PLAZA CENTERS
ANNUAL REPORT 2008

CONTENTS

This Annual report is not intended for Dutch statutory filing purposes. The Company is required to file an Annual report containing consolidated and company financial statements prepared in accordance with the Netherlands Civil Code – such a report will be submitted in due course to the Dutch authorities and will be available for shareholders' inspection at the Company's offices in Amsterdam.

A clear and focused strategy

Develop

Develop modern, western-style shopping and entertainment centers in capital and regional cities primarily in CEE and more recently in India

Acquire

Acquire operating shopping centers that show significant redevelopment potential

Objectives

Target

4–5

new development projects per year

Target returns of at least

40–60%

on equity invested

WHO WE ARE

Plaza Centers is a leading emerging markets developer of western-style shopping and entertainment centers

The Plaza Centers Group is a leading emerging markets developer of shopping and entertainment centers, focusing on constructing new centers and, where there is significant redevelopment potential, redeveloping existing centers, in both capital cities and important regional centers. The Group has been present in the Central and Eastern Europe region ("CEE") since 1996 and was the first to develop western-style shopping and entertainment centers in Hungary. The Group has pioneered this concept throughout the CEE whilst building a strong track record of successfully developing, letting and selling shopping and entertainment centers. Starting 2006, the Group has extended its area of operations beyond the CEE into India and is considering development and investment opportunities in other countries, such as Russia, Ukraine and the United States.

The Company is an indirect subsidiary of Elbit Imaging Ltd. ("EI"), an Israeli public company whose shares are traded on both the Tel Aviv Stock Exchange in Israel and the NASDAQ Global Market in the United States. EI is a subsidiary of Europe Israel (M.M.S.) Ltd. EI's activities are divided into the following principal fields: i) Initiation, construction, operation, management and sale of shopping and entertainment centers in Israel, Central and Eastern Europe and India; ii) Hotels ownership, primarily in major European cities, as well as operation, management and sale of same through its subsidiary, Elscint Ltd.; iii) Investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment, through its subsidiary, InSightec Ltd.; and iv) Other activities consisting of the distribution and marketing of women's fashion and accessories through wholly-owned Israeli subsidiary, Elbit Trade & Retail Ltd., and venture-capital investments.

The Group has been present in real estate development in emerging markets for over 13 years, initially pursuing shopping and entertainment center development projects in Hungary and subsequently expanding into Poland, the Czech Republic, Romania, Latvia, Greece, Serbia, Bulgaria and India. To date, the Group has developed and let 28 shopping and entertainment centers in the CEE region, of which 26 were sold. Twenty-one of these centers were acquired by Klépierre, the second largest shopping center owner/operator in Europe, which owns more than 230 shopping centers in ten countries. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors. One shopping center was sold in 2007 to active Asset Investment Management ("aAIM"), a UK commercial property investment group. The transaction had a completion value totaling approximately €387 million, representing circa 20% of all real estate transactions completed in Hungary in 2007.

Starting November 1, 2006, Plaza Centers N.V.'s shares are traded on the main board of the London Stock Exchange under the ticker "PLAZ". Starting October 19, 2007, Plaza Centers N.V.'s shares are also traded on the main list of the Warsaw Stock Exchange under the ticker "PLZ" making it the first property company to achieve such a dual listing.

Pre-sell

Pre-sell centers where market conditions are favorable, before or during the construction

Utilize

Where the opportunity exists in CEE, draw upon skills of the Europe Israel Group to participate in residential, hotel, offices and other development schemes

