PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITED

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012, 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, 2012 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.

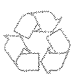
KPMG Hungária Kft.

KPMG Hungária Kft.

Budapest, Hungary

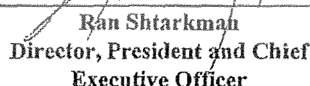
March 13, 2013

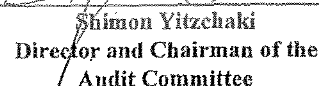
KPMG Hungária Kft., a Hungarian limited liability company and
a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.
Company registration: Budapest, Fővárosi Bíróság, no: 01-09-063183



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

	Note	December 31, 2012	December 31, 2011
ASSETS			
Cash and cash equivalents	5	64,440	58,261
Restricted bank deposits	6	25,518	21,428
Short-term deposits		-	3,102
Available for sale financial assets	7	11,714	25,568
Trade receivables	8	4,687	5,432
Other receivables and prepayments	9	46,749	46,030
Trading properties	10	780,963	850,229
Total current assets		934,071	1,010,050
Long term deposits and other investments	34(O)	-	51,330
Deferred tax assets	22	-	316
Property and equipment	11	8,109	9,026
Investment property	12	14,489	272,348
Restricted bank deposits	6	978	4,961
Other non-current assets		358	495
Total non-current assets		23,934	338,476
Total assets		958,005	1,348,526
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest bearing loans from banks	15	264,296	296,235
Debentures at fair value through profit or loss	20	34,966	32,930
Debentures at amortized cost	21	34,184	22,831
Trade payables	16	8,748	27,329
Related parties	17	511	2,228
Derivatives	14	3,320	-
Provisions	18	15,597	15,597
Other liabilities	19	14,094	27,464
Total current liabilities		375,716	424,614
Interest bearing loans from banks	15	5,773	152,387
Debentures at fair value through profit or loss	20	81,181	110,320
Debentures at amortized cost	21	39,010	86,052
Other liabilities		232	5,757
Derivatives	14	-	3,561
Deferred tax liabilities	22	6,947	15,673
Total non-current liabilities		133,143	373,750
Share capital	23	2,972	2,972
Translation reserve	23	(26,359)	(10,672)
Capital reserve due to transaction with Non-controlling interests	34	(20,706)	(19,342)
Other reserves	23	35,262	31,954
Share premium		261,773	261,773
Retained earnings		189,274	275,437
Total equity attributable to equity holders of the Company		442,216	542,122
Non-controlling interests		6,930	8,040
Total equity		449,146	550,162
Total equity and liabilities		958,005	1,348,526





March 13, 2013	Ran Shtarkman	Shimon Yitzchaki
Date of approval of the financial statements	**Director, President and Chief Executive Officer**	**Director and Chairman of the Audit Committee**

The notes on pages 9 - 88 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, 2012	2011 (reclassified)*
Continuing operations			
Revenues	26	41,593	23,462
Write-down of Trading properties	10	(78,833)	(47,987)
Cost of operations	27	(20,385)	(14,849)
Gross loss		(57,625)	(39,374)
Administrative expenses	28	(16,848)	(18,856)
Other income	29	2,763	169
Other expenses	29	(1,122)	(1,783)
Results from operating activities		(72,832)	(59,844)
Finance income	30	20,515	103,018
Finance costs	30	(37,055)	(29,032)
Net finance income (costs)		(16,540)	73,986
Share in loss of equity-accounted investees		(68)	(153)
Profit (loss) before income tax		(89,440)	13,989
Tax benefit (expense)	31	5,463	(12,910)
Profit (loss) from continuing operations		(83,977)	1,079
Discontinued operation			
Profit (loss) from discontinued operation, net of tax	37	(1,950)	12,785
Profit (loss) for the year		(85,927)	13,864
Profit (loss) attributable to:			
Owners of the Company		(86,163)	9,346
Non-controlling interests		236	4,518
		(85,927)	13,864
Earnings per share			
Basic and diluted earnings (loss) per share (in EURO)	24	(0.290)	0.031
Earnings per share – continuing operations			
Basic and diluted earnings (loss) per share (in EURO)	24	(0.282)	0.003

(*) In respect of 2011 reclassifications – refer to notes 36,37.

The notes on pages 9 - 88 are an integral part of these consolidated financial statements.

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

	For the year ended December 31,	
	2012	**2011 (reclassified)***
Profit (loss) for the year	(85,927)	13,864
Other comprehensive income		
Net change in fair value of Available for sale assets transferred to income statement	1,222	(326)
Change in fair value of available for sale financial assets	1,297	(1,879)
Foreign currency translation differences for foreign operations - Discontinued operation	(6,912)	4,492
Foreign currency translation differences for foreign operations	(9,148)	(26,679)
Tax on other comprehensive income due to change in fair value of available for sale financial assets	(630)	446
Other comprehensive loss for the year, net of income tax	(14,171)	(23,946)
Total comprehensive loss for the year	(100,098)	(10,082)
Total comprehensive income (loss) attributable to:		
Owners of the Company:	(99,961)	(11,159)
Non-controlling interests	(137)	1,077
Total comprehensive loss for the year	(100,098)	(10,082)

(*) 2011 reclassification due to discontinued operation – refer to note 37.

The notes on pages 9 - 88 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 interests without a change in control	Financial assets available for sale reserve	Retained earnings	Total	Non-controlling interests	Total
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**
Change in non-controlling interest	-	-	-	-	(1,364)	-	-	(1,364)	(3,754)	(5,118)
Share based payment	-	-	1,419	-	-	-	-	1,419	2,781	4,200
Comprehensive income for the year										
Net loss for the year	-	-	-	-	-	-	(86,163)	(86,163)	236	(85,927)
Foreign currency translation differences	-	-	-	(15,687)	-	-	-	(15,687)	(373)	(16,060)
Available for sale reserve, net	-	-	-	-	-	1,889	-	1,889	-	1,889
Total comprehensive income (loss) for the year	-	-	-	(15,687)	-	1,889	(86,163)	**(99,961)**	**(137)**	**(100,098)**
Balance at December 31, 2012	**2,972**	**261,773**	**34,709**	**(26,359)**	**(20,706)**	**553**	**189,274**	**442,216**	**6,930**	**449,146**

The notes on pages 9 - 88 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, 2012	2011
Cash flows from operating activities			
Profit (loss) for the year		(85,927)	13,864
Adjustments necessary to reflect cash flows used in operating activities:			
Depreciation and impairment of equipment and other assets	11	1,095	2,517
Write-down of Trading properties	10	78,833	47,987
Change in fair value of Investment property	29,37	1,417	(8,084)
Gain from selling discontinued operation	34(B)	(391)	-
Net finance costs (income)	30	16,540	(73,986)
Interest received		5,777	9,356
Interest paid		(29,920)	(36,593)
Equity-settled share-based payment transaction		197	2,978
Equity-settled share-based payment – discontinued operation		2,781	680
Gain from a bargain purchase		-	(1,523)
Gain on sale of property and equipment	11	(13)	(4)
Gain on sale of trading property	26,29	(3,851)	-
Share of loss in equity-accounted investees		68	153
Proceeds from disposal of trading property, net of cash disposed		97	712
Proceeds from net assets held for sale – discontinued operation	34(B)	5,137	-
Tax expense (tax benefit) from discontinued operation	37	(600)	2,276
Tax expense (tax benefit)	31	(5,463)	12,910
		(14,223)	(26,757)
Changes in:			
Trade receivables		810	(1,298)
Other accounts receivable		10,224	(2,300)
Trading properties	10	(30,157)	(70,629)
Trade payables		(18,122)	543
Other liabilities, related parties and provisions		(2,500)	5,093
		(39,745)	(68,591)
Taxes paid		(613)	(58)
Net cash used in operating activities		(54,581)	(95,406)
Purchase of property, equipment and other assets	11	(498)	(380)
Purchase of Investment property		-	(1,204)
Proceeds from sale of property and equipment	11	250	30
Changes in long term deposits, net		50,643	-
Capital expenditure for discontinued operation		(1,949)	(2,438)
Proceeds from disposal of discontinued operation assets	37	127,723	-
Purchase of available for sale financial assets	7	(16,089)	(9,307)
Proceeds from sale of available for sale financial assets	7	31,294	9,051
Short term deposits, net		3,102	(3,213)
Net cash from (used in) investing activities		194,476	(7,461)
Cash from financing activities			
Proceeds from bank loans and financial institutions		47,181	80,098
Proceeds from utilization and settlement of derivatives	14	238	39,331
Proceeds from hedging activities through sell of options	14	11,683	5,212
Acquisition of non-controlling interest		(3,754)	(40,370)
Repurchase of debentures	34(G)	(18,814)	(29,966)
Dividend paid		-	(30,018)
Changes in restricted cash		(4,118)	17,694
Proceeds from issuance of long term debentures		-	62,895
Repayment of debentures	20,21	(65,320)	(76,075)
Disposal of discontinued operation bank loans	37	(48,014)	-
Repayment of borrowings		(52,840)	(4,667)
Net cash from (used in) financing activities		(133,758)	24,134
Effect of exchange rate fluctuations on cash held		42	(807)
Increase (decrease) in cash and cash equivalents during the year		6,179	(79,540)
Cash and cash equivalents at 1st of January		58,261	137,801
Cash and cash equivalents at 31st of December		**64,440**	**58,261**

The notes on pages 9 - 88 are an integral part of these consolidated financial statements.

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 centers, as well as other mixed-use projects (retail, office, residential) in Central and Eastern Europe, India, and, between 2010 and 2012, also in the USA. The consolidated financial statements for each of the periods presented comprise the Company and its subsidiaries (together referred to as the "Group") and the Group’s interest in associates and jointly controlled entities.

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

The Company’s immediate parent company is Elbit Ultrasound (Luxembourg) B.V. / S.à r.l. ("EUL"), which holds 62.5% of the Company’s shares, as 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, 2012 in accordance with the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on March 13, 2013.

b. Basis of measurement

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

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

c. Functional and presentation currency

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

NOTE 2 - BASIS OF PREPARATION (Cont.)

d. 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.

Functional currency

The EUR is the functional currency for Group companies (with the exception of Indian companies – in which the functional currency is the Indian Rupee – INR, and the investment in the USA until June 30, 2012 - in which the functional currency was 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:

- Note 20,21 – debentures at fair value through profit or loss
- Note 10 - Suspension of borrowing costs capitalization
- Note 10 – Normal operating cycle

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

e. Going concern

The consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future, for at least twelve months.

As forecast relates to future events, inherently it is subject to uncertainties and therefore, the Management cannot guarantee that all assumptions relating to cash flows will materialize, however it believes that as of the date of the financial statements these assumptions are reasonably achievable.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts in the consolidated statement of comprehensive income have been reclassified to conform with the current year's presentation (refer to Notes 27,29). In addition, the comparative statement of comprehensive income has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (refer to Note 37).

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 interests 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.

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.

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

a. Basis of consolidation (cont.)

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.

4. 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.

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

1. Foreign currency transactions (cont.)

Foreign currency differences arising on retranslation are recognised in profit or loss. However, foreign currency differences arising from the retranslation of the following items are recognised in other comprehensive income:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

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.

c. Financial instruments (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: deposits, trade receivables and available-for-sale financial assets.

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

Cash and cash equivalents, restricted deposits and cash in escrow

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.

Financial Liabilities at fair value through profit or loss

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

Upon initial recognition a financial liability may be designated by the Company at fair value through profit or loss. Financial instruments are designated at fair value through profit or loss if the Group manages such 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.

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 60 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.

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

c. Financial instruments (cont.)

