Note 26 – 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 by 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 25, 2008 the Company's general shareholders meeting and the Board of Directors approved modification of ESOP. 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. The incremental fair value granted (i.e.: the increase in fair value of the share options measured immediately before and after the modifications) as a result of the above-mentioned modifications was EUR 6.4 million which is recognized over the vesting period or immediately for vested options.

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

Furthermore, the second ESOP plan was adopted on November 22, 2011 which is based on the terms of the first 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 second ESOP is fourteen million (14,000,000) and a cap of GBP 2. It is noted that, on the basis of all 14,000,000 options being granted under the second ESOP and fully exercised thereafter, this would have an effect of dilution of up to 3% (on fully diluted basis) of the issued share capital as of the date of this notice. Exercise of the options is subject to the following mechanism:

Grant date/employees entitled	Number of options	Vesting conditions	Contractual life of options[1]
Option grant to key management at October 27, 2006	13,368,074	see [3] below	10 years
Option grant to employees at October 27, 2006	2,471,093	see [3] below	10 years
Total granted in 2006	15,839,167	see [3] below	10 years
Total granted in 2007[2]	1,314,073	see [3] below	10 years
Total granted in 2008[2]	1,345,556	see [3] below	10 years
Total granted in 2009[2]	988,336	Three years of service	10 years
Total granted in 2010[2]	1,289,000	Three years of service	10 years
Total granted in 2011[2]	6,129,000	Three years of service	10 years
Total share options granted	26,905,132		

1 Following the modification of ESOP, the contractual life for stock options granted changed from seven years to ten years.
2 Share options granted to key management: 2007: 200,000 share options; 2008: 626,667 share options; 2009: 73,334 share options; 2010: 100,000 share options; 2011: 2,414,000 share options.
3 Vesting conditions – refer to modification of employee share option paragraph above.

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 exercise price the opening price shall be set at GBP 3.24 (except the second ESOP as stated above) of the exercise price; 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. The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

	Weighted average exercise price* 2011 GBP	Number of options 2011	Weighted average exercise price 2010 GBP	Number of options 2010
Outstanding at the beginning of the year	0.61	24,889,225	0.53	26,255,482
Forfeited during the period – back to pool	1.40	(3,201,529)	0.52	(200,716)
Exercised during the year	0.53	(951,564)	0.52	(3,954,541)
Granted during the year	0.46	6,169,000	1.23	2,789,000
Outstanding at the end of the year	0.43	26,905,132	0.61	24,889,225
Exercisable at the end of the year		19,380,778		15,279,330

* The options outstanding at December 31, 2011 have an exercise price in the range of GBP 0.43 to GBP 1.32 (app. EUR 0.51 to EUR 1.58) following an interim dividend payment of GBP 0.09 and a weighted average remaining contractual life of 6.31 years. The weighted average share price at the date of exercise for share options exercised in 2011 was GBP 0.88 (2010: GBP 1.41).

Notes to the consolidated financial statements

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Note 26 – Employee share option plan continued

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 29,305,718. The estimated fair value of the services received is measured based on a binomial lattice model using the following assumptions:

	Key management personnel 2011* EUR	Key management personnel 2010 EUR	Employees 2011* EUR	Employees 2010 EUR
Fair value of share options and assumptions				
Fair value at measurement date (in EUR)*	812,885	859,861	470,406	652,132
Weighted average exercise price	0.46	1.14	0.46	1.35
Expected volatility	33.09%-51.67%	46.3%-57.93%	33.09%-51.67%	40.3%-57.93%
Weighted average share price (GBP)	0.43	0.92	0.47	1.01
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)	0.46%-5.49%	0.55%-4.37%	0.46%-5.49%	0.65%-5.65%

* Not including information in respect of the amendment of the first ESOP

During 2011, the total employee costs for the share options granted (including the modifications) was EUR 2,446 (2010: EUR 2,588).

Since Plaza has been a publicly traded company starting November 2006, 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 a similar segment that have similar market capital and are traded at the Warsaw Stock Exchange. In an attempt to estimate the expected volatility, the 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% (2010: 50%-65%). The working assumption is that the standard deviation of the underlying asset yield converges in the long term with the multi-year average.

Elbit Plaza US share-based plan

In August 2011, Elbit Plaza US (a 50% held joint venture partnership of the Company, together with EI, its principal shareholder) ("EPUS") initiated the EPUS 2011 Incentive Plan (the "2011 EPUS Incentive Plan") which provides for the grant of options exercisable into up to 500,000 Participation Units of EPUS to employees, directors and officers of the Company and related party companies, at an exercise price per option of US$17. The exercise price of each option will be reduced upon any event where EPUS makes cash distributions of the proceeds to all Partners or repays the Partners and/or any related party any outstanding loan, interest, charges and/or current debt, etc.

Under the 2011 EPUS Incentive Plan, options vest gradually over a period of three and a half years. The Administrator of the Plan may in its sole discretion accelerate or otherwise modify the vesting period. The vested options granted shall be exercisable into Participation Units only immediately prior to the date in which EPUS ceases to be a going concern and its activities are merely for the purpose of winding up its affairs.

Upon winding up of EPUS the entire amount of 500,000 Participation Units shall entitle their holders to receive 5% of an amount which equals any and all amounts that EPUS has received from all sources of income less the costs and expenses pertaining to the applicable transaction and less any and all taxes paid or payable if any with respect to such transaction. Each and every option shall entitle its holder to receive its proportionate share in the abovementioned amount. As a result of the above, EPUS recorded an expense of US$1.6 million in its income statement, and the Company part is US$0.8 million (EUR 0.6 million).

	For the year ended December 31, 2011 Number of options*	For the year ended December 31, 2011 Weighted average exercise price (US$)
Balance at the beginning of the year	–	
Granted	488,750	17
Balance at the end of the year*	488,750	12.74
Options exercisable at year end	–	–
* Includes options granted to the Company's key personnel	117,500	12.74

The weighted average contractual life of the options outstanding as of December 31, 2011 is three and half years. The average estimated fair value of the options was calculated based on the binomial model based on a valuation of a third-party expert, using the following assumptions:

	For the year ended December 31, 2011
Risk-free interest rate (%)	0.48
Exercise coefficient	None
Contractual term	3.5
Expected volatility (%)	51.1
Expected dividend yield	None
Forfeited (%)	0
Total cost of benefit (US$ '000)	8,060

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 three years of vesting with contractual life of seven years following the Date of Grant of such options. PCI had granted 14,212 share options with an exercise price of EUR 227 per option. EPI had granted 51,053 share options with an 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 five 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 two and for employees 1.5.

As a result the Plaza recorded options costs of EUR 0.75 million in the income statement.

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 the 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).

Cash-settled share-based payment transaction with the former Vice-Chairman of EI

On October 27, 2006, the Company entered into an agreement with the former Executive Vice-Chairman of EI ("VC") who had responsibility for the Company's operations in India, under which the VC will be entitled to receive options ("the options") to acquire up to 5% of PC India Holdings Public Company Ltd ("holding company") through which the Company will carry on its operations in India. The options are fully vested as of December 31, 2011. The vested options may be exercised at any time, at a price equal to 5% of the Company's net equity investment made in the projects as at the option exercise date plus interest at the rate of LIBOR US$ plus 2% per annum from the date of the investment until the options exercise date ("exercise price").

VC has a cash-in right to require the Company to purchase shares held by him following the exercise of the options, at a price to be determined by an independent valuator. As of December 31, 2011, the liability recorded in these financial statements in respect of this agreement, is EUR 1.1 million. The total expense recorded in the income statements in 2011 totaled EUR 55,000. VC ceased to be considered as a related party effective June 30, 2010.

Notes to the consolidated financial statements
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Note 27 – Revenues

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Rental income from tenants[1]	35,523	20,576
Adjustment to fair value of investment property	8,084	4,647
Operation of entertainment centers[2]	7,121	7,442
Management fees	4,859	2,861
Revenue from selling trading properties[3]	712	924
Other	775	1,191
Total	57,074	37,641

1 Rental income relates either to revenues from investment properties the Company holds in a total amount of EUR 26.4 million (2010: EUR 13.4 million), or from the trading properties the Company holds in a total amount of EUR 9.1 million (2010: EUR 7.2 million). As at the end of the reporting period, the main rental income is derived from projects in the US, Latvia, Poland and the Czech Republic. Refer to note 37 for segment breakdown of revenues.

