lower (higher)

NOTE 11 - TRADING PROPERTIES (Cont.)

Significant estimates (cont.)

The following table provides sensitivity analysis on value of certain projects (in thousands of EUR), assuming the following changes in key inputs used in valuations:

Operating Property	Yield					Rent					Construction Cost				
	-50bps	-25bps	0	+25bps	+50bps	10%	5%	-	-5%	-10%	10%	5%	-	-5%	-10%
Polish operating shopping centers	168,470	163,175	158,230	153,585	149,175	169,830	164,065	158,230	152,445	146,630	N/A	N/A	N/A	N/A	N/A
Serbian operating shopping center	44,225	42,975	41,775	40,625	39,575	44,325	43,050	41,775	40,500	39,225	N/A	N/A	N/A	N/A	N/A
Czech operating shopping center	18,850	18,250	17,675	17,150	16,625	19,675	18,950	17,675	17,525	16,800	N/A	N/A	N/A	N/A	N/A
Latvian operating shopping center (held in Joint Venture- 100% value disclosed, Company share is 50%)	93,600	90,575	87,725	85,050	82,525	92,775	90,250	87,725	85,200	82,675	N/A	N/A	N/A	N/A	N/A

Plots in CEE	Yield					Rent					Construction Cost				
	-50bps	-25bps	0	+25bps	+50bps	10%	5%	-	-5%	-10%	10%	5%	-	-5%	-10%
Helios Plaza	18,575	16,900	15,300	13,800	12,375	20,950	18,125	15,300	12,500	9,675	11,200	13,250	15,300	17,350	19,400
Belgrade Plaza	19,650	17,850	16,150	14,525	13,000	24,050	20,100	16,150	12,175	8,225	10,175	13,150	16,150	19,125	22,100
Casa Radio	202,950	188,050	174,150	161,150	149,000	226,025	200,100	174,150	148,200	122,250	139,675	156,900	174,150	191,375	208,625

Below is a summary table for main projects status:

NOTE 11 - TRADING PROPERTIES (Cont.)

Project	Location	Purchase year	Holding Rate (%)	Nature of rights	Permit status	Planned Gross Lettable Area (sqm)	Carrying amount December 31, 2013 (MEUR)	Carrying amount December 31, 2012 (MEUR)
Suwalki Plaza	Poland	2006	100	Ownership	Operating shopping center (starting Q2 2010)	20,000	38.7	38.7
Zgorzelec Plaza	Poland	2006	100	Ownership	Operating shopping center (starting Q1 2010)	13,000	17.1	18.9
Torun Plaza	Poland	2007	100	Ownership	Operating shopping center (starting Q4 2011)	40,000	67.4	67.3
Lodz residential	Poland	2001	100	Ownership/ Perpetual usufruct	Planning permit valid	80,000(*)	5.5	5.5
Lodz plaza	Poland	2009	100	Perpetual usufruct	Planning permit pending	35,000	7.9	13.6
Kielce Plaza	Poland	2008	100	Perpetual usufruct	Planning permit pending	33,000	4.0	4.8
Leszno Plaza	Poland	2008	100	Perpetual usufruct	Planning permit valid	16,000	1.7	1.9
Liberec Plaza	Czech Republic	2006	100	Ownership	Operating shopping center (starting Q1 2009)	17,000	17.7	29.4
Roztoky	Czech Republic	2007	100	Ownership	Disposed in July 2013	14,000(*)	-	5.5
Koregaon Park	India	2006	100	Ownership	Operating shopping center (starting Q1 2012)	110,000(*)	40.3	55.8
Casaradio	Romania	2007	75	Leased for 49 years	Detailed Urban Plan permit valid ("PUD")	600,000(*)	152.3	157.8
Iasi Plaza	Romania	2007	100	Ownership	Planning permit valid	58,000	11.6	13.1
Slatina Plaza	Romania	2007	100	Ownership	Planning permit valid	17,000	1.7	1.8
Targu Mures Plaza	Romania	2008	100	Ownership	Planning permit valid	30,000	3.5	6.1
Hunedoara Plaza	Romania	2008	100	Ownership	Planning permit valid	13,000	2.4	2.9
Timisoara Plaza	Romania	2007	100	Ownership	Zoning valid	38,000	10.8	14.8
Constanta Plaza	Romania	2009	100	Ownership	Existing building	18,000	6.3	11.3
Miercurea Ciuc Plaza	Romania	2007	100	Ownership	Planning permit valid	14,000	5.6	10.0
Kragujevac Plaza	Serbia	2007	100	Currently Construction lease period (99 years) with subsequent ownership	Operating shopping center (starting Q1 2012)	22,000	41.8	42.1
Belgrade Plaza visnjicka	Serbia	2007	100	Ownership	Location Permit valid	40,000	19.0	25.9
Belgrade Plaza	Serbia	2007	100	Ownership	Under negotiations	70,000(*)	16.2	45.5
Shumen Plaza	Bulgaria	2007	100	Ownership	Planning permit valid	20,000	2.1	4.6
Arena Plaza Extension	Hungary	2005	100	Land use rights	Building permit valid	40,000	3.4	3.4
Piraeus Plaza	Greece	2002	100	Ownership	Building permit valid	26,000	15.3	27.3
Other small plots, grouped							2.9	4.5
Total							495.2	612.5

(*) GBA (sqm)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 12 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment	Fixtures and fittings	Airplane (1)	Total
Cost					
Balance at January 1, 2012 (*)	**7,181**	**4,529**	**1,397**	**4,737**	**17,844**
Additions	-	462	-	-	462
Disposals	-	(592)	-	-	(592)
Exchange rate effect	-	(42)	-	-	(42)
Balance at December 31, 2012 (*)	**7,181**	**4,357**	**1,397**	**4,737**	**17,672**
Additions	-	75	-	-	75
Disposals	-	(749)	-	-	(749)
Exchange rate effect	-	(141)	-	-	(141)
Balance at December 31, 2013	**7,181**	**3,542**	**1,397**	**4,737**	**16,857**
Accumulated depreciation and impairment					
Balance at January 1, 2012 (*)	**2,606**	**3,421**	**1,020**	**2,567**	**9,614**
Depreciation	85	370	34	127	616
Impairment expenses (2)	-	-	-	449	449
Disposals	-	(355)	-	-	(355)
Exchange rate effect	-	(33)	-	-	(33)
Balance at December 31, 2012 (*)	**2,691**	**3,403**	**1,054**	**3,143**	**10,291**
Depreciation	85	194	17	127	423
Disposals	-	(333)	-	-	(333)
Exchange rate effect	-	(44)	-	-	(44)
Balance at December 31, 2013	**2,776**	**3,220**	**1,071**	**3,270**	**10,337**
Net carrying amounts					
At December 31, 2013	4,405	322	326	1,467	6,520
At December 31, 2012	4,490	954	343	1,594	7,381
At January 1, 2012	4,575	1,108	377	2,170	8,230

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

Major additions/ disposals/ impairments during the period

(1) The airplane of the Company is pledged as a security for a bank facility utilized for the purchase of the airplane. For the selling of the airplane refer to note 38(A).

(2) In 2012, the Company recorded a loss due to impairment of its airplane of EUR 0.4 million, based on external valuation.

NOTE 13 - INVESTMENT PROPERTY

	2013	2012
Balance at 1 January	14,489	13,652
Disposal of Investment property (refer to notes 34(E)	(10,222)	-
Fair value revaluation (refer to note 29)	(4,267)	837
Balance at 31 December	-	14,489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 14 - EQUITY ACCOUNTED INVESTEES

The Group has the following interest (directly and indirectly) in the below joint ventures (the Group has no investment in associates), as at December 31, 2013 and 2012:

Company name	Country	Activity	Interest of holding (percentage) as at December 31, 2013	2012
Elbit Plaza USA LP ("EPUS")(1)	USA	Inactive	N/A	50%
Elbit Plaza USA II LP	USA	Inactive	50%	50%
P-One Infrastructure Pvt. Ltd. (2)	India	Residential	N/A	50%
Elbit Plaza India Real Estate Holdings Ltd. ("EPI")	Cyprus	Mixed-use large scale projects	47.5%	47.5%
Bas - Adams Invest S.R.L	Romania	Residential	25%	25%
Bas - Colorado Invest S.R.L	Romania	Residential	25%	25%
Bas - Malibu Invest S.R.L	Romania	Residential	12.5%	12.5%
Bas - Spring Invest S.R.L	Romania	Residential	25%	25%
Bas - Sunny Invest S.R.L	Romania	Residential	25%	25%
Bas - Primavera Invest S.R.L	Romania	Residential	25%	25%
Bas development S.R.L	Romania	Residential	25%	25%
SIA Diksna ("Diksna")	Latvia	Operating shopping center	50%	50%
Erocorner Gazdasagi Szolgaltato Kft.(3)	Hungary	Mixed-use project	N/A	50%
SBI Hungary Ingatlanforgalmazo es Epito Kft. ("Uj Udvar") (3)	Hungary	Mixed-use project	N/A	35%

(1) Refer also to note 34(H) for the dissolving of investee.
(2) Refer also to note 34(D) for the selling of the investee.
(3) Refer also to note 34(F) for the selling of the investees.

None of the joint ventures are publicly listed.

The movement in equity accounted investees (in aggregation) was as follows:

	2013	2012
Balance as at 1 January	161,779	156,334
Investments in equity-accounted investees	1,849	2,113
Share in results of equity-accounted investees, net of tax	952	1,475
Reclassification of EPUS (1)	-	32,364
Write-down of Equity-accounted investees (2)	(56,417)	(23,443)
Effect of movements in exchange rates	(15,036)	(7,064)
EPUS dissolved (1)	(32,410)	-
Equity-accounted investees disposed (3)	(20,576)	-
Balance as at 31 December (4)	40,141	161,779

(1) EPUS was the top holding company of the US operations, holding all the discontinued operations in the US. Upon the disposal of all US assets, EPUS remained with undistributed cash amounts, and had no activity, therefore the EPUS remaining asset was deemed not to be part of the discontinued operations, and therefore reclassified to equity accounted investees. EPUS was dissolved in March 2013, and all of the remaining cash in it was distributed as liquidation dividend to the owners. Refer also to note 34(H).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 14 - EQUITY ACCOUNTED INVESTEES (cont.)

(2) Breakdown of the Group's share of write downs (reversals of write downs) of trading properties projects held by equity accounted investees is as follows:

	The year ended December 31,	
Project name (holding company name)	2013	2012
Bangalore (held by equity accounted investee EPI)	31,017	-
Chennai (held by equity accounted investee EPI)	20,745	-
Kharadi (held by equity accounted investee P-One)	4,311	1,157
Dream Island (held by equity accounted investee Ercorner)	-	12,183
BAS projects (Grouped – held by 7 different entities)	-	10,055
Riga Plaza (held by equity accounted investee Diksna)	(1,513)	(139)
Uj Udvar (held by equity accounted investee SBI Hungary)	1,857	187
	56,417	23,443

(3) Refer also to note 34(D) and 34(F) for the selling of Ercorner, Uj Udvar and P-One.

(4) As of December 31, 2013, the loan to equity accounted investee Diksna totalled EUR 7.04 million (December 31, 2012 – EUR 6.9 million). Other investment in equity accounted investees is either through various equity instruments, or by loans to cover negative equity position considered part of the Group's net investment in the investee.

Material joint ventures

Within the joint ventures, two joint ventures were deemed as material, and these are EPI (due to holding of major schemes in Bangalore and Chennai) and Diksna (being the only active shopping center held through a joint venture). The summarized financial information of the material joint ventures is as follows:

	December 31,			
	2013		2012	
	EPI	Diksna	EPI	Diksna
Current assets (*)	1,274	2,776	952	3,100
Trading properties	46,752	87,725	142,711	84,700
Interest bearing loans from banks – current liability	-	(59,046)	-	(63,850)
Other current liabilities	(674)	(1,275)	(1,279)	(1,616)
Group loan to Diksna	-	(14,078)	-	(13,898)
Net assets (100%)	47,352	16,102	142,384	8,436
Group share of net asset (50%) (**)	23,676	8,051	71,192	4,218
Purchase price allocated to trading property	-	-	18,750	-
Carrying amount of interest in joint venture	23,676	8,051	89,942	4,218

(*) Including cash and cash equivalents in the amount of EUR 1.1 million (2012 - EUR 1.1 million).
(**) Though EPI is 47.5% held by the Company, the Company is accounted for 50% of the results, as the third party holding 5% in EPI is deemed not to participate in accumulated losses, hence EI and the Company, the holders of the remaining 95% each account for 50% of the results of EPI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 14 - EQUITY ACCOUNTED INVESTEES (cont.)

Material joint ventures (cont.)

	The year ended December 31,			
	2013		2012	
	EPI	Diksna	EPI	Diksna
Revenue	-	10,122	-	8,678
Cost of operations	-	(4,304)	-	(3,892)
Interest expenses	-	(2,016)		(2,186)
Gain from refinance of loan	-	1,800	-	-
Write downs (uplift)	(66,024)	3,026	-	278
Total net profit (loss) and comprehensive income (100%)	(67,446)	7,666	(1,594)	2,606
Group share of Profit (loss) and comprehensive income (50%)	(33,723)	3,833	(797)	1,303
Interest income on Diksna loan		90		133
Impairment of purchase price allocated to trading property	(18,750)	-	-	-
Total results from investee	(52,473)	3,923	(797)	1,436

Immaterial joint ventures information

With the exception of EPI and Diksna, all other joint ventures are considered immaterial. Three of these joint ventures were sold in the course of 2013, one was dissolved and the Company is currently negotiating for concluding a transaction in respect of the BAS projects as well. The aggregation of the information in respect of these immaterial joint ventures was as follows (the Group’s part):

	December 31,	
	2013	2012
Current assets	61	34,011
Trading properties	7,152	55,554
Interest bearing loans from banks (*)	(5,727)	(26,529)
Current liabilities	(70)	(2,366)
Carrying amount of interest in joint venture	1,416	60,670

(*) As of December 31, 2013, the Company has recourse on interest payments of these interest bearing loans from banks. The loans bear interest of three months Euribor + margin of 6%.

	December 31,	
	2013	2012
Revenues	801	7,171
Cost of operations	(674)	(4,799)
Write downs (refer to impairment table above)	(6,168)	(23,582)
Loss and comprehensive income	(6,915)	(22,607)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 15 - DERIVATIVES

The table below summarizes the results of the 2013 and 2012 derivatives activity, as well as the outstanding derivatives as of December 31, 2013 and 2012:

Derivative type	Nominal amount as of December 31, 2013	Fair value of derivatives at December 31, 2013	Gain (loss)in 2013	Fair value of derivatives at December 31, 2012	Gain (loss)in 2012	Maturity date of derivative
Currency options (1)	N/A	N/A	(2,364)	N/A	11,683	N/A
Cross currency Interest Rate SWAP (2)	N/A	N/A	(251)	(817)	966	November 2013
Cross currency Interest Rate SWAP	N/A	N/A	N/A	N/A	419	Settled in January 2012
Interest Rate Swap ("IRS") 1 (3)	EUR 25 million	(222)	188	(706)	(62)	June 2014
IRS 2 (4)	EUR 30 million	(475)	(31)	(1,136)	(462)	December 2014
IRS 3 (5)	EUR 35.5 million	(213)	187	(661)	(661)	December 2017
Total		(910)	(2,271)	(3,320)	11,883	

(1) Selling options strategy (by writing call and put options through major Israeli and foreign banks) in order to manage its foreign currency risk (EUR-NIS) inherent in its long term debentures series A and series B issued in NIS. The Company suspended its selling option strategy effective from July 1, 2013.