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

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, cancelled or expired. 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: interest bearing loans, debentures and trade payables and other liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable 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.

c. Financial instruments (Cont.)

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.

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.

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.

As the fair value method has been adopted for investment properties, the buildings and any component thereof (including plant and equipment) are not depreciated.

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.

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

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.

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.

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

h. Impairment (cont.)

(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.

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 centers 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.

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

j. Revenue recognition (cont.)

(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.

(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 property sold;
c. the amount of revenue can be measured reliably;
d. it is probable that the economic benefits associated with the transaction will flow to the Group (including the fact that the buyer's initial and continuing investment is adequate to demonstrate commitment to pay);
e the costs incurred or to be incurred in respect of the transaction can be measured reliably; and
f. there are no 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.

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

j. Revenue recognition (cont.)

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 center to the buyer is generally executed close to the end of construction and to the opening of the shopping center 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.

k. Operating 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).

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

m. Taxation

Tax expense comprises current and deferred tax. The tax benefit is based on taxable profit (loss) 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 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

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

o. Employee benefits

1. Bonuses

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

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

o. Employee benefits (cont.)

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

p. Earnings Per Share

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

q. Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

1. represents a separate major line of business or geographical area of operations;

2. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

3. is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

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

r. New standards not yet adopted

Several new standards and amendments to standards are not yet effective for the year ended December 31, 2012, and has not been applied in preparing these consolidated financial statements.

- Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively.) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

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

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2014; Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early. This Standard is to be applied retrospectively when there is a change in control conclusion.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

1. it is exposed or has rights to variable returns from its involvements with the investee;
2. it has the ability to affect those returns through its power over that investee; and
3. there is a link between power and returns.

The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The impact of the initial application of the amendment will depend on the specific facts and circumstances of the investees of the Group held at the date of initial application. Therefore, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

- IFRS 11 Joint Arrangements (Effective for annual periods beginning on or after 1 January 2014. It is to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early. It supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

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

r. New standards not yet adopted (cont.)

1. a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
2. a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; an entity must now always use the equity method in the consolidated financial statements.

The impact of the initial application of the amendment will depend on the specific facts and circumstances of the joint arrangements to which the Group is a party at the date of initial application. Therefore, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application

- IFRS 12 Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). Earlier application is permitted. It requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

  It is expected that the new Standard, when initially applied, will have a significant impact on the level of disclosure in the financial statements. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

- IFRS 13 Fair Value Measurement (Effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted). It replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance.

  It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

  The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements those use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

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

r. New standards not yet adopted (cont.)

It is expected that the Standard, when initially applied, will have a significant impact on the disclosures in the notes to the financial statements in respect of the fair value and the determination of the fair value of certain financial and non-financial items. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.) require that:

  1. an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.
  2. change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

  The amendments are not relevant to the entity's financial statements, since the entity does not have other comprehensive income which would never be reclassified to profit or loss.

- Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively Earlier application is permitted.) introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

  The Group does not expect the amendments to have any impact on the financial statements, since it does not results in a change in the Group's accounting policy. The measurement of deferred tax assets and liabilities relating to investment properties measured using the fair value model in IAS 40 will not change.

- IAS 19 (2011) Employee Benefits (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply. Earlier application is permitted.) It requires actuarial gains and losses to be recognised immediately in other comprehensive income.

  The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation

  The amendments are not relevant to the entity's financial statements, since the entity does not have any defined benefit plans.

r. New standards not yet adopted (cont.)

- IAS 28 (2011) Investments in Associates and Joint Ventures (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early). It introduces limited amendments made to IAS 28 (2008):

  1. Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
  2. Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

  It is expected that the standard, when initially applied, will have a significant impact on the financial statements. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made.)

  The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

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

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

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.

Available for sale financial assets

The fair value of 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.

Swap transactions

Fair values of the SWAP (refer to note 14) 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 of the Company and similar companies 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.

NOTE 5 - CASH AND CASH EQUIVALENTS

Bank deposits and cash denominated in	Interest rate as of December 31, 2012	December 31, 2012	December 31, 2011
EUR	See (1) below	21,138	34,437
United States Dollar (USD)	Mainly 0.3%	33,249	9,944
Polish Zlotys (PLN)	Mainly O/N WIBOR	3,469	7,369
Indian Rupee (INR)	Mainly 3.5%-9.8%	2,668	3,550
New Israeli Shekel (NIS)	Mainly 0%	2,272	1,028
Hungarian Forints (HUF)	Mainly 4%	269	640
Serbian Dinar (RSD)	Mainly 11%	266	628
Romanian Lei (RON)	Mainly 5%	231	253
Czech Crowns (CZK)	Mainly 0.5%	298	167
Latvian Lat (LVL)	Mainly O/N RIGIBOR	561	182
in other currencies	0%	19	63
Cash and cash equivalents in the statement of cash flows		64,440	58,261

(1) As at December 31, 2012, cash in several commercial banks is deposited for periods up to 3 months. Fixed deposits bear interest rates varying between 0.2% and 2.5%, while floating deposits bear interest rates as determined by various benchmarks (e.g EURIBOR, LIBOR).

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

NOTE 6 - RESTRICTED BANK DEPOSITS

	Interest rate as of December 31, 2012	December 31, 2012	December 31, 2011
Short term restricted bank deposits			
In EUR	See (1) and (3)	9,543	15,281
In USD	See (2)	12,499	3,231
In NIS	See (4)	2,426	530
In PLN	0%	524	2,305
In other currencies	0%	526	81
Total short term		25,518	21,428
Long term restricted bank deposits			
In EUR		-	4,550
In other currencies	0%	978	411
Total long term		978	4,961

(1) As of December 31, 2012, EUR 6.5 million is restricted in respect of bank facilities agreements signed to finance Projects in Serbia, Poland, Romania, Czech Republic and Latvia. These amounts carries an annual interest rate of mainly Overnight LIBOR. 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 14) and carries an annual interest rate of 2.4%.

(2) As of December 31, 2012, various deposits in a total amount of USD 9.2 million (EUR 6.9 million) are restricted in respect of bank facilities requirements, which bears interest of 0%. An additional USD 7.4 million (EUR 5.6 million) are restricted in respect of tax and wind up payments expected following the US transaction (refer to note 34(B)), and bears annual interest of 0.3%.

(3) As of December 31, 2012 an amount of EUR 2 million is restricted in respect of the EUR / PLN cross currency IRS transaction (see note 14). The restricted amount bears a fixed interest rate of 3.2%.

(4) As of December 31, 2012 an amount of EUR 2.4 million is restricted in respect of bank facility agreement signed. The restricted amount does not bear interest.

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

NOTE 7 - AVAILABLE FOR SALE FINANCIAL ASSETS

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

	2012	2011
Interest income from AFS	712	1,691
Gain (loss) from selling AFS	(1,222)	326
Total for the year	(510)	2,017
Balance as at 1 January	25,568	27,098
Purchase of AFS	16,089	9,307
Sale/redemption of AFS	(31,294)	(9,051)
Discount amortization	54	93
Changes in market value of AFS	1,297	(1,879)
Balance as at 31 December	11,714	25,568

As at December 31, 2012, part of the AFS Portfolio in the amount of EUR 0.6 million is pledged against a secured bank loan.

NOTE 8 - TRADE RECEIVABLES

	December 31, 2012	December 31, 2011
Trade receivables (1)	6,409	7,984
Less - Allowance for doubtful debts (2)	(1,722)	(2,552)
	4,687	5,432

(1) Main decrease is due to selling of US operations. As at December 31, 2011 US operations trade receivables amounted to EUR 2.3 million.
(2) Main decrease in allowances is due Latvia (EUR 0.7 million), due to cancelation of old invoices issued to tenants, which were provisioned as bad debt.

NOTE 9 - OTHER RECEIVABLES AND PREPAYMENTS

	December 31, 2012	December 31, 2011
Advances for plot purchases (1)	27,384	29,828
Insurance company receivable (2)	7,611	-
VAT receivables	2,387	6,125
Loans to partners in jointly controlled entities	2,673	2,930
Prepaid expenses	1,586	2,009
Accrued interest receivable	335	1,685
Advances to suppliers	2,466	1,252
Related parties	1,435	1,227
Others	872	974
	46,749	46,030

(1) As of December 31, 2012 and 2011, including mainly advance payments in the amount of EUR 26.4 million and EUR 28.3 million, respectively for the purchase of plots in India, as part of the Joint venture with EI (refer also to notes 34(C)). Out of this amount, an amount of EUR 4.1 million (2011 -EUR 5 million) is guaranteed by EI.
(2) Receivable incurred in respect of the fire in the Company shopping center in India (refer to note 34(M)).

NOTE 10 - TRADING PROPERTIES

	December 31, 2012	December 31, 2011
Balance as at 1 January	850,229	807,887
Acquisition and construction costs	25,763	84,827
Capitalized borrowing costs (1)	21,806	29,154
Write-down of trading properties (2)	(86,444)	(47,987)
Effect of movements in exchange rates	(8,567)	(23,652)
Trading properties disposed (refer to notes 27,34(N))	(21,824)	-
Balance as at 31 December (3)	780,963	850,229
Completed trading properties	294,528	202,769
Trading properties under construction	17,411	117,526
Trading properties under planning and design stage (3),(4)	469,024	529,934
Total	780,963	850,229

(1) In certain cases, the Group ceases to capitalize borrowing cost if management decides that the assets can no longer be defined as a "qualified asset". In other circumstances, capitalization is suspended for certain time periods, generally where the efforts to develop a project are significantly diminished due to inter-alia lack of external finance, or ongoing difficulties in obtaining permits. The conclusions whether an asset is qualified for capitalization or not, or whether capitalization is to be suspended, involve also management plans with regard to the specific asset, such as the ability to raise bank loans, find anchors and local market conditions that support or deny the construction of the project.

(2) Write-down of trading properties to net realisable value was performed based on independent valuation reports. In the course of 2012 write-downs were recognized in respect of projects in Romania (EUR 34.1 million), India (EUR 18.3 million), Hungary (EUR 12.4 million), Serbia (EUR 9.1 million), Poland (EUR 6.8 million), the Czech Republic (EUR 3.1 million) and Bulgaria (EUR 2.6 million).

In respect of Write-down in Indian projects, an amount of EUR 7.6 million of the loss was offset with insurance company receivable (refer also to notes 9, 34(M)), hence the net loss effect of trading property impairments totalled EUR 78.8 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 221 million (2011 – EUR 230 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 9.1 million. A write-down of EUR 1.9 million was recognised in respect of the turbines in the course of 2012.

(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.

NOTE 10 - TRADING PROPERTIES (Cont.)

As of December 31, 2012, 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 centers, residential units, offices or mixed-use. Regarding segment reporting, refer to note 36. Regarding the changes in global markets and their effect on the development of trading properties under construction refer to note 34(D).

As of December 31, 2012, a total carrying amount of EUR 322 million (December 31, 2011 – EUR 377 million) of the abovementioned trading properties is pledged against bank loans.

As of December 31, 2012 and 2011 trading properties include accumulated capitalization of share based payments in the amount of EUR 10.7 million.

Below is a summary table for projects status:

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NOTE 10 - TRADING PROPERTIES (Cont.)

		December 31, 2012		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	35,000
Kielce Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit pending	33,000
Leszno Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit valid	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	Building 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 (75 acres out of 84 acres are registered already)	Under negotiations	1,060,000(*)
Koregaon Park	India	2006	100	Ownership	Completed	Operational shopping center (starting Q1 2012)	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	Detailed Zoning Planning permit valid	600,000(*)
Timisoara Plaza	Romania	2007	100	Ownership	Completed	Zoning valid	38,000

(*) GBA (sqm)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10 - TRADING PROPERTIES (Cont.)