2 Revenue from operation of entertainment centers is attributed to a special subsidiary of the Company trading as 'Fantasy Park' which provides gaming and entertainment services in active shopping centers. As of December 31, 2011, these subsidiaries operate in 13 shopping centers.

3 Revenue from selling trading properties in 2011 is due to selling residential units in Romania.

Note 28 – Cost of operations

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Direct expenses:		
Property operations and maintenance*	19,159	13,589
Cost of sold trading properties	603	1,057
Salaries and related expenses	1,877	1,899
Initiation costs	713	812
Doubtful debts	–	120
Local taxes	1,391	1,438
	23,743	18,915
Other operating expenses	1,630	1,623
	25,373	20,538
Depreciation and amortization	425	315
	25,798	20,853

* 2011: includes EUR 7.2 million of energy related expenses, EUR 9.9 million due to other utilities expenses, and EUR 2.1 million due to rent expenses of Fantasy Park. 2010: includes EUR 5.4 million of energy related expenses, EUR 6.1 million due to other utilities expenses, and EUR 2.1 million due to rent charged to Fantasy Park subsidiaries.

Total cost of revenues resulting from investment properties the Company holds totaled EUR 11 million (2010: EUR 5.6 million).

Note 29 – Administrative expenses

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Selling and marketing expenses		
Advertising and marketing	1,423	1,665
Salaries and relating expenses	971	941
Others	41	36
	2,435	2,642
General and administrative expenses		
Salaries and related expenses[1]	9,152	7,661
Depreciation and amortization	630	1,086
Professional services	4,317	3,721
Traveling and accommodation	1,077	968
Offices and office rent	1,038	1,077
Others	887	768
	17,101	15,281
Total	19,536	17,923

1 Including non-cash expenses due to the share option plan in the amount of EUR 3.7 million (2010: EUR 2.5 million); refer to note 26 for more details on share-based payments.

Note 30 – Other income and other expenses

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
a. Other income		
Gain from selling property and equipment	4	–
Gain from bargain purchase[1]	–	42,039
Recognized goodwill – US business combination[2]	1,523	–
Non-claimed payable	–	360
Other income	165	204
Total other income	1,692	42,603
b. Other expenses		
Loss from selling property and equipment	–	(212)
Impairment of property and equipment[3]	(1,588)	–
Other expenses	–	(48)
Total other expenses	(1,588)	(260)
Total	104	42,343

1 Gain from bargain purchase – refer to note 35 (b).
2 Recognized goodwill – refer to note 35 (c).
3 Refer to note 12.

Notes to the consolidated financial statements

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Note 31 – Net finance income (costs)

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Recognized in profit or loss		
Changes in debentures measured at fair value through profit or loss*	59,891	–
Gain from bonds buyback program (refer to note 35 (m))	7,879	–
Interest income on bank deposits	3,003	2,197
Finance income from available for sale financial assets	2,017	2,103
Interest income on structured deposits (refer to note 11)	5,221	5,162
Finance income from selling option strategy, net	5,212	–
Foreign exchange gain on debentures	19,418	–
Changes in fair value of derivatives	–	37,308
Interest from loans to related parties	377	136
Changes in fair value of structured deposit (refer to note 11)	–	1,065
Foreign exchange gains on deposits, bank loans	–	456
Other interest income	–	1,169
Finance income	103,018	49,596
Interest expense on bank loans and debentures (including CPI)	(44,598)	(27,540)
Changes in fair value of derivatives	(16,622)	–
Interest expenses on loan on structures	(635)	(462)
Changes in debentures measured at fair value through profit or loss*	–	(50,112)
Foreign exchange losses on debentures at amortized cost	–	(10,366)
Changes in fair value of structured deposit (refer to note 11)	(1,320)	–
Foreign exchange losses on bank deposits, bank loans	(3,140)	(742)
Other finance expenses	(511)	(1,293)
	(66,826)	(90,515)
Less – borrowing costs capitalized to trading properties under development	29,154	19,742
Finance costs	(37,672)	(70,773)
Net finance income (expenses)	65,346	(21,177)

* The change in fair value includes a total of EUR 60.1 million (2010: EUR 10.6 million) attributable to the credit risk of the Company

Note 32 – Tax expense

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Current tax	57	(143)
Deferred tax (refer to note 23)	15,129	(1,261)
Prior year's taxes	–	96
Total	15,186	(1,308)

Deferred tax expense (tax benefit)

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Origination and reversal of temporary differences	20,192	381
Recognition of previously unrecognized tax losses	(5,063)	(1,642)
	15,129	(1,261)

Reconciliation of effective tax rate:

	For the year ended December 31, %	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Dutch statutory income tax rate		25%	25.5%
Profit before income taxes		29,050	12,940
Tax at the Dutch statutory income tax rate	25.0	7,262	3,235
Recognition of previously unrecognized tax losses	(17.4)	(5,063)	(1,642)
Effect of tax rates in foreign jurisdictions	24.8	7,195	9,197
Deferred taxes not provided for losses	30.2	8,775	8,428
Variances stemming from different measurement rules applied for the financial statements and those applied for income tax purposes	(17.8)	(5,173)	(4,557)
Non-deductible expenses (tax exempt income)*	7.5	2,190	(15,873)
Prior years' taxes	–	–	(96)
Tax expense (Tax benefit)	52.3	15,186	(1,308)

* In 2010: Relates mainly to non-taxable profit is attributable mainly to gain from bargain purchase in the US (refer to note 35 (b)).

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% (25.5% prior to the year 2011). 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.

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.

Notes to the consolidated financial statements
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Note 32 – Tax expense continued

USA
The US federal corporate income tax rate is 35%. Some states may also impose corporate income taxes, which vary from zero to approximately 12%, resulting in an effective corporate tax rate of generally around 40%. The federal tax rate on corporate capital gains is the same as that of ordinary income. The statutory withholding tax rate on US sourced income is generally 30%, which may be lowered under a relevant tax treaty.

India
The corporate income tax rate applicable to the taxable income of an Indian Company is 33.22% (including surcharge of 7.5% and rate of 3%. Surcharge is applicable only if the gross total income exceeds INR 10 million). Minimum alternate tax (MAT) of 19.93% (of the taxable income of a company) is applicable only if a company books profits which exceed INR 10 million. 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. Capital gains on transfer of capital assets (on which tax depreciation has not been claimed) are taxed at the rate of 22.145% (including surcharge of 7.5% and rate of 3%. Surcharge is applicable only if the gross total income exceeds INR 10 million) provided that the capital assets were held for more than 36 months immediately preceding the date of the transfer or 33.2175% (including surcharge of 7.5% and rate of 3%. Surcharge is applicable only if the gross total income exceeds INR 10 million) if they were held for less than 36 months. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.61% (including surcharge of 7.5% and rate of 3%. Surcharge is applicable only if the gross total income exceeds INR 10 million). 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 unabsorbed depreciation.

Cyprus
The taxation of companies incorporated in Cyprus is based on tax residence and all companies are taxed under corporation tax at the rate of 10%. Dividend income paid from overseas subsidiaries that earn more than 50% of their income from trading activities and profits from the sale of shares and other titles of companies are tax exempt. There is no withholding tax on payments of dividends to non-resident shareholders or shareholders that are companies resident in Cyprus. Companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Defence tax at 17% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year during the following two years. This defence tax is paid by the company for the account of the shareholders. Non-Cyprus tax resident shareholders are exempt from this taxation.

Note 33 – 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
- Operational 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 throughout these consolidated financial statements.

The Board of Directors has established a continuous process for identifying and managing the risks faced by the Company, 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 analyze 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 receivables and other financial institutions.

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 a bank guarantee or deposit equal to three months of rent from tenants of shopping centers.

Cash and deposits, structured deposits and available-for-sale financial assets.