(2) The Company was paying a fixed interest of 6.98% based on a nominal EUR amount of EUR 15.1 million and receiving an interest of six months WIBOR + 4.5% with the same amortization schedule as the Polish bonds (refer to note 21). The swap was settled in March 2013 for a cash payment of EUR 0.8 million, in order to release EUR 2.7 million restricted cash served as guarantee in respect of the SWAP.

(3)In respect of Suwalki project loan. The project company pays EUR fixed interest rate of 2.13% and receives three months Euribor on a quarterly basis, until June 30, 2014.

(4) In respect of Kragujevac project loan. The project company pays EUR fixed interest rate of 1.85% and receives three months EURIBOR on a quarterly basis, until December 31, 2014. Refer to note 33 for details on the guarantee.

(5)In respect of Torun project loan. The project company pays fixed interest rate of 1% and receives three months Euribor on a quarterly basis, until December 31, 2017. Regarding pledges in respect of derivative activity refer to note 33d(2).

None of the abovementioned activities (including 2013 transactions) qualified for hedge accounting.

Fair value measurement

Fair values of the SWAP may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

Factors such as bid-offer spread, credit profile, collateral requirements and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, and middle exchange rates, as determined by relevant central banks at each cut dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16 - INTEREST BEARING LOANS FROM BANKS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 32. All interest bearing loans from banks are secured. Terms and conditions of outstanding loans were as follows:

	December 31, 2013	December 31, 2012 Restated (*)
Non-current loans		
Investment property secured bank loan	-	3,175
Other secured bank loan	-	2,598
	-	5,773
Current loans (including current maturities of long term loans)		
Trading properties secured bank loans	172,810	188,058
Investment property secured bank loans	-	469
Other secured bank loans	2,528	17,450
	175,338	205,977

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

Below is the breakdown of all outstanding bank loans:

	Nominal interest rate	Currency	Year of maturity	December 31, 2013 Carrying amount	December 31, 2012 Restated(*) Carrying amount
Torun project secured bank loan (1)	3M Euribor+3%	EUR	2017	47,905	49,028
Liberec project secured bank loan (2)	3M Euribor+2.7%	EUR	2014	20,498	21,066
Suwalki project secured bank loan (1)	3M Euribor+1.65%	EUR	2020	31,595	32,303
Zgorzelec project secured bank loan (1),(3)	3M Euribor+2.75%	EUR	2016	21,993	21,608
Kragujevac project secured bank loan (1),(4)	3M Euribor+5%	EUR	2027	29,108	30,123
Koregaon Park project secured bank loan (5)	13.25%	INR	2021	21,710	26,943
Koregaon Park project secured bank loan	11.5%	INR	2013	-	6,987
				172,810	**188,058**
Other secured bank loans	6M Telbor+6%	NIS	2013	-	17,268
Other secured bank loans (6)	3M USD Libor+4%	USD	2014	2,528	2,780
				2,528	**20,048**
Investment property secured bank loan	3M Euribor+1.75%	EUR	2016	-	**3,644**
Total interest bearing liabilities				**175,338**	**211,750**

(1) IRS on bank loans – refer to note 15.
(2) Liberec loan – recourse loan. Default in payment has occurred, and certain loan covenants are breached - the Company is on continuous negotiations with financing banks for obtaining a waiver.
(3) Zgorzelec loan – mostly non-recourse loan (except a component of a EUR 2.25 million which is recourse) -Certain loan covenants are breached – the Company has obtained a waiver for all covenants till maturity of the loan. The Company has also pledged it's plot in Leszno, Poland (refer also to note 11) in favour of the financing bank.
(4) Kragujevac loan – non-recourse loan- Certain loan covenants are breached – the Company is in continuous negotiations with financing banks for obtaining a waiver.
(5) Koregaon Park loan – out of 2013 balance, an amount of EUR 14 million is recourse loan. Refer to note 34 (G) in respect of the selling of the Koregaon park project.
(6) In respect of the airplane held by the Company. Refer also to note 38(A).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16 - INTEREST BEARING LOANS FROM BANKS (cont.)

Covenants

Since the Company has defaulted in its payments to bondholders, a cross-default clause covenant in most bank facilities might cause certain bank facilities to be considered as breached, and therefore banks may demand immediate repayment of such facilities. The Company has therefore reclassified all bank facilities to short term.

In certain cases, where a recourse loan is outstanding, the financing bank can become a creditor of the Company itself, in case the proceeds from selling the pledged asset do not cover the debt.

However, up to the date of approval of these financial statements, there has been no such demand from any of the financing banks for such immediate repayment of any of the bank facilities, and the Company's management estimates that no such demand will take place before the finalization of the restructuring process.

NOTE 17 - TRADE PAYABLES

	Currency	December 31, 2013	December 31, 2012 Restated(*)
Construction related payables	Mainly in INR	1,115	3,549
Other trade payables		1,317	4,020
		2,432	7,569

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

Main decrease in 2013 is attributable to payment to construction suppliers in respect of the projects in India, Poland and Serbia.

NOTE 18 - RELATED PARTIES PAYABLES

	Currency	December 31, 2013	December 31, 2012 Restated (*)
EI Group- ultimate parent company – expenses recharged	EUR, USD	672	144
Other related parties	EUR	272	15
EUL (parent company)	EUR, USD	-	387
		944	546

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

For payments (including share based payments) to related parties refer to note 35. Transactions with related parties are priced at an arm's length basis.

NOTE 19 - OTHER LIABILITIES

Short term	Currency	December 31, 2013	December 31, 2012 Restated (*)
Obligations to tenants	EUR	2,613	2,645
Advance payment in respect of selling of shopping center (refer to note 34(G))	INR	2,343	-
Loan from non-controlling interest	EUR	1,455	1,454
Obligation in respect of plot purchase	Mainly EUR	1,380	1,380
Accrued bond and bank interest	Mainly NIS	2,377	803
Accrued expenses and commissions		305	505
Government institutions and fees		416	361
Salaries and related expenses		174	275
Other		156	225
Total		11,219	7,648

(*) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

NOTE 20 - DEBENTURES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company is measuring part of its debentures Series A (raised in July 2007) and debentures Series B (raised in February and May 2008 and listed in the Tel Aviv Stock Exchange (“TASE”) at fair value through profit or loss. Both debentures principal are updated based on the change in the Israeli Consumer Price Index (“CPI”), meaning that every 1 percent change in Israeli CPI is causing a one (1) percent change in the principal value of the bond, and also on the interest paid. Indexation is made on a monthly basis.

Accrued interest on both debentures is paid every six months. Debentures Series A and Series B raised from 2009 onwards are presented at amortized cost (refer to note 21). Below is a summary of information on the debentures presented at fair value through profit or loss:

	Series A debentures			Series B debentures			
	Fair value	CPI adjusted	Par value	Fair value	CPI adjusted	Par value	Total Par value
January 1, 2013 (TNIS)	138,366	203,150	171,652	433,147	549,490	478,774	650,426
Reissuance (repayment) 2013 (TNIS) (*)			18,941			(159,591)	(140,650)
December 31, 2013 (TNIS)	173,554	229,868	190,593	294,989	373,313	319,183	509,776
January 1, 2013 (TEUR)	28,120	41,286	34,884	88,027	111,671	97,300	
December 31, 2013 (TEUR)	36,294	48,071	39,857	61,689	78,068	66,748	

(*) One fifth of outstanding Series A bond was scheduled to be repaid on December 31, 2013. However, all payments on both Series A and B were withheld effective November 2013 (refer also to note 34(A)). One third of outstanding debentures Series B (with par value of NIS 159,591 thousands) was repaid on July 1, 2013 in a total amount of EUR 39.1 million (2012 – repayment of NIS 193,922 thousands par value in a total amount of EUR 44.6 million).

Both debentures series are rated (effective as of the reporting date and of signing these financial statements) D by S&P Maalot Ltd. on a local scale (down from ilB in November 2013). The update followed the Company’s announcement that it would withhold payment on the upcoming debentures maturities.

NOTE 20 - DEBENTURES AT FAIR VALUE THROUGH PROFIT OR LOSS (cont.)

Prior to the Group's default and the potential impact of the restructuring plan (see Note 34(A)) Debentures Series A bear an annual interest rate of 4.5% (to be paid semi-annually) with 8 annual equal par value principal instalments between December 2010 and 2017; and Debentures Series B bear an annual interest rate of 5.4% (paid semi-annually) with 5 annual equal par value principal instalments between July 2011 and 2015.

All debentures were reclassified to current liabilities, in view of the decision to withhold all payments to creditors, which was an event of default. For more details on the debt restructuring plan, refer to note 34(A).

Fair value

The fair value of debentures is determined by an active market price quotation, as the debentures are traded in the TASE.

NOTE 21 - DEBENTURES AT AMORTISED COST

Bonds issued in Israel

	Series A debentures	Series B debentures			
	Par value	Par value	Total	CPI adjusted	CPI adjusted
	TNIS	**TNIS**	**TNIS**	**TNIS**	**TEUR**
January 1, 2013 (NIS)	-	251,251	251,251	288,362	58,603
Re-issuance	54,577	8,800	63,377		
Repayment 2013(*)	-	(86,684)	(86,684)		
December 31, 2013	54,577	173,367	227,944	268,592	56,168

(*)One fifth of the outstanding Series A bond was scheduled to be repaid on December 31, 2013. However, all payments on both Series A and B debentures were withheld effective November 2013 (refer also to note 34(A)).

One third of outstanding debentures Series B (with par value of NIS 86,684 thousands) was repaid on July 1, 2013 in a total amount of EUR 21.2 million (2012 – repayment of NIS 86,074 thousands par value in a total amount of EUR 20.7 million)

Bonds issued in Poland

On November 16, 2010, the Company completed the first tranche of a bond offering to Polish institutional investors. The Company raised a total of PLN 60 million (approximately EUR 15.2 million).

Prior to the Group's default and the potential impact of the restructuring as described in Note 34(A), the unsecured bearer bonds governed by Polish law (the "Bonds") had a three year maturity at an interest rate of six months Wibor plus 4.5%. Interest was to be paid every six months and the principal due in November 2013. However, this payment, as well as all other payments on debentures were withheld effective November 2013 (refer also to note 34(A)).

For debt covenants refer to note 33d(3).

As at December 31, 2013, the amortized cost is EUR 14,468 thousands (December 31, 2012- EUR 14,678 thousands).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 22- RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes recognized are attributable to the following items:

Assets/(liabilities) 2013	December 31, 2012 Restated (1)	Recognized in Profit or loss 2013	December 31, 2013
Investment property	(1,003)	1,003	-
Property, equipment and other assets	(293)	(86)	(379)
Debentures and structures at fair value through profit or loss	(9,588)	9,588	-
Derivatives	(1,569)	1,569	-
Available for sale financial assets (*)	(184)	184	-
Tax value of loss carry-forwards recognized (**)	5,707	(5,707)	-
Deferred tax liability, net	(6,930)	(6,551)	(379)

(1) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards

(*) Transferred to profit or loss, following the disposal of all available for sale financial assets.
(**) Due to tax losses created on the Company.

Assets/(liabilities) 2012	December 31, 2011 restated (1)	Recognized in Profit or loss	Recognized in comprehensive income	December 31, 2012 Restated (1)
Investment property	(804)	(199)	-	(1,003)
Property, equipment and other assets	(292)	(1)	-	(293)
Debentures and structures at fair value through profit or loss	(14,496)	4,908	-	(9,588)
Derivatives	(1,391)	(178)	-	(1,569)
Available for sale financial assets (*)	446	-	(630)	(184)
Tax value of loss carry-forwards recognized	3,348	2,359	-	5,707
Deferred tax liability, net	(13,189)	6,889	(630)	(6,930)

(1) Restated due to Retrospective application – refer to Note 3 regarding initial application of the new suite of standards.

(*) Change included in comprehensive income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 22- RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES (cont.)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of tax losses in a total amount of EUR 90,043 thousands (2012: EUR 91,574 thousand).

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits there from. As of December 31, 2013 the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	2014	2015	2016	2017	2018	After 2018
130,459	10,991	21,113	8,249	12,061	16,605	61,440

Tax losses are mainly generated from operations in Czech Republic, Romania, Serbia, Latvia and the Netherlands. Tax settlements may be subjected to inspections by tax authorities. Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

NOTE 23 - EQUITY

	Remarks	December 31, 2013	December 31, 2012
		Number of shares	
Authorized ordinary shares of par value EUR 0.01 each		1,000,000,000	1,000,000,000
Issued and fully paid:			
At the beginning of the year		297,186,138	297,174,515
Exercise of share options	See (a) below	-	11,623
At the end of the year		297,186,138	297,186,138

a. In the course of 2012, 108,335 vested options were exercised into 11,623 shares of EUR 0.01. In the course of 2013 there was no exercise of options.

Share based payment reserve

Other capital reserve is in respect of Employee Share Option Plans ("ESOP") in the total amount of EUR 35,313 as of December 31, 2013 (2012 – EUR 34,889). Regarding the amendments of ESOP 1 and ESOP No. 2 and its effect on other capital reserves refer to note 25.

Translation reserve

The translation reserve comprises, as of December 31, 2013, all foreign exchange differences arising from the translation of the financial statements of foreign operations in India.

Dividend policy

Following the withholding of payments of all corporate level debt and in line with the restructuring plan (refer to note 34(A)), the Company's Board of Directors and management will commit to certain restrictions on dividends.

NOTE 24 - EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") at December 31, 2013 was based on the loss attributable to ordinary shareholders of EUR 218,073 thousand (2012: loss of EUR 86,163 thousand) and a weighted average number of ordinary shares outstanding of 297,181 thousand (2012: 297,181 thousand).

The calculation of basic EPS at December 31, 2013 from continuing operations was based on the loss attributable to ordinary shareholders of EUR 218,138 thousand (2012 – EUR 84,119 thousand).

Weighted average number of ordinary shares (for both EPS and EPS from continuing operations)

In thousands of shares with a EUR 0.01 par value	**December 31,**	
	2013	**2012**
Issued ordinary shares at 1 January	297,181	297,175
Share based payment - exercise of options	-	6
Weighted average number of ordinary shares at 31 December	297,181	297,181

The calculation of diluted earnings per share from continuing operations for comparative figures is calculated as follows:

Weighted average number of ordinary shares (diluted)

In thousands of shares with a EUR 0.01 par value	**December 31,**	
	2013	**2012**
Weighted average number of ordinary shares (basic)	297,181	297,181
Effect of share options on issue	-	792
Weighted average number of ordinary shares (diluted) at 31 December	297,181	297,973

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

Refer to note 37 for calculations of earnings per share from discontinued operation.

NOTE 25 - EMPLOYEE SHARE OPTION PLAN

On October 26, 2006 the Company's Board of Directors approved the grant of up to 33,834,586 non-negotiable options for the Company's ordinary shares to the Company's board members, employees in the company and other persons who provide services to the Company including employees of the Group ("Offerees"). The options were granted to the Offerees for no consideration.