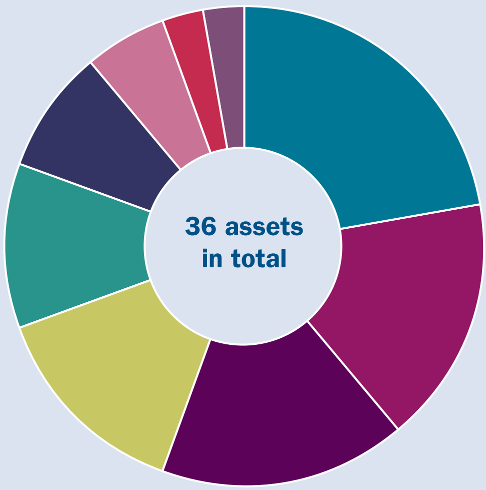
Dividend policy

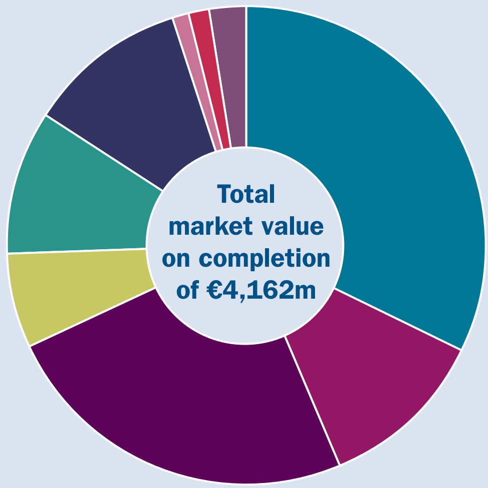
25%

of realized development profits up to 30 million, and 20–25% of the excess thereafter, as decided by the directors. Payable annually

GROUP AT A GLANCE

ASSETS BY LOCATION AND NAV





	Number of development assets	Number of active shopping and entertainment centers	Number of offices	Market value on completion €m[1]
Romania	7		1	1,342
Poland	6			479
India	6			1,015
Czech Republic	3	1	1	268
Hungary	3		1	400
Serbia	3			456
Bulgaria	2			45[2]
Latvia		1		64
Greece	1			93

	Market value on completion €m[1]	Market value of the land and project €m[1]	Total GLA m^2[3]
Shopping and entertainment center developments	1,018	152	386,500
Dream Island	323[4]	59[4]	350,000 (GBA)
Casa Radio	927[5]	158[5]	600,000 (GBA)
Indian mixed-use projects	1,015[6]	129[6]	4,286,000 (GBA)
Mixed-use projects	387[2]	58[2]	216,000
Other projects and developments	383	44	158,000
Active shopping and entertainment centers	109	97	66,000
Total as at December 31, 2008	**4,162**	**697**	**6,062,500**

Group NAV at December 31, 2008	€'000
Market value of land and projects by King Sturge LLP[1]	697,055
Assets minus liabilities as at 31 December 2008 under IFRS[7]	(3,976)
Total Group NAV	**693,079**
NAV per issued share	**£2.26**

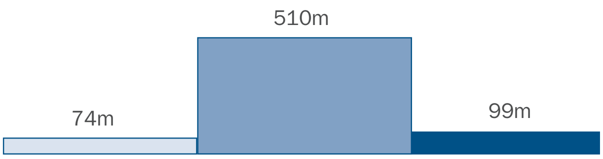
1 Value as per King Sturge valuation report as at December 31, 2008.
2 Excludes Sofia Plaza Business Center which was acquired after December 31, 2008.
3 All figures reflect 100%.
4 Value of Plaza Centers' 30% stake. The additional 13.5% stake was acquired after December 31, 2008.
5 Value of Plaza Centers' 75% stake.
6 Value of Plaza Centers' stake.
7 Excluding book value of assets which were valued by King Sturge LLP.

FINANCIAL HIGHLIGHTS

2006 2007 2008

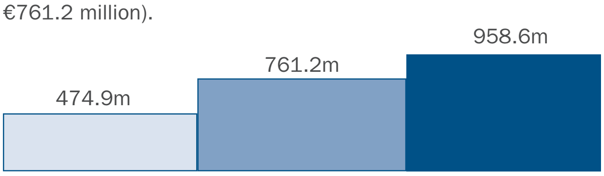
Gross revenues

Gross revenues and gains from sale and operations of properties of €99 million (2007: €510 million), with no revaluation gains, as per the Group's policy.



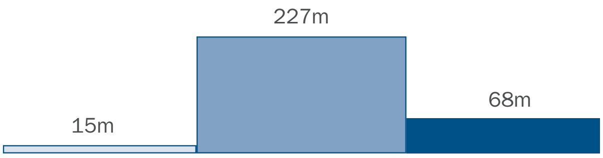
Total assets

Total assets of €958.6 million (December 31, 2007: €761.2 million).



Profit after tax

Profit after tax of €68 million (2007: €227 million) owing to the disposal of Plzen Plaza in the Czech Republic, price adjustments following the sale of Arena Plaza and gains from financing activity.