The Group limits its exposure to credit risk in respect to cash and deposits, including structured deposits and available-for-sale financial assets 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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Company's Board of Directors and Audit Committee instructed the management to maintain during all times in the Company's reserves a net cash balance of at least EUR 40 million. The Company has published its sources and uses reports to demonstrate its ability to remain liquid.

c. Market risk

Currency and inflation 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. As the Israeli inflation risk is diminishing, the Company moves gradually to selling options strategy, rather than using SWAP.

Interest rate risk

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 (mainly borrowings in US$). 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 perform IRS to minimise the exposure to interest risk. Regarding interest rate risk hedging of the debentures and bank facilities, refer to note 15.

Shareholders' equity ("Equity") management

The Company's Board of Directors' policy is to maintain a strong equity base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company's Board of Directors also monitors the level of dividends to ordinary shareholders. The Company's Board of Directors' seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound equity position.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. No purchase is made unless the expected effect will be to increase earnings per share. The purchase of shares by the Company under this authority would be effected by a purchase in the market.

It should not be confused with any share dealing facilities that may be offered to shareholders by the Company from time to time.

The Company's Board of Directors was authorized by the general meeting of the shareholders to allot equity securities (including rights to acquire equity securities) in the Company up to an aggregate nominal value of approximately EUR 980 thousand, being approximately 33% of the Company's issued ordinary share capital as at 30 June 2011. Such authorization shall expire on the conclusion of the Annual General Meeting which will be held in June 2012. There were no changes in the Group's approach to capital management during the year.

Notes to the consolidated financial statements
continued

Note 33 – Financial instruments continued

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount December 31, 2011 €'000	Carrying amount December 31, 2010 €'000
Cash and cash equivalents	5	58,261	137,801
Restricted bank deposits	6	21,428	29,954
Derivative and short-term deposits	15	3,102	10,535
Available for sale debt securities	7	25,568	27,098
Trade receivables, net	8	5,432	4,064
Other receivables and prepayments	9	13,723	10,525
Related parties	18	1,227	1,185
Non-current derivatives	15	–	42,110
Long-term deposits and other investments	11	51,330	52,559
Restricted bank deposits	6	4,961	15,751
		185,032	331,582

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

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Banks and financial institutions	165,702	317,293
Tenants	5,432	4,064
Governmental institutions	6,125	3,323
Related parties and other	7,773	6,902
	185,032	331,582

Liquidity risk

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

December 31, 2011	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans*	448,622	(531,082)	(102,101)	(22,716)	(70,124)	(209,431)	(126,710)
Unsecured debentures issued	252,133	(348,841)	–	(83,451)	(94,989)	(158,838)	(11,563)
Trade and other payables	68,676	(71,722)	(278)	(44,039)	(556)	(20,826)	(6,023)
Related parties	2,228	(2,228)	–	(2,228)	–	–	–
	771,659	(953,873)	(102,379)	(152,434)	(165,669)	(389,095)	(144,296)

December 31, 2010	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans	366,416	(418,946)	(35,285)	(89,318)	(85,442)	(128,601)	(80,300)
Unsecured debentures issued	379,056	(424,342)	(68,047)	(17,418)	(81,907)	(237,416)	(19,554)
Trade and other payables	51,661	(54,781)	(257)	(31,065)	(580)	(17,293)	(5,586)
Related parties	3,758	(3,758)	–	(3,758)	–	–	–
	800,891	(901,827)	(103,589)	(141,559)	(167,929)	(383,310)	(105,440)

* The Company expects to revolve or to refinance the vast majority of its 2012 secured bank loans due.

Currency risk

The Company's main currency risk is in respect of its NIS denominated debentures. The Company is using (as of the date of signing the statement of financial position) a non-designated selling options strategy to hedge the currency risk associated with these bonds.

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

EUR	Average rate 2011 €'000	Average rate 2010 €'000	Reporting date spot rate 2011 €'000	Reporting date spot rate 2010 €'000
NIS 1	0.201	0.202	0.203	0.211

Sensitivity analysis – changes in exchange rates EUR-NIS in NIS denominated debentures

	Book value change -10% €'000	Book value 4.9381 €'000	Book value change 10% €'000
Debentures A	(4,659)	(46,591)	4,659
Debentures B	(19,264)	(192,640)	19,264
Total	**(23,923)**	**(239,231)**	**23,923**

Interest rate risk

Profile

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

	Carrying amount 2011 €'000	Carrying amount 2010 €'000
Fixed rate instruments		
Financial assets	110,474	210,604
Financial liabilities	(187,640)	(177,667)
	(77,166)	32,937
Variable rate instruments		
Financial assets	51,330	52,559
Financial liabilities	(513,115)	(567,805)
	(461,785)	(515,246)

Cash flow sensitivity analysis for variable rate instruments

A change of 30 basis points in EURIBOR interest 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. The analysis is performed on the same basis for 2010.

Variable interest rate effect (excluding debentures)

	Profit or loss 30 bp increase €'000	Profit or loss 30 bp decrease €'000
December 31, 2011	(783)	783
December 31, 2010	(566)	566

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Note 33 – Financial instruments continued

Fair value sensitivity analysis for structure B

The Group accounts for one structure at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. The change in interest rates at the reporting date would result in the following affect on the structure value:

Sensitivity analysis – changes in interest on structure

	Fair value change – decrease 5 bp €'000	Fair value €'000	Fair value change – increase 5 bp €'000
Structure B (refer to note 11)	12,734	12,697	12,660

NIS Debentures

Sensitivity analysis – Changes in Israeli CPI

	Book value change -3% €'000	Book value 110.3 €'000	Book value change 3% €'000
Debenture A	1,335	(46,591)	(1,335)
Debenture B	5,724	(192,640)	(5,724)
Total profit or loss	**7,059**	**(239,231)**	**(7,059)**

Sensitivity analysis – changes in NIS basic interest on debentures

	Book value change – decrease 100 bp €'000	Book value €'000	Book value change – increase 100 bp €'000
Debenture A	(1,017)	(46,591)	976
Debenture B	(2,636)	(192,640)	2,565
Total profit or loss	**(3,653)**	**(239,231)**	**3,541**

Fair values

Fair values versus carrying amounts

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of borrowings approximates the carrying amount (with the exception of debentures issued in Israel, which have a quoted active market), as the impact of discounting is not significant.

Refer to notes 21 and 22 in respect of comparison between fair value and amortized cost.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within 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)

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

December 31, 2011	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Available for sale financial assets	25,568	–	–	25,568
Structured deposit B (refer to note 11)	–	–	12,697	12,697
	25,568	–	12,697	38,265
SWAP and IRS	–	(3,561)	–	(3,561)
Debentures at fair value through profit or loss	(143,250)	–	–	(143,250)
	(143,250)	(3,561)	–	(146,811)

Both Level 3 financial instruments were outstanding at the beginning and at the end of the year. The total effect included in profit or loss for the year ended December 31, 2011 is as follows:

- Structured deposit B – EUR 1,320,000 loss as part of finance income (refer to note 31)

Note 34 – Contingent liabilities and commitments

a. Contingent liabilities and commitments to related parties:

1. The Company and/or its subsidiaries are bound by the following agreements, with Control Centers Ltd. ("Control Centers"), a company controlled by the ultimate shareholder of EI and/or companies controlled thereby.

   On October 27, 2006, the Company entered into an agreement with Control Centers under which Control Centers will provide coordination, planning, and execution and supervision services in respect of the Group's projects (the "Agreement"). Such Agreement is substantially similar to the agreement concluded between EI and Control Centers, which was approved by the shareholders of EI on 31 May 2006 under the applicable provisions of Israeli law. The Company will receive from Control Centers (either directly or through its subsidiaries or affiliates, other than the Company and its subsidiaries) coordination, planning, execution and supervision services (the "Services") over Real Estate Projects of the Group and/or its affiliates in consideration for a fee equal to 5% of the actual execution costs of each project, plus value added tax. The agreement expired on May 31, 2011, and will not govern projects which their initiation started after May 31, 2011. At December 31, 2011 the financial statements include a liability for engineering supervision services supplied by related parties in Control Centers Group in amount of EUR 0.4 million which relates to 11 projects under development in Serbia, Poland, Czech Republic and Romania (for the total charges in 2011 and 2010 refer to note 36).