On November 22, 2011 the Company's general shareholders meeting and the Board of Directors approved to amend the 1st ESOP to extend the Option Term (i.e., as defined in the 1st ESOP, being the term during which options can be exercised under the 1st ESOP) from seven (7) to ten (10) years from the Date of Grant. As a result the Company record an incremental fair value of EUR 955,433 which were included in the consolidated income statement.

Furthermore, 2nd ESOP plan was adopted on November 22, 2011 which is based on the terms of the 1st ESOP as amended in accordance with the terms as referred to above, with a couple of amendments, the most important of which is the total number of options to be granted under the 2nd ESOP is fourteen million (14) and a cap of GBP 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

It is noted that, on the basis of all 14 options being granted under the 2nd ESOP and fully exercised thereafter, this would have an effect of dilution of up to three percent (3%) (on fully diluted basis) of the issued share capital as at October 2011.

On November 22, 2012 the Company's general shareholders meeting and the Board of Directors approved to amend the 1st ESOP to extend the Option Term (i.e., as defined in the 1st ESOP, being the term during which options can be exercised under the 1st ESOP) from ten (10) to fifteen (15) years from the Date of Grant. As a result the Company record an incremental fair value of EUR 0.5 million which were included in the consolidated income statement.

Exercise of the options is subject to the following mechanism:

Grant date / employees entitled	Number of options	Vesting conditions	Contractual life of options(1)
ESOP No.1			
Option grant to key management at October 27, 2006	13,218,073	see (3) below	15 years
Option grant to employees at October 27, 2006	1,894,020	see (3) below	15 years
Total granted in 2006	15,112,093	see (3) below	15 years
Total granted in 2007 (2)	1,109,490	see (3) below	15 years
Total granted in 2008 (2)	768,887	see (3) below	15 years
Total granted in 2009 (2)	441,668	Three years of service	15 years
Total granted in 2010 (2)	-	Three years of service	15 years
Total granted in 2011(2)	150,000	Three years of service	15 years
ESOP No.2			15 years
Total granted in 2011 (2)	4,874,000	Three years of service	
Total granted in 2012 (2)	970,000	Three years of service	10 years
Total granted in 2013 (2)	1,465,000	Three years of service	
Total share options Granted	24,891,138		

(1) Following the 4th amendment of ESOP1, the contractual life for stock options granted changed from 10 years to 15 years

(2) Share options granted to key management: 2007 – 100,000 share options; 2008 – 260,000 share options; 2009 - 73,334 share options; 2011- 3,225,000 share options (ESOP No. 2); 2012 – 450,000 share options; 2013 – 150,000 share options.

(3) Vesting conditions - On November 25, 2008 the Company's general shareholders meeting and the Board of Directors approved modification of ESOP1. The amendment plan determined that all options that were not vested on October 25, 2008 ("record date") shall vest over a new three-year period commencing on the record date, in such way that each year following that date one third of such options shall be vested. The number of options which were modified under the amendment was 28,182,589.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

On exercise date the Company shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of the Company's shares on the LSE (or WSE under certain conditions) on the exercise date, provided that if the opening price exceeds GBP 3.24, the opening price shall be set at GBP 3.24 (Except 2nd ESOP as stated above); less (B) the Exercise Price of the Options; and such difference (A minus B) will be divided by the opening price of the Company's Shares on the LSE (or WSE under certain conditions) on the exercise date:

	Weighted average exercise price (*)	Number of options	Weighted average exercise price	Number of options
	2013	2013	2012	2012
	GBP		GBP	
Outstanding at the beginning of the year	0.43	24,997,557	0.46	26,905,132
Exercised during the year	-	-	0.42	(108,335)
Forfeited during the period - back to pool	0.45	(1,586,419)	0.96	(2,989,240)
Granted during the year	0.29	1,650,000	0.47	1,190,000
Outstanding at the end of the year	0.43	25,061,138	0.43	24,997,557
Exercisable at the end of the year		21,070,033		20,176,650

(*)-The options outstanding at 31 December 2013 have an exercise price in the range of GBP 0.28 to GBP 0.54 (app. EUR 0.34 - EUR 0.65), and have weighted average remaining contractual life of 8.16 years. The weighted average share price at the date of exercise for share options exercised in 2012 was GBP 0.48.

Following the modifications of the option plan, the maximum number of shares issuable upon exercise of all outstanding options as of the end of the reporting period is 34,722,528.

The estimated fair value of the services received is measured based on a binomial lattice model using the following assumptions:

	Key management personnel 2013	Key management personnel 2012(*)	Employees 2013	Employees 2012(*)
	EUR	EUR	EUR	EUR
Fair value of share options and assumptions				
Fair value at measurement date (in EUR)(*)	22,849	131,368	183,403	144,017
Weighted average Exercise price	0.28	0.52	0.29	0.46
Expected volatility	49.36%-49.85%	47.69%-59.8%	46.74%-49.9%	39.75%-59.8%
Weighted average share price (Gbp)	0.28	0.50	0.3	0.46
Suboptimal exercise multiple	2	2	1.5	1.5
Expected dividends	-	-	-	-
Risk-free interest rate (based on the yield rates of the non indexed linked UK treasury bonds)	0.33%-4.42%	0.31%-3.06%	0.18%-4.42%	0.24%-4.13%

(*)not including information in respect of the amendment of the 1st ESOP.

During 2013 the total employee costs for the share options granted was EUR 424 thousands (2012 - EUR 1,419 thousands).

NOTE 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

Due to low trading volumes, there is not enough information concerning Plaza share price. Therefore, in order to derive the expected stock price volatility, analysis was performed based on the data of Plaza, and of three other companies operating in the similar segment, which have similar market capital and are traded at the Warsaw Stock Exchange. In an attempt to estimate the expected volatility, first calculation of the short-term standard deviation (standard deviation of company's share during one year as of the options' Grant Date) has been done. In the next stage, calculation of the long-term standard deviation (standard deviation for the period starting one year prior to the Grant Date for the remaining period of the plan) has been done, where the weight of the standard deviation for the Company was ranging between 45% -65% and the weight of the average of standard deviations of comparative companies was 35% – 55% (2012: the same)The working assumption is that the standard deviation of the underlying asset yield converges in the long term with the multi-year average.

PCI and EPI Share Option plans

On March 14, 2011 ("Date of grant") the Company's direct subsidiaries PCI and EPI ("Companies") granted non-negotiable options, exercisable into the Companies' ordinary shares, to employees, directors and officers of the Companies and/or affiliates of the Companies. The options were granted for no consideration and have 3 years of vesting with contractual life of 7 years following the date of grant of such options. PCI had granted 14,212 share options with exercise price of EUR 227 per option. EPI had granted 51,053 share options with exercise price of EUR 0.01 per option. PCI and EPI common shares valuation methodology was based on NAV Model. The expected stock price volatility was based on 5 Indian publicly traded real estate companies and set to range 43.31%-54.4%. The annual risk free interest rate range was: 1.25% - 4.03%. The suboptimal exercise multiple for key management personnel were set to 2 and for employees 1.5 in 2011. The Option Plans include, among others, a Cashless Exercise mechanism prior to/following IPO and conversion upon the listing of a subsidiary.

The total number of Underlying Shares reserved for issuance under PCI Plan and EPI Plan and any modification thereof shall be 14,697 Underlying Shares and 52,600 Underlying Shares, respectively (representing approximately 5% of the share capital of the Companies on a fully diluted basis, inclusive of all Underlying Shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26 - RENTAL INCOME

a. Continuing operations (rental)

	For the year ended December 31,	
	2013	2012 Restated (*)
Rental income from operating shopping centers presented as Trading properties (1)	22,480	21,742
Other rental income (2)	1,198	1,370
Total	**23,678**	**23,112**

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

(1) As of the end of 2013 and 2012, there are six operating shopping centers presented as part of trading properties.

(2) Composed mainly from rental income generated by the Investment property Prague 3 (disposed in July 2013, refer to note 34(E)) in the amount of EUR 0.7 million (2012 – EUR 1.3 million). The rest of the rental income is attributed to small scale rental fees charged on plots held by the Group.

b. Continuing operations (entertainment centers)

Revenue from operation of entertainment centers is attributed to a subsidiary of the Company trading as "Fantasy Park" which provides gaming and entertainment services in operating shopping centers. As of December 31, 2013, these subsidiaries operate in four shopping centers (December 31, 2012 – in 13 shopping centers). Regarding the settlement reached in respect of legal claims against Fantasy Park refer to note 34(M). Following the settlement reached, seven of Fantasy Park operation centers were closed.

Discontinued operation- For comparative revenues generated from discontinued operation, refer to note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27 - COST OF OPERATIONS

a. Continuing operations (cost of operations)

	For the year ended December 31, 2013	For the year ended December 31, 2012 Restated (*)
Active shopping centers presented as Trading properties (1)	8,187	7,994
Other cost of operations (2)	1,221	1,390
Total	**9,408**	**9,384**

(*) Restated mainly due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards. Additional reclassification of EUR 3.5 million of mainly marketing costs into cost of operations from administrative expenses was performed in order to better reflect the Net Operating Income (NOI) of the operating shopping centers and entertainment activities in the gross profit line item.

(1) Refer to note 26 (1) above.
(2) Composed mainly from costs generated by the Investment property Prague 3 (disposed in July 2013, refer to note 34(E)) in the amount of EUR 0.3 million (2012 – EUR 0.5 million). The rest of the cost is attributed to small scale costs on plots held by the Group.

b. Continuing operations (entertainment centers)

Refer also to note 26 (b) above. The costs are inclusive of management of the operation of the entertainment centers, as well as utility, rent and spent material associated with the operation of the entertainment centers.

Discontinued operation – For comparative costs relating to discontinued operations, refer to note 37.

NOTE 28 - ADMINISTRATIVE EXPENSES AND RESTRUCTURING COSTS

a. Administrative expenses, excluding restructuring costs

	For the year ended December 31, 2013	For the year ended December 31, 2012 Restated (*)
Salaries and related expenses	4,522	5,242
Professional services	3,743	3,734
Offices and office rent	445	707
Travelling and accommodation	180	702
Depreciation and amortization	382	610
Others	163	437
Total	**9,435**	**11,432**

(*) Restated mainly due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards. Additional reclassification of EUR 3.5 million of administrative expenses (of mainly marketing costs) into cost of operations was performed in order to better reflect the operation performance of active shopping centers and entertainment activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 28 - ADMINISTRATIVE EXPENSES AND RESTRUCTURING COSTS (cont.)

b. Restructuring costs

The Company incurred restructuring cost as a result of the restructuring process (refer to note 34 (A)).

NOTE 29 - OTHER INCOME AND OTHER EXPENSES

	For the year ended December 31,	
	2013	2012 Restated (*)
Gain from selling property and equipment	23	19
Income from insurance company (refer to note 10)	-	7,611
Change in fair value of investment property (1)	-	837
Other income	390	503
Total other income	413	8,970
Impairment of property and equipment (2)	-	(450)
Impairment of Kochi advance (refer to note 10)	(4,321)	-
Impairments of other assets (3)	(2,548)	-
Change in fair value of investment property (1)	(4,267)	-
Other expenses	(332)	(672)
Total other expenses	11,468	(1,122)
Other income (expense), net	(11,055)	7,848

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

(1) Refer to note 13.
(2) Refer to note 12.
(3) Mainly due to assets associated with trading property assets in Romania (Targu Mures and BAS).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 30 - NET FINANCE INCOME (COSTS)

	For the year ended December 31,	
Recognized in profit or loss	2013	2012 Restated (*)
Foreign exchange losses on bank deposits, bank loans	17	-
Gain from bonds buyback programme	-	4,333
Interest income on bank deposits	119	1,025
Finance income from available for sale financial assets	956	712
Interest income on structured deposits	-	2,085
Finance income from hedging activities through writing options	-	11,683
Changes in fair value of derivatives	93	199
Interest from loans to related parties	103	321
Finance income	**1,288**	**20,358**
Interest expense on debentures (including CPI)	(9,580)	(19,135)
Interest expense on bank loans	(10,732)	(12,452)
Changes of fair value in debentures measured at fair value through profit or loss (1)	(13,185)	(19,032)
Loss from reissuance of bonds	(5,707)	-
Interest expenses on loans on structures	-	(497)
Finance costs from hedging activities through sale of options	(2,364)	-
Foreign exchange losses on debentures	(5,352)	(2,033)
Loss from available for sale financial assets sold	-	(1,222)
Changes in fair value of structured deposit	-	(45)
Foreign exchange losses on bank deposits, bank loans	-	(1,091)
Cost of raising loans amortized to profit or loss	-	(676)
Other finance expenses	(242)	(439)
	(47,162)	(56,622)
Less- borrowing costs capitalized to trading properties under development	6,530	19,091
Finance costs	**(40,632)**	**(37,531)**
Net finance costs	**(39,344)**	**(17,173)**

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

(1) The change in fair value includes a total of EUR 4 million (2012 – EUR 2.8 million) attributable to the credit risk of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31 - TAXES

Tax recognized in profit or loss

	For the year ended December 31, 2013	For the year ended December 31, 2012 Restated (*)
Current year	295	297
Deferred tax benefit (refer to note 22)	(6,551)	(6,889)
Total	**(6,256)**	**(6,592)**

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

Deferred tax expense (tax benefit)

	For the year ended December 31, 2013	For the year ended December 31, 2012 Restated (*)
Origination and reversal of temporary differences	(6,551)	(4,368)
Recognition of previously unrecognized tax losses	-	(2,521)
	(6,551)	(6,889)

Reconciliation of effective tax rate:

	%	**For the year ended December 31, 2013**	**For the year ended December 31, 2012 Restated (*)**
Dutch statutory income tax rate		25%	25%
Loss from continuing operations before income taxes		(224,394)	(90,711)
Tax at the Dutch statutory income tax rate	25%	(56,098)	(22,678)
Recognition of previously unrecognized tax losses		-	(2,521)
Effect of tax rates in foreign jurisdictions		19,607	5,169
Current year tax loss for which no deferred tax asset is provided (1)		26,854	13,395
Non-deductible expenses		3,381	43
Tax Expense (Tax benefit)		**(6,256)**	**(6,592)**

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

(1) 2012 – Mainly due to impairments not recognized for tax purposes.

NOTE 31 - TAXES (Cont.)

The main tax laws imposed on the Group companies in their countries of residence:

The Netherlands

a. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 25%. The first EUR 200,000 of profits is taxed at a rate of 20%. Tax losses may be carried back for one year and carried forward for nine years. As part of the measures to combat the consequences of the economic crisis, taxpayers can elect for an extension of the loss carry back period to three years (instead of one year). The election is only available for losses suffered in the taxable years 2009, 2010 and 2011. If a taxpayer makes use of the election, two additional limitations apply: (i) the loss carry forward period for the taxable years 2009, 2010 and/or 2011 will be limited to a maximum of six years (instead of nine years); and (ii) the maximum amount of loss that can be carried back to the second and third year preceding the taxable year will be limited to EUR 10 million per year. The amount of loss that can be carried back to the year directly preceding the taxable year for which the election is made will remain unrestricted. As of the taxable year 2012, the election for extended loss carry back is not available anymore and the regular loss carry back and carry forward limitations apply.

b. Under the participation exemption rules, income (including dividends and capital gains) derived by Netherlands companies in respect of qualifying investments in the nominal paid up share capital of resident or non-resident investee companies, is exempt from Netherlands corporate income tax provided the conditions as set under these rules have been satisfied. Such conditions require, among others, a minimum percentage ownership interest in the investee company and require the investee company to satisfy at least one of the following tests:

- Motive Test, the investee company is not held as passive investment;

- Tax Test, the investee company is taxed locally at an effective rate of at least 10% (calculated based on Dutch tax accounting standards);

- Asset Test, the investee company owns (directly and indirectly) less than 50% low taxed passive assets.