		December 31, 2012	General information				
			Share holding		Status of		
Project	Location	Purchase/transaction year	Rate (%)	Nature of rights	Registration of land	Permit status	Planned GLA (sqm)
Iasi Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	58,000
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	Operational shopping center (starting Q1 2012)	22,000
Sport Star Plaza	Serbia	2007	100	Ownership	Completed	Location Permit valid	40,000
Shumen Plaza	Bulgaria	2007	100	Ownership	Completed	Planning permit valid	20,000
Dream Island (Budapest)	Hungary	2003	43.5	Ownership	Completed	Valid zonning	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
Miercurea Ciuc Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	14,000

(*) GBA (sqm)

NOTE 11 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment	Fixtures and fittings	Airplane (1)	Total
Cost					
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**
Additions	-	417	-	-	417
Disposals	-	(592)	-	-	(592)
Exchange rate effect	-	(25)	-	-	(25)
Balance at 31 December, 2012	**7,057**	**5,354**	**1,397**	**4,737**	**18,545**
Accumulated depreciation					
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**
Depreciation and impairment expenses (*)	85	400	34	576	1,095
Disposals	-	(355)	-	-	(355)
Exchange rate effect	-	(23)	-	-	(23)
Balance at 31 December, 2012	**2,691**	**3,548**	**1,054**	**3,143**	**10,436**
Carrying amounts					
At 31 December, 2012	4,366	1,806	343	1,594	8,109
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/ impairments during the period

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

(2) In 2012, the Company recorded a loss due to impairment of its airplane of EUR 0.4 million, based on external valuation (2011- impairment of EUR 1.6 million).

NOTE 12 - INVESTMENT PROPERTY

	December 31, 2012	December 31, 2011
Balance at 1 January	272,348	238,702
Capital expenditures on investment properties	1,949	2,438
Effect of movements in exchange rate	4,656	8,923
Disposal of US investment property (refer to note 34(B))	(263,047)	-
Acquisitions (refer to note 34 (A))	-	14,201
Fair value revaluation (refer to notes 29, 36)	(1,417)	8,084
Balance at 31 December	14,489	272,348

With the exception of the EUR 0.8 million uplift in the Investment property in the Czech Republic (refer also to note 29) all 2012 movements are in connection with the assets disposed in the US.

NOTE 12 - INVESTMENT PROPERTY (Cont.)

Investment property in the Czech Republic

As of December 31, 2012, the Company has one Investment property, which is a 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 7.5% for 2012 (2011- 7.3%), and the value determined was EUR 14.5 million for 2012 (2011- EUR 13.6 million).

NOTE 13 - PROPORTIONATE CONSOLIDATION

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

	2012	2011
Current assets	237,580	243,874
Non-current assets	833	260,781
Current liabilities	68,758	118,439
Non-current liabilities	17	144,735
Non-controlling interests	6,214	7,289

	For the year ended December 31,	
	2012	2011
Revenues and other income	12,304	41,154
Expenses and tax	(36,115)	(51,268)
Net loss	(23,811)	(10,114)

Main change in 2012 is attributable to the disposal of US assets (refer to note 34(B)).

NOTE 14 - DERIVATIVES

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

Derivative type	Hedged amount as of December 31, 2012	Value of derivatives at December 31, 2012	Income statement gain (loss)in 2012	Maturity date of derivative
Options on currency (1),(7)	N/A	N/A	11,683	N/A
Cross currency IRS 1 (2)	PLN 60 million	(817)	966	November 2013
Cross currency interest rate swap 2 (3)	N/A	N/A	419	N/A
Interest rate swap 1 (4)	EUR 25 million	(706)	(62)	June 2014
Interest rate swap 2 (5)	EUR 30 million	(1,136)	(462)	December 2014
Interest rate swap 3 (6)	EUR 35.5 million	(661)	(661)	December 2017
Total		(3,320)	11,883	

(1) 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.

(2) 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 (refer to note 21).

(3) 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 swap was settled in January 2012 for a cash consideration of EUR 0.2 million.

(4) In respect of Suwalki project loan. The project company will pay fixed interest rate of 2.13% and receives EURIBOR three months on a quarterly basis, until June 30, 2014.

(5) In respect of Kragujevac project loan. The project company will pay fixed interest rate of 1.85% and receives EURIBOR three months on a quarterly basis, until December 31, 2014.

(6) In respect of Torun project loan. The project company will pay fixed interest rate of 1% and receives EURIBOR three months on a quarterly basis, until December 31, 2017.

(7)In 2013 the Company continued its activity with option on currency, and received premiums in connection with this amount totalling EUR 3 million. The options matures in June 2013. Cash deposit guarantees were placed in respect of this activity in a total amount of EUR 6 million.

Regarding pledges in respect of derivative activity refer to note 33d(2).

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

NOTE 15 - INTEREST BEARING LOANS FROM BANKS

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

	December 31, 2012	December 31, 2011
Non-current loans		
Investment property secured bank loans	3,175	140,335
Other secured bank loans	2,598	12,052
	5,773	152,387
Current loans (including current maturities of long term loans		
Trading properties secured bank loans	246,377	227,624
Investment property secured bank loans	469	22,402
Other secured bank loans	17,450	46,209
	264,296	296,235

Below is the breakdown of all outstanding group loans:

	Nominal interest rate	Currency	Year of maturity	December 31, 2012	December 31, 2011
				Carrying amount	
Trading property secured bank loan (1)	3M EURIBOR+2.5%	EUR	2014	31,925	33,323
Trading property secured bank loan (2)	3M EURIBOR+3%	EUR	2017	49,028	33,845
Trading property secured bank loan	3M EURIBOR+2.7%	EUR	2014	21,064	21,800
Trading property secured bank loan	3M EURIBOR+3%	EUR	2015	20,664	20,285
Trading property secured bank loan	3M EURIBOR+3%	EUR		-	2,040
Trading property secured bank loan	3M EURIBOR+2.5%	EUR		-	3,772
Trading property secured bank loan (2)	3M EURIBOR+1.65%	EUR	2020	32,303	32,963
Trading property secured bank loan (1)	3M EURIBOR+2.75%	EUR	2016	21,608	20,811
Trading property secured bank loan (1),(2)	3M EURIBOR+5%	EUR	2027	30,123	17,820
Trading property secured bank loan	3M EURIBOR+2.25%	EUR		-	5,927
Trading property secured bank loan	13.25%	INR	2021	26,943	29,016
Trading property secured bank loan	11.5%	INR	2013	6,987	-
Trading property secured bank loan (1)	3M EURIBOR+3.5%	EUR	2013	4,100	4,100
Trading property secured bank loan	3M EURIBOR+5.5%	EUR	2013	882	1,172
Trading property secured bank loan	3M EURIBOR+4.5%	EUR	2013	750	750
				246,377	**227,624**
Other secured bank loans	3M EURIBOR+0.5%	EUR		-	6,867
Other secured bank loans	3M EURIBOR+0.4%	EUR		-	26,225
Other secured bank loans	12M EURIBOR+0.4%	EUR		-	10,000
Other secured bank loans (1)	6M TELBOR+6%	NIS	2013	17,268	12,150
Other secured bank loans	3M USD LIBOR+4%	USD	2014	2,780	3,019
				20,048	**58,261**

US portfolio bank loans	4.91%-6.4%	USD		-	158,624
Investment property secured bank loan	3M EURIBOR+1.75%	EUR	2016	3,644	4,113
				3,644	**162,737**
Total interest bearing liabilities				**270,069**	**448,622**

(1) Refer to note 33 (d) for details on breach of certain covenants.
(2) IRS on bank loans – refer to note 14.

NOTE 16 - TRADE PAYABLES

	Currency	December 31, 2012	December 31, 2011
Construction related payables	Mainly in EUR, PLN	4,373	25,610
Other trade payables		4,375	1,719
		8,748	27,329

Main decrease in 2012 is attributable to settling with construction suppliers in respect of the Torun shopping center in Poland which was opened in November 2011.

NOTE 17 - RELATED PARTIES

	Currency	December 31, 2012	December 31, 2011
EI Group- ultimate parent company – expenses recharged	EUR, USD	109	1,389
Other related parties (*)	EUR	15	452
EUL (parent company)	EUR, USD	387	387
		511	2,228

(*) 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 35. Transactions with related parties are priced at an arm's length basis.

NOTE 18 - 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 2015. Aggregately, and as of December 31, 2012, an amount of EUR 1.5 million was utilized from the provision.

NOTE 19 - OTHER LIABILITIES

Short term	Currency	December 31, 2012	December 31, 2011
Advance payment received (1)	EUR	6,528	11,032
Loan from partners in subsidiaries (2)	EUR	1,244	7,807
Government institutions and fees (3)	Mainly USD	2,390	3,139
Accrued expenses and commissions	EUR	727	1,941
Obligation in respect of plot purchase	Mainly EUR	1,801	1,448
Accrued bank interest	Mainly EUR	813	1,130
Salaries and related expenses	EUR, HUF, PLN, CZK, USD	364	633

Other	HUF, PLN, CZK	227	334
Total		14,094	27,464

(1) 2012 decrease is mainly attributable to utilization of advances from tenants in India in respect of selling offices in India (refer also to note 26).
(2) 2012 decrease is mainly due to disposal of a plot in Bulgaria (refer also to note (34(N)).
(3) 2012 - Mainly due to liability to US tax authorities in respect of US transaction (refer to note 6(2) for cash restriction due to this liability).

NOTE 20 - 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 21). Below is a summary of information on the debentures presented at fair value through profit or loss:

	Series A debentures			Series B debentures			
	Fair value	CPI adjusted	Par value	Fair value	CPI adjusted	Par value	Total Par value
January 1, 2012 (NIS)	170,839	266,986	228,852	536,547	722,212	638,366	867,218
Repayment 2012 (NIS) (*)			(34,330)			(159,592)	(193,922)
Buyback programme (**)			(22,870)			-	(22,870)
December 31, 2012 (NIS)	138,366	203,150	171,652	433,147	549,490	478,774	650,426
January 1, 2012 (EUR)	65,538	64,113	56,353	194,777	185,817	168,420	
December 31, 2012 (EUR)	28,120	41,286	34,884	88,027	111,671	97,300	

(*) One sixth of outstanding Series A bond was repaid on December 31, 2012 and one fourth of outstanding debentures Series B was repaid on July 1, 2012.

(**)Regarding the buyback programme of long term debentures refer to note 34 (G).

Both debentures series are rated (effective as of the date of signing these financial statements) ilBBB- by S&P Maalot Ltd. on a local scale (down from ilBBB+/stable in December 2012) and Ba1/Negative by Midroog Ltd., the Israeli Credit Rating Agency and an affiliate of Moody's Investors Service (Down from Baa1/Negative in March 2013). 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 21 - LONG TERM DEBENTURES AT AMORTISED COST

Bonds issued in Israel

	Series A debentures	Series B debentures			
	Par value	Par value	Total	CPI adjusted	CPI adjusted
	TNIS	**TNIS**	**TNIS**	**TNIS**	**TEUR**
January 1, 2012 (NIS)	52,152	365,156	417,308	473,959	95,980
Repayment (1)	-	(86,074)	(86,074)		
Buyback programme (2)	(52,152)	(27,831)	(79,983)		

December 31, 2012	-	251,251	251,251	288,362	58,603(3)

(1) One sixth of outstanding Series A bond was repaid on December 31, 2012 and one fourth of outstanding debentures Series B was repaid on July 1, 2012.

(2) Regarding the buyback programme of long term debentures refer to note 34 (G).