2. On October 27, 2006 the Company signed an agreement with Jet Link Ltd (a company owned by the ultimate shareholder of the Company and which owns an airplane) under which the Group and/or its affiliates may use the airplane for their operational activities up to 275 flight hours per year. The Company will pay Jet Link Ltd. in accordance with its price list, reduced by a 5% discount. The agreement expired on October 27, 2011 and was extended for an additional four-year term.

3. On October 27, 2006 the Company and Mr Mordechay Zisser, an Executive Director of the Company, entered into a service agreement, pursuant to which he will be entitled to a monthly salary of US$25,000 (EUR 19,000) which includes pension, retirement and similar benefits for his services as the Company's Executive Director.

4. In October 2006, the Company and EI entered into an agreement, pursuant to which with effect from January 1, 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.

5. 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 35), but both EI and the Company agreed that upon the termination of the JV agreement they will re-execute the Agreement.

Notes to the consolidated financial statements

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Note 34 – Contingent liabilities and commitments continued

a. Contingent liabilities and commitments to related parties: continued

6. 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 three years from signing a closing agreement) and are generally capped to 25% to 50% of the purchase price.

   The tax authorities have challenged the applied tax treatment in two of the entities previously sold in Hungary. Currently the issue is being re-examined by the second instance of the authorities.

   The Group's management estimates, based, *inter alia*, on a professional opinion and past experience that no significant costs will be borne thereby, in respect of these indemnifications.

3. Aggregate amount of the Group's commitments in respect of construction services totaled, as of December 31, 2011, approximately EUR 146 million.

4. In relation to the investment property segment: DDR (refer to note 35 (b)) or the US REITs may exercise its pre-emptive right to acquire the properties held by the jointly controlled entities held by EDT and DDR (as at December 31, 2011: 7 assets) at fair market value if the responsible entity is removed, or there is a change in control of DDR or the US REITs or other defined events occur.

5. 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 an obligation to pay the developer in any case there is major progress in the projects. The total remaining obligation is EUR 0.9 million.

c. Contingent liabilities due to legal proceedings

On April 5, 2006 the Company and EI were sued by a third party requesting the court to order the Company and EI to pay the plaintiff an amount of NIS 10.8 million (approximately EUR 2 million) as an intermediary fee for certain sales of shopping centers in Poland and the Czech Republic.

The Company's management believes, based on, among others, legal advice, that it is not probable that this litigation will cause any outflow of resources to settle it, and therefore no provision was recorded.

The Company is involved in other 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, based on legal advice, that it is not probable that these litigations will cause any outflow of resources to settle them, and therefore no provision was recorded.

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 totaling EUR 390 million) awarded by financing banks (for projects in the US, Hungary, Latvia, Czech Republic, India, Serbia and Bulgaria), 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. The Company also guarantees fulfillment of one of its subsidiaries obligations under loan agreements in an aggregate amount of EUR 29 million. 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 is permitted to the shareholders (including the distribution of dividends but excluding management fees) subject to fulfilling certain preconditions.

   Certain loan agreements include an undertaking to fulfill 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.

   All of the companies are in compliance with the entire loan covenants with the exception of covenants breach in respect of four of the secured loans granted. The Company is in negotiation with the financing banks in respect of settling the bank requirements and agreeing on new covenants and/or waivers. All the above mentioned loans are presented at short term.

   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. 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.

   A company within the Group which is engaged in the debenture buyback program (refer to note 22 and 35 (m)) has secured its credit facility awarded by the financing bank by providing the first ranking charges on the debentures owned thereby.

2. Commitment in respect of derivative transaction

   Within the framework of SWAP transactions, selling call options and regular swaps (refer to note 15), executed between the Company and commercial banks (the "Banks"), the Company agreed to provide the Banks with a cash collateral deposit which will be calculated in accordance with a specific mechanism provided in each swap transaction agreement and call option.

   Accordingly, as of the end of the reporting period, the Company has pledged, a security deposit in the amount of EUR 4.9 million and EUR 1 million in respect of SWAP transactions and IRS, respectively. In respect of the Suwalki IRS the Project Company also established a bail mortgage up to EUR 4 million encumbering the real estate project. Regarding pledge of deposits which refer to transaction performed after the end of the reporting period, refer to note 38.

3. Commitment in respect of structured deposits

   In order to secure credit lines provided to the Company for the purpose of investing in financial structures (refer to note 16), the Company has provided the issuing banks a pledge on the structures issued. In addition the Company also has to comply with certain covenants stipulated in the loan agreement (mainly loan to value covenants). Failing to comply with the said covenants shall oblige the Company to provide additional cash collateral. As of the end of the reporting period the Company has secured cash collateral of EUR 9.8 million.

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Note 34 – Contingent liabilities and commitments continued

d. Securities, guarantees and liens under bank finance agreements continued

4. 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 buyback program – 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 statement of financial position date the ratio was 50%.

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 35 – Significant acquisitions and events

a. 2010 Framework agreement for a joint venture in the United States

On February 9, 2010 the Company entered through Elbit Plaza USA, L.P. ("Elbit Plaza USA"), a new Real Estate Investment Partnership with Elbit, into a framework and co-investment agreement with Eastgate Property LLC ("Eastgate") to take advantage of real estate opportunities in the United States, primarily in the retail sector. Under the terms of the new strategic joint venture, Elbit Plaza USA and Eastgate have jointly committed to invest a total of US$200 million in equal shares in one or more dedicated US real estate investment platforms, which will focus on investments in the US commercial real estate sector (collectively, the "Fund"). The Fund purpose is to identify potential investments and make both direct purchases and enter into joint ventures with local business partners over a two-year acquisition period. Once assets have been acquired, Elbit and the Company undertake asset management initiatives to maximise income and capital value growth from the properties.

Pursuant to the framework and co-investment agreement with Eastgate, EPN GP LLC ("EPN GP") was jointly established as a Real Estate Investment Venture for the purpose of investing in the US real estate market, primarily in the retail sector. For the transaction in the US refer to notes b and c below.

In June 2010 Elbit Plaza USA and Eastgate raised from Menora Mivtachim Insurance Ltd. ("Menora"), a leading pension insurance entity in Israel, and certain of Menora's affiliates, US$31 million (EUR 25 million) of capital commitments to be invested in EPN GP. Following this commitment, the Company's indirect interests in EPN GP were reduced from 25% to 21.65%.

b. Transaction during 2010 in the United States

Pursuant to a series of agreements (which are described below) entered into during the second quarter of 2010, on June 18, 2010 EPN GP acquired 47.8% of the unit holdings in Macquarie DDR Trust ("EDT" or "the Trust") for a total consideration of US$116 million (EUR 94 million). In addition, EPN GP acquired a 50% interest in the entity which is the owner of the Responsible Entity of the Trust (the "US Manager") for approximately US$3 million. The responsible entity is the company which looks after the day-to-day management of EDT, including its investments, strategy management and financing. Developers, Diversified Realty Corporation, an Ohio corporation specializing in real estate investments and assets management ("DDR"), remained as a 50% co-owner of the US manager and continued to act as property manager of the Trust's assets.

According to the agreements, EPN GP has the right to appoint six board members out of 11 (55%) of the responsible entity's board of directors. Pursuant to the responsible entity's constitution, few decisions require at least seven affirmative votes including the unanimous vote of all non-independent directors. According to Company management judgment, the rights specified in the responsible entity's constitution granted to the non-controlling interest do not give it the power to participate in the operating and financial

decisions of EDT in its ordinary course of business, but only to protect its interests, and therefore fail to impair the Group's power to control the financial and operating policies of EDT. Therefore, Company management's opinion is that the rights granted to the non-controlling interest with respect to those decisions do not affect the Company's ability to control the responsible entity.

According to the constitution of EDT, the Responsible Entity can be appointed or dismissed only by majority vote of EDT's unitholders' general meeting. Company's management reached a conclusion that despite EPN GP's share in EDT being lower than 50%, EPN possesses de facto control over EDT hence EPN GP was the largest unitholder in EDT (47.8% as of December 31, 2010) while the remaining units are widely spread between many other unit holders, many of which held a very low percentage in EDT. Therefore, management estimated that the 52.2% unitholders, as a group, had no effective ability to force replacement of the current Responsible Entity (in which, as noted above, the Company possesses control), in case such a decision would come to the general meeting of EDT's unitholders.