India

The corporate income tax rate applicable to the taxable income of an Indian Company is 32.445% (including surcharge of 5% and cess of 3%) or 33.99% (including surcharge of 10% and rate of 3%. Surcharge of 5% is applicable if the total income exceeds INR 10 million (EUR 0.12 million) but is less than INR 100 million (EUR 1.2 million) and 10% if the total income exceeds INR 100 million). Minimum alternate tax (MAT) of 20.01% (including surcharge of 5% and cess of 3%) or 20.96% (including surcharge of 10% and cess of 3%) would apply on the taxable book profits of a company. Taxable book profits are computed in accordance with relevant provisions of the Indian Income Tax Act. The final tax payable is the higher of the MAT liability or corporate income tax payable. If taxes are paid under MAT, then credit to the extent of MAT paid over corporate income tax is available (MAT credit). MAT Credit can be availed, if the company has future taxable profits in the following ten years and credit to the extent of difference of the MAT payable and corporate income tax payable of the Company is allowed.

Capital gains on transfer of capital assets (on which tax depreciation has not been claimed) are taxed at the rate of 21.63% (Including surcharge of 5% and rate of 3%) or 22.66% (including

NOTE 31 - TAXES (Cont.)

India (cont.)

surcharge of 10% and cess of 3%), provided that the capital assets were held for more than 36 months immediately preceding the date of the transfer or 32.445% (including surcharge of 5% and cess of 3%) or 33.99% (including surcharge of 10% and of 3 if they were held for less than 36 months (in case of capital asset being shares held in a company or any security listed on a stock exchange in India or unit of the Unit Trust of India or a Unit of Mutual fund or Zero Coupon Bonds, a period of 12 months is considered). Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.995% (including surcharge of 10% and rate of 3%) There is no withholding tax on dividends distributed by an Indian company and no additional taxes need to be paid by the Shareholder. Business losses can be offset against profits and gains on any business or profession for a period of eight years from the incurrence year's end. There is no limit for carry forward of unabsorbed depreciation

India-Cyprus treaty issue

India has a Tax Treaty with Cyprus and under the Indian domestic tax laws, a resident of Cyprus would be eligible to claim recourse to the provisions of the India-Cyprus Tax Treaty to the extent the provisions of the Tax Treaty are more beneficial than those of the Indian domestic tax laws. The India-Cyprus Tax Treaty contains more beneficial provisions in respect of taxation of interest, capital gains etc. However, with effect from 1 November 2013, Cyprus has been notified as a Notified Jurisdictional Area ("NJA") under the Indian domestic tax laws due to lack of effective exchange of information with Cyprus. The notification of Cyprus as an NJA is an anti tax-avoidance measure and provides for onerous tax consequences in respect of transactions with Cypriot entities. The consequences of entering into transactions with Cypriot entities in light of the NJA provisions are:

- If a taxpayer enters into a transaction with a person in Cyprus, then all the parties to the transaction shall be treated as Associated Enterprises ['AE'] and the transaction shall be treated as an international transaction resulting in application of transfer-pricing provisions contained in the Indian domestic tax law including maintenance of prescribed documentation;
- No deduction in respect of any payment made to any financial institution in Cyprus shall be allowed unless the taxpayer furnishes an authorization allowing for seeking relevant information from the said financial institution;
- No deduction in respect of any other expenditure or allowance arising from the transaction with a person located in Cyprus shall be allowed unless the taxpayer maintains and furnishes the prescribed information;
- If any sum is received from a person located in Cyprus, then the onus is on the taxpayer to satisfactorily explain the source of such money in the hands of such person or in the hands of the beneficial owner, and in case of his failure to do so, the amount shall be deemed to be the income of the taxpayer;

Any payment made to a person located in Cyprus shall be liable for withholding tax at the highest of the following rates - (a) rates prescribed in the domestic tax laws (b) rates prescribed in the Tax Treaty (c) 30 per cent

Despite the above, the Company does not expect the above to have a material effect on its business in India, as no additional material equity injections in India is expected, and that disposal of assets is expected (if any) on an Indian level rather than on a Cypriot level.

NOTE 32 - FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included in note 34(A).

The Board of Directors has established a continuous process for identifying and managing the risks faced by the Group (on a consolidated basis), and confirms that it is responsible to take appropriate actions to address any weaknesses identified.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Company's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's financial instruments held in banks and from other receivables.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires collateral in the form of mainly deposit equal to three months of rent from tenants of shopping centers (collected deposits from tenants totalled EUR 2.6 million as at both December 31, 2013 and 2012).

Cash and deposits and other financial assets.

The Group limits its exposure to credit risk in respect to cash and deposits, including held for sale financial assets (debt instruments) by investing mostly in deposits and other financial instruments with counterparties that have a credit rating of at least investment grade from international rating agencies. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

b. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group encountered severe liquidity crisis during the last months of 2013. It suspended all payments to its debt holders in November 2013 and sought for credit protection from the Dutch court. Refer to note 34(A) for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32 - FINANCIAL INSTRUMENTS (cont.)
FINANCIAL RISK MANAGEMENT (Cont.)

c. Market risk

Currency risk

Currency risk is the risk that the Group will incur significant fluctuations in its profit or loss as a result of utilizing currencies other than the functional currency of the respective Group company.

The Group is exposed to currency risk mainly on borrowings (debentures issued in Israel and in Poland) that are denominated in a currency other than the functional currency of the respective Group companies. The currencies in which these transactions primarily are denominated are the NIS or PLN. Regarding currency and risk hedging of the debentures refer also to note 15. The company did not engage in hedging transactions in order to mitigate its currency risk exposure, starting the second half of 2013.

Interest Rate Risk (including inflation)

The group's interest rate risk arises mainly from short and long term borrowing (as well as debentures). Borrowings issued at variable interest rate expose the Group to variability in cash flows. Borrowings issued at fixed interest rate (but are presented at their fair value) expose the Group to changes in fair value, if the interest is changing. In certain case, the Group uses IRS to minimize the exposure to interest risk by fixing the interest rate. Regarding interest rate risk hedging of the debentures and bank facilities, refer to note 14. As the Israeli inflation risk is diminishing to a level that management believes is acceptable (Israeli CPI 2013 1.9%; 2012 1.4%), the Company has stopped using cross currency SWAP instruments in 2012.

Shareholders' equity management

Refer to note 34 (A) in respect of shareholders equity components in the restructuring plan. The Company's Board of Directors is updated on an ongoing basis on the progress of the restructuring process, to assure (among other things) that any changes in the shareholders equity (due to issuance of shares, options or any other equity instrument) is to the benefit of both the Company's bondholders and shareholders.

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The vast majority of financial assets are not passed due, and the management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behavior and extensive analysis of customer credit risk. The maximum exposure to credit risk at the reporting date was:

			Carrying amount as at December 31,	
	Note	Credit quality	2013	2012 Restated (*)
Cash and cash equivalents	5	Mainly Baa3	26,157	35,374
Restricted bank deposits- short term	6	Mainly BBB+	6,319	18,759
Held for trading financial assets		Mostly BB+	1,246	-
Available for sale debt securities	7	N/A	-	11,714
Trade receivables, net	8	N/A	3,372	3,399
Other receivables	9	N/A	4,871	11,492
Loan to Diksna	14	N/A	7,039	6,949
Restricted bank deposits – long term			181	779
Total			**49,185**	**88,466**

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 32 - FINANCIAL INSTRUMENTS (cont.)

Credit risk (cont.)

As of December 31, 2013 and 2012, all debtors without credit quality have a relationship of less than five years with the Group. At 31 December 2013, the ageing of trade and other receivables that were not impaired was as follows:

	Carrying amount December 31, 2013	2012 Restated (*)
Neither past due nor impaired	4,443	10,212
Past due 1–90 days	3,372	3,399
Past due 91–120 days	428	1,280
Total	**8,243**	**14,891**

The maximum exposure to credit risk for the abovementioned table at the reporting date by type of debtor was as follows:

	Carrying amount December 31, 2013	2012 Restated (*)
Banks and financial institutions	33,903	66,958
Tenants	3,372	3,399
Governmental and insurance institutions	1,877	9,829
Loan to Diksna	7,039	6,949
Receivable due to selling equity accounted investee	2,350	-
Related parties and other	644	1,331
Total	**49,185**	**88,466**

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

Liquidity risk (refer also to note 34(A))

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 2013 (*)

	Carrying amount	Contractual cash flows	6 months or less
Derivative financial liabilities			
IRS Derivatives	910	(946)	(946)
Non-derivative financial liabilities			
Secured bank loans	175,338	(179,402)	(179,402)
Unsecured debentures issued	168,619	(207,452)	(207,452)
Trade and other financial payables	13,651	(13,651)	(13,651)
Related parties	944	(944)	(944)
	358,552	(401,449)	(401,449)

(*) – in view of the restructuring procedure and the default in bond payments which triggered a cross default on all other loan facilities within the Group, all loan facilities are currently payable on demand, triggering also repayments of trade and other payables, and therefore are reclassified as to be paid within six months from the end of the reporting period. The Restructuring plan does not provide any protection from the banks rights to demand early repayment, including exercising the collateral, of loans provided to the Groups’ entities. As of the date of approval of these consolidated financial statements, there were no early repayment requests by any of the financing banks

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32 - FINANCIAL INSTRUMENTS (cont.)

Liquidity risk (cont.)

December 31, 2012 Restated (*)

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Derivative financial liabilities							
IRS Derivatives	3,320	(3,483)	(1,023)	(1,023)	(986)	(452)	
Non-derivative financial liabilities							
Secured bank loans	211,750	(261,423)	(16,459)	(23,308)	(36,925)	(87,030)	(97,702)
Unsecured debentures issued	189,341	(255,706)	-	(90,688)	(71,098)	(93,920)	-
Trade and other payables	15,402	(15,554)	(361)	(9,377)	(1,380)	(4,436)	-
Related parties	546	(546)	-	(546)	-	-	-
	420,359	(533,229)	(16,820)	(123,919)	(109,403)	(185,386)	(97,702)

(*) Restated due to Retrospective application – refer to note 3 regarding initial application of the new suite of standards.

Currency risk

The Company's main currency risk is in respect of its NIS denominated debentures. Following the discontinuance and full settlement of all currency options effective July 2013, the Company is exposed to changes in EUR/NIS rate.

The following exchange rate of EUR/NIS applied during the year:

	Average rate		Reporting date Spot rate	
EUR	**2013**	**2012**	**2013**	**2012**
NIS 1	0.208	0.202	0.209	0.203

PLN denominated debentures - A change of 6 percent in EUR/PLN rates at the reporting date would have increased/(decreased) profit or loss by EUR 0.9 million, as a result of holding PLN linked bonds.

NIS denominated debentures - A change of 11 percent in EUR/NIS (2012- 10 percent) rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		Profit or loss effect	
For the year ended December 31,	Carrying amount of debentures	NIS strengthening effect	NIS devaluation effect
2013	154,151	(16,957)	16,957
2012	174,663	(17,466)	17,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32 - FINANCIAL INSTRUMENTS (cont.)

Interest rate risk

Profile

As of the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2013	**2012 Restated (*)**
Fixed rate instruments		
Financial assets	30,951	39,640
Financial liabilities	(21,710)	(33,930)
	9,241	5,710
Variable rate instruments		
Financial assets	-	-
Debentures	(168,619)	(189,341)
Other financial liabilities	(153,628)	(178,005)
	(322,247)	(367,346)

Cash flow sensitivity analysis for variable rate instruments

A change of 5 basis points in Euribor interest rates (2012 – 30 basis points) at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

Variable Interest rate effect (excluding debentures)

	Profit or Loss	
	Increase	**Decrease**
December 31, 2013	(77)	77
December 31, 2012	(533)	533

NIS Debentures

Sensitivity analysis – effect of changes in Israeli CPI on carrying amount of NIS debentures

A change of 3 percent in Israeli Consumer Price Index ("CPI") at the reporting date (and in 2012) would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		Profit or loss effect	
For the year ended December 31,	Carrying amount of debentures	CPI increase effect	CPI decrease effect
2013	154,151	(4,625)	4,625
2012	174,663	(5,240)	5,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32 - FINANCIAL INSTRUMENTS (cont.)

Sensitivity analysis – effect of changes in NIS basic Interest on carrying amount of NIS debentures

A change of 1 percent in Israeli basic interest rate at the reporting date (and on 2012) would have increased (decreased) profit or loss by the amounts shown below. The analysis relates only to debentures presented at fair value through profit or loss, as there is no effect on carrying amount of debentures presented at amortized cost. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		Profit or loss effect	
For the year ended December 31,	Carrying amount of debentures	Interest increase effect	Interest decrease effect
2013	97,983	(1,104)	1,136
2012	116,147	(1,510)	1,553

Fair values

<u>Fair values measurement versus carrying amounts</u>

In respect to the Company's financial assets instruments not presented at fair value, being mostly short term market interest bearing liquid balances, the Company believes that the carrying amount approximates fair value.

In respect the Company's financial instruments liabilities:

For the Israeli debentures presented at amortized cost, a good approximation of the fair value would be the market quote of the relevant debenture, had they been measured at fair value.

	Carrying amount		**Fair value**	
	2013	**2012**	**2013**	**2012**
<u>Statement of financial position</u>				
Debentures at amortized cost – polish bonds	14,468	14,678	14,468	14,678
Debentures A at amortized cost – Israeli	13,765	-	10,393	-
Debentures B at amortized cost – Israeli	42,403	58,603	33,507	41,599

In respect of most of other non-listed borrowings, the Group was not asked to raise interest rates or to bring forward maturities as a result of the restructuring procedure, as most financing banks does not expect the restructuring procedure to have a material effect on the security the banks hold under non-recourse loans, and therefore the Company has a basis to believe that the fair value of non-listed borrowings approximates the carrying amount.

Refer to notes 20 and 21 in respect of comparison between fair value and amortized cost of debentures presented at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32 - FINANCIAL INSTRUMENTS (cont.)