(3) Before offset of unamortized cost of raising debentures in the amount of EUR 0.1 million.

NOTE 21 - 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. 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 33d(3). As of December 31, 2012, the amortized cost is EUR 14.7 million (December 31, 2011- EUR 13.4 million). For information on cross currency IRS on the Bonds refer to note 14.

NOTE 22- RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes recognized are attributable to the following:

Assets/(liabilities) 2012	December 31, 2011	Recognized in Profit or loss/comprehensive income from continuing operation	Reclassified as liability toward tax authorities	Discontinued operation	December 31, 2012
Investment property	(4,455)	994	1,542	916	(1,003)
Property, equipment and other assets	(309)	(1)	-		(310)
Fair value adjustment of interest bearing loan from banks – US business combination	316	-	-	(316)	-
Debentures and structures at fair value through profit or loss	(14,496)	4,908	-		(9,588)
Derivatives	(1,391)	(178)	-		(1,569)
Available for sale financial assets (*)	446	(630)	-		(184)

Tax value of loss carry-forwards recognized	4,532	1,175	-		5,707
Deferred tax liability, net	(15,357)	6,268	1,542	600	(6,947)

(*) Change included in comprehensive income

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

Assets/(liabilities) 2011	December 31, 2010	Recognized in Profit or loss/comprehensive income	Discontinued operation	December 31, 2011
Investment property	(789)	(46)	(3,620)	(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	3,085	1,310	4,532
Deferred tax liability, net	(674)	(12,407)	(2,276)	(15,357)

(*) Change included in comprehensive income

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of tax losses in a total amount of EUR 92 million (2011: EUR 80 million).

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 decrease is due to operation in Central and Eastern Europe.

As of December 31, 2012 the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	**2013**	**2014**	**2015**	**2016**	**2017**	**After 2017**

119,742	7,560	9,815	13,583	17,415	11,975	59,394

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

NOTE 23 - EQUITY

		December 31,	
		2012	2011
	Remarks	Number of shares	
Authorized ordinary shares of par value EUR 0.01 each		1,000,000,000	1,000,000,000
Issued and fully paid:			
At the beginning of the year		297,174,515	296,722,129
Exercise of share options	See (a) below	11,623	452,386
At the end of the year		297,186,138	297,174,515

a. In the course of 2011, 951,564 vested options were exercised into 452,386 shares of EUR 0.01. In the course of 2012, 108,335 vested options were exercised into 11,623 shares of EUR 0.01.

Other Capital reserve due to share option plans

Other capital reserve is in respect of Employee Share Option Plans ("ESOP") in the total amount of EUR 34,889 as of December 31, 2012 (2011 – EUR 33,470). Regarding the amendments of ESOP and ESOP No. 2 and its effect on other capital reserves refer to note 25.

Translation reserve

The translation reserve comprises, as of December 31, 2012, all foreign exchange differences arising from the translation of the financial statements of foreign operations in India.

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 34(I)), 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 34 (H).

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

control

Regarding the abovementioned capital reserve, refer to note 34 (B).

NOTE 24 - EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2012 was based on the loss attributable to ordinary shareholders of EUR 86,163 thousand (2011: profit of EUR 9,346 thousand) and a weighted average number of ordinary shares outstanding of 297,181 thousand (2011: 296,995 thousand).

NOTE 24 - EARNINGS PER SHARE (cont.)

Weighted average number of ordinary shares
In thousands of shares with a EUR 0.01 par value

	December 31,	
	2012	2011
Issued ordinary shares at 1 January	297,175	296,722
Share based payment - exercise of options	6	273
Weighted average number of ordinary shares at 31 December	297,181	296,995

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

Weighted average number of ordinary shares (diluted)
In thousands of shares with a EUR 0.01 par value

	December 31,	
	2012	2011
Weighted average number of ordinary shares (basic)	297,181	296,995
Effect of share options on issue	792	4,527
Weighted average number of ordinary shares (diluted) at 31 December	297,973	301,522

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

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

NOTE 25 - EMPLOYEE SHARE OPTION PLAN

On October 26, 2006 the Company's Board of Directors approved the grant of up to 33,834,586 non-negotiable options 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 22, 2011 the Company's general shareholders meeting and the Board of Directors approved to amend the 1st ESOP to extend the Option Term (i.e., as defined in the 1st ESOP, being the term during which options can be exercised under the 1st ESOP) from seven (7) to ten (10) years from the Date of Grant. As a result the Company record an incremental fair value of EUR 955,433 which 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.

NOTE 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

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

Exercise of the options is subject to the following mechanism:

Grant date / employees entitled	Number of options	Vesting conditions	Contractual life of options(1)
ESOP No.1			
Option grant to key management at October 27, 2006	13,368,073	see (3) below	15 years
Option grant to employees at October 27, 2006	2,349,188	see (3) below	15 years
Total granted in 2006	15,717,261	see (3) below	15 years
Total granted in 2007 (2)	1,314,073	see (3) below	15 years
Total granted in 2008 (2)	977,221	see (3) below	15 years
Total granted in 2009 (2)	575,002	Three years of service	15 years
Total granted in 2010 (2)	25,000	Three years of service	15 years
Total granted in 2011(2)	205,000	Three years of service	15 years
			15 years
ESOP No.2			
Total granted in 2011 (2)	5,044,000	Three years of service	
Total granted in 2012 (2)	970,000	Three years of service	10 years
Total share options Granted	24,827,557		

(1) Following the modification of ESOP, the contractual life for stock options granted changed from 10 years to 15 years

(2) Share options granted to key management: 2007 – 200,000 share options; 2008 - 360,000 share options; 2009 - 73,334 share options; 2012 – 3,675,000 share options.

(3) Vesting conditions – refer to modification of employee share option paragraph above.

On exercise date the Company shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of the Company's shares on the LSE (or WSE under certain conditions) on the exercise date, provided that if the opening price exceeds GBP 3.24, the Exercise Price the opening price shall be set at GBP 3.24 (Except 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 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

	Weighted average exercise price (*)	Number of options	Weighted average exercise price	Number of options
	2012	2012	2011	2011
	GBP		GBP	
Outstanding at the beginning of the year	0.46	26,905,132	0.61	24,889,225
Exercised during the year	0.42	(108,335)	0.53	(951,564)
Forfeited during the period - back to pool	0.96	(2,989,240)	1.40	(3,201,529)
Granted during the year	0.47	1,190,000	0.46	6,169,000
Outstanding at the end of the year	0.43	24,997,557	0.43	26,905,132
Exercisable at the end of the year		12,471,556		19,380,787

(*)-The options outstanding at 31 December 2012 have an exercise price in the range of GBP 0.39 to GBP 1.32 (app. EUR 0.48 - EUR 1.61), and have weighted average remaining contractual life of 10.3 years. The weighted average share price at the date of exercise for share options exercised in 2012 was GBP 0.48 (2011: GBP 0.88).

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 33,176,682. The estimated fair value of the services received is measured based on a binomial lattice model using the following assumptions:

	Key management personnel 2012(*)	Key management personnel 2011	Employees 2012(*)	Employees 2011
	EUR	EUR	EUR	EUR
Fair value of share options and assumptions				
Fair value at measurement date (in EUR)(*)	131,368	812,885	144,017	470,406
Weighted average Exercise price	0.52	0.46	0.46	0.46
Expected volatility	47.69%-59.8%	33.09%-51.67%	39.75%-59.8%	33.09%-51.67%

Weighted average share price (Gbp)	0.50	0.43	0.46	0.47
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)	0.31%-3.06%	0.46%-5.49%	0.24%-4.13%	0.46%-5.49%

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

During 2012 the total employee costs for the share options granted (including the modifications) was EUR 769 (2011 – EUR 2,446).

NOTE 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

Since the Company 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% (2011: the same)The working assumption is that the standard deviation of the underlying asset yield converges in the long term with the multi-year average.

Elbit Plaza US share based plan

In August 2011, EPUS (a 50% held joint venture Partnership of the Company, together with EI, it's principal shareholder) initiated a EPUS 2011 Incentive Plan (the "2011 EPUS Incentive Plan") that 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 of affiliate companies, at an exercise price per option of USD 17 (EUR 13). The exercise price of each option will be reduced upon any event that EPUS makes cash distributions of the proceeds to all Partners or repays the Partners and/or any Affiliate any outstanding loan, interest, charges and/or current debt, etc.

Under the 2011 EPUS Incentive Plan, 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 to 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. The options expire 3.5 years following the date of grant.

During 2012 and as part of the U.S transaction (refer to note 34(B)) the Administration of the plan accelerates the vesting period.

	2012		2011	
	Number of options (*)	Weighted average exercise price (USD)	Number of options (*)	Weighted average exercise price (USD)

Balance at the beginning of the year	488,750	12.74	-	-
Granted	11,250	12.74	488,750	17
Exercised	(500,000)	1.9		
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

NOTE 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

Elbit Plaza US share based plan (cont.)

The average estimated fair value of the options was calculated based on the Binomial model based on a valuation of a third party expert, using the following assumptions:

	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

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 in 2011. 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, 2012.

NOTE 25 - EMPLOYEE SHARE OPTION PLAN (cont.)

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 0.4 million. The total income recorded in the income statements in 2012 totalled EUR 0.6 million. VC ceased to be considered as a related party effective June 30, 2010.

NOTE 26 - REVENUES

	Continuing Operations		Discontinued Operation (refer to note 37)		Total	
	2012	2011	2012	2011	2012	2011
Rental income from tenants (1)	20,543	9,995	13,907	25,528	34,450	35,523
Operation of entertainment centers (2)	6,911	7,121	-	-	6,911	7,121
Management fees	6,327	4,859	-	-	6,327	4,859
Revenue from selling trading properties (3)	6,372	712	-	-	6,372	712
Other	1,440	775	-	-	1,440	775
Total	**41,593**	**23,462**	**13,907**	**25,528**	**55,500**	**48,990**

(1) As of the end of the reporting period, the main rental income from continuing operations is derived from projects in Latvia, Poland, India, Serbia and the Czech Republic. Refer to note 36 for segment breakdown of revenues.
(2) Revenue from operation of entertainment centers is attributed to a subsidiary of the Company trading as "Fantasy Park" which provides gaming and entertainment services in active shopping centers. As of December 31, 2012, these subsidiaries operate in 13 shopping centers. Regarding the expected settlement to be reached in respect of legal claims against Fantasy park refer to note 33 (C).
(3) Main revenue from selling trading properties in 2012 is mainly due to selling office units in India. The revenue of EUR 6 million generated a profit in 2012 in a total amount of EUR 2.4 million.

NOTE 27 - COST OF OPERATIONS

	For the year ended December 31,	
	2012	2011 (a)
Direct expenses:		
Property operations and maintenance (b)	8,064	5,465
Cost of sold trading properties (refer to note 26 (3)).	3,920	603
Salaries and related expenses	356	136
Initiation costs	-	387
Local taxes	1,525	1,391
	13,865	7,982
Operations of entertainment centers	6,227	6,442
	20,092	14,424
Depreciation and amortization	293	425
	20,385	14,849

(a) Reclassification due to discontinued operation – refer to note 36. Reclassification was also performed to present separately the operations of entertainment centers.

(b) 2012 - Includes EUR 4.0 million of energy related expenses and EUR 4.1 million due to other utilities expenses. 2011 – Includes EUR 3.3 million of energy related expenses and EUR 2.2 million due to other utilities expenses.