- Net Asset Value down 35% to €0.7 billion (December 31, 2007: €1.06 billion), mainly due to increase in exit cap rates and reduction of expected rental levels.
- Net Asset Value per share £2.26 (December 31, 2007: £2.52 post dividend), a decline of 10.3% (decline lower than euro NAV due to the weakening of sterling.
- Conservative gearing position maintained with minor debt comprising only 47% of equity (December 31, 2007: 10%).
- Current cash position of circa €170 million; €178 million at the year end (December 31, 2007: €93 million) with working capital of €698 million (December 31, 2007: €625 million).
- Gross proceeds raised of approximately €153 million from a debenture issue to Israeli institutional investors between February and May 2008, providing significant additional financial flexibility.
- The Board has taken the prudent decision not to recommend a dividend for 2008 in order to preserve the capital liquidity within the Company.
- Share buyback program initiated with Plaza acquiring 14.5 million shares at an average price of £0.53, purchased up to January 15, 2009 (9.21 million shares at December 31, 2008). Elbit Imaging Ltd. ("Elbit"), Plaza's ultimate parent company also purchased 4.79 million shares, bringing its effective shareholding to 73.69%.

OPERATIONAL HIGHLIGHTS

- Good progress on current developments under construction. Development activities limited to eight projects located in areas with the highest market demand and with favourable financing opportunities, namely Casa Radio and Miercurea Ciuc in Romania, Dream Island in Hungary, Suwalki and Zgorzelec in Poland, Liberec in Czech Republic, Koregaon Park in India and Riga in Latvia.
- Successful handover of Plzen Plaza in the Czech Republic to Klépierre. The asset value on handover was €61.4 million, an increase of 43% compared to valuation at IPO.
- Completed the acquisition of four development projects, located in Romania and Poland:
  - Two developments in Hunedoara and Targu Mures, Romania with an anticipated gross lettable area ("GLA") of 13,000m^2 and 30,000m^2, respectively; and
  - Two projects in Poland in the cities of Kielce (GLA 33,000m^2) and in Leszno (GLA 16,000m^2).
- A company owned by the consortium members of Dream Island (in which Plaza now holds a 43.5% stake), won the first ever major casino license to be awarded in Budapest, Hungary for its planned entertainment and mixed-use development.
- Joint venture signed with Elbit to develop three major mixed-use projects in India, located in the cities of Bangalore, Chennai and Kochi.
- Acquisition of the entire 50% interest of Plaza's joint venture partner in the Koregaon Park development in Pune, India, for a total consideration of approximately US$20 million.
- Signed and secured bank loan agreements for the construction of projects in Suwalki, Poland (€42.2 million), Zgorzelec, Poland (€35.1 million) and Miercurea Ciuc, Romania (€19.9 million).
- Significant progress made on two shopping centers to be opened in Q1 2009 – Liberec Plaza, Czech Republic, and Riga Plaza, Latvia.

KEY HIGHLIGHTS SINCE THE PERIOD END

- Plaza acquired a 51% stake (with an option to increase to up to 75%) from a local developer in a new 75,000m^2 gross built area development of retail and office space in Sofia, Bulgaria, for a total consideration of €7.14 million. The development project has a credit facility in place.
- In March 2009, Plaza and MKB Bank (a leading Hungarian commercial bank which is a subsidiary of the German Bayerische Landesbank) purchased a 27% interest in Dream Island from CP Holdings Ltd. (a company controlled by Sir Bernard Schreier) for a consideration of €21.4 million, incorporating a cash payment and the assumption of debt. Plaza and MKB, as a 50:50 joint venture, now hold an 87% interest in the project.
- Liberec Plaza shopping center opened to the public on March 26, 2009.
- Riga Plaza shopping center opened to the public on March 31, 2009.