Fair value Hierarchy

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	Note	Fair value hierarchy	Carrying amount as at December 31, 2013	2012 Restated (*)
Financial assets not measured at fair value				
Cash and cash equivalents	6		26,157	35,374
Restricted bank deposits- short term	7		6,319	18,759
Held for trading financial assets		Level 2	1,246	-
Available for sale debt securities	8		-	11,714
Trade receivables, net	9		3,372	3,399
Other receivables	10a		4,871	11,492
Loan to Diksna	14		7,039	6,949
Restricted bank deposits – long term			181	779
Total			**49,185**	**88,466**

	Note	Fair value hierarchy	Carrying amount as at December 31, 2013	2012 Restated (*)
Financial liabilities not measured at fair value				
Interest bearing loans from banks	16	Level 2	175,338	205,977
Debentures at amortized cost	21	Level 1	70,636	73,194
Trade and other payables			13,651	15,217
Related parties	18		944	546
Total			**260,569**	**294,934**

	Note	Fair value hierarchy	Carrying amount as at December 31, 2013	2012 Restated (*)
Financial liabilities measured at fair value				
Debentures at fair value through profit or loss	20	Level 1	97,983	116,147
Derivatives	15	Level 2	910	3,320
Total			**98,893**	**119,467**

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liabilities and commitments to related parties

1. The Company and/or its subsidiaries were parties to Projects Initiation and Supervision Agreement which was signed in 2006 between the Company and Control Centers Ltd. ("Control Centers").

   Control Centers is a private company controlled by Mr. Zisser, the former controlling shareholder of the Company. Europe-Israel (M.M.S.) Ltd. ("Europe-Israel") is an Israeli corporation wholly-owned by Control Centers (which in turn, is controlled by Mr. Zisser).

   Bank Hapoalim B.M. (the "Bank") has instituted legal action to foreclose on its pledges, including, inter alia, all the assets of Europe-Israel securing Europe-Israel's obligations under a loan agreement with the Bank, including its shares in EI.

   On July 21, 2013 a receiver was appointed to Control Centers Ltd. and Europe-Israel and on September 10, 2010 the Receiver had dismissed their employees. Consequently, as of the date hereof the Company is not receiving the Services under the aforementioned agreement.

   At December 31, 2013 the financial statements does not include any liability in respect of engineering supervision services supplied by related parties in Control Centers Group. For the total charges in 2013 and 2012 refer to note 35).

2. On October 27, 2006 the Company and Mr. Zisser, an Executive Director of the Company, entered into a service agreement, pursuant to which he will be entitled to a monthly salary of USD 25 thousand (EUR 19 thousand) which includes pension, retirement and similar benefits for his services as the Company's Executive Director.

3. In October 2006, the Company and EI entered into an agreement, pursuant to which with effect from 1 January 2006 the Company will pay commissions to EI in respect of all and any outstanding corporate and first demand guarantees which have been issued by EI in favour of the Company up to 0.5% of the amount or value of the guarantee, per annum. As of the end of the reporting period the Group has no outstanding guarantees from EI and no consideration was paid in this respect.

4. On October 13, 2006, EI entered into an agreement (the “Agreement”) with the Company, under which EI is obliged to offer to the Company potential real estate development sites sourced by it in India. Under the agreement, EI is obliged to offer the Company the exclusive right to develop all of the shopping center projects which EI acquires during the 15-year term of the Agreement. The Agreement was terminated upon the signing of the joint venture in India (refer to note 34), but both EI and the Company agreed that upon the termination of the Joint Venture agreement they will re-execute the Agreement.

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

a. Contingent liabilities and commitments to related parties (cont.):

5. On November 25, 2007 the Company entered into an indemnity agreement with all of the Company's directors and on June 20, 2011 with part of the Company's senior management - the maximum indemnification amount to be granted by the Company to the directors shall not exceed 25% of the shareholders' equity of the Company based on the shareholders' equity set forth in the Company's last consolidated financial statements prior to such payment. No consideration was paid by the Company in this respect since the agreement was signed.

b. Contingent liabilities and Commitments to others

1. Tesco

The Company is liable to the buyer of its previously owned shopping center in the Czech Republic ("NOVO") – sold in June 2006 - in respect to one of its tenants ("Tesco"). Tesco leased an area within the shopping center for a period of 30 years, with an option to extend the lease period for an additional 30 years, in consideration for EUR 6.9 million which was paid in advance. According to the lease agreement, the tenant has the right to terminate the lease agreement subject to fulfilment of certain conditions as stipulated in the agreement. The Company's management believes that it is not probable that this commitment will result in any material amount being paid by the Company.

2. General commitments and warranties in respect of trading property and investment property disposals.

In the framework of the transactions for the sale of the Group's real estate assets, the Group has undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnifications usually include: (i) Indemnifications in respect of completeness of title on the assets and/or the shares sold (i.e that the assets and/or the shares sold are owned by the Group and are clean from any encumbrances and/or mortgage and the like). Such indemnifications generally survived indefinitely and are capped to the purchase price in each respective transaction; and (ii) Indemnifications in respect of other representation and warranties included in the sales agreements (such as: development of the project, responsibility to defects in the development project, tax matter and others). Such indemnifications are limited in time (generally 3 years from signing a closing agreement) and are generally capped to 25% to 50% of the purchase price. No indemnifications were provided by the Group till the date of the statement of financial position.

The tax authorities have challenged the applied tax treatment in two of the entities previously sold in Hungary by the Company to Klepierre in the course of the Framework Agreement dated 30 July, 2004 ("Framework Agreement"). In respect of two of the former subsidiaries of the Company, the tax authorities decision of reducing the tax base by and imposed a penalty in the sum of HUF 428.5 Million (circa EUR 1.4 million), were challenged by the previously held entities at the competent courts. Klepierre has submitted an indemnification request claiming that the tax assessed in the described procedures falls into the scope of the Framework Agreement tax indemnification provisions and the Company in its respond rejected such claims.

The Company management estimates that no significant costs will be borne thereby, in respect of these indemnifications.

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

b. Contingent liabilities and Commitments to others (cont.)

3. The Company is retaining a 100% holding in all its projects in Serbia after it was decided to discontinue the negotiations with a Serbian developer. The Company has a contingent obligation to pay the developer in any case there is major progress in the projects. The total remaining potential obligation is EUR 0.9 million.

4. Apart from point 3 above, the Company does not have any contractual commitments in respect of construction activities.

c. Contingent liabilities due to legal proceedings

The Company is involved in litigation arising in the ordinary course of its business. Although the final outcome of each of these cases cannot be estimated at this time, the Company's management believes, that the chances these litigations will result in any outflow of resources to settle them is remote, and therefore no provision or disclosure is required.

d. Securities, guarantees and liens under bank finance agreements

1. Certain companies within the Group which are engaged in the purchase, construction or operation of shopping centers ("Project Companies") have secured their respective credit facilities (with withdrawn facility amounts totalling EUR 173 million, as of December 31, 2013) awarded by financing banks (for projects in Poland, Czech Republic, India and Serbia), by providing first or second ranking (fixed or floating) charges on property owned thereby, including right in and to real estate property as well as the financed projects, on rights pertaining to certain contracts (including lease, operation and management agreements), on rights arising from insurance policies, and the like. Shares of certain Project Companies were also pledged in favour of the financing banks.

In respect of corporate guarantee for the fulfilment of its subsidiaries obligations and joint ventures under loan agreements, refer to note 16 and note 14, respectively.

Shareholders loans as well as any other rights and/or interests of shareholders in and to the Project Companies were subordinated to the respective credit facilities.

Payment to the shareholders is permitted (including the distribution of dividends but excluding management fees) subject to fulfilling certain preconditions.

Certain loan agreements include an undertaking to fulfil certain financial and operational covenants throughout the duration of the credit, namely: complying with "a minimum debt services cover ratio", "loan outstanding amount" to secured assets value ratio; complying with certain restrictions on interest rates; maintaining certain cash balances for current operations; maintaining equity to project cost ratio and net profit to current bank's debt; occupancy percentage and others. In respect of breach of covenants, refer to note 16.

The Project Companies undertook not to make any disposition in and to the secured assets, not to sell, transfer or lease any substantial part of their assets without the prior consent of the financing bank.

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

d. Securities, guarantees and liens under bank finance agreements (cont.)

In certain events the Project Companies undertook not to allow, without the prior consent of the financing bank:

(i) any changes in and to the holding structure of the Project Companies nor to allow for any change in their incorporation documents;
(ii) execution of any significant activities, including issuance of shares, related party transactions and significant transactions not in the ordinary course of business;
(iii) certain changes to the scope of the project;
(iv) the assumption of certain liabilities by the Project Companies in favour of third parties;
(v) receipt of loans by the Project Companies and/or the provision thereby of a guarantee to third parties; and the like.

2. Commitment in respect of derivative transaction

Within the framework of three IRS transactions (refer to note 14), executed between the Group and commercial banks (the "Banks"), the Group agreed to provide the Banks with cash or another collateral.

Accordingly, as of the end of the reporting period, the Company has pledged, a security deposit in the amount of EUR 0.3 million in respect of the Kragujevac IRS transaction. In respect of the Suwalki IRS the project company also established a bail mortgage up to EUR 4 million encumbering the real estate project. In respect of Torun IRS the project company also established a bail mortgage up to EUR 5.4 million encumbering the real estate project.

3. Commitment in respect of Bonds raised in Poland.

Under the offering memorandum for the issuance of Polish bonds, certain circumstances shall be deemed events of default giving the Bondholders the right to demand Early Redemption, which includes among others the following covenants:

a) Breach of the Cash Position as a result of the payment of dividend or the shares buy-back programme- if at any time during a period of 90 days from the payment of dividend, or the acquisition of its own shares, the Cash Position falls below EUR 50 million;

b) Breach of financial ratios –occurs if the Net Capitalization Ratio exceeds 70%; Net Capitalization Ratio ("the Ratio") is the Net Debt divided by the Equity plus the Net Debt, as calculated by the Group's auditor; "Net Debt" mean the Group's total debt under: loans and borrowings, lease agreements, bonds, other debt securities and other interest bearing or discounted financial instruments in issue, less related hedge derivatives, cash and cash equivalents, short and long-term interest bearing deposits with banks or other financial institutions, available for sale marketable securities and restricted cash, calculated based on the Consolidated Financial Statements. As at the reporting date the Ratio was circa 60% (2012 – 44%).

c) Failure to repay material debt – the company fails to repay any matured and undisputable debt in the amount of at least EUR 100 million within 30 days of its maturity.

NOTE 34 - SIGNIFICANT EVENTS

A. Debt restructuring plan ("the restructuring plan")

The Company has been facing challenging market conditions for some years. These have primarily been caused by the underlying economic environment in many of the countries in which the Company operates, combined with the lack of transactional liquidity in the investment markets for assets such as those owned by the Company and the ongoing lack of traditional bank financing available to real estate developers and investors. The significant investments in India and Romania, prior to the crisis, the increased issuance of debt and the slow pace of properties realization caused the Group to experience very significant losses and dragged the Group into cash flow distress.

Against this background, the Company's management has made some progress improving its cash position, primarily through costs cutting program and the disposal of certain properties.

In 2013, the Company has received net cash of circa EUR 61 million through the disposal of four assets (EUR 29 million) and the collection of the remaining proceeds from the transaction in the US (EUR 32 million).

In addition, it has applied intensive asset management initiatives to improve the income generated by the operating shopping centres portfolio, and has also managed to refinance an EUR 59.3 million loan secured against one of its largest assets, held via a joint venture owned 50%, Diksna during November 2013 (refer to Note 14).The Company continues to actively market for sale all of its operating shopping centres as well as some of its undeveloped lands.

However, despite efforts to progress with a number of asset disposals and a completion of some alternative financing transactions, the Company was not able to execute its asset disposal plan within a timeframe that would have enabled it to meet its short term obligations towards bondholders, specifically a circa EUR 15 million payment that was due to Polish bondholders on 18 November 2013 and a circa EUR 17 million payment that was due to Israeli bondholders on 31 December 2013, and therefore decided to withhold payment of principal and interest on maturities of all its bonds and any material payment to the Company's creditors. Furthermore, due to cross default clauses in the Group's bank facilities the Group has entered into, the financing banks can force immediate repayments of the Group's credit facilities (refer to note 16) which could result in foreclosure of the pledged property by the banks in cases of non-recourse loans or, in cases of recourse loans, to execute the guaranties provided by the Group in favour of the banks. . In the case of non-recourse loans, the Group would be entitled to any excess proceeds over the amounts owed. In the case of recourse loans, please see below. The Group has been in discussions with all affected banks and as of the date of approval of these financial statements there were no early demand requests by any of the financing banks. If the debt restructuring is successful, the technical breach of cross default clauses in the Groups' bank facilities would be remedied and the existing loan agreements would continue in force. .

On November 18, 2013, the Company has requested a restructuring plan (including suspension of payment proceedings) from the district court of Amsterdam, which is the legal seat of the Parent Company.

The court approved the Company's request and granted a six-month period for reaching an agreement with its creditors until the creditors meeting scheduled for April 17, 2014. For the postponement of the creditor meeting refer to note 38(C). If until June 26, 2014 the Company will not reach an agreement the court may switch to a liquidation procedure, which will probably cause significant damages to the Company, its creditors and its shareholders.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

A. Debt restructuring plan ("the restructuring plan") (cont.)

Parallel to the court approval, the court appointed: a special manager ("administrator"), who works with the Company's management and approves every transaction, liability assumption or expense at the Company's level and is suppose to recommend to the court to summon creditors meetings in order to vote for approving the restructuring plan; and a supervisory judge who supervises the procedure. The recommendation of the administrator will be transferred to the court only if he is convinced that the restructuring plan is fair and equal for all of the creditors. The administrator has appointed PwC Netherlands in order to economically review the restructuring plan on his behalf.

Since the day of the Company's announcement about applying to the district court of Amsterdam:

- The Company's management is continuously cooperating with the trustees and representatives of the bondholders, and assisting them and their representatives in every issue in order to promote the agreement and stay in the schedule set by the court.

- Negotiations are being held between all parties in order to agree on the restructuring plan details.

The main features of the proposed debt restructuring plan include:

To the shareholders

- The shareholders will be requested to provide capital/monetary inflow to the Company by way of rights issuance of EUR 20 million as a pre-condition to the coming into force of the debt restructuring plan. To the date of approval of these consolidated financial statements this inflow has not been formally committed. .

To creditors with non-collateral backed debts

- The group of creditors with non-collateral backed debts include the following lenders: bondholders in Israel, the bondholders in Poland and the banks with fixed charges with a recourse right.
- The principle of the request from creditors with bondholders is based on deferring principal payment dates (and unpaid accrued interest for November /December 2013) against intensifying collaterals (negative pledge on all of the Company's assets), the grant of compensation on interest payments and participation in the equity upside (detailed below).
- The Company intends to put all efforts in order to avoid damages to the creditors, as practicable, from the situation that has resulted in the countries of operations, and due to the change in the trends of capital markets.
- The Company and its officers will not be held responsible against any claims, except claims for violation of fiduciary duty, fraud or claims for which a waiver cannot be granted under the law.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

A. Debt restructuring plan ("the restructuring plan") (cont.)

To creditors with non-collateral backed debts (cont.)

Israeli bondholders and the institutional bondholders in Poland

Principal payments - all principal payments of non-collateral backed debts (bonds (series A) bonds (series B) and bonds held by institutional investors in Poland including unpaid interest due November/December 2013) for 2013, 2014 and 2015 in the amount of EUR 181.9 million ("the Deferred Debt") will be deferred to 2016, 2017 and 2018 (at the same date and month of each series).

Interest payments – after the arrangement, interest payments will be made when due.

