PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITED

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITED

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Independent Auditors' Report

The Board of Directors and Stockholders

Plaza Centers N.V.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Plaza Centers N.V. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2011 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the EU.

KPMG Hungária Kft.

KPMG Hungária Kft

Budapest, March 14, 2012

PLAZA CENTERS N.V.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN '000 EUR

	Note	December 31, 2011	December 31, 2010
ASSETS			
Cash and cash equivalents	5	58,261	137,801
Restricted bank deposits	6	21,428	29,954
Short-term deposits		3,102	-
Available for sale financial assets	7	25,568	27,098
Trade receivables	8	5,432	4,064
Other receivables and prepayments	9	46,030	47,828
Derivatives	15	-	10,535
Trading properties	10	850,229	807,887
Total current assets		1,010,050	1,065,167
Long term deposits and other investments	11	51,330	52,559
Deferred tax assets	23	316	282
Derivatives	15	-	42,110
Property and equipment	12	9,026	11,361
Investment property	13	272,348	238,702
Restricted bank deposits	6	4,961	15,751
Other non-current assets		495	364
Total non-current assets		338,476	361,129
Total assets		1,348,526	1,426,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest bearing loans from banks	16	296,235	232,902
Debentures at fair value through profit or loss	21	32,930	48,318
Debentures at amortized cost	22	22,831	20,762
Trade payables	17	27,329	11,260
Related parties	18	2,228	3,758
Provisions	19	15,597	15,597
Other liabilities	20	27,464	19,474
Total current liabilities		424,614	352,071
Interest bearing loans from banks	16	152,387	133,514
Debentures at fair value through profit or loss	21	110,320	211,997
Debentures at amortized cost	22	86,052	97,979
Other liabilities	20	5,757	5,330
Derivatives	15	3,561	-
Deferred tax liabilities	23	15,673	956
Total non-current liabilities		373,750	449,776
Share capital	24	2,972	2,967
Translation reserve	24	(10,672)	8,074
Capital reserve due to transaction with Non-controlling interests	35	(19,342)	-
Other reserves	24	31,954	31,272
Share premium		261,773	261,773
Retained earnings		275,437	296,109
Total equity attributable to equity holders of the Company		542,122	600,195
Non-controlling interests		8,040	24,254
Total equity		550,162	624,449
Total equity and liabilities		1,348,526	1,426,296

March 14, 2012		
Date of approval of the financial statements	**Ran Shtarkman** **Director, President and Chief Executive Officer**	**Shimon Yitzchaki** **Director and Chairman of the Audit Committee**

The notes on pages 10 - 93 are an integral part of these consolidated financial statements.

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

	Note	For the year ended December 31, 2011	2010
Revenues	27	57,074	37,641
Impairment losses - Trading properties	10	(47,987)	(6,710)
Cost of operations	28	(25,798)	(20,853)
Gross profit (loss)		(16,711)	10,078
Administrative expenses (*)	29	(19,536)	(17,923)
Other income	30	1,692	42,603
Other expenses	30	(1,588)	(260)
Results from operating activities		(36,143)	34,498
Finance income	31	103,018	49,596
Finance costs	31	(37,672)	(70,773)
Net finance income (costs)		65,346	(21,177)
Share in loss of equity-accounted investee		(153)	(381)
Profit before income tax		29,050	12,940
Tax benefit (expense)	32	(15,186)	1,308
Profit for the year		13,864	14,248
Profit attributable to:			
Owners of the Company		9,346	10,273
Non-controlling interests		4,518	3,975
		13,864	14,248
Basic and diluted earnings per share (in EURO)	25	0.03	0.03

(*) Including non-cash expenses due to the share option plans in the amount of EUR 3.7 million (2010- EUR 2.5 million) (refer to note 26).

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

	For the year ended December 31,	
	2011	**2010**
Profit for the year	13,864	14,248
Other comprehensive income		
Net change in FV of AFS assets transferred to income statement	(326)	(724)
Change in fair value of available for sale financial assets	(1,879)	545
Foreign currency translation differences for foreign operations	(22,187)	12,221
Tax on other comprehensive income due to change in fair value of available for sale financial assets	446	-
Other comprehensive income (loss) for the year, net of income tax	(23,946)	12,042
Total comprehensive income (loss) for the year	(10,082)	26,290
Total comprehensive income (loss) attributable to:		
Owners of the Company:	(11,159)	27,808
Non-controlling interests	1,077	(1,518)
Total comprehensive income (loss) for the year	(10,082)	26,290

The notes on pages 10 - 93 are an integral part of these consolidated financial statements.

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

	Attributable to the equity holders of the Company									
	Share capital	Share Premium	Other capital reserves	Translation Reserve	Capital reserve from acquisition of Non-controlling interest without a change in control	Financial assets available for sale reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at December 31, 2009	**2,942**	**261,773**	**28,286**	**(9,640)**	**-**	**602**	**285,836**	**569,799**	**4,910**	**574,709**
Effect of acquisition of subsidiaries	-	-	-	-	-	-	-	-	20,862	**20,862**
Share based payment	-	-	2,588	-	-	-	-	**2,588**	-	**2,588**
Share option exercised	25	-	(25)	-	-	-	-	-	-	-
Comprehensive income for the year										
Profit	-	-	-	-	-	-	10,273	10,273	3,975	14,248
Foreign currency translation differences	-	-	-	17,714	-	-	-	17,714	(5,493)	12,221
Available for sale reserve, net	-	-	-	-	-	(179)	-	(179)	-	(179)
Total comprehensive income (loss) for the year	-	-	-	17,714	-	(179)	10,273	**27,808**	**(1,518)**	**26,290**
Balance at December 31, 2010	**2,967**	**261,773**	**30,849**	**8,074**	**-**	**423**	**296,109**	**600,195**	**24,254**	**624,449**
Change in non-controlling interest	-	-	-	-	(19,342)	-	-	(19,342)	(18,680)	(38,022)
Dividend distributed	-	-	-	-	-	-	(30,018)	(30,018)	-	(30,018)
Share based payment	-	-	2,446	-	-	-	-	2,446	1,389	3,835
Share option exercised	5	-	(5)	-	-	-	-	-	-	-
Comprehensive income for the year										
Net Profit for the year	-	-	-	-	-	-	9,346	9,346	4,518	13,864
Foreign currency translation differences	-	-	-	(18,746)	-	-	-	(18,746)	(3,441)	(22,187)
Available for sale reserve, net	-	-	-	-	-	(1,759)	-	(1,759)	-	(1,759)
Total comprehensive income (loss) for the year	-	-	-	(18,746)	-	(1,759)	9,346	**(11,159)**	**1,077**	**(10,082)**
Balance at December 31, 2011	**2,972**	**261,773**	**33,290**	**(10,672)**	**(19,342)**	**(1,336)**	**275,437**	**542,122**	**8,040**	**550,162**

The notes on pages 10 - 93 are an integral part of these consolidated financial statements.

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

	Note	For the year ended December 31, 2011	2010
Cash flows from operating activities			
Profit for the year		13,864	14,248
Adjustments necessary to reflect cash flows used in operating activities:			
Depreciation and impairment of equipment and other assets	12	2,517	2,243
Write-down of Trading properties	10	47,987	6,710
Change in fair value of Investment property	13	(8,084)	(4,647)
Net finance costs (income)	31	(65,346)	21,177
Interest received		9,356	8,631
Interest paid		(45,233)	(28,234)
Equity-settled share-based payment transaction		3,658	2,540
Gain from a bargain purchase	35	(1,523)	(42,039)
Loss (gain) on sale of property and equipment		(4)	212
Share of loss in equity-accounted investees		153	381
Proceeds from disposal of trading property, net of cash disposed (2010 - see appendix B)		712	965
Loss on sale of trading property		-	133
Tax expense (tax benefit)	32	15,186	(1,308)
		(26,757)	(18,988)
Changes in:			
Trade receivables		(1,298)	390
Other accounts receivables		(2,300)	9,881
Restricted cash		-	(9,030)
Advance payments on account of trading properties		-	(4,035)
Trading properties	10	(70,629)	(62,693)
Trade payables		543	(6,343)
Other liabilities, related parties and provisions		5,093	3,904
		(68,591)	(67,926)
Taxes paid		(58)	(121)
Net cash used in operating activities		(95,406)	(87,035)
Purchases of property, equipment and other assets		(380)	(466)
Purchase of Investment property		(1,204)	-
Proceeds from sale of property and equipment	12	30	3,135
Capital expenditure on Investment properties		(2,438)	(1,168)
Acquisition of subsidiaries, net of cash acquired	35	-	(14,354)
Purchase of available for sale financial assets	7	(9,307)	(21,935)
Proceeds from sale of available for sale financial assets	7	9,051	10,195
Short and long term deposits, net		(3,213)	(33)
Net cash used in investing activities		(7,461)	(24,626)
Cash from financing activities			
Proceeds from bank loans and financial institutions	16	80,098	53,274
Proceeds from loans from partners	20	-	5,130
Proceeds from utilization and settlement of derivatives	15	39,331	9,259
Proceeds from selling options strategy		5,212	-
Acquisition of non-controlling interest		(40,370)	-
Repurchase of debentures at amortized cost		(29,966)	-
Dividends paid		(30,018)	-
Changes in restricted cash		17,694	-
Proceeds from issuance of long term debentures	22	62,895	77,968
Long term bank loans and debentures repaid		(80,742)	(18,694)
Net cash from financing activities		24,134	126,937
Effect of exchange rate fluctuations on cash held		(807)	(71)
Increase (decrease) in cash and cash equivalents during the year		(79,540)	15,205
Cash and cash equivalents at 1st of January		137,801	122,596
Cash and cash equivalents at 31st of December		**58,261**	**137,801**

CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR (Cont.)

	For the year ended December 31, 2011	2010
Appendix B - Disposal of Subsidiary		-
Other receivables	-	41
Trading properties	-	1,057
Net identifiable assets and liabilities disposed	-	1,098
Cash from sale of subsidiaries	-	965
Less - Cash and cash equivalents of subsidiaries disposed	-	-
	-	965

NOTE 1 - PRINCIPAL ACTIVITIES AND OWNERSHIP

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

The Company's shares are traded on the Official List of the London Stock Exchange ("LSE"). The Company's shares are also listed in the Warsaw Stock Exchange ("WSE").

The Company's immediate parent company is Elbit Ultrasound B.V. ("EUL"), which holds 62.5% of the Company's shares, as of the end of the reporting period. The ultimate parent company is Elbit Imaging Limited ("EI"), which is indirectly controlled by Mr. Mordechay Zisser. For the list of the Group entities, refer to note 40.