Consequently, the Company management is of the opinion that EPN GP had de facto control over EDT, which gives it the power to govern the financial and operating policies of EDT. Accordingly, as of December 31, 2010 EPN GP presented its investment in EDT on a fully consolidation basis with non-controlling interest of 52.2%.

Given the jointly control agreement between Elbit Plaza USA and Eastgate, as of December 31, 2010 the Group presented its investment in EPN GP, and therefore indirectly in EDT, on a proportional consolidation basis based on 21.65%.

As a result of the above, in 2010 EPN GP recorded a gain from a bargain purchase of US$240 million (EUR 192 million), and the Company recorded in its statement of income 21.65% out of this amount, totaling circa EUR 42 million.

c. Transaction during 2011 in the United States

EPN EDT Holdings II, LLC ("EPN EDT II") was formed in 2011 to acquire the remaining shares of EDT. In March 2011, EPN EDT II made an off-market takeover bid to acquire the outstanding units of EDT for AU$0.078 per share, which was subsequently raised to AU$0.09 per share in May 2011.

Through a series of both on-market and off-market share acquisitions, concluded in August 2011, EPN EDT II acquired the remaining 52.2% units of EDT for US$241 million (EUR 169 million).

In the fourth quarter of 2011 EDT was delisted from the ASX and assigned all its investment to EPN GP and EPN EDT II. EPN GP, EPN EDT II and their subsidiaries are collectively referred to as EPN Group for the purposes of these financial statements.

As a result of the above, EPN Group recorded capital reserve in the total amount of US$119 million (EUR 84 million), out of which the Company's share totaled US$27 million (EUR 19 million) presented in the consolidated statement of changes in equity for 2011.

Since the Group's actual investment in EPN Group was not in accordance with its holdings in EPN GP prior to such investment (21.65%), the Group's share in EPN Group following the US$57 million (EUR 40 million) 2011 investment was increased to 22.69%.

EPN Group's real estate investments are located in the United States and are held indirectly through two United States domiciled entities, EDT U.S. Trust, Inc. (REIT I) and EDT U.S. Trust II Inc. (REIT II),.

Both REIT I and REIT II were qualified as Real Estate Investment Trusts ("REIT") for United States income tax purposes, however, REIT status was terminated for both entities effective January 1, 2011 due to EPN Group's acquisition in 2011. REIT I and REIT II in turn hold their interests via three United States limited liability companies.

For the agreement entered into in January 2012 to sell 47 out of the 49 retail shopping centers of EPN, refer to note 38.

d. Loss of control of certain assets in EDT

Due to the likelihood of not being able to retrieve any equity value from the Trust's investment in a joint venture entity (MV LLC) portfolio and significant additional capital being required, the Trust, DDR and the loan servicer jointly requested that a court appoint a third-party receiver to manage and liquidate the remaining assets within the portfolio. On August 24, 2010 a third-party receiver was appointed over the remaining assets within the MV LLC portfolio. As a result the trust no longer has joint control over MV LLC and in accordance with its accounting policies accounted for its interest in MV LLC at December 31, 2011 and 2010 as an investment held at the lower of cost and net realisable value which was nil at both dates.

Notes to the consolidated financial statements

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Note 35 – Significant acquisitions and events continued

e. Restructuring of partnership agreement in Bangalore, India

On March 13, 2008, Elbit Plaza India Real Estate Holdings Ltd. ("EPI"), a 50%/50% joint venture company with EI (regarding the change in holding in EPI following transaction with VC, refer to 35(R) below) entered into an amended and reinstated share subscription and framework agreement ("Framework Agreement"), with a third party (the "Partner"), and a wholly owned Indian subsidiary of EPI ("SPV"), to acquire, through the SPV, up to 440 acres of land in Bangalore, India (the "Project Land"). As of December 31, 2011, the SPV has secured rights over approximately 54 acres and the total aggregate consideration paid was approximately INR 2,843 million (EUR 48 million), presented in the statement of financial position as of December 31, 2011 and 2010 as trading property.

In addition, the SPV has paid the partner advances of approximately INR 2,536 million (EUR 21 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, 2011 and 2010 as advances for plot purchases within other receivables and prepayments (refer to note 9).

As detailed below, on July 22, 2010, EPI, the SPV and the partner entered into the New Framework Agreement which has not yet come into force. The New Framework Agreement provides that in case it does not eventually come into full force and effect, the terms of the Amended Framework Agreement will govern, according to which the Company and EI additional investments in the project land may reach up to INR 10,500 million (EUR 152 million).

On July 22, 2010, due to certain changes in the market conditions, new arrangements between the parties, EPI, the SPV and the partner entered into a new framework agreement ("New Framework Agreement") which established new commercial understandings pertaining, *inter alia*, to the joint development of the project land and its magnitude and financing, the commercial relationships and working methods between the parties and the distribution mechanism of the revenues from the project land.

In accordance with the New Framework Agreement, *inter alia*, the following commercial terms have been 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 440 acres (the "New Project").
- The partner undertakes to complete the acquisitions of the additional land in order to obtain the rights over the said 165 acres.
- The SPV and/or EPI will not be required to pay any additional amounts in respect of such acquisitions or with respect to the 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 of the project, as well as the marketing manager of the project. Under the New Framework Agreement the partner is committed to a maximum construction costs, minimum sale prices and a detailed timeline and budget with respect to the development of the project.

The profits from the project (including the sale by the partner or any transaction with respect to the original lands which do not form part of the said 165 acres) will be distributed in a manner by which the Group's share will be approximately 70% until such time that EPI's investment in the amount of INR 5,780 million (approximately EUR 84 million) ("EPI's Investment") plus an internal return rate ("IRR") of 20% per annum calculated from September 30, 2009 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 the IRR calculated on the relevant date of acquisition.

The terms of the New Framework Agreement will enter into full force and effect upon execution of all of the ancillary agreements (as defined therein). Following such event the terms of the Amended Framework Agreement will be suspended, though may be revived upon occurrence of certain events as specified in the New Framework Agreement.

As of December 31, 2011 and 2010, the SPV operations are proportionately (50%) consolidated with those of the Company, since significant decisions in respect of the project land require the consent of both EPI and the partner.

In January 2011, the Partner had submitted to the local planning authority, the Bangalore Development Authority ("BDA") the development plans pertaining to 84 acres included in the scope of the new project.

In October 2011, the BDA had furnished the partner with its reply, stating that the development plans cannot be considered due to a future state plan to acquire the lands on which the new project is proposed to be situated (among other lands in the same area) and allot it to the public under a special scheme.

Subsequently, the partner has promptly applied to the state high court, requesting it to issue a court order forcing the BDA to consider the development plans, based on a similar judgment given by the same court for an adjacent land, and further based on the fact that, to the date hereof, the state's government had not yet published any notice in this respect, as required by law in order to validate such a plan.

f. Additional investment property transaction in the US

In December 2010, EPN signed a real estate purchase and sale agreement (the "Agreement"), to purchase from certain affiliates of Charter Hall Retail REIT seven retail shopping centers located in Georgia, Oregon and Florida in the US.

On December 1, 2011, EPN acquired a single shopping center in Georgia and opted not to acquire the remaining six centers. The purchase price for the Georgia property was US$20.4 million (EUR 15.7 million), out of which US$13.5 million (EUR 10.4 million) was paid by way of assumed debt. The property has approximately GLA of 202,000 square feet (approximately 18,800 square meters).

g. Bonds issuance program in Poland

On July 28, 2010 the Board of the Company approved a bond issuance program for the issuance of up to 3,000 unsecured bearer bonds, governed by Polish law, to the maximum amount of PLN 300 million (approximately EUR 75 million) (the "Bonds"), in several tranches. The tranches have been approved for issuance between July 2010 and the end of 2016 (the "Bonds Issuance Program") as part of a long-term strategic financing plan. For the bonds issuance refer to note 22.

h. Changes in global markets

The Company continues to monitor closely market conditions in the countries in which it operates. Although there has been a slight easing in debt market conditions, the repercussions of the global recession are still very strong and the Company's management estimates, that it will continue to have an impact on current and potential tenants for some time. The Company's management believes that it is able to mitigate the global recession consequences by ensuring maintaining its strong, lasting relationships with its high-quality tenant base, across its geographically diverse portfolio of western style, well located centers.