Interest rate – effective January 1, 2014, an additional 1.5% interest will be paid (for the deferred payments (principal and interest until the end of 2013) in addition to compensation in interest to be received from shares granted as detailed in the equity upside section below.

Early repayment – the Company will be entitled to make early repayments at any time of any debt balance which is according to the adjusted Par value price of the bonds but it must make an early repayment upon realization or refinancing of assets in a scope of 75% of the net cash flows that will be received by the Company. Upon making the early repayment, the debt in respect of the cumulative interest will be paid and thereafter the next principal payments. Out of the amount paid as an early repayment, 21.1% will be paid for bonds (series A), 70.7% will be paid for bonds (series B) and 8.2% will be paid for Polish bonds. (Each will be paid according to its relative share in the deferred debt ("Deferred Debt Ratio")).

Payment Deferral – This would occur in the event that in two years from the arrangement date, if the Company made early repayments of over 50% of the deferred debt (such that the balance of bonds (series A) will be lower than NIS 170 million (EUR 36 million) par value and the balance of bonds (series B) will be lower than NIS 250 million (EUR 52 million) par value), then the remaining deferred principal payments will be deferred in an additional year (at the same date and month of each series).

Equity Upside - to enable the creditors to enjoy an 'Equity Upside' feature, the Company will allocate, post the completion of the right issuance, to the Deferred Debt holders shares representing 13.5% of the Company's shares (2.85% to series A holders, 9.54% to series B holders and 1.11% to the Polish holders) at no consideration.

Payment to the holders of the Unsecured Debt -Following the removal of the suspension of payments order, the Company shall pay to the holders of the Deferred Debt holders an amount of EUR 10.5 million, on account of 2014 interest payments.

Restriction of Payments to Shareholders – the Company undertakes that as long as the deferred debt balance is not paid in full, certain limitations on distribution of dividends will apply.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

A. Debt restructuring plan ("the restructuring plan") (cont.)

To creditors with non-collateral backed debts (cont.)

Collaterals - a negative pledge on all of the Company's assets meaning that the Company cannot pledge an unpledged asset, in favor of other lenders. The asset value included in the negative pledge according to their book value (net of debt, if any) as of December 31, 2013 is EUR 381 million (assets less liabilities that are not bonds, including accrued interest).

Instructions on unpledged assets

•The Company may not take new loans against pledging existing unpledged assets and/or non collateral loans. Despite these restrictions, the Company may obtain financing against a pledge and/or existing assets and/or non collateral loans provided that 75% of the financing will be used for early repayment.

•The Company may pledge lands, first in priority, for a construction loan in favor of a bank, with an loan to cost ratio that will not fall below 60%.

Instructions on pledged assets

•The Company may obtain refinancing or new loans with respect to each of the pledged assets provided that at least 75% of the extra financing in respect of that asset will be used for early repayment.

•Upon selling an asset of the pledged assets, 75% of the net consideration received by the Company from selling the asset (after debt repayment to the bank, selling expenses and tax, if required) will be used for early repayment of the Unsecured Debt, to be allocated among the holders of Unsecured Debt in accordance with the Deferred Debt Ratio.

• The Company will be allowed to execute actual investments only if the Company's cash reserves contain an amount equal to administrative expenses and interest payments for the Unsecured Debt for a six-month period (for this purpose also receivables with a high probability of being collected in the subsequent six-month period will be taken in account for the required minimal cash reserve).

•The Company may obtain new loans to purchase/build new assets provided that the loans will be of non-recourse type and the equity component in the purchase/build will not exceed 40%.

To banks with Recourse right

Debt balance to banks: the debt balance in the Company's books with a right of recourse as of December 31, 2013 amounts to EUR 48 million against assets valued at EUR 83 million which are pledged, with first priority, to the banks.

Recourse to the Company: deferring recourse right for four years.

If the Company fails to meet its current payments and a debt balance to the banks remains after asset realization, the banks may demand the debt remaining shortfall only after four years from the arrangement date. The recourse right will be at the debt level before asset realization net of the highest between the received consideration from asset realization and 90% of the value of an external appraiser (to be agreed upon by the parties) in a time period of not more than three months before the realization date.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

Debt restructuring plan ("the restructuring plan")

The creditors have the right to accept or refuse the above mentioned features of the debt restructuring plan. In general, in order to approve the restructuring plan, a simple majority of creditors allowed to vote (both by number of attendees in the actual voting and in the amount of the claim) is required. Creditors allowed to vote are comprised of bondholders and lenders at the Company's level, as well as creditors having recourse right to the Company (for their unsecured claim). A refusal will most probably lead to the liquidation of the Company.

The company believes that the proposed agreement is the optimal for allowing the Company to serve its debt for its creditors, and the Company's management is doing its best in order to reach an agreement within the time frame that was granted by the court.

Accordingly, management believes that, should the debt restructuring plan be accepted in the manner suggested by the Company, it would be able to retain significant value for its shareholders (as shown in the table below) and will be able to repay its creditors in full. By contrast, the Board of Directors of the Company and management are convinced that a forced liquidation (which will occur, should the creditors reject the restructuring plan) will most probably cause shareholders and creditors to incur significant losses. The following table presents the Group's assets disposal plan until 2018 (net cash flows (being mainly net of asset specific borrowings and taxes), in millions of EUR):

Property name	Total	H1-2014	H2-2014	H1-2015	H2-2015	H1-2016	H2-2016	H1-2017	H2-2017	H1-2018
Diksna (Riga Plaza)	21.5	21.5	-	-	-	-	-	-	-	-
Koregaon park (*)	18.1	12.5	5.6	-	-	-	-	-	-	-
Torun	49.8	-	49.8	-	-	-	-	-	-	-
Bangalore	25.9	-	-	12.9	13	-	-	-	-	-
Suwalki	10.6	-	-	10.6	-	-	-	-	-	-
Casaradio- turbines (**)	5.0	-	-	5.0	-	-	-	-	-	-
Leszno	1.0	-	-	1.0	-	-	-	-	-	-
Kragujevac	15.9	-	-	-	15.9	-	-	-	-	-
Iasi	8.0	-	-	-	8.0	-	-	-	-	-
Lodz residential	6.0	-	-	-	6.0	-	-	-	-	-
Targu Mures	4.0	-	-	-	4.0	-	-	-	-	-
Kielce	3.0	-	-	-	3.0	-	-	-	-	-
Hunedoara	1.5	-	-	-	1.5	-	-	-	-	-
Belgrade - visnjicka	30.7	-	-	-	-	-	30.7	-	-	-
Cina (Romania)	7.5	-	-	-	-	-	7.5	-	-	-
Lodz shopping center	31.3	-	-	-	-	-	-	31.3	-	-
Timisoara	26.1	-	-	-	-	-	-	-	26.1	-
Casaradio - project	171.1	-	-	-	-	-	-	-	-	171.1
Belgrade Plaza	53.6	-	-	-	-	-	-	-	-	53.6
Total	490.6	34	55.4	29.5	51.4	-	38.2	31.3	26.1	224.7

(*) for the sale of Koregaon park, refer to note 34 (G).
(**) for the sale of turbines, resulting in different amount of cash inflow, refer to note 38 (B).

The Company's website (www.plazacenters.com) includes non-audited information related to the debt restructuring.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

B. Update and impairment in respect of the Bangalore and Chennai projects

Bangalore

In March 2008, Elbit Plaza India Real Estate Holdings Ltd. ("EPI"), a 47.5% joint venture company held together with EI, entered into an amended and reinstated share subscription and framework agreement (the "Amended Framework Agreement"), with a local third party (the "Partner") and a wholly owned Indian subsidiary of EPI which was designated for this purpose ("SPV"), to acquire, through the SPV, up to 440 acres of land in Bangalore, India (the "Project") in certain phases as set forth in the Amended Framework Agreement. As of December 31, 2013, the Partner has surrendered land transfer deeds in favour of the SPV to a trustee nominated by the parties for approximately 54 acres for a total aggregate consideration of approximately INR 2,843 million (EUR 40 million), and upon the actual transfer of the title, the Partner will be entitled to receive 50% of the shareholdings in the SPV. The abovementioned amounts are presented in the statement of financial position as of December 31, 2013 and 2012 as equity accounted investees.

In addition, the SPV paid to the Partner advances of approximately INR 2,536 million (EUR 35 million) on account of future acquisitions by the SPV of a further 51.6 acres. Such amount is presented in the statement of financial position as of December 31, 2013 and 2012 as part of the equity accounted investees (refer to note 14).

On July 22, 2010, EPI, the SPV and the Partner signed a new framework agreement which, subject to certain conditions (which, as of December 31, 2013, have not been satisfied yet), is supposed to replace the Amended Framework Agreement (the "New Framework Agreement").

The New Framework Agreement established new commercial understandings between the parties thereto, pertaining, inter alia, to the joint development of the Project and its magnitude and financing, the commercial relationships and working methods between the parties and the distribution mechanism of the revenues from the Project. In accordance with the New Framework Agreement, the following commercial terms have been, inter alia, agreed between the parties:

- EPI will remain the holder of 100% of the shareholdings and the voting rights in the SPV.
- The scope of the new project will be decreased to approximately 165 acres instead of the original 440 acres.
- The Partner undertakes to complete the acquisitions of the additional land and/or the development rights therein in order to obtain the ownership and/or the development rights over all 165 acres.
- Neither EPI nor the SPV will be required to pay any additional amounts in respect of the land acquisitions or with respect to the Project and its development.
- The Project will be re-designed as an exclusive residential project.
- The Project will be executed jointly by the Partner and the SPV. The Partner (or any of its affiliates) will also serve as the general contractor and marketing manager of the project. Under the New Framework Agreement, the Partner is also committed to maximum sale prices, minimum construction costs threshold and a detailed timeline and budget with respect to the development of the project

NOTE 34 - SIGNIFICANT EVENTS (cont.)

B. **Restructuring of partnership agreements in Bangalore and Chennai, India (cont.)**

Under the New Framework Agreement, EPI will receive distributions (following a certain 3+6 months reserve mechanism to enable the Partner to utilize a portion of the proceeds for construction costs and expenses) of approximately 70% of the net proceeds from the Project (including the proceeds from any sale by the Partner or any transaction with respect to the original land which does not form part of the said 165 acres), until such time that EPI's investment in the amount of INR 5,780 million (approximately EUR 80 million) ("EPI's Investment") plus an Internal Return Rate of 20% per annum calculated from September 30, 2009 ("IRR") is paid to the SPV on behalf of EPI) (the "Discharge Date").

Following the Discharge Date, EPI will not be entitled to receive any additional profits from the Project and it will transfer to the Partner the entire shareholdings in the SPV for no consideration. In addition, the Partner has a call option, subject to applicable law and regulations, to acquire the entire shareholdings of the SPV, at any time, in consideration for EPI's Investment plus an IRR of 20% per annum calculated on the relevant date of acquisition.

The New Framework Agreement will enter into full force and effect upon execution of certain ancillary agreements described therein as well as satisfaction of certain other conditions; however, EPI, the SPV and the Partner are actually pursuing the Project itself in accordance with the New Framework Agreement.

In January 2011, the Partner has submitted the development plans pertaining to approximately 49 plus 35 acres included in the scope of the new project of 165 acres to the local planning authority, the Bangalore Development Authority ("BDA"). In October 2011, the BDA had notified the Partner that the development plans cannot be considered due to a future eminent domain plan.
In January 2012, the Partner applied to the State High Court, requesting to issue a court order directing the BDA to consider the development plans. In March 2012, the court awarded a judgment pertaining to approximately 49 acres, ordering the BDA to consider the development plans related to the said 49 acres ("Development Plan"), while ignoring any future eminent domain plan that may be considered by the state authorities.

In December 2012, the BDA decided to submit the Development Plan pertaining to the aforementioned 49 acres to the Sensitive Zone Sub-Committee of the BDA and in January 2013, the Sensitive Zone Sub-Committee of the BDA granted its approval to the aforementioned Development Plan. In May 2013, the court awarded a judgment pertaining to the additional 35 acres, ordering the BDA to consider the development plans related to the said 35 acres as well.

As for December 31, 2013 due to the uncertainly of the Group ability to develop the project in the foreseeable future the Group measured the net realizable value of the project according to the comparable model. As a result the Group recorded EUR 31 million write down expenses in the Company's profit or loss.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

B. Restructuring of partnership agreements in Bangalore and Chennai, India (cont.)

Chennai

In December 2007 EPI, executed agreements for the establishment of a special purpose vehicle ("Chennai Project SPV") together with one of the leading real estate developers in Chennai (in this section, the "Local Partner"). Subject to the fulfilment of certain conditions, the Chennai Project SPV undertook to acquire the ownership and development rights in and up to 135 acres of land situated in the Sipcot Hi-Tech Park in the Siruseri District of Chennai, India.

Under these agreements, EPI is to hold 80% of the equity and voting rights in the Chennai Project SPV, while the Local Partner will retain the remaining 20%. Under the agreement, EPI's investment in the Chennai Project SPV will be a combination of investment in shares and compulsory convertible debentures. Due to changes in market conditions, EPI and the Chennai Project SPV later decided to limit the extent of the project to 83.4 acres.

As at the date of these financial statements, the Project SPV has completed the purchase of approximately 75 acres out of the total 83.4 acres for consideration of approximately INR 2,367 million (approximately EUR 33 million). An additional amount of INR 564 million (approximately EUR 8 million) was paid in advance in order to secure the acquisition of an additional 8.4 acres.

A shareholders agreement in respect of the management of the Chennai Project SPV provides for a five member board of directors, four of whom are appointed by EPI. The shareholders agreement also includes certain pre-emptive rights and restrictions on transferring securities in the Chennai Project SPV.

Profit distributions declared by the Chennai Project SPV will be distributed in accordance with the shareholders' proportionate shareholdings in that company, subject to EPI's entitlement to receive certain preferential payments out of the Chennai Project SPV's cash flow on the terms specified in the agreements.

The consummation of the agreements will be accomplished in stages, and is subject to the fulfilment of certain regulatory requirements, as well as to the Company's satisfactory due diligence investigations, in respect of each stage.

However, EPI is currently negotiating certain changes in the project's implementation plan and holding structure, which would require changes also in the respective agreements. Among other things, should those changes be accepted, EPI shall not be required to advance more financing to the project in addition to the amounts mentioned above and shall hold all the issued and outstanding share capital of the SPV.

In furtherance of the foregoing, EPI is currently operating to secure a joint development agreement with local developer(s) for the development of the project land, in accordance with the aforementioned guidelines.

As for December 31, 2013 due to the uncertainly of the Group ability to develop the project in the foreseeable future the Group recorded EUR 20.7 million write down expenses in the Company's profit or loss.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

C. Additional impairments

For additional impairments information refer to notes 10 and 14.

D. Selling of joint venture in India

On May 29, 2013 the Company completed the sale of its 50% interests in an Investee which mainly held interests in an office complex project located in Pune, Maharashtra. The transaction valued the Investee collectively at EUR 33.4 million and, as a result, the Company has received gross cash proceeds of circa EUR 16.7 million in line with its holding. The Company recorded a loss of EUR 5.1 million from the disposal, mainly due to reclassification of foreign currency translation reserve associated with the investment to the statement of profit or loss in the amount of EUR 4.3 million.