NOTE 2 - BASIS OF PREPARATION

a. Statement of compliance

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

These consolidated financial statements are not intended for statutory filing purposes. The Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. At the date of approving these financial statements the Company had not yet prepared consolidated financial statements for the year ended December 31, 2011 in accordance with the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2012.

b. Basis of measurement

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

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

c. Functional and presentation currency

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

NOTE 2 - BASIS OF PREPARATION (Cont.)

d. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

<u>Functional currency</u>

The EUR is the functional currency for Group companies (with the exception of Indian companies – in which the functional currency is the Indian Rupee – INR, and the investment in the USA - in which the functional currency is the USD) since it best reflects the business and results of operations of the Group companies. This is based upon the fact that the EUR (and in India and the USA – the INR and USD respectively) is the currency in which management determines its budgets, transactions with tenants, potential buyers and suppliers, and its financing activities and assesses its currency exposures.

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

- Notes 4,13, 39– classification and valuation of investment property
- Note 11 – held to maturity investment
- Note 21,22 – debentures at fair value through profit or loss
- Note 10 - Suspension of borrowing costs capitalization
- Note 10 – Normal operating cycle
- Note 35 (B)- assessing control in Business combination
- Note 38 – events after the reporting period – transaction during 2012 in the US

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

- Notes 10, 39 – key assumptions used in determining the net realisable value of trading properties
- Note 13 – key assumptions used in valuation of investment property
- Note 34 – provisions and contingencies
- Note 26 – measurement of share-based payments

NOTE 2 - BASIS OF PREPARATION (Cont.)

The accounting policies set out in note 3 below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

e. Changes in accounting policies

(i) Accounting for business combinations

From January 1, 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after January 1, 2010.
For acquisitions on or after January 1, 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

NOTE 2 - BASIS OF PREPARATION (Cont.)

e. Changes in accounting policies (cont.)

(i) Accounting for business combinations (continued)

Acquisitions prior to January 1, 2010

For acquisitions of subsidiaries and entities under common control prior to January 1, 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

(ii) Accounting for acquisitions of non-controlling interests

From January 1, 2010 the Group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(iii) Accounting for results of non-controlling interests

Starting January 1, 2010, the total comprehensive income is attributed to the owners of the parent and to the non- controlling interests even if this results in the non controlling interests having a deficit balance

NOTE 2 - BASIS OF PREPARATION (Cont.)

e. Changes in accounting policies (cont.)

If the Group were unable to complete the refinancing of the above facility before maturity, the lender may enforce repayment of the amount owing and the Group would become a distressed seller of certain assets. The amounts recoverable from the sale of such investment properties may materially differ to that recorded in the financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

1. Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Under IFRS 3, when acquiring subsidiaries and operations that do not constitute a business as defined in IFRS 3, the consideration for the acquisition is only allocated between the identifiable assets and liabilities of the acquiree, according to the proportion of their fair value at the acquisition date and without attributing any amount to goodwill or deferred taxes, with the participation of the minority, if any, according to its share in the net fair value of these recognized assets at the acquisition date.

When non-controlling interests in subsidiaries are acquired, the difference between the amount paid and the amount of the acquired share in the non-controlling interest at the acquisition date is attributed to assets and liabilities as aforesaid.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

a. Basis of consolidation (cont.)

2. Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the associate. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

The consolidated financial statements include the Group's share of the total recognized income and expense and equity movements of associates after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Investments in associates are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the group's interest in those associates are reduced until the investment is brought to nil, and then further losses are only recognized if the Group has incurred a legal/constructive obligation to fund such losses.

Any excess of the cost of acquisition over the Group's share of the fair values of the net identifiable assets of the associate at the date of acquisition is recognized as goodwill. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. When the cost of acquisition is below the Group's share of the fair values of the net identifiable assets of the associate at the date of acquisition (i.e. discount on acquisition), the difference is recognized in the income statement in the period of acquisition.

3. Jointly controlled entities

Joint ventures ("JV") are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. JV's are accounted for using the proportional consolidation method of accounting.

The financial statements of joint ventures are included in the consolidated financial statements from the date that joint control commences until the date that joint control ceases. Where necessary, adjustments are made to the financial statements of joint ventures to bring the accounting policies used into line with those used by the Group in the consolidated financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of consolidation (cont.)

5. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 January 2003, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve (translation reserve, or FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

3. Net investment in foreign operations.

Differences arising from translation of the net investment in foreign operations are included in translation reserve. They are released into the income statement upon disposal.

c. Financial instruments

(1) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Financial instruments (cont.)

(1) Non-derivative financial assets (cont.)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group has the following non-derivative financial assets: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

<u>Cash and cash equivalents, restricted deposits and cash in escrow</u>

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Restricted deposits consist of deposits in banks and other financial institutions that the Group has pledged to secure banking facilities and other financial instruments for the Group and cannot be used freely for operations.

Cash in escrow represents cash paid into an escrow account held by a third party as payment for purchases of property by the Group until such purchase transactions are finalized and legal title is passed to the Group.

<u>Financial Assets and Liabilities at fair value through profit or loss</u>

Financial Assets and Liabilities at fair value through profit or loss includes structured deposit B (refer to note 11) and unsecured non-convertible Debentures series A and partially series B (refer to note 21, 22).

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

<u>Held-to-maturity financial assets</u>

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. Held to maturity investments comprise of structure deposit A (refer to note 11).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Financial instruments (cont.)

(1) Non-derivative financial assets (cont.)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Receivables are carried at the amounts due to the Group and are generally received within 30 days of becoming due and receivable. The collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off in the period in which they are identified. A provision for doubtful receivables is raised where there is objective evidence that the Company will not collect all amounts due. The amount of the provision is the difference between the carrying amounts and estimated future cash flows. Cash flows relating to current receivables are not discounted. The amount of any impairment loss is recognised in the Income Statement in revenues. When a trade receivable for which a provision has been recognised becomes uncollectable in a subsequent period, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the Income Statement in revenues.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer to note 7), are recognised in other comprehensive income and presented within equity in the fair value reserve. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses, interest and dividends and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income. The cost of securities sold is based on the first-in, first-out method. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(2) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group has the following non-derivative financial liabilities: loans and borrowings, debentures and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Financial instruments (Cont.)

transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method, except for debentures that are classified as fair value through profit or loss.

(3) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures; however the Group has not elected to apply hedge accounting to any derivative financial instruments held during the reporting period. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss..

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. If an entity is required to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately, the Company shall designate the entire financial instrument at fair value through profit or loss. Changes in the fair value of separated embedded derivatives are recognized immediately in profit or loss.

d. Share capital

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

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from capital reserve.

e. Trading properties

Properties that are being constructed or developed for future use as trading properties (inventory) are classified as trading properties and measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to complete construction and selling expenses. Lands which are designated for development of trading properties projects are not written down below costs if the completed projects are expected to be sold at or above cost.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Trading properties (cont.)

Costs comprise all costs of purchase, direct materials, direct labour costs, subcontracting costs and other direct overhead costs incurred in bringing the properties to their present condition. Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the costs of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they incurred. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs may continue until the assets are substantially ready for their intended use.

Non–specific borrowing costs are capitalised to such qualifying asset, by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowing made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the period does not exceed the amount of borrowing costs incurred during that period.

f. Investment property

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income. Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are then stated at fair value. Gains and losses arising from changes in the fair values of investment properties are included in the Income statement in the period in which they arise.

The carrying amount of investment properties recorded in the Statement of Financial Position includes components relating to existing lease incentives, and assets relating to fixed increases in operating lease rentals in future periods.

As the fair value method has been adopted for investment properties, the buildings and any component thereof (including plant and equipment) are not depreciated. Refer to note 4 for the key assumptions in respect of valuations of investment property.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation (see below) and accumulated impairment losses (refer to accounting policy 3(h)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other income or other expenses in the income statement.

Depreciation of items of property and equipment is charged to the income statement over their estimated useful lives, using the straight-line method, on the following rates:

	%
Land – owned	0
Office buildings	2 – 4
Mechanical systems in the buildings	7 – 10
Aircrafts	5
Other (*)	6 – 33

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

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

h. Impairment

(1) Financial Assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment (cont.)

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to the time value of money are reflected as a component of net finance income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(2) Non – Financial Assets

The carrying amounts of the Group's assets, other than investment property, trading properties and deferred tax assets are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

(3) Reversal of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss has decreased or may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i. Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Provisions (cont.)

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Provisions for construction costs in regards to agreements with governmental institutions are recognized at the sign off date, at the Company's best estimate of the expenditure required to settle the Group's obligation.

Warranties

Provision for warranty costs is recognized at the date on which the shopping centres are sold, at the Company's best estimate of the expenditure required to settle the Group's obligation. Such estimates take into consideration warranties given to the Group by subcontractors.

j. Revenue recognition

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

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

(i) Rental income

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

The leases generally provide for rent escalations throughout the lease term. For these leases, the revenue is recognized on a straight line basis so as to produce a constant periodic rent over the term of the lease.

The leases may also provide for contingent rent based on a percentage of the lessee's gross sales or contingent rent indexed to further increases in the Consumer Price Index (CPI). For contingent rentals that are based on a percentage of the lessee's gross sales, the Group recognizes contingent rental revenue when the change in the factor on which the contingent lease payment is based actually occurs. Rental revenues for lease escalations indexed to future increases in the CPI are recognized only after the changes in the index have occurred.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Revenue recognition (cont.)

(ii) Revenues from selling of trading properties and investment properties

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

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

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

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

The delivery of the shopping centre to the buyer is generally executed close to the end of construction and to the opening of the shopping centre to the public. As a result, the Group has to use estimates in order to determine the costs and expenses required to complete the construction works which, as of the delivery date, has not been completed and/or been paid in full.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Operational lease payments

Payments made under operating leases are recognized in profit or loss on a straight line basis over the term of the lease but are immediately capitalized as long as the project is under construction period. Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

Direct incremental costs related to obtaining long-term lease agreements with tenants are capitalized when they arise and charged to the statement of income over the weighted average term of the lease period.

l. Finance income and expenses

Finance income comprises interest receivable on funds invested (including available-for-sale-financial debt and equity securities), changes in the fair value of financial instruments at fair value through profit or loss, gains on derivative instruments that are recognised in profit or loss, gain on the disposal of available-for-sale financial assets, interest on late payments from receivables and net foreign exchange gains.

Finance expenses which are not capitalized comprise interest expense on borrowings, changes in the fair value of financial instruments at fair value through profit or loss, impairment losses recognised on financial assets, net foreign exchange losses and losses on derivative instruments that are recognised in profit or loss. For capitalisation of borrowing costs please refer to Note 10.

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

m. Taxation

Income tax expense on the profit or loss for the year comprises current and deferred tax. The tax currently payable is based on taxable profit for the year, and any adjustment to tax payable in respect of previous years. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Taxation (cont.)

levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

n. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CODM (refer to note 37) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

o. Employee benefits

1. Bonuses

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

2. Share-based payment transactions

The fair value of options granted to employees to acquire shares of the Company is recognized as an employee expense or capitalized if directly associated with development of trading property, with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees as measured at the date of modification. The fair value of the amount payable to employees in respect of share-based payments, which may be settled in cash, at the option of the holder, is recognized as an expense, with a corresponding increase in liability, over the period in which the employees become unconditionally entitled to payment.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Employee benefits (cont.)