NOTE 28 - ADMINISTRATIVE EXPENSES

	For the year ended December 31, 2012	2011(1)
Selling and marketing expenses		
Advertising and marketing	2,919	1,423
Salaries and relating expenses	1,130	971
Others	50	41
	4,099	2,435
General and administrative expenses		
Salaries and related expenses (2)	5,743	8,472
Depreciation and amortization	403	630
Professional services	4,366	4,317
Travelling and accommodation	891	1,077
Offices and office rent	934	1,038
Others	412	887
	12,749	16,421
Total	**16,848**	**18,856**

General and administrative

(1) Salaries and related expenses reclassified to discontinued operation – refer to note 37.
(2) Including non-cash expenses due to the share option plan from continuing operations in the amount of EUR 0.2 million (2011- EUR 3.1 million) refer to note 25 for more details on share based payments.

NOTE 29 - OTHER INCOME AND OTHER EXPENSES

	For the year ended December 31, 2012	2011 (1)
a. Other income		
Gain from selling property and equipment	13	4
Change in fair value of investment property	837	-
Gain from disposal of trading property plots (2)	1,410	-
Other income	503	165
Total other income	2,763	169
b. Other expenses		
Impairment of property and equipment (3)	(450)	(1,588)
Change in fair value of investment property (4)	-	(195)
Other expenses	(672)	-
Total other expenses	(1,122)	(1,783)
Total	**1,641**	**(1,614)**

(1) 2011 Reclassification due to discontinued operation – refer to note 37.
(2) In respect of selling trading property plots in Bulgaria and Hungary, refer to note 34(N).
(3) Refer to note 11.

(4) Reclassified from revenues of 2011.

NOTE 30 - NET FINANCE INCOME (COSTS)

	For the year ended December 31,	
Recognized in profit or loss	2012	2011(1)
Changes in debentures measured at fair value through profit or loss (2)	-	59,891
Gain from bonds buyback programme (refer to note 34 (M))	4,333	7,879
Interest income on bank deposits	1,182	3,003
Finance income from available for sale financial assets	712	2,017
Interest income on structured deposits	2,085	5,221
Finance income from hedging activities through sell of options	11,683	5,212
Foreign exchange gain on debentures	-	19,418
Changes in fair value of derivatives	199	-
Interest from loans to related parties	321	377
Finance income	**20,515**	**103,018**
Interest expense on bank loans and debentures (including CPI)	(33,555)	(35,958)
Changes in fair value of derivatives	-	(16,622)
Interest expenses on loans on structures	(497)	(635)
Changes in debentures measured at fair value through profit or loss (2)	(19,032)	-
Foreign exchange losses on debentures	(2,033)	-
Loss from available for sale financial assets sold	(1,222)	-
Changes in fair value of structured deposit	(45)	(1,320)
Foreign exchange losses on bank deposits, bank loans	(1,091)	(3,140)
Cost of raising loans amortized to profit or loss	(676)	-
Other finance expenses	(710)	(511)
	(58,861)	(58,186)
Less- borrowing costs capitalized to trading properties under development	21,806	29,154
Finance costs	**(37,055)**	**(29,032)**
Net finance income (expenses)	**(16,540)**	**73,986**

(1) Regarding reclassification of 2011 finance expense due to discontinued operation refer to note 37.

(2) The change in fair value includes a total of EUR 2.8 million (2011 – EUR 60.1 million) attributable to the credit risk of the Company.

NOTE 31 - TAXES

Tax recognized in profit or loss

	For the year ended December 31,	
	2012	2011(1)
Current year	1,435	103
Deferred tax expense (benefit) (refer to note 22)	(6,898)	12,807
Total	**(5,463)**	**12,910**

Deferred tax expense (tax benefit)

	For the year ended December 31,	
	2012	2011(1)
Origination and reversal of temporary differences	(4,377)	16,051
Recognition of previously unrecognized tax losses	(2,521)	(3,244)
	(6,898)	12,807

Reconciliation of effective tax rate:

		For the year ended December 31,	
	%	**2012**	**2011(1)**
Dutch statutory income tax rate		25%	25%
Profit (loss) from continuing operations before income taxes		(89,440)	13,989
Tax at the Dutch statutory income tax rate	25%	(22,360)	3,497
Recognition of previously unrecognized tax losses	2.8%	(2,521)	(3,244)
Effect of tax rates in foreign jurisdictions	(7.6%)	6,817	6,108
Current year tax loss for which no deferred tax asset is provided	(2.0%)	1,809	8,775
Variances stemming from different measurement rules applied for the financial statements and those applied for income tax purposes	3.7%	(3,315)	(5,173)
Non-deductible expenses (tax exempt income) (2)	(15.8%)	14,107	2,947
Tax Expense (Tax benefit)	**(6.1%)**	**(5,463)**	**12,910**

(1) Refer to note 37 in respect of taxes connected with discontinued operation.
(2) 2012 – Mainly due to impairments not recognized for tax purposes.

NOTE 31 - TAXES (Cont.)

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

The Netherlands

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

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

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

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

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

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 31 - TAXES (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 (EUR 0.14 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 32 - FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT
Overview

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

- Credit risk
- Liquidity risk
- Market risk
- 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 centers.

<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 32 - 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 has published its sources and uses reports to demonstrate its ability to remain liquid. For the agreement with bond holders refer to note 34(I).

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 14. 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. 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 14.

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.

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

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 2012. Such authorization shall expire on the conclusion of the Annual General Meeting which will be held in June 2013. 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	**2012**	**2011**
Cash and cash equivalents	5	64,440	58,261
Restricted bank deposits	6	25,518	21,428
Derivative and short term deposits		-	3,102
Available for sale debt securities	7	11,714	25,568
Trade receivables, net	8	4,687	5,432
Other receivables and prepayments	9	17,930	13,723
Related parties	17	1,435	1,227
Long term deposits and other investments		-	51,330
Restricted bank deposits	6	978	4,961
		126,702	185,032

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

	December 31,	
	2012	**2011**
Banks and financial institutions	102,985	165,702
Tenants	4,687	5,432
Governmental and insurance institutions	9,998	6,125
Related parties and other	9,032	7,773
	126,702	185,032

NOTE 32 - 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, 2012

	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, including derivatives (*)	273,389	(326,367)	(18,851)	(31,430)	(68,718)	(109,666)	(97,702)
Unsecured debentures issued(*)	189,341	(255,706)	-	(90,688)	(71,098)	(93,920)	-
Trade and other payables	32,142	(33,726)	(2,390)	(10,878)	(1,801)	(18,657)	-
Related parties	511	(511)	-	(511)			
	495,383	(616,310)	(21,241)	(133,507)	(141,617)	(222,243)	(97,072)

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)

(*) The Company intends to repay its 2013 financial obligations using its cash and liquid balances, its on-going income from activities, as well as forecasted disposal of some of its assets.

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	**2012**	**2011**	**2012**	**2011**
NIS 1	0.202	0.201	0.203	0.203

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

	Book Value change	**Book Value**	**Book Value change**
	-10%	**4.9206**	**10%**
Debentures A	(2,812)	(28,124)	2,812
Debentures B	(14,654)	(146,539)	14,654
TOTAL	**(17,466)**	**(174,663)**	**17,466**

NOTE 32 - FINANCIAL INSTRUMENTS (cont.)

Interest rate risk

Profile

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

	Carrying amount	
	2012	**2011**
Fixed rate instruments		
Financial assets	103,944	110,474
Financial liabilities	(168,828)	(187,640)
	(64,884)	(77,166)
Variable rate instruments		
Financial assets	-	51,330
Financial liabilities	(290,580)	(513,115)
	(290,580)	(461,785)

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 2011.

Variable Interest rate effect (excluding debentures)

	Profit or Loss	
	30 bp Increase	**30 bp Decrease**
December 31, 2012	(303)	303
December 31, 2011	(783)	783

NIS Debentures

Sensitivity analysis – effect of changes in Israeli CPI on book value of NIS debentures

	Book Value change	**Book Value**	**Book Value change**
	-3%	**111.9**	**3%**
Debenture-A	844	(28,124)	(844)
Debenture-B	4,396	(146,539)	(4,396)
TOTAL profit or loss	**5,240**	**(174,663)**	**(5,240)**

Sensitivity analysis – effect of changes in NIS basic Interest on book value of NIS debentures

	Book Value change - decrease 100 bp	**Book Value**	**Book Value change - increase 100 bp**
Debenture-A	(859)	(28,124)	827
Debenture-B	(1,666)	(146,539)	1,629
TOTAL profit or loss	**(2,525)**	**(174,663)**	**2,456**

NOTE 32 - 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 20 and 21 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, 2012				
Available for sale financial assets	11,714	-	-	11,714
SWAP and IRS	-	(3,320)	-	(3,320)
Debentures at fair value through profit or loss	(116,147)	-	-	(116,147)
	(104,433)	**(3,320)**	**-**	**(107,753)**

NOTE 33 - 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, 2012 the financial statements include a net liability for engineering supervision services supplied by related parties in Control Centers Group in amount of EUR 15 thousand which relates to five projects under development in Poland, Czech Republic and India (for the total charges in 2012 and 2011 refer to note 35).

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 center projects which EI acquires during the 15-year term of the Agreement. The Agreement was terminated upon the signing of the joint venture in India (refer to note 34), but both EI and the Company agreed that upon the termination of the Joint Venture agreement they will re-execute the Agreement.

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

a. Contingent liabilities and commitments to related parties:

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

b. Contingent liabilities and Commitments to others

1. Tesco

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

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

   In the framework of the transactions for the sale of the Group's real estate assets, the Group has undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnifications usually include: (i) Indemnifications in respect of completeness of title on the assets and/or the shares sold (i.e that the assets and/or the shares sold are owned by the Group and are clean from any encumbrances and/or mortgage and the like). Such indemnifications generally survived indefinitely and are capped to the purchase price in each respective transaction; and (ii) Indemnifications in respect of other representation and warranties included in the sales agreements (such as: development of the project, responsibility to defects in the development project, tax matter and others). Such indemnifications are limited in time (generally 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 partially being examined by the competent tax authorities. In respect of one of the former subsidiary of the Company, the tax authorities decision of reducing the tax base by HUF 427 million (EUR 1.5 million), was challenged by one of the previously held entities, with the next hearing is scheduled for 29 March 2013. The Company management estimates that no significant costs will be borne thereby, in respect of these indemnifications.

3. Aggregate potential amount of the Group's commitments in respect of construction services totalled, as of December 31, 2012, approximately EUR 132 million.

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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

4. 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 potential obligation is EUR 0.9 million.

c. Contingent liabilities due to legal proceedings

The Company's subsidiary, Fantasy Park So. Zo.o. ("Fantasy Park") is involved in several legal proceedings with Klepierre S.A subsidiaries ("Klepierre") in Poland in connection with certain terms of the lease agreements signed between the parties and certain amendments thereto which were agreed in a later stage ("Lease"). As of the date of signing these reports, a settlement agreement is in final stage of negotiation between the parties (under which Fantasy Park shall pay to Klepierre EUR 0.5 million and shall vacate the premises) that would settle all the pending disputes, as well as any other disputes that may arise in the future in connection with the Lease. Fantasy Park recorded a provision of EUR 1.3 million in its books in respect of outstanding debt towards Klepierre.

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 (except for two minor claims due to which a provision in the total amount of EUR 160 hundred thousand was made), the Company's management believes, that the chances these litigations will result in any outflow of resources to settle them is remote, and therefore no provision or disclosure is required.

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

d. Securities, guarantees and liens under bank finance agreements

1. Certain companies within the Group which are engaged in the purchase, construction or operation of shopping centers ("Project Companies") have secured their respective credit facilities (with withdrawn facility amounts totalling EUR 250 million) awarded by financing banks (for projects in 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 three of its subsidiaries obligations under loan agreements in an aggregate amount of EUR 53 million. The Company also guaranteed fulfilment of other transaction entered into by three of its subsidiary for a total aggregate amount of EUR 0.8 million. Shareholders loans as well as any other rights and/or interests of shareholders in and to the Project Companies were subordinated to the respective credit facilities. Payment is permitted to the shareholders (including the distribution of dividends but excluding management fees) subject to fulfilling certain preconditions.