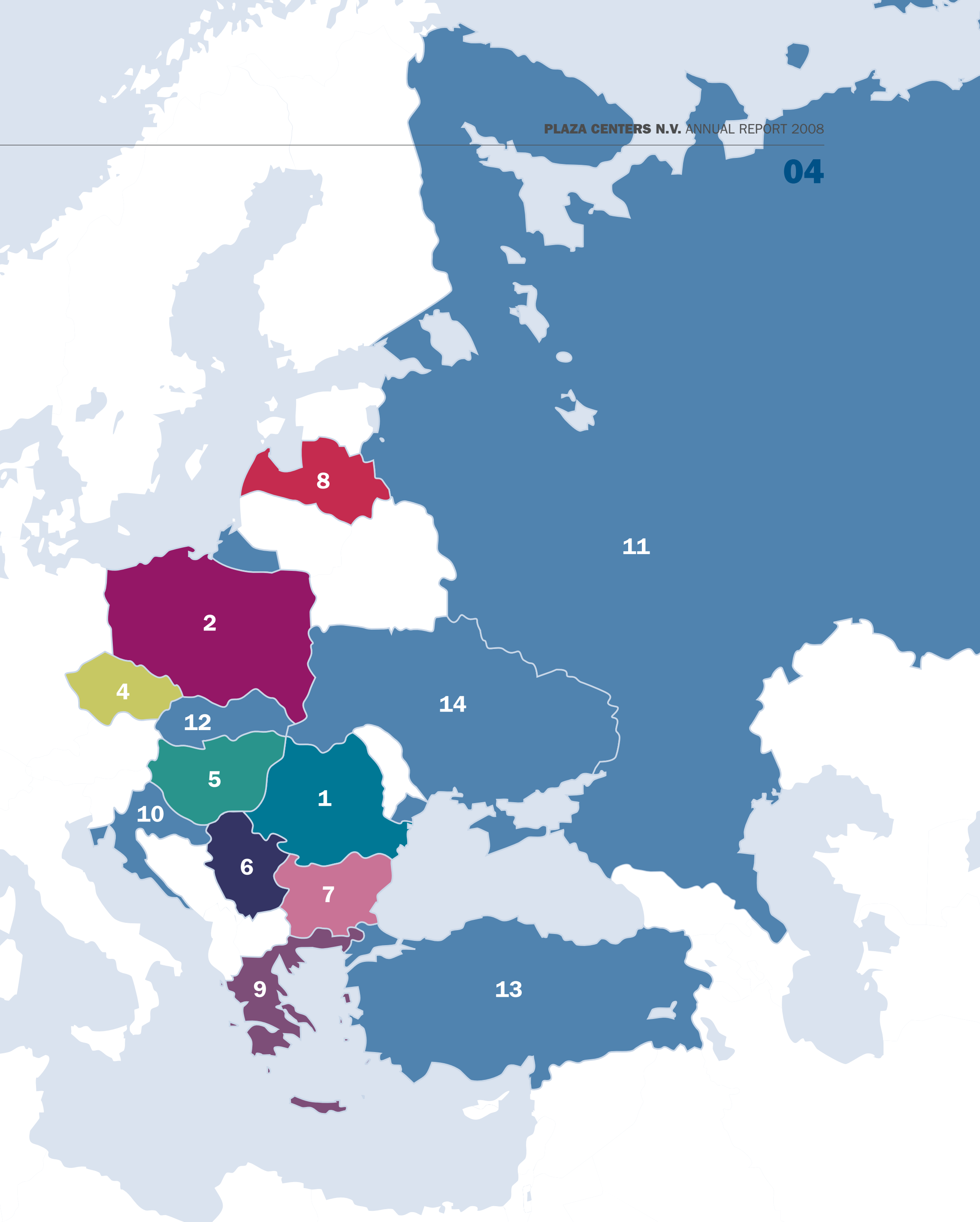
OUR MARKETS

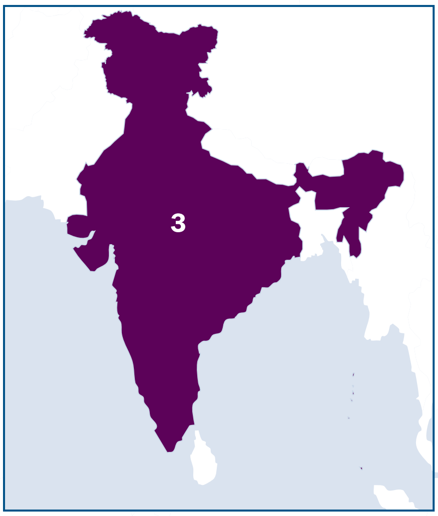
EXISTING MARKETS

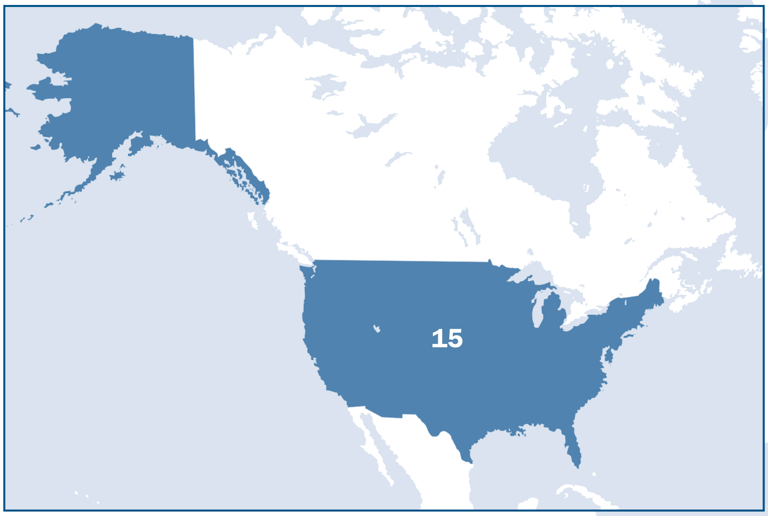
- **1** Romania
- **2** Poland
- **3** India
- **4** Czech Republic
- **5** Hungary
- **6** Serbia
- **7** Bulgaria
- **8** Latvia
- **9** Greece

FUTURE INTEREST

- **10** Croatia
- **11** Russia
- **12** Slovakia
- **13** Turkey
- **14** Ukraine
- **15** United States



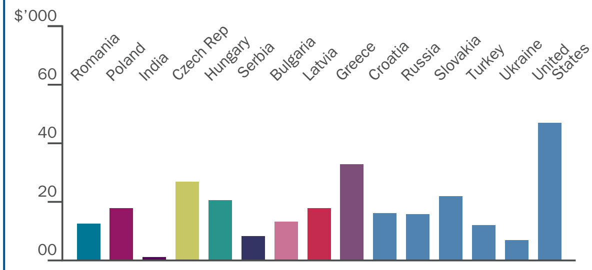




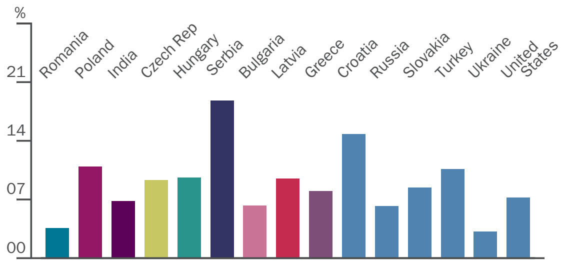
POPULATION (M)

Romania	22.22
Poland	38.48
India	1,166.08
Czech Republic	10.21
Hungary	10.03
Serbia	10.16
Bulgaria	7.20
Latvia	2.23
Greece	10.74
Croatia	4.49
Russia	140.04
Slovakia	5.46
Turkey	76.80
Ukraine	45.70
United States	307.21

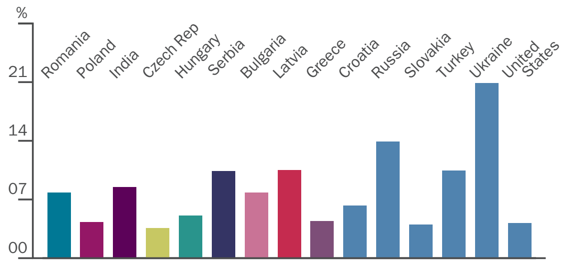
GDP PER CAPITA



UNEMPLOYMENT



CPI



Source: CIA fact book, National Statistics Office

EMERGING MARKETS

Plaza Centers has a strong track record in developing real estate projects such as shopping and entertainment centers in emerging markets. The Group has been present in the Central and Eastern European ("CEE") region since 1996, and was a pioneer in bringing western-style shopping malls to Hungary. The concept was continued throughout the CEE, and is now being exported to India, whilst other development and investment opportunities in Asia, other European countries and in the United States are being explored further.

The Company has had great success in capitalizing on the fantastic opportunities that its emerging markets have offered. We carefully investigate the benefits and challenges inherent in every proposed project, adhering to our development criteria.

The gross domestic product ("GDP") growth in CEE is likely to continue to outperform that of Western Europe, and we plan to continue to capitalize on the opportunities inherent in the region, whilst investigating new areas of opportunity such as India and the United States.

DEVELOPMENT CRITERIA

Selection of target countries

We focus upon countries in emerging markets, and are currently present in Eastern Europe and Asia. In order to determine a favorable investment climate, we take into account country risk, GDP per capita and economic growth, ratio of retail sales per capita, political stability, sophistication of banking systems, land ownership restrictions, ease of obtaining building and operating permits, business risks, existing competition and market saturation levels.