The fair value is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as an additional cost in salary and related expenses in the income statement. As of the end of the reporting period share-based payments which may be settled in cash are options granted to only one person and can be cash settled at the option of the holder

p. Earnings Per Share

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

q. New standard not yet adopted

One standard is not yet effective for the year ended December 31, 2011, and has not been applied in preparing these consolidated financial statements:

The Group does not expect the following amendment to have any significant impact on the consolidated financial statements:

- Amendments to IFRS 7 Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011) amend the required disclosure of information that enables users of financial statements, to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities, and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

NOTE 4 - DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

NOTE 4 - DETERMINATION OF FAIR VALUES (cont.)

Investment properties in the US

On December 31, 2011 the Group's Value was assigned to investment properties based upon the asset fair value as reflected in the agreement signed as mentioned in note 35(C) for 47 properties owned by EPN Group. For the rest of the investment properties the Group used the same methodology as in December 2010

In 2010 the fair values of the investment properties were re-measured by EDT Retail Management LLC, which is the Responsible Entity of EDT, by reference to independent valuation reports or through appropriate valuation techniques adopted by the Responsible Entity.

Fair value is determined assuming a long term investment period. Specific circumstances of the owner are not taken into account. The factors taken into account in assessing internal valuations may include:

- Assuming a willing buyer and a willing seller, without duress and an appropriate time to market the property to maximise price;
- Information obtained from valuers, sales and leasing agents, market research reports, vendors and potential purchasers;
- Capitalisation rates used to value the asset, market rental levels and lease expiries;
- Changes in interest rates;
- Asset replacement values;
- Discounted cash flow models;
- Available sales evidence; and
- Comparisons to valuation professionals performing valuation assignments across the market.

The approach adopted for valuing the investment property portfolio at 31 December 2010 was consistent with that adopted in previous reporting periods and was as follows:

- If the most recent independent valuation was more than 3 years old, a new external valuation was obtained; and

- Internal valuations were performed by EDT Retail Management LLC on all other properties primarily using net operating income and a capitalisation rate as assessed by using market research reports and the valuations that were undertaken by the external valuers where appropriate. If this internal valuation significantly differed from the current book value of the property, an external valuation was also obtained for this property.

Application of the policy has resulted in 17 investment properties being independently valued at 31 December 2010. All properties have been independently valued within the last 18 months.

NOTE 4 - DETERMINATION OF FAIR VALUES (cont.)

Investment properties in the US (cont.)

The global market for many types of real estate remains affected, albeit to a lessening extent, by the volatility in global financial markets. Initial indications of capital market stabilisation have contributed to an increased number of transactions, however, a general weakening of market fundamentals still exists causing the volume of real estate transactions to remain beneath historic levels.

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is neither a forced seller nor one prepared to sell at a price not considered reasonable in the current market. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

The current lack of comparable market evidence relating to pricing assumptions and market drivers means that there is less certainty regarding valuations and the assumptions applied to valuation inputs.

The period of time needed to negotiate a sale in this environment may also be significantly prolonged. The fair value of investment property has been adjusted to reflect market conditions at the end of the reporting period. While this represents the best estimates of fair value as at the balance sheet date, the current market uncertainty means that if investment property is sold in future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the consolidated financial statements.

Available for sale financial assets

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Structured deposit B at fair value through profit or loss (refer to note 11)

The fair value of structured deposit B is based on a broker quote. This quote is tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market interest rates for a similar instrument at the measurement date. The test is being done by using yield analysis for structured model.

NOTE 4 - DETERMINATION OF FAIR VALUES (cont.)

Swap transactions

Fair values of the SWAP (refer to note 15) may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

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

Long term debentures at fair value through profit or loss

The fair value of Long term debentures is principally determined with reference to an active market price quotation, as the debentures are traded in the Tel Aviv Stock Exchange ("TASE").

Share based payments transactions

The fair value of employee share options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information and the tendency of volatility to revert to its mean and other factors indicating that expected future volatility might defer from past volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5 - CASH AND CASH EQUIVALENTS

Bank deposits and cash denominated in	Interest rate as of December 31, 2011	December 31, 2011	December 31, 2010
EURO ("EUR") (1)	0%-4.25%	34,437	111,789
United States Dollar (USD)	0.25%-2.64%	9,944	14,587
Polish Zlotys (PLN)	Mainly 4.3%-4.9%	7,369	6,171
Indian Rupee (INR)	Mainly 7%	3,550	3,282
New Israeli Shekel (NIS)	Mainly 0%	1,028	541
Hungarian Forints (HUF)	Mainly 0%	640	422
Serbian Dinar (RSD)	Mainly 0%	628	23
Romanian Lei (RON)	Mainly 0%	253	285
Czech Crowns (CZK)	Mainly 0%	167	458
Latvian Lat (LVL)	Mainly 0%	182	226
in other currencies	Mainly 0%	63	17
Total		58,261	137,801

(1) As at December 31, 2011, cash in banks is deposited for periods up to 3 months. The Group has deposits in several commercial banks. Fixed deposits bear interest rates varying between 0.2% and 4.25%, while floating deposits bear interest rates as determined by various benchmarks (e.g EURIBOR).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6 - RESTRICTED BANK DEPOSITS

	Interest rate as of December 31, 2011	December 31, 2011	December 31, 2010
Short term restricted bank deposits			
In EUR	See (1), (3) and (4)	15,281	23,635
In USD	0%	3,231	1,333
In PLN	See (2)	2,305	3,273
In other currencies	0%	611	1,713
Total short term		21,428	29,954
Long term restricted bank deposits			
In EUR	see (3)	4,550	13,469
In other currencies	0%	411	2,282
Total long term		4,961	15,751

(1) As of December 31, 2011, EUR 4.1 million is restricted in respect of bank facilities agreements signed to finance Projects in Serbia, Poland, Romania, Hungary and Latvia. This amount carries an annual interest rate ranging between 0% and 1.5%. An additional EUR 1 million is restricted in respect of Interest Rate Swap ("IRS") performed in connection with bank facility agreement in Serbia (refer to note 15) and carries an annual interest rate of 3.8%.

(2) As of December 31, 2011, various deposits in a total amount of PLN 10.2 million (EUR 2.3 million) are restricted in respect of bank facilities requirements, which bears interest of 50% of the Wibid benchmark.

(3) As of December 31, 2011 an amount of EUR 2.1 million is restricted in respect of the EUR/NIS cross currency IRS transactions (see note 16). EUR 0.4 out of this amount are short term restricted. The restricted amount is carrying fixed interest rate of 0.2%. An additional EUR 2.8 million is restricted in respect of the EUR / PLN cross currency IRS transaction (see note 15). The restricted amount is carrying fixed interest rate of 3.2%.

(4) An amount of EUR 9.8 million is restricted in respect of investment in long term financial instruments (see note 11). This amount is carrying an interest rate of 1 month EURIBOR.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 7 - AVAILABLE FOR SALE FINANCIAL ASSETS

Available-for-sale financial assets ("AFS") portfolio consist of mainly perpetual securities, notes and corporate bonds securities.

	December 31, 2011	December 31, 2010
Interest income from AFS	1,691	1,379
Gain from selling AFS	326	724
	2,017	2,103
Balance as at 1 January	27,098	23,485
Purchase of AFS	9,307	13,491
Sale/redemption of AFS	(9,051)	(10,196)
Premium amortization	93	(5)
Changes in market value of AFS	(1,879)	323
Balance as at 31 December	25,568	27,098

Part of the AFS Portfolio in the amount of EUR 15.9 million is pledged against secured bank loan. Regarding the pledging of the remaining AFS portfolio refer to note 38.

NOTE 8 - TRADE RECEIVABLES

	December 31, 2011	December 31, 2010
Trade receivables (1)	7,984	6,247
Less - Allowance for doubtful debts (2)	(2,552)	(2,183)
	5,432	4,064

(1) As of December 31, 2011 trade receivables includes an amount of EUR 2.3 million (2010 – EUR 2.4 million) relating to US operations. Main increase in 2011 is due to increase of operations in Poland, following the opening of the Torun shopping Centre.
(2) Increase in allowances created during 2011 an amount of EUR 0.4 million, mainly due to operations in Czech Republic and Poland.

NOTE 9 - OTHER RECEIVABLES AND PREPAYMENTS

	December 31, 2011	December 31, 2010
Advances for plot purchases (1)	29,828	33,090
VAT receivables (2)	6,125	3,323
Loans to partners in jointly controlled entities	2,930	3,379
Prepaid expenses	2,009	711
Accrued interest receivable	1,685	2,027
Advances to suppliers	1,252	3,028
Related parties	1,227	1,185
Others	974	1,085
	46,030	47,828

(1) As of December 31, 2011 and 2010, including mainly advance payments in the amount of EUR 28.3 million and EUR 31.8 million, respectively. For the purchase of plots in India, as part of the Joint venture with EI (refer also to notes 35(E)). Out of this amount, an amount of EUR 5 million (2010 -EUR 4.8 million) is guaranteed by EI.
(2) As of December 31, 2011, VAT receivable is mainly due to projects in Poland (EUR 4 million) and Serbia (EUR 1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10 - TRADING PROPERTIES

	December 31, 2011	December 31, 2010
Balance as at 1 January	807,887	707,287
Acquisition and construction costs	84,827	74,111
Capitalized borrowing costs (1)	29,154	19,742
Write-down of trading properties (2)	(47,987)	(6,710)
Effect of movements in exchange rates	(23,652)	14,514
Trading properties disposed	-	(1,057)
Balance as at 31 December (3)	850,229	807,887
Completed trading properties	202,769	146,626
Trading properties under construction	117,526	107,825
Trading properties under planning and design stage (3),(4)	529,934	553,436
Total	850,229	807,887

(1) Suspension of capitalizing borrowing costs - In certain cases, where the efforts to develop a project are significantly diminished due to lack of external finance, or problems in obtaining permits, the Company suspends the capitalization of borrowing costs to the relevant project.

(2) Write-down of trading properties to net realisable value was performed based on independent valuation reports. In the course of 2011 write-downs were recognized in respect of projects in Romania (EUR 26.5 million), Latvia (EUR 8.5 million), Poland (EUR 7 million), Bulgaria (EUR 3 million), the Czech Republic (EUR 2.5 million) and Greece (EUR 0.5 million). Refer to note 39(a) for more information about key assumptions.

(3) Including cost of Large scale projects (Bangalore in India, Casaradio in Romania and Dream Island in Hungary) in a total amount of EUR 230 million (2010 – EUR 225 million). The abovementioned projects are expected to generate an operating cycle closer to eight years (refer to (5) below) comparing to other projects the Company holds.