During 2011 the Company completed the construction of one development in Toruń, Poland, and continues to make progress with the construction of three further projects (Kragujevac in Serbia, Koregaon Park and Kharadi in Pune, India). The remainder of the Company's development pipeline projects are either in the design phase or waiting for permits. Commencement of these projects will depend, amongst other things, on the availability of external project financing.

i. Appointment of the Company's Chief Executive Officer

On December 29, 2009, the Company announced that Mr Ran Shtarkman, its President and Chief Executive Officer, had been appointed Joint Chief Executive Officer of EI effective January 1, 2010. In this role, he continues to work full time as the CEO of the Company, based at the Company's offices, but also assumed certain responsibilities for EI, with particular emphasis on overseeing its real estate interests in India.

j. Hedging and settlement of hedging transactions performed in the course of 2011

For the abovementioned hedging and settlement refer to note 15.

k. Issuance of debt securities in Israel

For the issuance of debt refer to note 22.

l. 2011 impairments

For the abovementioned impairments refer to note 10.

m. Bond buyback program

On May 23, 2011 the Company's Board of Directors approved a buyback program of up to NIS 150 million (approximately EUR 30.2 million) of its Series A and Series B debentures, which are traded on the Tel Aviv Stock Exchange. Following the completion of the abovementioned program in November 2011, the Company's Board of Directors approved another buyback program on December 23, 2011 of up to NIS 150 million (approximately EUR 30.3 million) of the abovementioned bond series.

Notes to the consolidated financial statements
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Note 35 – Significant acquisitions and events continued

m. Bond buyback program continued

The repurchases were, and will be, made either on an opportunistic basis in the open market on the Tel-Aviv Stock Exchange, or in privately negotiated transactions, or in a combination of the two. The Board approval should not be deemed a commitment to purchase any debentures. The timing and amounts of any debentures repurchased will be determined by the Company's management, based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time.

As of the date of statement of financial position, the Company has purchased a total of NIS 168 million par value debentures (with CPI adjusted value of NIS 194 million), for a total consideration of NIS 152 million (approximately EUR 30 million). A gain of EUR 8 million was recorded in 2011 as a result of the buyback program. An amount of NIS 35.5 million par value of the debentures repurchased by the Company from both Series A and Series B have been cancelled and removed from trading and will not be permitted to be reissued. Regarding the 2012 buyback program, refer to note 38.

n. Dividend paid to shareholders

In September 2011, the Board of Directors of the Company approved an interim cash dividend payment of EUR 30 million to be paid to shareholders. The dividend per share was EUR 0.1010.

The interim cash dividend payment was made on September 23, 2011 to all shareholders on the Company's register on September 23, 2011 (the record date). The ex-dividend date was September 21, 2011. In accordance with local Dutch tax regulations, a tax of 15% was withheld and paid in The Netherlands, on behalf of each holder, except for holders for which an exemption applied.

o. Bondholders' agreement

On September 23, 2011 the Company has reached an agreement with holders of the Company's Series A and B Bonds (the "Bondholders") with regards to its dividend distributions in the years 2012-2013, should any be declared.

The agreement, which was approved by the vast majority of bondholders, places certain covenants and conditions on dividend payments by the Company during 2012-2013, in light of the ongoing challenging global economy. A summary of the major terms in the agreement is as follows:

- The total dividend will be capped at EUR 30 million per annum for each of the years 2012 and 2013.
- Distribution of dividends will be made only from the net cash flows derived from the realisation of assets and will be capped at 50% of net cash flows received.
- Should a dividend be paid while the average market yield of the Company's Series A and B Bonds exceeds a certain threshold, the Company shall retain, for a period of 12 months following the dividend payment, a sum of not less than EUR 70 million in reserve accounts, of which a sum equal to the dividend payment can be used solely for the repurchase of bonds and/or making principal and interest payments to bondholders.
- Should a dividend be paid while the average market yield of the Company's Series A and B Bonds is below a certain threshold, the Company shall be entitled to distribute dividends of up to EUR 50 million per annum. Should this occur, the sum of the dividend which exceeded EUR 30 million will be held in a reserve account, to be used solely for the repurchase of bonds and/or making principal and interest payments to bondholders.

p. Dividend distribution by EDT

In September 2011, EDT distributed an interim dividend payment to its unitholders of US$26 million (approximately EUR 18.8 million). Of this, Elbit Plaza USA LP, a jointly controlled entity of the Company and Elbit, received a total distribution amount of US$11.8 million (approximately EUR 8.6 million), of which the Company received half, reflecting its 50% share.

q. Opening of the Toruń shopping center

On November 14, 2011 the Company completed and opened to the public Toruń Plaza in Poland, its thirty-first shopping center in Central and Eastern Europe ("CEE") and its tenth in Poland. Toruń Plaza comprises 40,000 sqm of Gross Lettable Area ("GLA") spread over two floors, with approximately 1,100 parking spaces.

r. Allotment of shares in EPI to VC

On January 17, 2008 EI's shareholders approved another agreement with the VC according to which EI has undertaken to allot the VC 5% of the aggregate issued and outstanding share capital in the Company's jointly controlled subsidiary with EI (refer to note 37), Elbit Plaza India Real Estate Holdings Limited ("EPI").

The allotment was performed in 2011 and as of the end of the reporting period, VC holds 5% of the shares of EPI, while each of the Company and EI hold 47.5% of the shares of EPI. The VC shares in EPI shall not be entitled to receive any distributions from EPI (including, but not limited to, payment of dividends, interest, other expenses and principal repayments of shareholder loans, management fees or other payments made to the VC and any loans provided by the EPI to the VC) until the Group's investments (principal and interest calculated in accordance with a mechanism provided for in the agreement) in EPI have been repaid in full. The agreement includes, *inter alia*, "tag along" and "drag along" rights.

Note 36 – 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 and in note 35.

The Company has six directors. The annual remuneration of the directors in 2011 amounted to EUR 1.1 million (2010: EUR 1.1 million) and the annual share-based compensation expenses amounted to EUR 1.5 million (2010: EUR 0.8 million). There was no change in the number of Company options granted to key personnel in 2011. In respect of the share-based plan in the US, refer to note 26. There are no other benefits granted to directors. For the nomination of the Company's CEO as a joint CEO in EI refer to note 35 (i). Information about related party balances as of December 31, 2011 and 2010 is disclosed in 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, 2011 €'000	For the year ended December 31, 2010 €'000
Income		
Interest on balances with EI	215	136
Costs and expenses		
Recharges – EI and EUL	494	919
Executive director[1]	238	244
Former executive Vice Chairman of EI[2]	–	710
Aviation services – Jet Link[3]	522	496
Project management provision and charges – Control Centers group[3]	3,521	5,039

1 The Executive director, who is also the controlling shareholder of the ultimate parent company, is receiving an annual salary of US$300,000.
2 2010: Including option plan expenses of EUR 0.5 million. For the option plan for the former executive Vice Chairman of EI refer to note 26. Starting 2011, the former executive Vice Chairman of EI is not considered a related party.
3 Jet Link Ltd. and Control Centers (refer to note 34 (a1)) are companies owned by the ultimate shareholder of the Company. Control Centers group costs are capitalized to the relevant trading property.

Notes to the consolidated financial statements
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Note 37 – Operating segments

The Group comprises the following main reportable geographical segments: CEE, India and the US (starting June 30, 2010). In presenting information on the basis of geographical segments, segment revenue is based on the revenue resulting from either the selling or operating of assets geographically located in the relevant segment.