   Certain loan agreements include an undertaking to 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 five of the secured loans granted. The Company has waiver in place in respect of two of the secured bank facilities, and is in negotiations to secure waiver or agreement in respect of the remaining three facilities.

   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.

NOTE 33 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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

A company within the Group which is engaged in the debenture buyback programme (refer to note 21 and 34 (G)) has secured its credit facility awarded by the financing bank in a total amount of EUR 17.3 million, as of December 31, 2012, by providing the first ranking charges on the debentures owned thereby.

2. Commitment in respect of derivative transaction

Within the framework of cross currency SWAP transactions, selling call and put options and regular swaps (refer to note 14), 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 and put options.

Accordingly, as of the end of the reporting period, the Company has pledged, a security deposit in the amount of EUR 2 million and EUR 1 million in respect of SWAP transactions and IRS, respectively. In respect of the Suwalki IRS the project companies company also established a bail mortgage up to EUR 4 million encumbering the real estate project. In respect of Torun IRS the project companies company also established a bail mortgage up to EUR 5.4 million encumbering the real estate project.

3. Commitment in respect of Bonds raised in Poland

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

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

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

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

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS

A. Transaction during 2011 in the United States

Background

As of June 2010 the Company, EI, Eastgate Property LLC and Menora Mivtachim Insurance Ltd. ("Menora"), had signed a joint agreement for capital commitments to be invested in EPN GP LLC ("EPN GP"). The Company's indirect interests in EPN GP were 21.65%.

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). EDT held 48 retail shopping centers across several states in the US. In addition, EPN GP acquired a 50% interest in the entity which is the owner of the Responsible Entity of the Trust for approximately USD 3 million.

2011 Events

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 a negative 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%.

EPN Group's real estate investments were located in the United States and were 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.

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

B. Transaction during 2012 in the United States

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

The centers, located across 20 US states, were acquired by BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Advisors VII L.P. ("Blackstone Real Estate") and DDR. Of the transaction value of USD 1.43 billion, a total of USD 934 million (EUR 736 million) was paid by way of assumption of the property level debt or repaid by EPN Group. In addition, all excess cash within EDT, which was circa USD 30 million (EUR 24 million), was retained by the vendor.

Following the sale of the 47 properties, EPN Group continues to hold two properties located in the United States that are valued at approximately USD 42 million (EUR 33 million) with total non-recourse secured debt of approximately USD 13 million (EUR 11 million). In July 2012, EPN Group sold its two remaining assets in the US for a total aggregate asset value of USD 42 million (EUR 33 million). Non-recourse secured debt of approximately USD 13 million (EUR 11 million) was also assumed in the abovementioned transactions. As the Company indirectly holds 22.69% of these US assets, the Company share in the net proceeds totaled EUR 5 million, with no realized gain or loss resulting. The below table is a summary of the 2012 result transaction of selling the 47 properties:

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

Refer to note 12 for Investment property movements in the period.

C. Restructuring of partnership agreements in Bangalore and Chennai, India

Bangalore

In March 2008, Elbit Plaza India Real Estate Holdings Ltd. ("EPI"), a 47.5% joint venture company with EI entered into an amended and reinstated share subscription and framework agreement (the "Amended Framework Agreement"), with a local third party (the "Partner") and a wholly owned Indian subsidiary of EPI ("SPV"), to acquire, through the SPV, up to 440 acres of land in Bangalore, India (the "Project Land") in certain phases as set forth in the said agreement. As of December 31, 2012, the Partner has surrendered land transfer deeds in favor of the SPA to a trustee nominated by the parties for approximately 54 acres for a total aggregate consideration of approximately INR 2,843 million (EUR 40 million), and upon the actual transfer of the title, the Partner will be entitled to receive 50% of the shareholdings in the SPV. The abovementioned amounts are presented in the statement of financial position as of December 31, 2012 and 2011 as trading property.

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

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

In addition, the SPV has paid to the Partner advances of approximately INR 2,536 million (EUR 35 million) on account of future acquisitions by the SPV of a further 51.6 acres. Such amount is presented in the statement of financial position as of December 31, 2012 and 2011 as advances for plot purchases within other receivables and prepayments (refer to note 9).

On July 22, 2010, EPI, the SPV and the Partner entered into a new framework agreement which has not yet come into force (the "New Framework Agreement"). 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 Group's additional investments in the Project Land may reach up to INR 10,500 million (NIS 753 million). Nonetheless, although certain conditions precedent under the New Framework Agreement has not been met, EPI, the SPV and the Partner are actually pursuing the project in accordance with the New Framework Agreement.

The New Framework Agreement established new commercial understandings between the parties thereto, pertaining, inter alia, to the joint development of the Project 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, the following commercial terms have been, inter alia, agreed between the parties:

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

Under the New Framework Agreement, EPI will receive distributions (following a certain 3+6 months reserve mechanism to enable the Partner to utilize a portion of the proceeds for construction costs and expenses) of approximately 70% of the net proceeds from the

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

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

project (including the proceeds from any sale by the Partner or any transaction with respect to the original land which does not form part of the said 165 acres),until such time that EPI's investment in the amount of INR 5,780 million (approximately EUR 80 million) ("EPI's Investment") plus an Internal Return Rate of 20% per annum calculated from September 30, 2009 ("IRR") is paid to the SPV 9on behalf of EPI) (the "Discharge Date").

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

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

In January 2011, the Partner has submitted the development plans pertaining to approximately 49 plus 35 acres included in the scope of the new project of 165 acres to the local planning authority, the Bangalore Development Authority ("BDA"). In October 2011, the BDA had notified the Partner that the development plans cannot be considered due to a future eminent domain plan. In January 2012, the Partner applied to the State High Court, requesting to issue a court order directing the BDA to consider the development plans. In March 2012, the court awarded a judgment pertaining to approximately 49 acres, ordering the BDA to consider the development plans related to the said 49 acres ("Development Plan"), while ignoring any future eminent domain plan that may be considered by the state authorities. . In December 2012, the BDA decided to submit the Development Plan pertaining to the aforementioned 49 acres to the Sensitive Zone Sub-Committee of the BDA and in January 2013, the Sensitive Zone Sub-Committee of the BDA granted its approval to the aforementioned Development Plan. As of the date hereof, the Group awaits the court's judgment with respect to the additional 35 acres.

Chennai

In December 2007 EPI, executed agreements for the establishment of a special purpose vehicle ("Chennai Project SPV") together with one of the leading real estate developers in Chennai (in this section, the "Local Partner"). Subject to the fulfillment of certain conditions, the Chennai Project SPV undertook to acquire the ownership and development rights in and up to 135 acres of land situated in the Sipcot Hi-Tech Park in the Siruseri District of Chennai, India. Under these agreements, EPI is to hold 80% of the equity and voting rights in the Chennai Project SPV, while the Local Partner will retain the remaining 20%. Under the agreement, EPI's investment in the Chennai Project SPV will be a combination of investment in shares and compulsory convertible debentures. Due to changes in market conditions, EPI and the Chennai Project SPV later decided to limit the extent of the project to 83.4 acres.

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

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

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

A shareholders agreement in respect of the management of the Chennai Project SPV provides for a five member board of directors, four of whom are appointed by EPI. The shareholders agreement also includes certain pre-emptive rights and restrictions on transferring securities in the Chennai Project SPV. Profit distributions declared by the Chennai Project SPV will be distributed in accordance with the shareholders' proportionate shareholdings in that company, subject to EPI's entitlement to receive certain preferential payments out of the Chennai Project SPV's cash flow on the terms specified in the agreements. The consummation of the agreements will be accomplished in stages, and is subject to the fulfillment of certain regulatory requirements, as well as to our satisfactory due diligence investigations, in respect of each stage. However, EPI is currently negotiating certain changes in the project's implementation plan and holding structure, which would require changes also in the respective agreements. Among other things, should those changes be accepted, EPI shall not be required to advance more financing to the project in addition to the amounts mentioned above and shall hold all the issued and outstanding share capital of the SPV. In furtherance of the foregoing, EPI is currently operating to secure a joint development agreement with local developer(s) for the development of the project land, in accordance with the aforementioned guidelines.

D. 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 maintaining its strong, lasting relationships with its high quality tenant base, across its geographically diverse portfolio of western style, well located centers.

During 2012 the Company completed the construction of three developments in Kragujevac, Serbia, Koregaon Park and the first phase of Kharadi in Pune, India. In addition, the Company works to secure permitting for projects of Lodz Plaza, Poland and Sports Star Plaza in Belgrade, Serbia. The remainder of the Company's development pipeline projects is 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.

E. Hedging and settlement of hedging transactions performed in the course of 2012

For the abovementioned hedging and settlement refer to note 14.

F. 2012 impairments

For the impairments refer to note 10.

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

G. 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 ('the Bonds"). 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. On November 20, 2012, the Board approved the extension of the Company"s second bond buyback programme of the Bonds to be concluded by 31 December 2014 with a maximum amount to be purchased of up to NIS 600 million increased from NIS 150 million.

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 a combination thereof. The board's 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.

During the twelve months period ended December 31, 2012 the Company has purchased a total of NIS 103 million par value of debentures (with adjusted value of NIS 121 million), for a total consideration of NIS 95 million (approximately EUR 19 million), and recorded a gain of approximately EUR 4.3 million. Out of the abovementioned purchase amount, NIS 3 million par value were bought by the Company itself, hence delisted from further trading in the market.

As of the date of the statement of financial position, the Company held (through its wholly own subsidiary) a total of NIS 181 million par value of its own bonds (NIS 74 million Par value of bonds series A and NIS 107 million Par value of bonds series B) with an adjusted par value of NIS 211 million (EUR 43 million). For the bank facility taken in respect of purchase of bonds refer to note 33(d).

H. 2011 Dividend paid to shareholders

In September 2011 the Board of Directors of the Company approved an interim cash dividend payment of EUR 30 million to be paid to shareholders. The dividend per share was EUR 0.1010. The interim cash dividend payment was made on September 23, 2011 to all shareholders on the Company's register on September 23, 2011 (the record date). The ex-dividend date was September 21, 2011. In accordance with local Dutch tax regulations, a tax of 15% was withheld and paid in the Netherlands, on behalf of each holder, except for holders for which an exemption is applied.

I. 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:

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

I. Bondholders agreement (cont.)

• 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.

J. 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.

K. Opening of shopping centers in 2011 and 2012

On November 14, 2011 the Company completed and opened to the public Torun Plaza in Poland, its 31st shopping center 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.

On March 20, 2012 the Company completed and opened to the public Kragujevac Plaza in Serbia, its 32nd shopping center in CEE and its first shopping center in Serbia. It comprises 22,000 sqm of Gross Lettable Area ("GLA") spread over two floors with approximately 700 parking spaces.

In March 2012 the Company conducted a soft opening to the Koregaon Park Plaza in Pune, India, its 33nd shopping center overall and its first shopping center in India. The shopping center comprises 48,000 sqm of Gross Built Area ("GBA") spread over two floors.

L. Allotment of shares in EPI to VC

On January 17, 2008 EI's shareholders approved an 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").

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

L. Allotment of shares in EPI to VC (cont.)

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.

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

In June 2012 a fire event occurred at the Company's shopping center in Pune, India. The fire required a temporary close-down of the shopping center, but did not consume the entire shopping center.