(4) The value of the Casaradio project in Romania includes two gas turbines with a total book value of EUR 11 million.

(5) The Group is involved in projects some of which may take up to eight years to complete from the asset acquisition date. The cost of trading property, loans and related derivatives which financed the development projects are presented as current assets and liabilities

As of December 31, 2011, the Company has trading properties in Poland, Czech Republic, Latvia, India, Romania, Serbia, Bulgaria, Hungary and Greece. The properties are in various stages of development as shopping and entertainment centres, residential units, offices or mixed use. Regarding segment reporting, refer to note 37. Regarding the changes in global markets and their effect on the development of trading properties under construction refer to note 35(H).

As of December 31, 2011, a total carrying amount of EUR 377 million (December 31, 2010 – EUR 275 million) of the abovementioned trading properties is pledged against bank loans.

As of December 31, 2011, trading properties include accumulated capitalization of share based payments in the amount of EUR 10.7 million (December 31, 2010 – EUR 10.5 million).

Below is a summary table for project status:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10 - TRADING PROPERTIES (Cont.)

		December 31, 2011		General information			
			Share holding		Status of		
Project	Location	Purchase/transaction year	Rate (%)	Nature of rights	Registration of land	Permit status	Planned GLA (sqm)
Suwalki Plaza	Poland	2006	100	Ownership	Completed	Operational shopping center (starting Q2 2010)	20,000
Zgorzelec Plaza	Poland	2006	100	Ownership	Completed	Operational shopping center (starting Q1 2010)	13,000
Torun Plaza	Poland	2007	100	Ownership	Completed	Operational shopping center (starting Q4 2011)	40,000
Lodz residential	Poland	2001	100	Ownership/ Perpetual usufruct	Completed	Planning permit valid	80,000(*)
Lodz plaza	Poland	2009	100	Perpetual usufruct	Completed	Planning permit pending	45,000
Kielce Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit pending	33,000
Leszno Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit pending	16,000
Liberec Plaza	Czech Republic	2006	100	Ownership	Completed	Operational shopping center (starting Q1 2009)	17,000
Roztoky	Czech Republic	2007	100	Ownership	Completed	Planning permit valid	14,000(*)
Riga Plaza	Latvia	2004	50	Ownership	Completed	Operational shopping center (starting Q1 2009)	49,000
Bangalore	India	2008	23.75	Ownership	In process	Under negotiations	320,000(*)
Chennai	India	2008	38	Ownership	In process	Under negotiations	1,060,000(*)
Koregaon Park	India	2006	100	Ownership	Completed	Building permit valid	110,000(*)
Kharadi	India	2007	50	Ownership	Completed	Partial building permit valid	250,000(*)
Trivandrum	India	2007	50	Ownership	Completed	Under negotiations	120,000(*)
Casa Radio	Romania	2007	75	Leased for 49 years	Completed	Zoning and Planning permit valid	600,000(*)
Timisoara Plaza	Romania	2007	100	Ownership	Completed	Zoning and Planning permit valid	38,000

(*) GBA (sqm)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 10 - TRADING PROPERTIES (Cont.)

		December 31, 2011		General information			
			Share holding		Status of		
Project	Location	Purchase/transaction year	Rate (%)	Nature of rights	Registration of land	Permit status	Planned GLA (sqm)
Miercurea Ciuc Plaza	Romania	2007	100	Ownership	Completed	Building permit valid	14,000
Iasi Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	62,000
Slatina Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	17,000
Targu Mures Plaza	Romania	2008	100	Ownership	Completed	Planning permit valid	30,000
Hunedoara Plaza	Romania	2008	100	Ownership	Completed	Planning permit valid	13,000
Constanta Plaza	Romania	2009	100	Ownership	Completed	Existing building	18,000
Belgrade Plaza	Serbia	2007	100	Ownership	Completed	Under negotiations	70,000(*)
Kragujevac Plaza	Serbia	2007	100	Currently Construction lease period (99 years) with subsequent ownership	Completed	Building permit valid	22,000
Sport Star Plaza	Serbia	2007	100	Land use rights	Completed	Under negotiations	40,000
Shumen Plaza	Bulgaria	2007	100	Ownership	Completed	Planning permit valid	20,000
Sofia Plaza Business Centre	Bulgaria	2009	51	Ownership	Completed	Planning permit valid	44,000
Dream Island (Budapest)	Hungary	2003	43.5	Ownership	Completed	Under negotiations	350,000(*)
Arena Plaza Extension	Hungary	2005	100	Land use rights	Completed	Building permit valid	40,000
Uj Udvar	Hungary	2007	35	Ownership	Completed	Building permit pending	16,000
Piraeus Plaza	Greece	2002	100	Ownership	Completed	Building permit valid	26,000

(*) GBA (sqm)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 11 - LONG TERM DEPOSITS AND OTHER INVESTMENTS

	Interest rate – December 31, 2011	December 31, 2011	December 31, 2010
Financial structure A (*)	0%-11.5%	38,000	38,000
Financial structure B (**)	6.25%-12.5%	12,697	14,017
Long term loan to associated Company	7%	633	542
		51,330	52,559

(*) Structure A - The EUR 38 million Principal is capital protected and payable at Maturity (February 2023). Structure A bears interest of 11.5% per annum, payable quarterly to the extent that the spread between the 30 years Euro CMS (Constant Maturity Swap) and the 10 years Euro CMS (measured on a daily basis) is higher than the accrual barrier which was set at 0.05%. For days in which the spread is lower than the barrier no interest is paid. Structure A is presented in the financial statements as held to maturity financial instrument at amortised cost.

Although Structure A is callable by the issuer on a quarterly basis at par value, the Company has the ability and a positive intent to hold Structure A until it is called or until maturity, and the Company would recover substantially all of Structure A carrying amount.

The fair value of the structure, determined by management based on the broker quotes, as of December 31, 2011 was EUR 26.9 million.

(**) Structure B - The EUR 13 million Principal of the structure is capital protected and payable at Maturity (February 2018). Structure B pays a variable interest linked to the 10 year EUR CMS rate subject to a minimum interest of 6.25% p.a and a maximum interest rate of 12.50% p.a. The Company’s management has designated structure B at fair value through profit or loss since the contract contains a substantive embedded derivative. The value reflects the clean value of the structure (i.e without interest). For determining the fair values of the structured deposits refer to note 4. For the year ended December 31, 2011, the Company recorded a fair value loss of EUR 1.3 million (2010 - gain of EUR 1.1 million) in respect to structure B. An amount of EUR 0.7 million is outstanding as accrued interest receivable (refer to note 9 above) due to structure B.

For both structures financial results refer to note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 12 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment	Fixtures and fittings	Airplanes (1)	Total
Cost					
Balance at 31 December, 2009	**7,057**	**4,669**	**1,376**	**9,174**	**22,276**
Additions	-	490	21	-	511
Disposals	-	(29)	-	(5,226)	(5,255)
Reclassification	-	400	-	-	400
Exchange rate effect	-	62	-	789	851
Balance at 31 December, 2010	**7,057**	**5,592**	**1,397**	**4,737**	**18,783**
Additions	-	123	-	-	123
Disposals	-	(50)	-	-	(50)
Exchange rate effect	-	(111)	-	-	(111)
Balance at 31 December, 2011	**7,057**	**5,554**	**1,397**	**4,737**	**18,745**
Accumulated depreciation					
Balance at 31 December, 2009	**2,381**	**2,415**	**953**	**1,537**	**7,286**
Depreciation expenses	182	887	33	819	1,921
Reclassification	-	(187)	-	-	(187)
Disposals	-	(41)	-	(1,652)	(1,693)
Exchange rate effect	-	30	-	65	95
Balance at 31 December, 2010	**2,563**	**3,104**	**986**	**769**	**7,422**
Depreciation and impairment expenses (*)	43	518	34	1,798	2,393
Disposals	-	(23)	-	-	(23)
Exchange rate effect	-	(73)	-	-	(73)
Balance at 31 December, 2011	**2,606**	**3,526**	**1,020**	**2,567**	**9,719**
Carrying amounts					
At 31 December, 2011	4,451	2,028	377	2,170	9,026
At 31 December, 2010	4,494	2,488	411	3,968	11,361

Major additions/ disposals/impairment in the period

(1) The airplane of the Company is pledged as a security for a bank facility utilized for the purchase of the airplane.

(2) In 2011, the Company recorded a loss due to impairment of its airplane of EUR 1.6 million, based on expert valuation.

NOTE 13 - INVESTMENT PROPERTY

	December 31, 2011	December 31, 2010
Balance at 1 January	238,702	13,399
Capital expenditures on investment properties	2,438	1,168
Effect of movements in exchange rate	8,923	(24,776)
Acquisitions (refer to note 35 ((C) and (F))	14,201	256,477
Exclusion of MV LLC (refer to note 35(D))	-	(12,213)
Fair value revaluation	8,084	4,647
Balance at 31 December	272,348	238,702

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 13 - INVESTMENT PROPERTY (Cont.)

Investment property in the United States

The below information relates to US Investment property which is held through a joint venture which acquired a large portfolio of shopping centres in June 2010 through business combination (refer also to note 35 (B)), which totalled EUR 259 million as of the date of 31 December 2011 (2010 – EUR 225.1 million).

(i) Valuation basis

Fair value was assigned to investment properties as of December 31, 2011 based upon a purchase price offer presented to and accepted by EPN Group from a third-party received in January 2012 for 40 properties owned by REIT I and seven properties owned by REIT II (refer to note 35 (C)).

Internal valuations were performed by EPN Group on two properties which were not included in the proposed purchase price with an assessed fair value of USD 43 million at 31 December 2011.

(ii) Non-current assets pledged as security

All Investment properties held in the US are pledged as security on loans provided by financial institutions, which totaled EUR 164 million, as of December 31, 2011.

(iii) Leasing arrangements

Investment properties are normally leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties (Plaza Group part) are as follows:

	December 31, 2011	December 31, 2010
Minimum lease payments under non-cancellable operating lease of investment properties not recognized in the financial statements are receivable as follows:		
Within One year	19,728	17,066
More than one year up to five years	51,266	48,154
More than five years	24,206	22,026
Balance at 31 December	95,200	87,246

Investment property in the Czech Republic

The Company has one logistics building in Prague that is leased to third parties. Generally, leases contain an initial period of 6 months to 2 years.

Subsequent renewals are negotiated with the lessees. The vast majority of the contracts for the Prague logistic building are denominated in, or linked, to the EUR. For the Company's policy for determining the fair value of the investment property refer to note 4.