Site evaluation

We look to develop our first project in a new country in the capital, and thereafter in regional cities with a minimum catchment of 50,000 residents. Site evaluation includes site area, catchment area, local zoning and town planning schemes, proximity to transportation and vehicular routes and legal issues. A carefully structured, internally developed evaluation process is in place involving each of the relevant disciplines (economies, engineering, marketing, etc.).

Project development

Once we have approved a site we manage its development from inception to completion, incorporating engineering, marketing, financial and legal stages, to encompass designs, architects, market forecasts and feasibility studies.

Strength in challenging times

Despite the testing conditions in real estate markets worldwide, we continue to deliver high-class western-style developments.

We are, however, mindful of the impact of these extraordinary markets on investor demand in the regions in which we operate. We are therefore taking a cautious view on the projects on which we have not yet started construction and will keep the timing of the commencement of these under regular scrutiny in order to identify the optimal time to deliver these projects into a recovering market. We are also fortunate in being well positioned to prosper thanks to our conservative gearing levels, significant cash resources and very good relationships with our financing banks, who appreciate Plaza's strong track record. We believe the current situation in the real estate market will enable Plaza to improve its portfolio at favorable terms.

PROVEN TRACK RECORD

- 13-year track record of developing shopping and entertainment centers in CEE – Plaza Centers has been active in the region since 1996 and was the first to develop western-style shopping centers in Hungary.
- Developed and let 28 shopping and entertainment centers in the CEE region, of which 26 were sold with an aggregate gross value of €1,168 million.
- Creating an attractive tenants mix, including fashion, Hypermarkets, food courts, electronics, sports and other retailers, with a special focus on entertainment. Most centers include a cinema multiplex, as well as a Fantasy Park, a state of the art entertainment and amusement facility operated by Plaza's subsidiary, which includes bowling alleys, billiard tables, video arcades, internet cafés, children's playgrounds, bars and discos.

FLEXIBLE BUSINESS MODEL

- Flexibility and ability to anticipate and adapt to market trends – Plaza is well positioned to satisfy the significant retail demand resulting from rapidly growing incomes as well as increasingly westernized tastes and habits of emerging market populations. Decisions to dispose of portfolio properties are based on an in-depth analysis of market situation.
- During the years 1996–2004, when exit yields were high, the Group retained and operated shopping centers on completion and gained rental income. Once property yields decreased, starting 2004, the Group started selling its shopping centers in line with the Group's commercial decision to focus its business more on development and sale rather than operating. Should yields be high, the group has the management skills to operate the assets, as done in the past, until the next low yields cycle.

FURTHER STRENGTHS

Clearly identified pipeline

Plaza has 31 development assets, two active shopping and entertainment centers and three office buildings which it owns, as well as a broad and constantly evolving pipeline in both CEE and India — the Group has the ability to identify new growth opportunities, constantly targeting attractive returns in fast growing emerging markets, evidenced by recent portfolio additions.

Supportive financing banks

The Group maintains good relations with financing banks who remain supportive of companies with strong track record. During the past year and during the credit crunch, Plaza has signed and secured bank loan agreements for the construction of the projects in Suwalki, Poland (€42.2 million), Zgorzelec, Poland (€35.1million) and Miercurea Ciuc, Romania (€19.9 million).

Timing for delivery

As the majority of the developments will mature 2010 onwards, and due to its financial strength, Plaza is not required to execute forced sales of projects at current market conditions. Once the projects will be completed, we will therefore use the extensive experience we have gained over eight years of managing and running shopping malls efficiently to hold and manage, where needed, completed projects as income generating investments in our portfolio until the investment market improves.

Strong brand name

Plaza Centers has become a widely recognised brand name for successful property development in CEE which is beneficial at all stages of project execution (e.g. following portfolio sales to Klépierre, Dawnay Day and aAIM, the purchasers continue to use the "Plaza Centers" trade name under licence).

DIVERSIFICATION

- The Group is well diversified and active in nine countries while additional countries are examined for further expansion.
- Plaza sees strong importance in its investment in India, which has been less affected by the current global crisis and will offer Plaza development prospects for at least 15 years.

STRONG CASH POSITION

- With current cash position of circa €170 million, Plaza is ideally placed to survive the current crisis and to take advantage of new acquisitions at favourable terms.