The Company maintains comprehensive general liability and property insurance, including business interruption insurance, with loss limits that the Company believes will provide substantial and broad coverage for the currently foreseeable losses arising from this event.

As at June 30, 2012 the Company recorded an impairment of EUR 9.7 million of its trading property asset, and recorded a receivable in the same amount as asset from the insurance company.

Subsequently, as of December 31, 2012, the Company impaired the amount of the receivable, based on the insurance company's valuator report (and hence it is virtually certain that the Company would be reimbursed by the insurance company), in the amount of EUR 7.6. The insurance company asset is included in other receivables. The impairment in the amount of EUR 1.9 million is presented as part of Write-down of Trading properties in 2012 income statement.

N. Disposal of trading property plots in Bulgaria and Hungary

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

In October 2012 the Company, through its jointly held subsidiary in Hungary, disposed of a plot of land adjacent to its Dream Island property plot in Budapest Hungary. As part of the transaction, a loan in the amount of EUR 5.9 (Company part) was assigned to the buyer, and the plot in a total book value of EUR 4.5 million was disposed of. The Company recorded as a result of this transaction a gain of EUR 1.4 million, included as part of other income in 2012 income statement.

NOTE 34 - SIGNIFICANT ACQUISITIONS AND EVENTS (cont.)

O. Sale of financial instruments

In June 2012 the Company sold two financial instruments ("Structures") for a total consideration of EUR 50.7 million. The Company used the proceeds to repay a loan granted from issuer of the Structures in a total amount of EUR 36.2 million, and the net proceeds totaled EUR 14.5 million. A loss of EUR 30 thousand was recorded as a result of this transaction in 2012 income statement.

NOTE 35 - RELATED PARTY TRANSACTIONS

Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below and in note 34.

The Company has 6 directors. The annual remuneration of the directors in 2012 amounted to EUR 0.9 million (2011 – EUR 1.1 million) and the annual share based compensation expenses amounted to EUR 0.5 million (2011- EUR 1.5 million). There was no change in the number of Company options granted to key personnel in 2012. In respect of share based plan in the US, refer to note 25. There are no other benefits granted to directors. Information about related party balances as of December 31, 2012 and 2011 refer to note 17.

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,	
	2012	**2011**
Income		
Interest on balances with EI	213	215
Costs and expenses		
Recharges - EI and EUL	548	494
Executive director (1)	240	238
Aviation services - Jet Link (2)	61	522
Project management provision and charges - Control Centers group (2)	1,381	3,521

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

NOTE 36 - OPERATING SEGMENTS

The Group comprises the following main reportable geographical segments: CEE, India and the US (starting June 30, 2010). The US segment was discontinued with effect of December 31, 2012. In presenting information on the basis of geographical segments, segment revenue is based on the revenue resulted from either the selling or operating of assets geographically located in the relevant segment.

Year ended December 31, 2012:

	Central Eastern Europe	India	Sub-total	US (Discontinued)	Total
Revenues	34,034	7,559	41,593	13,907	55,500
Operating profit (loss) by segment (1)	**(58,425)**	**(10,610)**	**(69,035)**	**4,474**	**(64,561)**
Financial expenses, net	(9,807)	(2,876)	(12,683)	(5,161)	(17,844)
Other income (costs)	2,750	-	2,750	(2,254)	496
Tax benefit from discontinued operation	-	-	-	600	600
Gain from sell of discontinued operation, net of tax	-	-	-	391	391
Reportable segment loss before tax	**(65,482)**	**(13,486)**	**(78,968)**	**(1,950)**	**(80,918)**
Share in losses of associates, net					(68)
Less - unallocated general and administrative expenses					(5,438)
minus - unallocated finance expense					(3,857)
Other expense, net					(1,109)
Loss before income taxes					**(91,390)**
Tax benefit					5,463
Loss for the year					**(85,927)**
Total segment assets	661,953	194,028	855,981	-	855,981
Unallocated assets					102,024
Total assets					**958,005**
Segment liabilities	266,892	42,376	309,268	-	309,268
Unallocated liabilities					199,591
Total liabilities					**508,859**

(1) Central Eastern Europe – including EUR 68.1 million impairment of trading properties. India – include EUR 10.7 million impairment of trading property

NOTE 36 - OPERATING SEGMENT (cont.)

Year ended December 31, 2011:

	Central Eastern Europe	India	Sub-total	US (Discontinued)	**Total**
Revenues (1),(3)	23,462	-	23,462	25,528	48,990
Operating profit (loss) by segment (2)	**(47,996)**	**(2,986)**	**(50,982)**	**13,899**	**(37,083)**
Financial income (expenses), net	(8,149)	167	(7,982)	(8,641)	(16,623)
Other income (expenses) (3),(4)	(195)	-	(195)	9,803	9,608
Tax expenses from discontinued operation (5)	-	-	-	(2,276)	(2,276)
Reportable segment profit (loss) before tax	**(56,340)**	**(2,819)**	**(59,159)**	**12,785**	**(46,374)**
Share in losses of associates, net	(153)	-	(153)	-	(153)
Less - unallocated general and administrative expenses			(7,248)	-	(7,248)
Plus - unallocated finance income			81,969	-	81,969
Other expense, net (3),(4)			(1,420)	-	(1,420)
Profit before income taxes			**13,989**	**12,785**	**26,774**
Tax expense (5)			(12,910)	-	(12,910)
Profit for the year			**1,079**	**12,785**	**13,864**
Total segment assets	716,983	198,751	915,734	269,412	1,185,146
Unallocated assets			163,380	-	163,380
Total assets			**1,079,114**	269,412	**1,348,526**
Segment liabilities	258,257	40,499	298,756	171,550	470,306
Unallocated liabilities			328,058	-	328,058
Total liabilities			**626,814**	171,550	**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

(3) US – EUR 8.3 million were reclassified from revenues to other income due to revaluation of Investment property in the US. CEE - EUR 0.2 million expenses were reclassified from revenues to other income due to revaluation of Investment property in the Czech Republic.

(4) US – EUR 1.5 million were reclassified from other expense, net.

(5) US - EUR 2.3 million were reclassified from tax expense for reconciliation purposes.

NOTE 37 – DISCONTINUED OPERATION

Following the disposal of US assets (refer to note 34(B)) the Company discontinued its US activity.

	2012	2011
Results for discontinued operation		
Revenues	13,907	25,528
Expenses (1)	(16,848)	(10,467)
Results from operating activity	(2,941)	15,061
Tax benefit (expense)	600	(2,276)
Results from operating activities, net of tax	(2,341)	12,785
Gain on sale of discontinued operation	391	-
Profit (loss) for the year from discontinued operation	(1,950)	12,785
Earnings per share		
Basic and diluted earnings (loss) per share (in EURO)	(0.01)	0.04

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

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

	2012	2011
Profit (loss) for the year from continuing operations	(83,977)	1,079
Attributable to owners of the Company	(84,119)	1,167
Attributable to non-controlling interests	142	(88)

	2012	2011
Profit (loss) for the year from discontinued operations	(1,950)	12,785
Attributable to owners of the Company	(2,044)	8,179
Attributable to non-controlling interests	94	4,606

Cash flow from (used in) discontinued operation

	2012	2011
Net cash from operating activities	12,106	5,511
Net cash from (used in) investing activities	125,774	(3,642)
Net cash used in financing activities	(51,768)	(40,370)
Effect of exchange rate fluctuations on cash held	(88)	(59)
Net cash flow for the year	86,024	(38,560)

Effect of disposal on the financial position of the group

	2012
Investment property	263,047
Interest bearing loan from banks	(161,560)
Trade and other payables	(14,064)
Net cash inflow from US transaction	87,423

Reclassification in statement of comprehensive income due to discontinued operation.

Following the discontinuing of US operation, an amount of EUR 4.5 million of foreign currency translation reserve fund was reclassified accordingly in the statement of comprehensive income, due to 2011. In 2012 the movement is attributable to creation of translation reserve (EUR 2.8 million), as well as exercise of translation reserve into the income statement (EUR 9.7 million).

NOTE 38 – EVENTS AFTER THE REPORTING PERIOD

A. **Derivative activity in 2013**

Refer to note 14(7) in respect of 2013 option on currency activity.

B. Credit rating update

Refer to note 20 in respect of update on the credit rating of NIS denominated bonds in 2013.

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, 2012, 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 the Company's estimates and could have a material effect on the Company's 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, 2012, amounted to EUR 165. million or 17% percent of gross Trading Properties balance.

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 2012 and 2011 are presented below:

	Retail		Offices	
	2012	**2011**	**2012**	**2011**
Estimated rental value per sqm per month (in EUR)(*)				
Romania	6-24	10-30	10.5	11
Czech Republic	N/A	10-15	N/A	13
Serbia	16-34	10-24	14	14
Latvia	N/A	16	N/A	N/A
Poland	8-18	9-20	N/A	N/A
Greece	27	27	N/A	N/A
Hungary	15	8-25	11-11.75	11.75
Bulgaria	N/A	N/A	N/A	N/A
Average risk adjusted yield used in capitalization				
Romania	8.00%-9.75%	8.00%-8.75%	8.50%	8.50%
Czech Republic	8.35%-8.66%	7.25%	N/A	7.25%
Serbia	9.00%-9.75%	9.00%-9.75%	9.25%	9.25%
Latvia	8.75%	8.40%	N/A	N/A
Poland	7. 5%-8.50%	7.25%-8.00%	N/A	N/A
Greece	8. 5%	8.25%	N/A	N/A
Hungary	7.5%-9%	8.25%-8.75%	8.50%	8.50%
Bulgaria	N/A	N/A	N/A	N/A
(*)				
Estimated rental value per sqm per month (in USD) (*)				
India	6-24	10-29	N/A	N/A
Average risk adjusted yield used in capitalizing the net				
India	12%	11%	N/A	N/A

(*) Rental value per sqm spread due to various geographic locations in the countries (e.g provincial area comparing to 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 generally 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 (refer to note 25). The risk is that the estimated costs related to share based payments might not be correct eventually.