The yield used for fair value valuation was 7.3% for both 2011 and 2010, and the value determined was EUR 13.6 million for both 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 14 - PROPORTIONATE CONSOLIDATION

The following amounts are included in the Group's financial statements as a result of proportionate consolidation of companies:

	2011	2010
Current assets	243,874	271,937
Non-current assets	260,781	228,132
Current liabilities	118,439	100,464
Non-current liabilities	144,735	131,618
Non-controlling interests	7,289	24,254

	For the year ended December 31,	
	2011	2010
Revenues and other income	41,154	63,283
Expenses and tax	(51,268)	(23,027)
Profit (loss) after tax	(10,114)	40,256

NOTE 15 - DERIVATIVES

Selling options strategy

In January 2011, the company decided to gradually move to use a selling options strategy (by writing call and put options through major Israeli and foreign banks) in order to hedge its foreign currency risk (EUR-NIS) inherent in its long term debentures series A and series B issued in NIS which are not hedged by other derivative instruments (e.g. cross currency interest rate swaps, forwards).

During the first half of 2011 the company wrote EUR 175 million call options with Strike prices (EUR/NIS exchange rate) between 4.74 and 5 and an expiration date of June 30, 2011.

During the second half of 2011 (following the settlement of all call options written previously) the Company wrote EUR 315 million call options with Strike prices between 5 and 5.04 and an expiration date of December 28, 2011. In addition, the Company wrote a EUR 50 million put option with a strike price of 5 with an expiration date of December 28, 2011.

Premiums received in 2011 totalled EUR 13.5 million. The 2011 the selling options strategy generated net cash gain of EUR 5.2 million, included in the Company's income statement as part of the finance income.

Regarding writing of call options after the date of the statement of the financial position, refer to note 38. This option writing activities (including 2012 transactions) did not qualified for hedge accounting.

NOTE 15 - DERIVATIVES (cont.)
Cross currency Interest rate swap (“SWAP”)

In addition to the abovementioned call options strategy, the Company used SWAPs in order to hedge certain foreign currency exposures (EUR-NIS and EUR-PLN).

In respect of PLN 60 million notional amount bonds of issued to Polish institutional investors (refer to notes 22, 35), the Company entered into a PLN 60 million EUR-PLN SWAP in order to hedge the expected payments in PLN (principal and interest) and to correlate them with the EUR.

The Company is paying a fixed interest of 6.98%% based on a nominal EUR amount of EUR 15.1 million and receiving an interest of six months WIBOR + 4.5% with the same amortization schedule as the Polish bonds. The fair value of the EUR-PLN SWAP, based on independent valuation, was as of December 31, 2011 a negative value in the amount of EUR 2.1 million (December 31, 2010 – EUR 0.03 million).

In respect of EUR-NIS SWAP, as of the date of the statement of financial position, the Company has entered in January 2011 into SWAP with notional amount of NIS 127 million based on a nominal EUR amount of EUR 25 million with Israeli financial institutions. This SWAP was settled in January 2012 (refer to note 38).

The Company paid interest of 6.82 % and received 4.5% interest linked to the Israeli CPI with the same amortization schedule as the series A Debentures. The fair value of the EUR-NIS SWAP, based on a valuation technique, was a negative value in the amount of EUR 0.2 million. Regarding pledged securities associated with SWAPs, refer to note 34.

SWAP settlement and utilization in 2011

In September 2011 the Company settled a Cross Currency transaction in respect of its series B debentures (“swap transaction”), for total proceeds of EUR 30.4 million. In addition, the Company released a long term restricted deposit in the amount of EUR 14.1 million, which served as a security for the swap transaction. The utilization of SWAP in July 2011 (resulting from the bond repayment schedule) generated an additional cash inflow of approximately EUR 9 million.

Interest rate swap (“IRS”)
In respect of Suwalki project loan, the company hedges its exposure to cash flow due to floating interest rate. As a result, the company entered into IRS transaction on notional amount of EUR 25.1 million in which it will pay fixed interest rate of 2.13% and receives EURIBOR three months on a quarterly basis starting on June 30, 2011 and ending on June 30, 2014. Regarding the bail mortgage refer to note 34.

In respect of Kragujevac (Serbia) project loan, the company hedges its exposure to cash flow due to floating interest rate. The company entered into IRS transaction on notional amount of EUR 32.9 million in which it will pay fixed interest rate of 1.85% and receives 3 months EURIBOR on a quarterly basis starting on January 1, 2012 and ending on December 31, 2014.

The Company pledged a security deposit in the amount of EUR 1 million in respect of the Kragujevac IRS.

The aggregate fair value of the abovementioned two IRS, based on a valuation technique, was a negative value in the amount of EUR 1.3 million (December 31, 2010 – nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16 - INTEREST BEARING LOANS FROM BANKS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 33. All interest bearing loans from banks are secured. Terms and conditions of outstanding loans were as follows:

	December 31, 2011	December 31, 2010
Non-current loans		
Investment property secured bank loans	140,335	130,601
Other secured bank loans	12,052	2,913
	152,387	133,514
Current loans (including current maturities of long term loans		
Trading properties secured bank loans	227,624	170,546
Investment property secured bank loans	22,402	17,904
Other secured bank loans	46,209	44,452
	296,235	232,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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

(1) Refer to note 34 (d) for details on breach of certain covenants regarding these loans.
(2) IRS on bank loans – refer to note 15.

(3) Secured bank loans taken in respect of structured deposits (refer to note 11). These loans were extended for a period of 3 months and 1 year, respectively in February 2012. The Company is required to secure a certain amount of cash upon request from the issuing bank as collateral for the credit facilities granted by the issuing bank to finance part of these structures. The amount of the collateral is determined based on a formula which includes, among other parameters, the fair value of the structures calculated by the issuing bank. As of the end of the reporting period the Company had secured a total amount of EUR 9.8 million in respect of both structures (refer to note 6).

(4) On January 10, 2012, USD 85 million investment property secured loan (Company part is EUR 14.7 million), which matured on January 11, 2012, was refinanced with a new USD 85 million loan secured by the same investment properties. The loan bears interest at LIBOR+1% per annum and has a scheduled maturity date of March 30, 2012. On February 1, 2012, the loan was extended based upon delivery of the binding sales contract. US group Companies have guaranteed the loan and DDR Macquarie Longhorn Holdings LLC has pledged its membership interests to the lender.

				December 31,	
				2011	2010
	Nominal interest rate	Currency	Year of maturity	Carrying amount	
Trading property secured bank loan (1)	3M EURIBOR+2.5%	EUR	2014	33,323	34,590
Trading property secured bank loan	3M EURIBOR+3%	EUR	2017	33,845	-
Trading property secured bank loan (1)	3M EURIBOR+3.5%	EUR	2014	21,800	24,069
Trading property secured bank loan	3M EURIBOR+3%	EUR	2012	20,285	21,037
Trading property secured bank loan	3M EURIBOR+3%	EUR	2012	2,040	1,971
Trading property secured bank loan	3M EURIBOR+2.5%	EUR	2012	3,772	3,772
Trading property secured bank loan (2)	3M EURIBOR+1.85%	EUR	2020	32,963	29,665
Trading property secured bank loan (1)	3M EURIBOR+2.75%	EUR	2016	20,811	20,691
Trading property secured bank loan (2)	3M EURIBOR+5.5%	EUR	2027	17,820	3,930
Trading property secured bank loan	3M EURIBOR+2.25%	EUR	2012	5,927	8,182
Trading property secured bank loan	INR linked – 13.25%-15%	INR	2021	29,016	16,589
Trading property secured bank loan (1)	3M EURIBOR+4.5%	EUR	2012	4,100	4,100
Trading property secured bank loan	3M EURIBOR+4.75%	EUR	2012	1,172	1,200
Trading property secured bank loan	3M EURIBOR+2.5%	EUR	2012	750	750
				227,624	**170,546**
Other secured bank loans	3M EURIBOR+0.5%	EUR	2012	6,867	8,047
Other secured bank loans (3)	3M EURIBOR+0.4%	EUR	2012	26,225	26,225
Other secured bank loans (3)	12M EURIBOR+0.4%	EUR	2012	10,000	10,000
Other secured bank loans	6M TELBOR+6%	NIS	2015	12,150	-
Other secured bank loans	3M USD LIBOR+4%	USD	2014	3,019	3,093
				58,261	**47,365**
Investment property secured bank loan (4)	4.91%	USD	2012	14,792	13,232
Investment property secured bank loan	5.01%	USD	2017	23,996	22,504
Investment property secured bank loan	5.1%	USD	2012	5,546	5,245
Investment property secured bank loan	5.25%	USD	2016	19,856	17,282
Investment property secured bank loan	3M LIBOR+3.25%	USD	2013	29,998	28,274
Investment property secured bank loan	6%	USD	2013	13,109	11,655
Investment property secured bank loan	6.4%	USD	2015	47,525	44,224
Investment property secured bank loan	5%	USD	2015	2,376	-
Investment property secured bank loan	5.5%	USD	2013	1,277	1,261
Investment property secured bank loan	6.25%	USD	2013	149	247
Investment property secured bank loan	3M EURIBOR+1.75%	EUR	2016	4,113	4,581
				162,737	**148,505**
Total interest bearing liabilities				**448,622**	**366,416**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17 - TRADE PAYABLES

	Currency	December 31, 2011	December 31, 2010
Construction related	Mainly in EUR, PLN	25,610	10,812
Other trade payables		1,719	448
		27,329	11,260

Main increase in 2011 is attributable to unsettled construction suppliers in respect of the Torun shopping centre in Poland which was opened in November 2011.

NOTE 18 - RELATED PARTIES

	Currency	December 31, 2011	December 31, 2010
EI Group- ultimate parent company – expenses recharged	EUR, USD	1,389	1,803
Other related parties (*)	EUR	452	404
Former vice chairman of EI	INR	-	1,164
EUL (parent company)	EUR, USD	387	387
		2,228	3,758

(*) Liability to Control Centers group, a group of companies which provides project consulting and supervision services and controlled by the ultimate parent company's controlling shareholder.

For payments (including share based payments) to related parties refer to note 36. Transactions with related parties are priced at an arm's length basis.

NOTE 19 - PROVISIONS

The Group's provision in respect of liability to the Romanian government is due to the Company's commitment to construct an office building for the Bucharest municipality as part of the public-private partnership agreement in respect to the Casaradio Project in Bucharest. The provision is expected to be settled by 2014. As of December 31, 2011, an amount of EUR 1.5 million was utilized from the provision

NOTE 20 - OTHER LIABILITIES

Short term	Currency	December 31, 2011	December 31, 2010
Advance payment received (1)	EUR	11,032	6,716
Loan from partners in subsidiaries (2)	EUR	7,807	5,279
Government institutions and fees (3)	Mainly USD	3,139	2,915
Accrued expenses and commissions	EUR	1,941	815
Obligation in respect of plot purchase	Mainly EUR	1,448	1,699
Accrued bank interest	Mainly EUR	1,130	991
Salaries and related expenses	EUR, HUF, PLN, CZK, USD	633	539
Other	HUF, PLN, CZK	334	520
Total		27,464	19,474

(1) 2011 increase is mainly due to advances from tenants in India.

(2) As of December 31, 2011 includes loans from partners in Bulgaria and Romania.