FOCUS ON EIGHT PROJECTS

- In light of market conditions, Plaza took the strategic decision in the second half of 2008 to scale back on project starts and acquisitions though Plaza decided to continue with the development of the eight projects that were already in the construction stage (Casa Radio and Miercurea Ciuc in Romania, Dream Island in Hungary, Liberec in Czech Republic, Koregaon Park in India, Riga in Latvia and Suwalki and Zgorzelec in Poland). Most of the other projects are either in the design phase or awaiting permits and the commencement of these projects will depend on the availability of external financing.

LOW AND CONSERVATIVE LEVERAGE

- The Group continues to pursue a conservative financing policy to decrease its exposure to the liquidity crisis, with the current level of gearing being only 47% (debt to equity). The vast majority of the debt is long term, maturing mainly between 2011 to 2017.

Highly skilled management team
Extensive local and business knowledge with a proven ability to source strategic development sites and design projects that meet the demands of the local market. Many management team members have been with us for several years.

Thorough project evaluation
Prior to each project, Plaza goes through a carefully developed, structured evaluation process involving each of the relevant disciplines (economics, engineering, marketing, etc).

Extensive network
Strong relationships with both leading international retailers and property investors as demonstrated by the proven ability to pre-sell projects (before or during the construction) and achieve high pre-let levels.

Unique developments
With Mega and Unique projects such as Arena Plaza, Dream Island and Casa Radio, Plaza is creating the next national destinations.


ZARA

Riga Latvia

Plaza opened Riga Plaza in Latvia, its first development in the Baltic States, on March 31, 2009. The center, which is located on the left bank of the Daugava River, south-west of Riga's city center, houses over 140 retailers spread across 49,000m^2 of GLA. Riga Plaza is the Company's 28th completed development and its second largest project after Arena Plaza, Budapest, which opened in November 2007.

The largest retail destination on Riga's left bank, Riga Plaza, was circa 85% let on opening. Anchored by a Prisma hypermarket, the center offers a range of international brands including Zara, Mango, Ecco, Pull and Bear, Stradivarius, Bershka, Mexx, Apranga and the first Baltic store of the German giant retailer Peek & Cloppenburg. These are complemented by an eight-screen multiplex cinema, the first on Riga's left bank, and a 2,000m^2 Fantasy Park entertainment center comprising a bowling alley, amusement arcades, children's playground and a nightclub. The center has a wide variety of restaurants and cafes and over 1,500 parking spaces.

With a population of approximately 740,000, Riga is the largest city in the Baltic States as well as the capital of Latvia. Riga Plaza is ideally located with a primary catchment area of 340,000 people.

Design played a key part in the development process and the flowing lines of Riga Plaza's elevated blue, silver and white façade mirror its stunning waterside location. The center is dramatically lit at night, highlighting its status as a daytime and evening destination.

Riga Plaza was developed in a 50:50 joint venture with the US investment fund New Century Holdings. Plaza Centers was wholly responsible for the development and delivery of this project.

Casa Radio
Romania

In the heart of Bucharest, Plaza is developing its Mega mixed-use Casa Radio project, which will comprise over 600,000m^2 of gross built area and will become THE NEW National destination.

Plaza Centers owns a 75% stake in the Casa Radio project in central Bucharest (in partnership with the Romanian state and another third party).

Casa Radio is located on the border of Sector 1 and Sector 6 in the city of Bucharest which comprises a large area of the city center as well as a high proportion of residential apartments.

The property comprises a brownfield site covering an approximate area of 101,497m^2.

The proposed scheme will comprise refurbishment of the existing building as well as the development of additional space annexed to the building and on adjoining land.

The scheme will include a shopping and entertainment center of approximately 170,000m^2, with a hypermarket of approximately 6,500m^2, a hotel of 35,000m^2 (320 rooms), an apartment hotel of 18,000m^2, a ferris wheel, a conference center of 14,000m^2 and 130,000m^2 of offices.

The center is scheduled to open in 2013.