Year ended December 31, 2011	Central Eastern Europe	India	US	Total
Revenues[1]	23,267	–	33,807	57,074
Operating profit (loss) by segment[2]	(48,191)	(2,986)	22,178	(28,999)
Financial income (expenses), net	(8,149)	167	(8,641)	(16,623)
Reportable segment profit (loss) before tax	(56,340)	(2,819)	13,537	(45,622)
Share in losses of associates, net	(153)	–	–	(153)
Less – unallocated general and administrative expenses				(7,248)
Plus – unallocated finance income				81,969
Other income, net				104
Profit before income taxes				29,050
Tax expense				(15,186)
Profit for the year				13,864
Total segment assets	716,983	198,751	269,412	1,185,146
Unallocated assets				163,380
Total assets				1,348,526
Segment liabilities	258,257	40,499	171,550	470,306
Unallocated liabilities				328,058
Total liabilities				798,364

1 US – including investment property revaluation of EUR 8.3 million. Central Eastern Europe – including investment property devaluation of EUR 0.2 million.
2 Central Eastern Europe – including EUR 48 million impairment of trading properties.

Year ended December 31, 2010	Central Eastern Europe	India	US	Total
Revenues[1]	20,824	–	16,817	37,641
Operating profit (loss) by segment[2]	(8,579)	(3,669)	11,329	(919)
Financial income (expenses), net	(4,746)	140	(3,907)	(8,513)
Reportable segment profit (loss) before tax	(13,325)	(3,529)	7,422	(9,432)
Share in losses of associates, net	(381)	–	–	(381)
Less – unallocated general and administrative expenses				(6,926)
Less – unallocated finance loss				(12,664)
Other income, net				42,343
Profit before income taxes				12,940
Tax benefit				1,308
Profit for the year				14,248
Total segment assets	675,207	196,978	236,292	1,108,477
Unallocated assets				317,819
Total assets				1,426,296
Segment liabilities	193,063	24,298	153,697	371,058
Unallocated liabilities				430,789
Total liabilities				801,847

1 US – including investment property revaluation of EUR 4.4 million. Central Eastern Europe – including investment property revaluation of EUR 0.3 million.
2 Central Eastern Europe – including EUR 6.7 million impairment of trading properties.

Note 38 – Events after the reporting period

Transaction during 2012 in the United States

On January 10, 2012 EDT, a wholly owned subsidiary of EPN Group, Plaza's joint US subsidiaries, reached an agreement, subject to the satisfaction of certain closing conditions, to sell 47 of its 49 US-based shopping centers in a deal totaling US$1.43 billion (EUR 1.1 billion).

The centers, located across 20 US states, are to be 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 US$1.43 billion, a total of US$934 million (EUR 722 million) shall be paid by the way of assumption of the property level debt unless repaid by EPN Group.

In addition, all excess cash within EDT, which is estimated at US$30 million (EUR 23 million), will be retained by the vendor.

Following the sale of the 47 properties, EPN Group will continue to hold two properties located in the US that are valued at approximately US$43 million (EUR 33 million) with total non-recourse secured debt of approximately US$14 million (EUR 11 million).

The transaction is expected to be closed in June 2012 and is subject to satisfaction of certain closing conditions.

The proceeds from the transaction will be subject to deduction of transaction expenses and applicable taxes. The Company does not expect a material impact from the transaction on its income statement, as the properties were measured at fair value in its consolidated financial statements for the previous periods in accordance with International Financial Reporting Standards.

SWAP settlements in 2012

In January 2012, the Company settled its SWAP in respect of its Series A debentures ("swap transaction"), for total proceeds of EUR 0.2 million. In addition, the Company released a long-term restricted deposit in the amount of EUR 2.1 million, which served as a security for the swap transaction.

Bond buyback program progress in 2012

During 2012, and until the date of approval of these financial statements, the Company has purchased an additional total of NIS 38 million par value debentures (with adjusted value of NIS 46 million), for a total consideration of NIS 36 million (approximately EUR 7 million), reflecting a gain of approximately EUR 2 million.

Foreign currency hedge using options (EUR/NIS) in 2012

During 2012, and until the date of approval of these financial statements, the Company (following the settlement of all call options written in 2011) wrote EUR 300 million call options with strike prices (EUR/NIS exchange rate) between 4.94 and 5.03 and an expiration date of March 29, 2012 and June 25, 2012. In addition, the Company wrote EUR 80 million put options with a strike price of between 4.84 and 4.92 with an expiration date of March 29, 2012. Premiums received totaled EUR 6.7 million. The Company has pledged in respect of the abovementioned options EUR 14.4 million of cash deposits.

Foreign currency hedge using options (EUR/USD) in 2012

During 2012, and until the date of approval of these financial statements, and in order to economically hedge its expected cash flow from the US transaction (refer to Transaction during 2012 in the United States above) the Company wrote two put options in an amount of US$60 million each with strike prices (EUR/US$ exchange rate) of 1.29 and an expiration date of June 26, 2012 and December 17, 2012. Premiums received totaled EUR 3.7 million. The Company has pledged in respect of these put options approximately EUR 6 million out of its AFS portfolio.

Notes to the consolidated financial statements
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Note 39 – Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements and application of accounting standards often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected. Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

a. Impairment of Trading Properties analysis
Trading Properties are measured at the lower of cost and net realizable value. In situations where excess Trading Property balances are identified, estimates of net realizable values for the excess amounts are made.

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. The independent valuation service utilizes market prices of same or similar properties whenever such prices are available. Where necessary, the independent third-party valuation service uses models employing techniques such as discounted cash flow analyses. The assumptions used in these models typically include assumptions for rental levels, residential unit sale prices, cost to complete the project, developers' profit on costs, financing costs and capitalization yields, utilizing observable market data, where available. On an annual basis, the Company reviews the valuation methodologies utilized by the independent third-party valuer service for each property. At December 31, 2011, the vast majority of the properties were valued by the independent third-party valuation service. Management made adjustments to the values received to reflect the net realizable value by neutralizing the developers' profit on costs from the valuations.

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 our estimates and could have a material effect on our financial results. This evaluation 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 CEE and India for same or similar properties.

Trading Properties accumulated write-downs from cost as of December 31, 2011, amounted to EUR 88.6 million or 9% of gross Trading Properties balance.

Significant estimates

Significant estimated (on the basis of weighted averages) used in the valuations as of December 31, 2011 and 2010 are presented below:

	Retail		Offices	
	2011	2010	2011	2010
Estimated rental value per sqm per month (in EUR)*				
Romania	10-30	10-24	11	12-19
Czech Republic	10-15	10-15	13	13
Serbia	10-24	16-36	14	17
Latvia	16	15.8	N/A	N/A
Poland	9-20	12-18	N/A	11.75
Greece	27	30	N/A	N/A
Hungary	8-25	10-22	11.75	11.5
Bulgaria	N/A	16.5-21	N/A	11.67
Average risk adjusted yield used in capitalization				
Romania	8.00%-8.75%	7.00%-9.70%	8.50%	7.00%-9.65%
Czech Republic	7.25%	7.25%-8.00%	7.25%	7.50%
Serbia	9.00%-9.75%	9.25%-10.50%	9.25%	9.25%
Latvia	8.40%	8.75%	N/A	N/A
Poland	7.25%-8.00%	7.75%-8.25%	N/A	7.75%
Greece	8.25%	7.75%	N/A	N/A
Hungary	8.25%-8.75%	8.00%-9.00%	8.50%	8.50%
Bulgaria	N/A	9.00%-9.75%	N/A	8.5%
Estimated rental value per sqm per month (in USD)*				
India	10-29	17-29	N/A	9-18
Average risk adjusted yield used in capitalizing the net				
India	11%	9%-13%	N/A	11%-12%

* Rental value per sqm spread due to various geographic locations in the countries (e.g. provincial area comparing capital cities).

b. Potential penalties, guarantees issued

Penalties are part of the ongoing construction activities, and result from obligations the Group takes on towards third parties, such as banks and municipalities. The Company's management is required to provide estimations about risks evolving from potential guarantees given by the Company or penalties that the Company might have to pay.

c. Expired building permits

The process of construction is long and subject to authorization from local authorities. It may occur that building permits will expire and will cause the Company additional preparation and costs, and can cause construction to be delayed or abandoned.

d. Valuation of share-based payment arrangements

The Company measures the fair value of share-based payments using a valuation technique. The valuation is relying on assumptions and estimations of key parameters such as volatility, which change as market conditions change. The risk is that the estimated costs related to share-based payments might not be correct eventually.

e. Classification of investment property

The Company is classifying its assets purchased as part of business combination in the US as investment property, as it estimates it benefits from uplift of prices in the US and it will be able to dispose of these assets within 4-5 years with significant gain, and without any need for significant capital expenditure spent. Shopping centers which were constructed by the Company in Central Eastern Europe and are open to the public (five shopping centers as of December 31, 2011) are classified as trading property, as the Company holds them temporarily, and is making continuous efforts to prepare the assets to be ready for sale and dispose of them. The Company is regarding the rental income from the shopping centers as incidental to the selling price of the shopping centers.

f. IFRS 5 judgment

With respect to the EPN purchase and sale agreement that was not executed as of December 31, 2011, earnest money was not paid by the purchaser as of December 31, 2011 along with the difficult state of the real estate market, lack of buyers for a portfolio the size of EPN's, the state of the global economy, stress in the capital markets, and although EPN management did in fact have a plan in place to sell the assets and had negotiated a sale price for the portfolio at the end of 2011 it was EPN's management's estimate as of December 31, 2011 that a closing was not highly probable with a 12-month period from December 31, 2011, therefore the investment properties are classified as held for use under IFRS 5 as of December 31, 2011.