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(3) Include mainly US real estate taxes liability.

<u>Other long term liabilities 2011</u>

	Currency	December 31, 2011	December 31, 2010
Loan from US partner (*)	USD	5,560	5,130
Derivative			-
Others	EUR	197	200
		5,757	5,330

(*) As of December 31, 2011 one of the Company's US partners provided a USD 7.2 million (EUR 5.6 million) (the company's share) mezzanine loan to a subsidiary of EDT, secured by equity interests in six prime shopping center assets owned by EDT. The seven-year mezzanine loan has a fixed interest rate of 10% and aggregate loan to value ratio is approximately 75%.

NOTE 21 - LONG TERM DEBENTURES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company is presenting part of its debentures Series A (raised in July 2007) and debentures Series B (raised in February and May 2008) at fair value through profit or loss. Both debentures principal are linked to the change in the Israeli Consumer Price Index ("CPI"). Accrued interest on both debentures is paid every six months. Debentures Series A and Series B raised from 2009 onwards are presented at amortized cost (refer to note 22). Below is a summary of information on the debentures presented at fair value through profit or loss:

	Series A debentures			Series B debentures		
	Fair value	CPI adjusted	Par value	Fair value	CPI adjusted	Par value
January 1, 2011 (NIS)	310,514	303,760	266,994	922,834	880,381	797,957
Repayment 2011 (NIS) (*)			(38,142)			(159,591)
December 31, 2011 (NIS)	170,839	266,986	228,852	536,547	722,212	638,366
January 1, 2011 (EUR)	65.538	64,113	56,353	194,777	185,817	168,420
December 31, 2011 (EUR)	34,596	54,067	46,344	108,654	146,253	129,274

NOTE 21 - LONG TERM DEBENTURES AT FAIR VALUE THROUGH PROFIT OR LOSS (cont.)

(*) One seventh of Series A bond was repaid on December 30, 2011 and one fifth of debentures Series B was repaid on July 1, 2011

Both debentures series are rated (effective March 2012) ilBBB+ by S&P Maalot Ltd. on a local scale and ilA3/Negative by Midroog Ltd., the Israeli Credit Rating Agency and an affiliate of Moody's Investors Service ("Midroog"). Debentures Series A bears an annual interest rate of 4.5% (paid semi-annually) with 8 annual equal principal instalments between December 2010 and 2017. Debentures Series B bears an annual interest rate of 5.4% (paid semi-annually) with 5 annual equal principal instalments between July 2011 and 2015.

NOTE 22 - LONG TERM DEBENTURES AT AMORTISED COST

<u>Bonds issued in Israel</u>

	Series A debentures	Series B debentures			
	<u>Par value</u>	<u>Par value</u>	<u>Total</u>	<u>CPI adjusted</u>	<u>CPI adjusted</u>

	TNIS	TNIS	TNIS	TNIS	TEUR
January 1, 2011 (NIS) (1)	-	452,217	452,217	498,909	105,302
Issued in 2011 (2)	86,429	181,020	267,449		
Repayment (3)	(9,042)	(125,227)	(134,269)		
Buyback programme (4)	(25,235)	(142,854)	(168,089)		
December 31, 2011	52,152	365,156	417,308	473,959	95,980(5)

(1) Issued in the course of 2009 through 2010.

(2) In January 2011, following the public offering in Israel of unsecured nonconvertible Series A and B debentures, pursuant to the Company's prospectus, it was agreed with Israeli Investors to issue an additional principal amount of approximately NIS 86 million (approximately EUR 19 million) in principal amount of Series A debentures for an aggregate consideration of approximately NIS 99 million (approximately EUR 21 million), and an additional principal amount of approximately NIS 181 million (approximately EUR 39 million) in principal amount of Series B debentures for an aggregate consideration of approximately NIS 201 million (approximately EUR 44 million) by way of a private placement ("Additional Debentures"). The purpose of the issuance is purported to refinance debt principal. For credit rating refer to note 21. The terms of all Additional Debentures are identical to the terms of the Series A and B debentures issued under the Company's prospectus dated July 2007 and February 2008, respectively (refer to note 21).

(3) One seventh of Series A debentures was repaid at December 30, 2011 and one fifth of Series B debentures was repaid at July 1, 2011

(4) Regarding the buyback programme of long term debentures at amortized costs refer to note 35 (M).

(5) Before offset of unamortized cost of raising debentures in the amount of EUR 0.6 million.

NOTE 22 - LONG TERM DEBENTURES AT AMORTISED COST (cont.)

Bonds issued in Poland

On November 16, 2010, the Company completed the first tranche of a bond offering to Polish institutional investors (for the bond issuance program refer to note 35 (G)). The Company raised a total of PLN 60 million (approximately EUR 15.2 million). The unsecured bearer bonds governed by Polish law (the "Bonds") have a three year maturity at an interest rate of six months Wibor plus 4.5%. Interest is paid every six months and principal after three years. For debt covenants refer to note 34d(4). As of December 31, 2011, the amortized cost is EUR 13.4 million (December 31, 2010- EUR 14.9 million). For information on SWAP on the Bonds refer to note 15.

NOTE 23- RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes recognized are attributable to the following:

Assets/(liabilities) 2011	December 31,	Recognized in Profit or loss/comprehensive income	December 31,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

	2010		2011
Investment property	(789)	(3,666)	(4,455)
Property, equipment and other assets	(304)	(5)	(309)
Fair value adjustment of interest bearing loan from banks – US business combination	282	34	316
Debentures and structures at fair value through profit or loss	-	(14,496)	(14,496)
Derivatives	-	(1,391)	(1,391)
Available for sale financial assets (*)	-	446	446
Tax value of loss carry-forwards recognized	137	4,395	4,532
Deferred tax liability, net	(674)	(14,683)	(15,357)

(*) Change included in comprehensive income

Due to EPN Group (refer to note 35 (C)) acquisition of the remaining shares of EDT, the REIT elections of REIT I and REIT II were terminated effective January 1, 2011 as a result of the closely-held nature of EPN Group. As such, the REIT's are subject to US income taxes as a corporation at maximum of 35% of taxable income. Due to the difference between the tax cost base and carrying value of the investment properties at December 31, 2011, a deferred tax liability of USD 13.9 million has been recognized. The Company part is EUR 2.4 million.

NOTE 23- RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES (cont.)

Assets/(liabilities) 2010	December 31, 2009	Acquired in purchase of subsidiary	Recognized in Profit or loss	December 31, 2010
Investment property	(732)	(10)	(47)	(789)
Property and equipment and other assets	(478)	-	174	(304)
Deferred tax asset – US transaction	-	512	(230)	282
Debentures and structures at fair value through profit or loss	3,113	-	(3,113)	-
Derivatives	(6,260)	-	6,260	-
Impaired receivables and others, net	(53)	-	53	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

Tax value of losses carry-forwards recognized, net	1,973	-	(1,836)	137
Deferred tax liability, net	(2,437)	502	1,261	(674)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following item:

	December 31, 2011	2010
Deductible temporary differences	-	2,185
Tax losses	79,656	50,346
	79,656	52,531

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits there from. Main increase is due to operation in Central and Eastern Europe and India, as well as extensive tax losses incurred at the parent Company level.

As of December 31, 2011 the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	2012	2013	2014	2015	2016	After 2016
97,575	1,282	4,359	10,336	19,676	12,326	49,596

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

NOTE 24 - EQUITY

	Remarks	December 31, 2011	2010
		Number of shares	
Authorized ordinary shares of par value EUR 0.01 each		1,000,000,000	1,000,000,000
Issued and fully paid:			
At the beginning of the year		296,722,129	294,195,700
Exercise of share options	See (a) below	452,386	2,526,429
At the end of the year		297,174,515	296,722,129

a. In the course of 2010, 3,954,541 vested options were exercised into 2,526,429 shares of EUR 0.01. In the course of 2011, 951,564 vested options were exercised into 452,386 shares of EUR 0.01.

Other Capital reserve due to share option plans

Other capital reserve is in respect of Employee Share Option Plans in the total amount of

EUR 33,470 as of December 31, 2011 (2010 – EUR 31,029). Regarding the amendment of ESOP and ESOP No. 2 and its effect on other capital reserves refer to note 26.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in India and in the US.

Dividend policy

The payment of dividends is dependent on the financial performance and condition of the Group, the Company's financial position and the capital and anticipated working capital requirements of the Group. The distribution of dividend is based upon the statutory report's distributable results and retained earnings of the Company itself. Subject to mandatory provisions of Dutch laws, and the agreement reached with bond holders (refer to note 35(O)), the dividend policy will reflect the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Regarding interim dividend paid in 2011, refer to note 35 (N).

Capital reserve from acquisition of Non-controlling interest without a change in control

Regarding the abovementioned capital reserve, refer to note 35 (C).

NOTE 25 - EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of EUR 9,346 thousand (2010: profit of EUR 10,273 thousand) and a weighted average number of ordinary shares outstanding of 296,995 thousand (2010: 296,454 thousand).

Weighted average number of ordinary shares

In thousands of shares with a EUR 0.01 par value

	December 31,	
	2011	**2010**
Issued ordinary shares at 1 January	296,722	294,196
Share based payment - exercise of options	273	2,258
Weighted average number of ordinary shares at 31 December	296,995	296,454

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

Weighted average number of ordinary shares (diluted)

In thousands of shares with a EUR 0.01 par value **December 31,**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

	2011	2010
Weighted average number of ordinary shares (basic)	296,995	296,454
Effect of share options on issue	4,527	15,287
Weighted average number of ordinary shares (diluted) at 31 December	301,522	311,741

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

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 Employee share option Plan. The amendment plan determined that all Options that were not vested on October 25, 2008 ("Record Date") shall vest over a new 3 (three) years period commencing on the Record Date, in such way that each year following that date 1/3 (one third) of such Options shall be vested. The number of options which were modified under

Grant date / employees entitled	Number of options	Vesting conditions	Contractual life of options(1)

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 recognised 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 1st ESOP to extend the Option Term (i.e., as defined in

NOTE 26 - EMPLOYEE SHARE OPTION PLAN (cont.)

the 1st ESOP, being the term during which options can be exercised under the 1st ESOP) from seven (7) to ten (10) years from the Date of Grant. As a result the Company record an incremental fair value of EUR 955,433 which is included in the consolidated income statement.

Furthermore, 2nd ESOP plan was adopted On November 22, 2011 which is based on the terms of the 1st ESOP as amended in accordance with the terms as referred to above, with a couple of amendments, the most important of which is the total number of options to be granted under the 2nd ESOP is fourteen million (14,000,000) and a cap of GBP 2. It is noted that, on the basis of all 14,000,000 options being granted under the 2nd ESOP and fully exercised thereafter, this would have an effect of dilution of up to three percent (3%) (On fully diluted basis) of the issued share capital as of the date of this notice. Exercise of the options is subject to the following mechanism:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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		

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 2nd 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:

NOTE 26 - EMPLOYEE SHARE OPTION PLAN (cont.)