E. Disposal of assets in the Czech Republic

On July 18th 2013 the Company completed the sale of 100% of its interest in a vehicle which holds the interest in the Prague 3 project ("Prague 3"), a logistics and commercial centre in the third district of Prague. Earlier this year, the Company completed its successful application to change the zoning use of Prague 3 to a residential scheme. The transaction values the asset at circa EUR 11 million and, as a result, further to related bank financing and other adjustments to the statement of financial position, the Company has received cash proceeds of net EUR 7.6 million. The Company has disposed the Prague 3 investment property asset, and has recorded a loss from fair value adjustment of EUR 4.2 million, included in other expenses in the statement of profit or loss.

In addition, in July 2013 the Company completed the sale of 100% of its interest in a vehicle which held the interest in another plot of land in Prague. The transaction values the asset at circa EUR 1.9 million and, as a result, further to liability to third parties, the Company has received cash proceeds of EUR 1.3 million. The Company has accounted for a EUR 3.5 million write down of this trading property in the second quarter of 2013 presented within write down of trading properties in the statement of profit or loss. The Company recorded a loss of EUR 0.3 million as a result of this disposal.

F. Disposal of equity accounted investees Ercorner and Uj Udvar in Hungary

On October 31, 2013 the Consortium of shareholders of Dream Island, in which the Company indirectly holds a 43.5% stake, has completed the sale of its Dream Island project land holding to the Hungarian State for circa EUR 17 million. The Consortium comprises an 87% holding interest of Ercorner, the 50:50 joint venture between the Company and a Hungarian commercial bank, as well as other small holders.

The proceeds of the transaction were used by the Consortium to repay a proportion of the securitized related bank debt held against the asset.

In addition to the above, in December 2013 the consortium of shareholders of Uj Udvar, in which the Company indirectly holds a 35% stake, has completed the sale of its Uj Udvar project holding to a private investor for a consideration of EUR 2.4 million. The Company has accounted for a EUR 1.9 million write down of this investee in the fourth quarter of 2013 presented within write down of equity accounted investees in the statement of profit or loss. The Company recorded as a result of this transaction a loss of EUR 0.1 million.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

G. Agreement to sell Indian shopping mall

On November 14, 2013 the Company, announced that it has reached an agreement to sell Koregaon Park Plaza, a retail and entertainment located in Pune, India, subject to the satisfaction of certain closing conditions. The transaction values the asset at EUR 40.3 million, the asset's current carrying amount. Therefore no significant gain or loss is expected on the transaction besides the Foreign Currency Translation Reserve to be transferred to the profit or loss from Other Comprehensive Income.

Following the repayment of the outstanding related bank loan, the Company will receive aggregate gross cash proceeds from the purchaser totalling circa EUR 18.

Subject to fulfilment of certain conditions, including consent from the financing bank, the Company expects to collect circa EUR 12 million until the end of 2014 (EUR 2.3 million were already collected as of the day of statement of financial position) and the remaining EUR 6 million consideration is expected to be collected in 2015 and 2016.

In respect of the fire which occurred in this shopping center refer to note 34 (J) below.

H. Dissolving of an equity accounting investee in the US

In March 2013, the Company's 50% joint arrangement investee Elbit Plaza USA ("EPUS") was liquidated. As part of the liquidation procedure, the Company received an amount of USD 42 million (EUR 32 million), being its part in the remaining cash in EPUS. The dissolving did not result in any material effect on the statement of profit or loss of the Company.

I. Treasury bond held

As of December 31, 2013, the Company hold through it's wholly owned subsidiary 15.9 million NIS par value bonds in series B debentures (adjusted par value of NIS 18.6 million (EUR 3.9 million).

J. Fire in the Company's shopping center in India

In June 2012 a fire event occurred at the Company's shopping center in Pune, India. The fire required a temporary close-down of the shopping center, but did not consume the entire shopping center. In respect of impairments performed refer to note 11. The Company was refunded in July 2013 in the amount of a EUR 7 million damage insurance claim relating to the fire. In respect of covering the loss of income insurance claim, the Company is expected to collect circa EUR 2.5 million from this claim which has not been accrued, and is treated as a contingent asset.

K. Transaction during 2012 in the United States

On January 10, 2012 EDT, a wholly owned subsidiary of EPN Group, the Company’s joint US subsidiary (held indirectly 22.69% by the Company through EPUS), reached an agreement to sell 47 of its 49 US based shopping centers in a transaction totalling USD 1.43 billion (EUR 1.13 billion). The closing of this transaction occurred on June 20, 2012.

NOTE 34 - SIGNIFICANT EVENTS (cont.)

K. Transaction during 2012 in the United States (cont.)

The centers were acquired by BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Advisors VII L.P. (“Blackstone Real Estate”) and DDR. Of the transaction value of USD 1.43 billion, a total of USD 934 million (EUR 736 million) was paid by way of assumption of the property level debt or repaid by EPN Group. In addition, all excess cash within EDT, which was circa USD 30 million (EUR 24 million), was retained by the vendor.

Following the sale of the 47 properties, EPN Group held two properties located in the United States that were valued at approximately USD 42 million (EUR 33 million) with total non-recourse secured debt of approximately USD 13 million (EUR 11 million). In July 2012, EPN Group sold its two remaining assets in the US for a total aggregate asset value of USD 42 million (EUR 33 million).

Non-recourse secured debt of approximately USD 13 million (EUR 11 million) was also assumed in the abovementioned transactions. As the Company indirectly held 22.69% of these US assets, the Company share in the net proceeds totaled EUR 5 million, with no realized gain or loss resulting. The table below is a summary of the 2012 transaction results of selling the 47 properties:

	€ 000'
Company’s part in transaction costs	(9,339)
Foreign currency translation reserve reclassified to consolidate statement of profit or loss	9,730
Realized gain on sale of investment properties	391

L. 2012 Disposals of trading property plots in Bulgaria and Hungary

In July 2012 the Company sold its stake (51%) in a plot of land located in Sofia, Bulgaria for a total net consideration of EUR 0.1 million. In addition, certain bank loans and other liabilities in a total amount of EUR 13 million were assumed by the buyer and is not included in the Company’s consolidated financial statements starting the third quarter of 2012. No material gain or loss was recorded as a result of this transaction.

In October 2012 the Company, through its jointly held investee in Hungary, disposed of a plot of land adjacent to its Dream Island property plot in Budapest Hungary. As part of the transaction, a loan in the amount of EUR 5.9 (Company’s share) was assigned to the buyer, and the plot with a total book value of EUR 4.5 million was disposed of. The Investee recorded as a result of this transaction a gain of EUR 1.4 million in 2012, included as part of share in results of equity accounted investees.

M. Fantasy Park settlement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

The Company‘s subsidiary, Fantasy Park So. Zo.o. (“Fantasy Park”) was involved in several legal proceedings with Klepierre S.A subsidiaries (“Klepierre”) in Poland in connection with certain terms of the lease agreements signed between the parties, including certain amendments thereto which were agreed at a later stage (“Lease”).

In March 2013 Fantasy Park reached a settlement , according to which Fantasy Park paid Klepierre EUR 0.5 million and vacated the premises, and by that Fantasy Park settled all the pending disputes, as well as any other disputes that may arise in the future in connection with the Lease. The Fantasy Park settlement generated a gain of EUR 0.2 million, included as other income in profit or loss.

NOTE 35 - RELATED PARTY TRANSACTIONS

Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The Company has six directors. The annual remuneration of the directors in 2013 amounted to EUR 0.9 million (2012 – EUR 0.9 million) and the annual share based payments expenses amounted to EUR 0.1 million (2012- EUR 0.5 million). There was no change in the number of Company options granted to key personnel in 2013. There are no other benefits granted to directors. Information about related party balances as of December 31, 2013 and 2012 refer to note 18.

Trading transactions

During the year, Group entities had the following trading transactions with related parties that are not members of the Group:

	For the year ended December 31,	
	2013	**2012**
Income		
Interest on balances with EI	139	213
Costs and expenses		
Recharges - EI and EUL	233	548
Executive director (1)	222	240
Aviation services - Jet Link (2)	-	61
Project management provision and charges - Control Centers group (2)	327	1,381

(1) The Executive director, who is also the former controlling shareholder of the ultimate parent company, is receiving an annual salary of USD 300 thousand.

(2) Jet Link Ltd. and Control Centers (refer to note 33 a(1) and a(2)) are companies owned by the former ultimate shareholder of the Company. Control Centers group costs were capitalized to the relevant trading property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 36 - OPERATING SEGMENTS

The Group comprises the following main reportable geographical segments: CEE, India and the US (starting June 30, 2010). None of the Group's tenants is accounting for more than 10% of the total revenue. Also, no revenue is derived in the Netherlands, where the Company is domiciled. The US segment was discontinued with effect from December 31, 2012. In presenting information on the basis of geographical segments, segment revenue is based on the revenue resulted from either the selling or operating of assets geographically located in the relevant segment. Refer to note 11 for further detail by property on carrying amounts of Trading Properties and note 16 for detail on project secured bank loans by property.

Year ended December 31, 2013:

	Central & Eastern Europe	India	Total
Total revenues (1)	26,340	683	27,023
Operating loss by segment	(92,684)	(20,756)	(113,440)
Net finance costs	(5,858)	(4,054)	(9,912)
Other expenses, net	(6,402)	(4,653)	(11,055)
Share in results of equity-accounted investees	1,348	(56,813)	(55,465)
Reportable segment loss before tax (2)	(103,596)	(86,276)	(189,872)
Less - unallocated general and administrative expenses (Dutch corporate level costs).			(5,090)
Discontinued operations US (refer to note 37)			65
Unallocated other expenses (Dutch corporate level)			-
Unallocated finance costs (Dutch corporate level- mainly debentures finance cost)			(29,432)
Loss before income taxes			(224,329)
Tax benefit			6,256
Loss for the period			(218,073)
<u>Assets and liabilities as at December 31, 2013</u>			
Total segment assets (3)	480,196	68,829	549,025
Unallocated assets (Mainly Cash and other financial instruments held of Dutch level)			36,741
Total assets			585,766
Segment liabilities	175,302	26,715	202,017
Unallocated liabilities (Mainly debentures)			173,421
Total liabilities			375,438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

(1) Out of which EUR 16.6 million is attributed to Poland.
(2) Central Eastern Europe – including EUR 109 million of impairments. India – including EUR 76 million of impairments.
(3) Refer to note 11 for the breakdown of Trading Property assets by location.

NOTE 36 - OPERATING SEGMENT (cont.)

Year ended December 31, 2012 (Restated):

	Central & Eastern Europe	India	Total
Total revenues (1)	28,373	1,650	30,023
Operating loss by segment (2)	(60,732)	(16,622)	(77,354)
Net finance costs	(10,345)	(3,039)	(13,384)
Other income, net	1,346	7,611	8,957
Share in profit of equity-accounted investees	1,348	127	1,475
Reportable segment loss before tax	(68,383)	(11,923)	(80,306)
Less - unallocated general and administrative expenses (Dutch corporate level).			(5,438)
Discontinued operations US (refer to note 37)			(2,044)
Unallocated other expenses (Dutch corporate level)			(1,109)
Unallocated finance costs (Dutch corporate level)			(3,857)
Loss before income taxes			(92,755)
Tax benefit			6,592
Loss for the period			(86,163)
Assets and liabilities as at December 31, 2012			
Total segment assets	630,851	152,943	783,794
Unallocated assets (Mainly Dutch level financial instruments)			102,024
Total assets			885,818
Segment liabilities	205,530	37,765	243,295
Unallocated liabilities (Mainly debentures)			199,591
Total liabilities			442,886

(1) Out of which EUR 19.7 million is attributed to Poland
(2) Central Eastern Europe – including EUR 68.1 million of impairments. India – including EUR 15.6 million of impairments.
(3) Refer to note 11 for the breakdown of Trading Property assets by location.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 37 – DISCONTINUED OPERATION

Following the disposal of US assets (refer to note 34(L)) the Company discontinued its US activity. The results are the results of the equity accounted investee EPUS.

	2013	2012 Revised
Results for discontinued operation		
Revenues	-	13,907
Expenses (1)		(16,942)
Results from operating activity	-	(3,035)
Tax benefit	-	600
Results from operating activities, net of tax	-	(2,435)
Gain on sale of discontinued operation	65	391
Profit (loss) for the year from discontinued operation	65	(2,044)
Earnings per share		
Basic and diluted loss per share (in EURO)	(0.00)	(0.01)

(1) 2012 - Including reduction in value of investment property in the amount of EUR 2,254 thousand.

Below is the information on allocation of profit between the owners of the Company and non-controlling interests:

	2013	2012 Revised
Loss for the year from continuing operations	-	(84,119)
Attributable to owners of the Company	-	(84,119)
Attributable to non-controlling interests	-	-

	2013	2012 Revised
Profit (loss) for the year from discontinued operations	65	(2,044)
Attributable to owners of the Company	65	(2,044)
Attributable to non-controlling interests	-	-

Cash flow from (used in) discontinued operation

	2013	2012
Net cash from (used in) operating activities	(65)	2,044
Net cash from investing activities	-	63,885
Net cash flow for the year	(65)	65,929

Effect of disposal on the 2012 financial position of the investee EPUS

	2012

Investment property	(263,047)
Interest bearing loan from banks	161,560
Trade and other payables	14,064
	(87,423)

Reclassification in statement of comprehensive income due to discontinued operation.

In 2012 the movement is attributable to creation of translation reserve (EUR 2.8 million), as well as reclassification of amounts from the translation reserve to profit or loss (EUR 9.7 million).

NOTE 38 – EVENTS AFTER THE REPORTING PERIOD

A. **Selling of airplane**

On February 25, 2014 the Company disposed the airplane for a total consideration of USD 1.9 million (EUR 1.4 million). The proceeds from the disposal were used to repay the bank facility taken for the purchase of the airplane, and the Company currently negotiates with the financing bank the conditions to be set for the repayment of the remaining outstanding bank loan (circa EUR 1 million).

B. Sale of turbines

In March 2014 the Casaradio project company disposed of the turbines held in respect of the Casaradio project (refer also to note 11) for a total net consideration of EUR 2.6 million.

C. Postponement of creditors meeting to vote on the restructuring plan

On 11 March 2014, the Company obtained from the Dutch court a postponement of the dates for the voting on the proposed plan, due to technicalities involved with the completion of the arrangement.