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Note 40 – List of Group entities

During the period starting January 1, 2010, the Company owned the following companies (all subsidiaries were 100% owned by the Group at the end of each reporting period presented unless otherwise indicated):

Hungary	Activity	Remarks
Directly wholly owned		
Plaza Centers Establishment B.V.		
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	Holder of land usage rights	100% held by Plaza Centers Establishment B.V. Arena Plaza Extension project
Plaza House Ingatlanfejlesztési Kft.	Office building	David House project
HOM Ingatlanfejlesztési és Vezetési Kft.	Management company	
Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	
Amanati Ltd.	Inactive	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Inactive	
Indirectly or jointly owned		
Plasi Invest 2007 Ingatlanforgalmazó Kft.	Holding company	70% held by Plaza Centers N.V.
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
Fantasy Park Magyarország Kft.	Inactive	100% held by Mulan B.V.
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
Pro-One Ingatlanfejlesztő Kft.	Holding company	50% held by Álom Sziget 2004 Ingatlanfejlesztő Kft. 50% held by Hungarian partner
Buszesz IMMO Zrt.	Owns plot of land	100% held by Pro-One Ingatlanfejlesztő Kft.
Water Front City Kft.	Owns plot of land	100% held by Pro-One Ingatlanfejlesztő Kft.
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.
Álom Sziget Hungary Kaszinójáték Kft.	Holding company	100% held by Álom Sziget Entertainment Zrt.

Slovakia	Activity	Remarks
Directly wholly owned		
Plaza Centers Slovak Republic S.R.O.	Inactive	

Poland	Activity	Remarks
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
O2 Fitness Club Sp.z.o.o.	Entertainment	
Plock Plaza Sp.z.o.o.	Owns plot of land	Radom Plaza project
Suwalki Plaza Sp.z.o.o.	Active shopping center	Suwalki Plaza project
Toruń Plaza Sp.z.o.o.	Active shopping center	Toruń Plaza project
Włocławek Plaza Sp.z.o.o.	Mixed-used project	Łódź Plaza project
Zgorzelec Plaza Sp.z.o.o.	Active shopping center	Zgorzelec Plaza project
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		100% held by Plaza Centers (Poland) Sp.z.o.o.
Hokus Pokus Rozrywka Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. 50% held by P.L.A.Z.A B.V.

Poland (continued)	Activity	Remarks
Bytom Plaza Sp.z.o.o.	Inactive	
Bielsko-Biała Plaza Sp.z.o.o.	Inactive	
Bydgoszcz Plaza Sp.z.o.o.	Inactive	
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	
Gru iądz 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	
Indirectly or jointly owned		
Fantasy Park Poland Sp.z.o.o.	Entertainment	100% held by Mulan B.V.
Lublin Or Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. 50% held by Israeli-based partner
EDP Plaza Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. 50% held by Israeli-based partner

Latvia	Activity	Remarks
Indirectly or jointly owned		
Diksna SIA	Active shopping center	50% held by Plaza Centers N.V. 50% held by American-based partner Riga Plaza project
Fantasy Park Latvia SIA	Entertainment	100% held by Mulan B.V.

Romania	Activity	Remarks
Directly wholly owned		
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 and headquarters of Romanian offices	
S.C. Plaza Centers Management Romania S.R.L.	Management company	
S.C. Central Plaza S.R.L.	Inactive	Bacău project
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	

Notes to the consolidated financial statements

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Note 40 – List of Group entities continued

Romania (continued)	Activity	Remarks
Indirectly or jointly owned		
Dâmboviţa Centers Holding B.V.	Holding company	75% held by Plaza Centers N.V.
S.C. Dâmboviţa Center S.R.L.	Mixed-used project	100% held by Dâmboviţa Centers Holding B.V. Casa Radio project
Plaza Bas B.V.	Holding company	50.1% held by Plaza Centers N.V. 49.9% held by Israeli-based group
Adams Invest S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Vally View project
Colorado Invest S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Pine Tree project
Malibu Invest S.R.L.	Residential project	25% held by Plaza Bas B.V. 75% held by Israeli-based company Fountain Park project
Spring Invest S.R.L.	Office project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Primavera Tower Braşov project
Sunny Invest S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Green Land project
Primavera Invest S.R.L.	Office project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Primavera Tower Ploieşti project
Bas Developement S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Acacia Park project
Indirectly or jointly owned		
Fantasy Park Romania S.R.L.	Inactive	100% held by Mulan B.V.

Moldova	Activity	Remarks
Directly wholly owned		
I.C.S. Plaza Centers Prodev S.R.L.	Inactive	

Serbia	Activity	Remarks
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	
Indirectly or jointly owned		
Sek D.O.O.	Shopping center project	100% held by Plaza Centers Holding B.V. Kragujevac Plaza project
Leisure Group D.O.O.	Shopping center project	100% held by Plaza Centers (Estate) B.V. Sport Star Plaza and Kragujevac Plaza projects
Orchid Group D.O.O.	Shopping center project	100% held by Plaza Centers (Ventures) B.V. Belgrade Plaza project
Accent D.O.O.	Inactive	100% held by Plaza Centers Logistic B.V.
Telehold D.O.O.	Inactive	100% held by S.S.S. Project Management B.V.
Fantasy Park Serbia D.O.O.	Inactive	100% held by Mulan B.V.

Czech Republic	Activity	Remarks
Directly wholly owned		
Praha Plaza S.R.O.	Logistic center	Prague III project
Plaza Housing S.R.O.	Owns plot of land	Roztoky project
P4 Plaza S.R.O.	Active shopping center	Liberec Plaza project
Plaza Centers Czech Republic S.R.O.	Management company	
Indirectly or jointly owned		
Fantasy Park Czech Republic S.R.O.	Entertainment	100% held by Muland B.V.

Bulgaria	Activity	Remarks
Directly wholly owned		
Shumen Plaza EOOD	Shopping center project	Shumen Plaza project
Plaza Centers Management Bulgaria EOOD	Management company	
Plaza Centers Development EOOD	Inactive	
Indirectly or jointly owned		
Plaza-ON Holding B.V.	Holding company	51% held by Plaza Centers N.V. 49% held by Israeli-based company
ON International EOOD	Office project	100% held by Plaza-ON Holding B.V. Sofia Plaza Business Center project

Greece	Activity	Remarks
Directly wholly owned		
Piraeus Plaza S.A.	Shopping center project	Piraeus Plaza project

Cyprus – Ukraine	Activity	Remarks
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.

Cyprus – Russia	Activity	Remarks
Indirectly or jointly owned		
Plaza & Snegiri Ltd.	Inactive	50% held by Plaza Centers N.V.

The Netherlands	Activity	Remarks
Directly wholly owned		
P.L.A.Z.A B.V.	Holding company – Poland	100% 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	
Óbuda B.V.	Inactive	
Plaza Centers Corporation B.V.	Inactive	
Plaza Centers Engagements B.V.	Inactive	
Plaza Centers Foundation B.V.	Inactive	
Plaza Centers Management B.V.	Inactive	