(1) Following the modification of ESOP, the contractual life for stock options granted changed from7 years to 10 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.

Weighted average exercise price (*)	Number of options	Weighted average exercise price	Number of options

	2011	**2011**	**2010**	**2010**
	GBP		GBP	
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)		(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 31 December 2011 have an exercise price in the range of GBP 0.43 to GBP 1.32 (app. EUR 0.51 - EUR 1.58) following 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).

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26 - EMPLOYEE SHARE OPTION PLAN (Cont.)

	Key management personnel 2011(*)	Key management personnel 2010	Employees 2011(*)	Employees 2010
	EUR	EUR	EUR	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 1st 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 the similar segment, which have similar market capital and are traded at the Warsaw Stock Exchange. In an attempt to estimate the expected volatility, first calculation of the short-term standard deviation (standard deviation of company's share during one year as of the options' Grant Date) has been done. In the next stage, calculation of the long-term standard deviation (standard deviation for the period starting one year prior to the Grant Date for the remaining period of the plan) has been done, where the weight of the standard deviation for the Company was ranging between 45% -65% and the weight of the average of standard deviations of comparative companies was 35% – 55% (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, it's 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 USD 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.

NOTE 26 - EMPLOYEE SHARE OPTION PLAN (Cont.)

Elbit Plaza US share based plan (cont.)

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 USD 1.6 million in its income statement, and the Company part is USD 0.8 million (EUR 0.6 million).

	Year ended December 31	
	2011	
	Number of options (*)	Weighted average exercise price
		(USD)
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 the 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 3.5 years. The average estimated fair value of the options was calculated based on the Binominal model based on a valuation of a third party expert, using the following assumptions:

	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 (USD thousand)	8,060

NOTE 26 - EMPLOYEE SHARE OPTION PLAN (Cont.)

PCI and EPI Share Option plans

On March 14, 2011 ("Date of grant") the Company's direct subsidiaries PCI and EPI ("Companies") granted non-negotiable Options, exercisable into the Companies' Ordinary Shares, to employees, directors and officers of the Companies and/or Affiliates of the Companies. The options were granted for no consideration and have 3 years of vesting with contractual life of 7 years following the Date of Grant of such Options. PCI had granted 14,212 Share options with exercise price of EUR 227 per option. EPI had granted 51,053 share options with exercise price of EUR 0.01 per option. PCI and EPI commons shares valuation methodology was based on NAV Model. The expected stock price volatility was based on 5 Indian publicly traded real estate companies and set to range 43.31%-54.4%. The Annual risk free Interest rate range was: 1.25% -4.03%. The suboptimal exercise multiple for Key management personnel were set to 2 and for Employees 1.5.

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 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 USD plus 2% per annum from the date of the investment until the Options exercise date ("Exercise price").

VC has 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 totalled EUR 55 thousands. VC ceased to be considered as a related party effective June 30, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27 - REVENUES

	For the year ended December 31, 2011	2010
Rental income from tenants (1)	35,523	20,576
Adjustment to fair value of investment property	8,084	4,647
Operation of entertainment centres (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 of 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 centres is attributed to special subsidiary of the Company trading as "Fantasy Park" which provides gaming and entertainment services in active shopping centres. As of December 31, 2011, these subsidiaries operate in 13 shopping centres.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 28 -COST OF OPERATIONS

	For the year ended December 31, 2011	2010
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 totalled EUR 11 million (2010 – EUR 5.6 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 29 - ADMINISTRATIVE EXPENSES

	For the year ended December 31, 2011	2010
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
Travelling 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**

General and administrative

(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	2010
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 IN '000 EUR

NOTE 31 - NET FINANCE INCOME (COSTS)

	For the year ended December 31,	
Recognized in profit or loss	2011	2010
Changes in debentures measured at fair value through profit or loss (*)	59,891	-
Gain from bonds buyback programme (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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32 - TAX EXPENSE

	For the year ended December 31, 2011	2010
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	2010
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, 2011	2010
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%	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)).

NOTE 32 - TAX EXPENSE (Cont.)

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

The Netherlands

a. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 25% (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.

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.

NOTE 32 - TAX EXPENSE (Cont.)

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

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

a. Credit risk

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

<u>Cash and deposits, structured deposits and available for sale financial assets</u>.

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.

NOTE 33 - FINANCIAL INSTRUMENTS (cont.)
FINANCIAL RISK MANAGEMENT (Cont.)

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 USD). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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.

Credit risk

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

		Carrying amount	
		December 31,	
	Note	**2011**	**2010**
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:

	December 31,	
	2011	**2010**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 33 - FINANCIAL INSTRUMENTS (cont.)

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. In case the Company fails to revolve or to refinance the bank loans, it can also sell some of the plots it is holding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 33 - FINANCIAL INSTRUMENTS (cont.)

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:

	Average rate		Reporting date Spot rate	
EUR	**2011**	**2010**	**2011**	**2010**
NIS 1	0.201	0.202	0.203	0.211

<u>Sensitivity analysis – changes in Exchange rates EUR-NIS in NIS denominated debentures</u>

	Book Value change	Book Value	Book Value change
	-10%	**4.9381**	**10%**
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

<u>Profile</u>

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

	Carrying amount	
	2011	**2010**
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 33 - FINANCIAL INSTRUMENTS (cont.)

Interest risk (cont.)

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	**30 bp Decrease**
December 31, 2011	(783)	783
December 31, 2010	(566)	566

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	**Fair Value**	**Fair Value change - increase 5 bp**
Structure B (refer to note 11)	12,734	12,697	12,660

NIS Debentures

Sensitivity analysis – Changes in Israeli CPI

	Book Value change	**Book Value**	**Book Value change**
	-3%	**110.3**	**3%**
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	**Book Value**	**Book Value change - increase 100 bp**
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 33 - FINANCIAL INSTRUMENTS (cont.)

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:

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2011				
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 – 1,320 EUR 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 27 October 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 eleven 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 USD 25 thousand (EUR 19 thousand) 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 1 January 2006 the Company will pay commissions to EI in respect of all and any outstanding corporate and first demand guarantees which have been issued by EI in favour of the Company up to 0.5% of the amount or value of the guarantee, per annum. As of the end of the reporting period the Group has no outstanding guarantees from EI and no consideration was paid in this respect.

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 centre 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 Joint Venture agreement they will re-execute the Agreement.

NOTE 34 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

a. Contingent liabilities and commitments to related parties:

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

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

   In the framework of the transactions for the sale of the Group's real estate assets, the Group has undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnifications usually include: (i) Indemnifications in respect of completeness of title on the assets and/or the shares sold (i.e that the assets and/or the shares sold are owned by the Group and are clean from any encumbrances and/or mortgage and the like). Such indemnifications generally survived indefinitely and are capped to the purchase price in each respective transaction; and (ii) Indemnifications in respect of other representation and warranties included in the sales agreements (such as: development of the project, responsibility to defects in the development project, tax matter and others). Such indemnifications are limited in time (generally 3 years from signing a closing agreement) and are generally capped to 25% to 50% of the purchase price.

   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 totalled, as of December 31, 2011, approximately EUR 146 million.

NOTE 34 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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

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 centres 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 centres ("Project Companies") have secured their respective credit facilities (with withdrawn facility amounts totalling 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 fulfilment 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.

NOTE 34 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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

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

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 programme (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 deposits 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.

NOTE 34 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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

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.

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

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

NOTE 35 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

B. Transaction during 2010 in the United States (cont.)

According to the constitution of EDT, the Responsible Entity can be appointed or dismissed only by majority vote of EDT's unit holders' 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 unit holder 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 very low percentage in EDT. Therefore, management estimated that the 52.2% unit holders, 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 unit holders.

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 USD 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 AUD $0.078 per share, which was subsequently raised to AUD $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 USD 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 purposes of these financial statements.

As a result of the above, EPN Group recorded capital reserve in the total amount of USD 119 million (EUR 84 million), out of which the Company's share totaled USD 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 USD 57 million (EUR 40 million) 2011 investment was increased to 22.69%.

NOTE 35 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

C.Transaction during 2011 in the United States (cont.)

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.

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).

NOTE 35 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

E. Restructuring of partnership agreement in Bangalore, India (cont.)

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 of 20% per annum calculated from September 30, 2009 ("IRR") is paid to the SPV (on behalf of EPI) (the "Discharge Date").

Following the Discharge Date, EPI will not be entitled to receive any additional profits from the Project and it will transfer to the Partner the entire shareholdings in the SPV for no consideration. In addition, the Partner has a call option, subject to applicable law and regulations, to acquire the entire shareholdings of the SPV, at any time, in consideration for EPI’s Investment plus 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.

NOTE 35 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

E. Restructuring of partnership agreement in Bangalore, India (cont.)

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 U.S.

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 USD 20.4 million (EUR 15.7 million), out of which USD 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 programme 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 Programme") 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 centres.

During 2011 the Company completed the construction of one development in Torun, 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.

NOTE 35 - SIGNIFICANT ACQUISITIONS AND EVENTS (Cont.)

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 1 January 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 programme

On May 23, 2011 the Company's Board of Directors approved a buyback programme 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 programme in November 2011, the Company's Board of Directors approved another buyback programme on December 23, 2011 of up to NIS 150 million (approximately EUR 30.3 million) of the abovementioned bond Series.

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 programme 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 programme. 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 programme, 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.

NOTE 35 - SIGNIFICANT ACQUISITIONS AND EVENTS (Cont.)

N. Dividend paid to shareholders (cont.)

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 USD 26 million (approximately EUR 18.8 million). Of this, Elbit Plaza USA LP, a jointly controlled entity of the Company and Elbit, has received a total distribution amount of USD 11.8 million (approximately EUR 8.6 million), of which the Company received half, reflecting its 50% share.

Q. Opening of the Torun shopping centre

On November 14, 2011 the Company completed and opened to the public Torun Plaza in Poland, its 31st shopping centre in Central and Eastern Europe ("CEE") and its tenth in Poland. Torun Plaza comprises 40,000 sqm of Gross Lettable Area ("GLA") spread over two floors with approximately 1,100 parking spaces.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 35 - SIGNIFICANT ACQUISITIONS AND EVENTS (Cont.)

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 has been 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 6 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 share base 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	2010
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 36 - RELATED PARTY TRANSACTIONS (cont.)

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

(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 a(1)) are companies owned by the ultimate shareholder of the Company. Control Centers group costs are capitalized to the relevant trading property.

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 resulted 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 37 - OPERATING SEGMENT (cont.)

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, has reached an agreement, subject to the satisfaction of certain closing conditions, to sell 47 of its 49 US based shopping centres in a deal totalling USD 1.43 billion (EUR 1.1 billion).

The centres, 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 USD 1.43 billion, a total of USD 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 USD 30 million (EUR 23 million), will be retained by the vendor.