The Dutch court set 26 June 2014 as the date for voting on the proposed restructuring plan, as to be amended. The Company does not expect this postponement to have any effect on its ability to conclude the restructuring plan to the satisfaction of both its creditors and shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 39 - LIST OF GROUP ENTITIES

As of December 31, 2013, the Company owns the following companies (all are 100% held subsidiaries at the end of the reporting period presented unless otherwise indicated):

	ACTIVITY	REMARKS
HUNGARY		
Directly wholly owned		
Plaza Centers Establishment B.V.	Inactive	
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	Holder of land usage rights	100% held by Plaza Centers Establishment B.V. Arena Plaza Extension project
Plaza House Ingatlanfejelsztési Kft.	Office building	David House
HOM Ingatlanfejlesztési és Vezetési Kft.	Management company	
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inacitve	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Inacitve	
SLOVAKIA		
Directly wholly owned		
Plaza Centers Slovak Republic S.R.O.	Inactive	
POLAND		
Directly wholly owned		
Kielce Plaza Sp.z.o.o.	Shopping center project	Kielce Plaza project
Leszno Plaza Sp.z.o.o.	Owns plot of land	Leszno Plaza project
Łódź Centrum Plaza Sp.z.o.o.	Owns plot of land	Łódź (Residential) project
Olsztyn Plaza Sp.z.o.o.	Owns plot of land	Bialysztok Plaza project
Płock Plaza Sp.z.o.o.	Owns plot of land	Radom Plaza project
Włocławek Plaza Sp.z.o.o.	Mixed used project	Łódź Plaza project
O2 Fitness Club Sp.z.o.o.	Entertainment	O2 Fitness Club project
Plaza Centers Polish Operations B.V.	Holding company	
EDMC Sp.z.o.o.	Management company	
Plaza Centers (Poland) Sp.z.o.o.	Management company	
Plaza Centers (Poland) Sp.z.o.o. Hungary Branch	Finance activity	100% held by Plaza Centers (Poland) Sp.z.o.o.
Bytom Plaza Sp.z.o.o.	Inactive	
Bielsko-Biała Plaza Sp.z.o.o.	Inacitve	
Bydgoszcz Plaza Sp.z.o.o.	Inacitve	
Chorzów Plaza Sp.z.o.o.	Inactive	
Gdańsk Centrum Plaza Sp.z.o.o.	Inactive	
Gliwice Plaza Sp.z.o.o.	Inactive	
Gorzów Wielkopolski Plaza Sp.z.o.o.	Inactive	
Jelenia Góra Plaza Sp.z.o.o.	Inactive	
Katowice Plaza Sp.z.o.o.	Inactive	
Legnica Plaza Sp.z.o.o.	Inactive	
Opole Plaza Sp.z.o.o.	Inactive	
Radom Plaza Sp.z.o.o.	Inactive	
Rzeszów Plaza Sp.z.o.o.	Inactive	
Szczecin Plaza Sp.z.o.o.	Inactive	
Tarnów Plaza Sp.z.o.o.	Inactive	
Tychy Plaza Sp.z.o.o.	Inactive	
Toruń Centrum Plaza Sp.z.o.o.	Inactive	
Indirectly or jointly owned		
Suwałki Plaza Sp.z.o.o.	Operating shopping center	100% held by Plaza Centers Polish Operations B.V. Suwałki Plaza project
Legnica Plaza Spółka z ograniczoną odpowiedzialnością S.K.A.	Operating shopping center	100% held by Plaza Centers Polish Operations B.V. Toruń Plaza project
Zgorzelec Plaza Sp.z.o.o.	Operating shopping center	100% held by Plaza Centers Polish Operations B.V. Zgorzelec Plaza project
Lublin Or Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. with Israeli based partner
EDP Plaza Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. with Israeli-based partner
Fantasy Park Sp.z.o.o.	Entertainment	100% held by Mulan B.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

Fantasy Park Suwałki Sp.z.o.o.	Entertainment	100% held by Mulan B.V.
Fantasy Park Toruń Sp.z.o.o.	Entertainment	100% held by Mulan B.V.
Fantasy Park Zgorzelec Sp.z.o.o.	Entertainment	100% held by Mulan B.V.
Fantasy Park Poland Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Bytom Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Łódź Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Poznan Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Warszawa Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Investments Sp.z.o.o.	Inacitve	100% held by Mulan B.V.

NOTE 39 - LIST OF GROUP ENTITIES

LATVIA		
Indirectly or jointly owned		
Diksna SIA	Operating shopping center	Equity accounted investee - 50% held by Plaza Centers N.V. with JV partner (50%). Riga Plaza project.
Fantasy Park Latvia SIA	Entertainment	100% held by Mulan B.V.
ROMANIA		
Directly wholly owned		
Dâmboviţa Centers Holding B.V.	Holding company	100% held by Plaza Centers N.V.
Plaza Bas B.V.	Holding company	50.1% held by Plaza Centers N.V.
S.C. Elite Plaza S.R.L.	Shopping center project	Timişoara Plaza project
S.C. Green Plaza S.R.L.	Shopping center project	Iaşi Plaza project
S.C. North Eastern Plaza S.R.L.	Shopping center project	Constanţa Plaza project
S.C. North West Plaza S.R.L.	Shopping center project	Hunedoara Plaza project
S.C. North Gate Plaza S.R.L.	Shopping center project	Csíki Plaza (Miercurea Ciuc) project
S.C. Eastern Gate Plaza S.R.L.	Real estate project	Cina project
S.C. South Gate Plaza S.R.L.	Shopping center project	Slatina Plaza project
S.C. Mountain Gate Plaza S.R.L.	Shopping center project	Târgu Mureş Plaza project
S.C. Palazzo Ducale S.R.L.	Office building	
S.C. Plaza Centers Management Romania S.R.L.	Management company	
S.C. Central Plaza S.R.L.	Inactive	
S.C. White Plaza S.R.L.	Inactive	
S.C. Blue Plaza S.R.L.	Inactive	
S.C. Golden Plaza S.R.L.	Inactive	
S.C. West Gate Plaza S.R.L.	Inactive	
S.C. South Eastern Plaza S.R.L.	Inactive	
S.C. South West Plaza S.R.L.	Inactive	
S.C. Plaza Operating Management S.R.L.	Inactive	
Indirectly or jointly owned		
S.C. Dâmboviţa Center S.R.L.	Mixed used project	75% held by Dambovita Centers Holding B.V. Casa Radio project
Adams Invest S.R.L.	Residential project	Equity accounted investee - 50% /50% held by Plaza Bas B.V with partner. Vally View project
Colorado Invest S.R.L.	Residential project	Equity accounted investee - 50% /50% held by Plaza Bas B.V with partner. Pine Tree project
Malibu Invest S.R.L.	Residential project	Equity account investee - 25%/75% held by Plaza Bas B.V. with partner. Fountain Park project
Spring Invest S.R.L.	Office project	Equity accounted investee - 50% /50% held by Plaza Bas B.V with partner. Primavera Tower Braşov project
Sunny Invest S.R.L.	Residential project	Equity accounted investee - 50% /50% held by Plaza Bas B.V with partner. Green Land project
Primavera Invest S.R.L.	Office project	Equity accounted investee - 50% /50% held by Plaza Bas B.V with partner. Primavera Tower Ploieşti project
Bas Developement S.R.L.	Residential project	Equity accounted investee - 50% /50% held by Plaza Bas B.V with partner. Acacia Park project
MOLDOVA		
Directly wholly owned		
I.C.S. Plaza Centers Prodev S.R.L.	Inactive	
SERBIA		
Directly wholly owned		
Plaza Centers Holding B.V.	Holding company	
Plaza Centers (Estates) B.V.	Holding company	
Plaza Centers (Ventures) B.V.	Holding company	
Plaza Centers Logistic B.V.	Holding company	
S.S.S. Project Management B.V.	Holding company	
Plaza Centers Management D.O.O.	Management company	
Plaza Centers Foundations B.V.	Inactive	
Indirectly or jointly owned		
Sek D.O.O.	Operating shopping center	100% held by Plaza Centers Holding B.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

		Kragujevac Plaza project
Leisure Group D.O.O.	Shopping center project	100% held by Plaza Centers (Estates) B.V. Belgrade Plaza (Visnjicka) project
Orchid Group D.O.O.	Shopping center project	100% held by Plaza Centers (Ventures) B.V. Belgrade Plaza project
Accent D.O.O.	Shopping center project	100% held by Plaza Centers Logistic B.V. Kruševac Plaza project
Telehold D.O.O.	Inactive	100% held by S.S.S. Project Management B.V.
CZECH REPUBLIC		
Directly wholly owned		
P4 Plaza S.R.O.	Operating shopping center	Liberec Plaza project
Plaza Centers Czech Republic S.R.O.	Management company	

NOTE 39 - LIST OF GROUP ENTITIES

BULGARIA		
Directly wholly owned		
Shumen Plaza EOOD	Shopping center project	Shumen Plaza project
Plaza Centers Management Bulgaria EOOD	Management company	
GREECE		
Directly wholly owned		
Helios Plaza S.A.	Shopping center project	Pireas Plaza project
Indirectly or jointly owned		
Elbit Cochin Island Ltd.	Inactive	40% held by Plaza Centers N.V.
CYPRUS – UKRAINE		
Directly wholly owned		
Tanoli Enterprises Ltd.	Finance activity	
PC Ukraine Holdings Ltd.	Inactive	
Plaza Centers Ukraine Ltd.	Management company / Inactive	100% held by PC Ukraine Holdings Ltd.
Nourolet Enterprises Ltd.	Inactive	100% held by PC Ukraine Holdings Ltd.
THE NETHERLANDS		
Directly wholly owned		
P.L.A.Z.A B.V.	Holding company – Poland	50% held by Plaza Centers N.V. 50% held by Mulan B.V. Holds Hokus Pokus Rozrywka Sp.z.o.o. jointly with Plaza Centers N.V. (50%–50%)
Plaza Dâmboviţa Complex B.V.	Holding company	
Plaza Centers Enterprises B.V.	Finance company	100% held by Plaza Dâmboviţa Complex B.V.
Mulan B.V. (Fantasy Park Enterprises B.V.)	Holding company	Holds Fantasy Park subsidiaries in CEE
Plaza Centers Administrations B.V.	Inactive	
Plaza Centers Connections B.V.	Inactive	
Plaza Centers Engagements B.V.	Inactive	
Plaza Centers Foundation B.V.	Inactive	
Plaza Centers Management B.V.	Inactive	
THE DUTCH ANTILLES		
Directly wholly owned		
Dreamland Entertainment N.V.	Inactive	
CYPRUS – INDIA		
Directly wholly owned		
PC India Holdings Public Company Ltd.	Holding company	
Indirectly or jointly owned		
Permindo Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd. Holds 99.9% of Anuttam Developers Pvt. Ltd. Koregaon Park Plaza project
Anuttam Developers Pvt. Ltd.	Operating shopping center	99.99% held by Permindo Ltd. Koregaon Park Plaza project
Spiralco Holdings Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
Rebeldora Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
HOM India Management Services Pvt. Ltd.	Management company	99.99% held by PC India Holdings Public Company Ltd.
Rosesmart Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Xifius Services Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Dezimark Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Elbit Plaza India Real Estate Holdings Ltd.	Holding company	Equity accounted investee 47.5% held by Plaza Centers N.V.
Polyvendo Ltd.	Holding company	100% held by Elbit Plaza India Real Estate Holdings Ltd.
Elbit Plaza India Management Services Pvt. Ltd.	Management company	99.99% held by Polyvendo Ltd.
Kadavanthra Builders Pvt. Ltd.	Mixed used project	80% held by Elbit Plaza India Real Estate Holdings Ltd. Chennai (SipCot) project
Aayas Trade Services Pvt. Ltd.	Mixed used project	100% held by Elbit Plaza India Real Estate Holdings Ltd. Bangalore project (refer to note 34(B))
Elbit India Architectural Services Ltd.	Inactive	100% held by Elbit Plaza India Real Estate Holdings Ltd.
UNITED STATES OF AMERICA		

Indirectly or jointly owned		
Elbit Plaza USA II LP("EPUS 2")	Holding company	Equity accounted investee 50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
EPN REIT II	Inactive	Held 100% by EPUS II

NOTE 39 - LIST OF GROUP ENTITIES

ENTITIES DISPOSED OR DISSOLVED IN 2012 AND 2013		
UNITED STATES OF AMERICA		
Indirectly or jointly owned		
Elbit Plaza USA LP	Holding company	50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
Plaza USA LLC	Holding company	100% held by Elbit Plaza USA LP
Elbit USA LLC	Holding company	100% held by Elbit Plaza USA LP
Elbit USA II LLC	Holding company	100% held by Elbit Plaza USA LP
EPN GP LLC	Holding company	21.64% held by Plaza USA LLC 12.18% held by Elbit USA LLC 9.47% held by Elbit USA II LLC
EPN EDT Holdings II LLC	Holding company	23.64% held by Plaza USA LLC 13.3% held by Elbit USA LLC 10.34% held by Elbit USA II LLC
EDT Retail Trust (Australia)	Inactive	52% held by EPN EDT Holdings II LLC 48% held by EPN GP LLC
EDT U.S Trust INC. (US REIT I)	Holding company	52% held by EPN EDT Holdings II LLC 48% held by EPN GP LLC
EDT Fund LLC (US LLC)	Inactive	100% held by EDT U.S Trust INC. (US REIT)
EDT U.S Trust II INC. (US REIT II)	Inactive	52% held by EPN EDT Holdings II LLC 48% held by EPN GP LLC
Elbit Plaza II USA LP	Holding company	50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
EPN Investment Management LLC	Management company	50% held by Elbit Plaza USA LP 50% held by US based-partner
EPN Fund GP LLC	Holding company	43.75% held by Elbit Plaza II USA LP
EPN Real Estate Fund LP (Fund)	Holding company	99.8% held by Israeli-based partner 0.2% held by EPN Fund GP LLC
EPN Real Estate Fund Holdings LLC	Holding company	100% held by EPN Real Estate Fund LP (Fund)
EPN Holdings I LLC	Holding company	43.29% held by Elbit Plaza II USA LP 13.42% held by EPN Real Estate Fund Holdings LLC 43.29% held by US-based partner
EDT Retail Trust Management LLC (US MGR)	Holding company	50% held by EPN Holdings I LLC 50% held by US-based partner
EDT Retail Management Ltd. (Australia)	Management company / Inactive	100% held by EDT Retail Trust Management LLC (US MGR)
EPN Operations LLC	Inactive	43.29% held by Elbit Plaza II USA LP 13.42% held by EPN Real Estate Fund Holdings LLC 43.29% held by US-based partner
EPN REIT II LLC	Inactive	45.375% held by Elbit Plaza II USA LP 9.25% held by EPN Real Estate Fund Holdings LLC 45.375% held by US-based partner
HUNGARY		
Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	Liquidated
SBI Hungary Ingatlanforgalmazó és Építő Kft.	Shopping center	50% held by Plasi Invest 2007 Ingatlanforgalmazó Kft. 50% held by Israeli-based partner Új Udvar project
Ercorner Gazdasági Szolgáltató Kft.	Holding company	50% held by Plaza Centers N.V. 50% held by Hungarian commercial bank
Álom Sziget 2004 Ingatlanfejlesztő Kft.	Mixed used project	87% held by Ercorner Gazdasági Szolgáltató Kft. Dream Island project
DI Gaming Holding Ltd.	Holding company	87% held by Ercorner Gazdasági Szolgáltató Kft.

Álom Sziget Entertainment Zrt.	Holding company	49.99% held by DI Gaming Holding Ltd. - associate
Álom Sziget Hungary Kaszinójáték Kft.	Holding company	100% held by Álom Sziget Entertainment Zrt.
CZECH REPUBLIC		
Directly wholly owned		
Praha Plaza S.R.O.	Logistic center	Prague III project
Plaza Housing S.R.O.	Owns plot of land	Roztoky project
INDIA		
P-One Infrastructure Pvt. Ltd.	Real estate	50% held by Spiralco Holdings Ltd. 50% held by Indian third party Kharadi Plaza and Trivandrum Plaza projects