NOTE 40 - LIST OF GROUP ENTITIES

During the period starting January 1, 2011, 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.	Inactive	
Kerepesi 5 Irodaépület Ingatlanfejleszt 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 Vagyonkezel Kft.	Inactive	
Szombathely 2002 Ingatlanhasznosító és Vagyonkezel Kft.	Inacitve	
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 Épít Kft.	Shopping center	50% held by Plasi Invest 2007 Ingatlanforgalmazó Kft. 50% held by Israeli-based partner Új Udvar project
Ercorner Gazdasági Szolgáltató Kft.	Holding company	50% held by Plaza Centers N.V. 50% held by Hungarian commercial bank
Álom Sziget 2004 Ingatlanfejleszt Kft.	Mixed used project	87% held by Ercorner Gazdasági Szolgáltató Kft. Dream Island project
Amanati Ltd.	Inactive	
DI Gaming Holding Ltd.	Holding company	87% held by Ercorner Gazdasági Szolgáltató Kft.
Álom Sziget Entertainment Zrt.	Holding company	49.99% held by DI Gaming Holding Ltd. - associate
Álom Sziget Hungary Kaszinójáték Kft.	Holding company	100% held by Álom Sziget Entertainment Zrt.
SLOVAKIA		
Directly wholly owned		
Plaza Centers Slovak Republic S.R.O.	Inactive	
POLAND		
Directly wholly owned		
Kielce Plaza Sp.z.o.o.	Shopping center project	Kielce Plaza project
Leszno Plaza Sp.z.o.o.	Owns plot of land	Leszno Plaza project
Łódź Centrum Plaza Sp.z.o.o.	Owns plot of land	Łódź (Residential) project
Olsztyn Plaza Sp.z.o.o.	Owns plot of land	Bialysztok Plaza project
Płock Plaza Sp.z.o.o.	Owns plot of land	Radom Plaza project
W oc awek Plaza Sp.z.o.o.	Mixed used project	Łódź Plaza project
O2 Fitness Club Sp.z.o.o.	Entertainment	
Plaza Centers Polish Operations B.V.	Holding company	
EDMC Sp.z.o.o.	Management company	
Plaza Centers (Poland) Sp.z.o.o.	Management company	
Plaza Centers (Poland) Sp.z.o.o. Hungary Branch	Finance activity	100% held by Plaza Centers (Poland) Sp.z.o.o.
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-Bia a Plaza Sp.z.o.o.	Inacitve	
Bydgoszcz Plaza Sp.z.o.o.	Inacitve	
Chorzów Plaza Sp.z.o.o.	Inactive	
Gda sk Centrum Plaza Sp.z.o.o.	Inactive	
Gliwice Plaza Sp.z.o.o.	Inactive	
Gorzów Wielkopolski Plaza Sp.z.o.o.	Inactive	
Grudzi dz 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		
Suwa ki Plaza Sp.z.o.o.	Active shopping center	100% held by Plaza Centers Polish Operations B.V. Suwa ki Plaza project
Toru Plaza Sp.z.o.o.	Active shopping center	100% held by Plaza Centers Polish Operations B.V. Toru Plaza project
Zgorzelec Plaza Sp.z.o.o.	Active shopping center	100% held by Plaza Centers Polish Operations B.V. Zgorzelec Plaza project
Lublin Or Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. 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
Fantasy Park Sp.z.o.o.	Entertainment	100% held by Mulan B.V.
Fantasy Park Poland Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Suwa ki Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Zgorzelec Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Łódź Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Toruń Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Warszawa Sp.z.o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Investments Sp.z.o.o.	Inacitve	100% held by Mulan B.V.
Fantasy Park Management Sp.z.o.o.	Inactive	100% held by Mulan B.V.
LATVIA		
Indirectly or jointly owned		
Diksna SIA	Active shopping center	50% /50%held by Plaza Centers N.V. with partner Riga Plaza project
Fantasy Park Latvia SIA	Entertainment	100% held by Mulan B.V.
ROMANIA		
Directly wholly owned		
Dâmbovi a Centers Holding B.V.	Holding company	100% held by Plaza Centers N.V.
Plaza Bas B.V.	Holding company	50.1% held by Plaza Centers N.V.
S.C. Elite Plaza S.R.L.	Shopping center project	Timi oara Plaza project
S.C. Green Plaza S.R.L.	Shopping center project	Ia i Plaza project
S.C. North Eastern Plaza S.R.L.	Shopping center project	Constan a Plaza project
S.C. North West Plaza S.R.L.	Shopping center project	Hunedoara Plaza project
S.C. North Gate Plaza S.R.L.	Shopping center project	Csíki Plaza (Miercurea Ciuc) project
S.C. Eastern Gate Plaza S.R.L.	Real estate project	Cina project
S.C. South Gate Plaza S.R.L.	Shopping center project	Slatina Plaza project
S.C. Mountain Gate Plaza S.R.L.	Shopping center project	Târgu Mure Plaza project
S.C. Palazzo Ducale S.R.L.	Office building	
S.C. Plaza Centers Management Romania S.R.L.	Management company	
S.C. Central Plaza S.R.L.	Inactive	Bac u 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		
S.C. Dâmbovi a Center S.R.L.	Mixed used project	75% held by Dambovita Centers Holding B.V. Casa Radio project
Adams Invest S.R.L.	Residential project	50% /50% held by Plaza Bas B.V with partner Vally View project

Colorado Invest S.R.L.	Residential project	50% /50% held by Plaza Bas B.V with partner Pine Tree project
Malibu Invest S.R.L.	Residential project	25%/75% held by Plaza Bas B.V. with partner Fountain Park project - Associate
Spring Invest S.R.L.	Office project	50% /50% held by Plaza Bas B.V with partner Primavera Tower Bra ov project
Sunny Invest S.R.L.	Residential project	50% /50% held by Plaza Bas B.V with partner Green Land project
Primavera Invest S.R.L.	Office project	50% /50% held by Plaza Bas B.V with partner Primavera Tower Ploie ti project
Bas Developement S.R.L.	Residential project	50% /50% held by Plaza Bas B.V with partner Acacia Park project
MOLDOVA		
Directly wholly owned		
I.C.S. Plaza Centers Prodev S.R.L.	Inactive	
SERBIA		
Directly wholly owned		
Plaza Centers Holding B.V.	Holding company	
Plaza Centers (Estates) B.V.	Holding company	
Plaza Centers (Ventures) B.V.	Holding company	
Plaza Centers Logistic B.V.	Holding company	
S.S.S. Project Management B.V.	Holding company	
Plaza Centers Management D.O.O.	Management company	
Plaza Centers Foundations B.V.	Inactive	
Indirectly or jointly owned		
Sek D.O.O.	Shopping center project	100% held by Plaza Centers Holding B.V. Kragujevac Plaza project
Leisure Group D.O.O.	Shopping center project	100% held by Plaza Centers (Estates) B.V. Visnjicka Plaza project
Orchid Group D.O.O.	Shopping center project	100% held by Plaza Centers (Ventures) B.V. Belgrade Plaza project
Accent D.O.O.	Shopping center project	100% held by Plaza Centers Logistic B.V. Kruševac Plaza project
Telehold D.O.O.	Inactive	100% held by S.S.S. Project Management B.V.
CZECH REPUBLIC		
Directly wholly owned		
Praha Plaza S.R.O.	Logistic center	Prague III project
Plaza Housing S.R.O.	Owns plot of land	Roztoky project
P4 Plaza S.R.O.	Active shopping center	Liberec Plaza project
Plaza Centers Czech Republic S.R.O.	Management company	
BULGARIA		
Directly wholly owned		
Shumen Plaza EOOD	Shopping center project	Shumen Plaza project
Plaza Centers Management Bulgaria EOOD	Management company	
Plaza Centers Development EOOD	Inactive	
GREECE		
Directly wholly owned		
Helios Plaza S.A.	Shopping center project	Pireas Plaza project
Indirectly or jointly owned		
Elbit Cochin Island Ltd.	Inactive	40% held by Plaza Centers N.V.
CYPRUS – UKRAINE		
Directly wholly owned		
Tanoli Enterprises Ltd.	Finance activity	
PC Ukraine Holdings Ltd.	Inactive	
Plaza Centers Ukraine Ltd.	Management company / Inactive	100% held by PC Ukraine Holdings Ltd.
Nourolet Enterprises Ltd.	Inactive	100% held by PC Ukraine Holdings Ltd.
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	50% held by Plaza Centers N.V. 50% held by Mulan B.V. Holds Hokus Pokus Rozrywka Sp.z.o.o. jointly with Plaza Centers N.V. (50%–50%)
Plaza Dâmboviţa Complex B.V.	Holding company	
Plaza Centers Enterprises B.V.	Finance company	100% held by Plaza Dâmboviţa Complex B.V.
Mulan B.V. (Fantasy Park Enterprises B.V.)	Holding company	Holds Fantasy Park subsidiaries in CEE
Plaza Centers Administrations B.V.	Inactive	
Plaza Centers Connections B.V.	Inactive	
Plaza Centers Engagements B.V.	Inactive	
Plaza Centers Foundation B.V.	Inactive	
Plaza Centers Management B.V.	Inactive	
THE DUTCH ANTILLES		
Directly wholly owned		
Dreamland Entertainment N.V.	Inactive	
CYPRUS – INDIA		
Directly wholly owned		
PC India Holdings Public Company Ltd.	Holding company	
Indirectly or jointly owned		
Permindo Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd. Holds 99.9% of Anuttam Developers Pvt. Ltd. Koregaon Park Plaza project
Anuttam Developers Pvt. Ltd.	Active shopping center	99.99% held by Permindo Ltd. Koregaon Park Plaza project
Spiralco Holdings Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
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.	Inactive	100% held by PC India Holdings Public Company Ltd.
HOM India Management Services Pvt. Ltd.	Management company	99.99% held by PC India Holdings Public Company Ltd.
Rosesmart Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Xifius Services Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Dezimark Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Elbit Plaza India Real Estate Holdings Ltd.	Holding company	47.5% held by Plaza Centers N.V.
Polyvendo Ltd.	Holding company	100% held by Elbit Plaza India Real Estate Holdings Ltd.
Elbit Plaza India Management Services Pvt. Ltd.	Management company	99.99% held by Polyvendo Ltd.
Kadavanthra Builders Pvt. Ltd.	Mixed used project	80% held by Elbit Plaza India Real Estate Holdings Ltd. Chennai (SipCot) project
Aayas Trade Services Pvt. Ltd.	Mixed used project	100% held by Elbit Plaza India Real Estate Holdings Ltd. Bangalore project
Elbit India Architectural Services Ltd.	Inactive	100% held by Elbit Plaza India Real Estate Holdings Ltd.

NOTE 40 - LIST OF GROUP ENTITIES (cont.)

UNITED STATES OF AMERICA		
Indirectly or jointly owned		
Elbit Plaza USA LP	Holding company	50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
Plaza USA LLC	Holding company	100% held by Elbit Plaza USA LP
Elbit USA LLC	Holding company	100% held by Elbit Plaza USA LP
Elbit USA II LLC	Holding company	100% held by Elbit Plaza USA LP
EPN GP LLC	Holding company	21.64% held by Plaza USA LLC 12.18% held by Elbit USA LLC 9.47% held by Elbit USA II LLC
EPN EDT Holdings II LLC	Holding company	23.64% held by Plaza USA LLC 13.3% held by Elbit USA LLC 10.34% held by Elbit USA II LLC
EDT Retail Trust (Australia)	Inactive	52% held by EPN EDT Holdings II LLC 48% held by EPN GP LLC
EDT U.S Trust INC. (US REIT I)	Holding company	52% held by EPN EDT Holdings II LLC 48% held by EPN GP LLC
EDT Fund LLC (US LLC)	Inactive	100% held by EDT U.S Trust INC. (US REIT)
EDT U.S Trust II INC. (US REIT II)	Inactive	52% held by EPN EDT Holdings II LLC 48% held by EPN GP LLC
Elbit Plaza II USA LP	Holding company	50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
EPN Investment Management LLC	Management company	50% held by Elbit Plaza USA LP 50% held by US based-partner
EPN Fund GP LLC	Holding company	43.75% held by Elbit Plaza II USA LP
EPN Real Estate Fund LP (Fund)	Holding company	99.8% held by Israeli-based partner 0.2% held by EPN Fund GP LLC
EPN Real Estate Fund Holdings LLC	Holding company	100% held by EPN Real Estate Fund LP (Fund)
EPN Holdings I LLC	Holding company	43.29% held by Elbit Plaza II USA LP 13.42% held by EPN Real Estate Fund Holdings LLC 43.29% held by US-based partner
EDT Retail Trust Management LLC (US MGR)	Holding company	50% held by EPN Holdings I LLC 50% held by US-based partner
EDT Retail Management Ltd. (Australia)	Management company / Inactive	100% held by EDT Retail Trust Management LLC (US MGR)
EPN Operations LLC	Inactive	43.29% held by Elbit Plaza II USA LP 13.42% held by EPN Real Estate Fund Holdings LLC 43.29% held by US-based partner
EPN REIT II LLC	Inactive	45.375% held by Elbit Plaza II USA LP 9.25% held by EPN Real Estate Fund Holdings LLC 45.375% held by US-based partner