NOTE 38 – EVENTS AFTER THE REPORTING PERIOD (cont.)

Transaction during 2012 in the United States (cont.)

Following the sale of the 47 properties, EPN Group will continue to hold two properties located in the United States that are valued at approximately USD 43 million (EUR 33 million) with total non-recourse secured debt of approximately USD 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 programme 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 totalled 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 USD 60 million each with Strike prices (EUR/USD exchange rate) of 1.29 and an expiration date of June 26, 2012 and December 17, 2012. Premiums received totalled EUR 3.7 million. The Company has pledged in respect of these put options approximately EUR 6 million out of its AFS portfolio.

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 units 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 the 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% percent of gross Trading Properties balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 39 - CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)

Significant estimates

Significant estimated (on the basis of weighted averages) used in the valuations as of 31 December 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).

NOTE 39 - CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)

b. Potential penalties, guarantees issued

Penalties are part of the on-going 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 preparations and costs, and can cause construction to be delayed or abandoned.

d. Valuation of share based payments 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 are changing, 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 benefit from up lift 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 judgement

With respect to the EPN purchase and sale agreement 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's management did in fact have a plan in place to sell the assets and had negotiated a sales 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 40 - LIST OF GROUP ENTITIES

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

	ACTIVITY	REMARKS
HUNGARY		
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 Ingatlanfejelsztési 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.	Inacitve	
Amanati Ltd.	Inactive	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Inacitve	
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 centre	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 comany	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		
Directly wholly owned		
Plaza Centers Slovak Republic S.R.O.	Inactive	
POLAND		
Directly wholly owned		
Kielce Plaza Sp.z.o.o.	Shopping centre project	Kielce Plaza project
Leszno Plaza Sp.z.o.o.	Owns plot of land	Leszno Plaza project
Lodz Centrum Plaza Sp.z.o.o.	Owns plot of land	Lodz (Residential) project
Olsztyn Plaza Sp.z.o.o.	Owns plot of land	Bialysztok Plaza project
O2 Fitness Club Sp.z.o.o.	Entertainment	O2 Fitness Club project
Plock Plaza Sp.z.o.o.	Owns plot of land	Radom Plaza project
Suwał ki Plaza Sp.z.o.o.	Active shopping centre	Suwał ki Plaza project
Toruń Plaza Sp.z.o.o.	Active shopping centre	Toruń Plaza project
Wł ocł awek Plaza Sp.z.o.o.	Mixed used project	Lodz Plaza project
Zgorzelec Plaza Sp.z.o.o.	Active shopping centre	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.
Bytom Plaza Sp.z.o.o.	Inactive	
Bielsko-Biał a Plaza Sp.z.o.o.	Inacitve	
Bydgoszcz Plaza Sp.z.o.o.	Inacitve	
Chorzów Plaza Sp.z.o.o.	Inactive	
Gdańsk Centrum Plaza Sp.z.o.o.	Inactive	
Gliwice Plaza Sp.z.o.o.	Inactive	

Gorzów Wielkopolski Plaza Sp.z.o.o.	Inactive	
Grudziądz 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	

NOTE 40 - LIST OF GROUP ENTITIES (cont.)

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		
Indirectly or jointly owned		
Diksna SIA	Active shopping centre	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		
Directly wholly owned		
S.C. Elite Plaza S.R.L.	Shopping centre project	Timi oara Plaza project
S.C. Green Plaza S.R.L.	Shopping centre project	Ia i Plaza project
S.C. North Eastern Plaza S.R.L.	Shopping centre project	Constan a Plaza project
S.C. North West Plaza S.R.L.	Shopping centre project	Hundedoara Plaza project
S.C. North Gate Plaza S.R.L.	Shopping centre 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 centre project	Slatina Plaza project
S.C. Mountain Gate Plaza S.R.L.	Shopping centre project	Târgu Mure Plaza project
S.C. Palazzo Ducale S.R.L.	Office building and headquarter 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	
Indirectly or jointly owned		
Dâmbovi a Centers Holding B.V.	Holding company	75% held by Plaza Centers N.V.
S.C. Dâmbovi a Center S.R.L.	Mixed used project	100% held by Dambovita 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 Bra ov project
Sunny Invest S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli based company Green Land project

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

Primavera Invest S.R.L.	Office project	50% held by Plaza Bas B.V. 50% held by Israeli based company Primavera Tower Ploie ti 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		
Directly wholly owned		
I.C.S. Plaza Centers Prodev S.R.L.	Inactive	

NOTE 40 - LIST OF GROUP ENTITIES (cont.)

SERBIA		
Directly wholly owned		
Plaza Centers Holding B.V.	Holding company	
Plaza Centers (Estates) B.V.	Holding company	
Plaza Centers (Ventures) B.V.	Holding company	
Plaza Centers Logistic B.V.	Holding company	
S.S.S. Project Management B.V.	Holding company	
Plaza Centers Management D.O.O.	Management company	
Indirectly or jointly owned		
Sek D.O.O.	Shopping centre project	100% held by Plaza Centers Holding B.V. Kragujevac Plaza project
Leisure Group D.O.O.	Shopping centre project	100% held by Plaza Centers (Estate) B.V. Sport Star Plaza and Kruševac Plaza projects
Orchid Group D.O.O.	Shopping centre project	100% held by Plaza Centers (Ventures) B.V. Belgrade Plaza project
Accent D.O.O.	Inacitve	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		
Directly wholly owned		
Praha Plaza S.R.O.	Logistic centre	Prague III project
Plaza Housing S.R.O.	Owns plot of land	Roztoky project
P4 Plaza S.R.O.	Active shopping centre	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		
Directly wholly owned		
Shumen Plaza EOOD	Shopping centre 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		
Directly wholly owned		
Helios Plaza S.A.	Shopping centre project	Pireas Plaza project
CYPRUS – UKRAINE		
Directly wholly owned		
Tanoli Enterprises Ltd.	Finance activity	
PC Ukraine Holdings Ltd.	Inactive	
Plaza Centers Ukraine Ltd.	Management company / Inactive	100% held by PC Ukraine Holdings Ltd.
Nourolet Enterprises Ltd.	Inactive	100% held by PC Ukraine Holdings Ltd.
CYPRUS – RUSSIA		
Indirectly or jointly owned		
Plaza & Snegiri Ltd.	Inactive	50% held by Plaza Centers N.V.
THE NETHERLANDS		
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 Dambovita Complex B.V.	Holding company	
Plaza Centers Enterprises B.V.	Finance company	100% held by Plaza Dambovita 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	
Obuda 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	

NOTE 40 - LIST OF GROUP ENTITIES (cont.)

THE DUTCH ANTILLES		
Directly wholly owned		
Dreamland Entertainment N.V.	Inactive	
CYPRUS – INDIA		
Directly wholly owned		
PC India Holdings Public Company Ltd.	Holding company	
Indirectly or jointly owned		
Permindo Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd. Holds 99.9% of Anuttam Developers Pvt. Ltd. Koregaon Park Plaza project
Anuttam Developers Pvt. Ltd.	Holding company of 23 subsidiaries	99.9% held by Permindo Ltd. All subsidiaries are held in connection with Koregaon Park Plaza project
Abhayang Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Achal Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Agmesh Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Ajakshya Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Ajanu Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Akhula Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Amartya Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Amraprabhu Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Amrutansh Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Anahat Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Anantshree Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Animish Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Antarmukh Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Apramad Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Aprameya Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Apratirath Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Asankhya Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Athang Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Atmavan Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Atrushya Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Avyaja Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

		Developers Pvt. Ltd.
Avyang Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Avyaya Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Spiralco Holdings Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
P-One Infrastructure Pvt. Ltd.	Real estate	50% held by Spiralco Holdings Ltd. 50% held by Indian based company Kharadi Plaza and Trivandrum Plaza projects
Rebeldora Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
HOM India Management Services Pvt. Ltd.	Management company	99.9% held by PC India Holdings Public Company Ltd.
Rosesmart Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.

NOTE 40 - LIST OF GROUP ENTITIES (cont.)

Xifius Services Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Dezimark Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Elbit Plaza India Real Estate Holdings Ltd.	Holding company	47.5% held by Plaza Centers N.V.
Polyvendo Ltd.	Holding company	100% held by Elbit Plaza India Real Estate Holdings Ltd.
Elbit Plaza India Management Services Pvt. Ltd.	Management company	99.999% held by Polyvendo Ltd.
Kadavanthra Builders Pvt. Ltd.	Mixed used project	80% held by Elbit Plaza India Real Estate Holdings Ltd. Chennai (SipCot) project
Aayas Trade Services Pvt. Ltd.	Mixed used project	100% held by Elbit Plaza India Real Estate Holdings Ltd. Bangalore project
Elbit India Architectural Services Ltd.	Inactive	100% held by Elbit Plaza India Real Estate Holdings Ltd.
UNITED STATES OF AMERICA		
Indirectly or jointly owned		
Elbit Plaza USA LP	Holding company	50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
Plaza USA LLC	Holding company	100% held by Elbit Plaza USA LP
EPN GP LLC	Holding company	21.64% held by Plaza USA LLC The reminder of shares are held by US and Israeli partners
EPN EDT Holdings II LLC	Holding company	23.64% held by Plaza USA LLC The reminder of shares are held by US and Israeli partners
EDT Retail Trust Management LLC (US MGR)	Holding company	50% held by EPN GP LLC 50% held by US based partner
EDT Australian Services Ltd. (Aus)	Management company	100% held by EDT Retail Trust Management LLC (US MGR)
EDT US Services LLC (Us)	Management company	100% held by EDT Retail Trust Management LLC (US MGR)
EDT Retail Management Ltd. (ERML)	Management company	100% held by EDT Retail Trust Management LLC (US MGR)
EDT Retail Trust	Inactive	52.18% held by EPN EDT Holdings II LLC 47.82% held by EPN GP LLC
EDT U.S Trust INC. (US REIT I)	Holding company	52.18% held by EPN EDT Holdings II LLC 47.82% held by EPN GP LLC
EDT Fund LLC (US LLC)	Holding company	100% held by EDT U.S Trust INC. (US REIT)
EDT U.S Trust II INC. (US REIT II)	Holding company	52.18% held by EPN EDT Holdings II LLC 47.82% held by EPN GP LLC
DDR MDT PS LLC (MV LLC)		50% held by EDT U.S Trust II INC. (US REIT II) 50% held by US based partner
DDR MDT MV LLC (PS LLC)		90.3362% held by EDT U.S Trust II INC. (US REIT II) 9.663% held by US based partner
EPN Investment Management LLC	Management company	50% held by Elbit Plaza USA LP 50% held by US based partner
EPN Fund GP LLC	Holding company	50% held by Elbit Plaza USA LP 50% held by US based partner

EPN Real Estate Fund LP (Fund)	Holding company	99.8% held by Israeli based partner 0.2% held by EPN Fund GP LLC
EPN Real Estate Fund Holdings LLC		100% held by EPN Real Estate Fund LP (Fund)