CURRENT DEVELOPMENTS

Romania

Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Casa Radio	Bucharest	75	600,000[2]	927	158.7	2013
Iasi Plaza	Iasi	100	62,000	134	19	2012
Timisoara Plaza	Timisoara	100	43,000	114.5	22.8	2012
Slatina Plaza	Slatina	100	17,000	37.5	2.7	2011
Csiki Plaza	Miercurea Ciuc	100	14,000	31.3	8.1	2010
Hunedoara Plaza	Hunedoara	100	13,000	30	3.5	2011
Targu Mures Plaza	Targu Mures	100	30,000	64.7	6.6	2012
Palazzo Ducale	Bucharest	100	700	2.1	2.1	Operating

1 Value as per King Sturge valuation report as at December 31, 2008.
2 GBA.

While operations only started in November 2006 with the acquisition of the landmark Casa Radio scheme in Bucharest, Plaza already has seven sites for shopping and entertainment centers and mixed-use schemes in various stages of production and holds one office building which operates as its head office for the country. With a population of over 22 million and currently limited commercial space, Romania is the most significant CEE country in Plaza's portfolio.

CASA RADIO

- Plaza acquired a 75% interest in a company which has entered into a public-private partnership agreement with the Government of Romania to develop the Casa Radio (Dambovita) scheme in Bucharest, the largest development plot available in central Bucharest.
- The Romanian government will remain a 15% partner in the scheme, as well as another developer holding 10%.
- The development of Casa Radio comprises approximately 600,000m^2 of GBA (including parking), including 170,000m^2 shopping mall and leisure center (one of the largest in Europe), ferris wheel, offices, hotel, casino, hypermarket and a convention and conference hall. The project is the Group's biggest project currently under construction and has obtained the approval of the urban technical commission of Bucharest, Romania.

Project status: under construction.

IASI PLAZA

- The Group purchased a 46,500m^2 plot of land in Iasi (population of 350,000 and catchment area of approximately 820,000), a city in the north-east of Romania, which will be developed as a shopping and entertainment center and office space.
- The shopping center will comprise approximately 40,000m^2 of GLA and will include an anchor supermarket, a cinema, fashion retailers, a fantasy park, a food court and restaurants.
- There will be office space with GLA of 22,000m^2.

Project status: under planning.

TIMISOARA PLAZA

- In Timisoara, the Group has a 32,000m^2 plot of land situated on a three-way junction with excellent visibility.
- Timisoara Plaza is situated to the north-east of Timisoara, a city in western Romania, close to the Hungarian border (population of 350,000, catchment area of approximately 700,000).
- The planned shopping center will have GLA of approximately 43,000m^2 and will include a supermarket, a cinema complex, fashion retailers, a fantasy park, a cinema, a food court and restaurants.

Project status: under planning.

SLATINA PLAZA

- Plaza plans to build a shopping and entertainment center with approximately 44,000m^2 of built area including 750 parking spaces.
- Slatina is a vibrant city with around 80,000 inhabitants and is considered a major city in the county of Olt which has a population of 520,000. It has a strong industrial base, with companies such as Pirelli Tyres located there.
- The Slatina site will total approximately 17,000m^2 of GLA and is located in the north-western part of Slatina.

Project status: under planning.


Casa Radio


Timisoara Plaza


Iasi Plaza


Hunedoara Plaza

CSIKI PLAZA (MIERCUREA CIUC)

- The Group purchased a plot of land with an area of 33,000m^2 in Miercurea Ciuc, on which it intends to develop a shopping and entertainment center.
- Csiki Plaza is situated in the center of Miercurea Ciuc, a city in Romania, with a population of 50,000 inhabitants and a catchment area of approximately 300,000 inhabitants. The site is situated 400m from the city hall.
- The planned shopping center will have a GLA of approximately 14,000m^2 and will include a supermarket, fashion retailers, a food court and restaurants.

Project status: under construction.

HUNEDOARA PLAZA

- The Group purchased 41,000m^2 plot, near to Hunedoara city center.
- The site will be developed into a modern, western-style shopping and entertainment center, with a built area of 32,000m^2 (including parking) and 13,000m^2 of lettable space.
- It is ideally located alongside the main road to the city center, and has a large catchment area of 500,000 people in the region.

Project status: under planning.

TARGU MURES PLAZA

- The Group has acquired a 31,000m^2 site in Targu Mures, Romania, to develop a significant shopping and entertainment center.
- The modern, western-style center will have 30,000m^2 of lettable retail space, comprising more than 140 units.
- The proposed development is ideally located near the city center, close to the main road that links to the neighboring towns of Cluj Napoca and Alba Iulia.

Project status: under planning.

PALAZZO DUCALE

- Plaza Centers has acquired a prestigious French-style villa converted into an office building. The building is located in the center of Bucharest and was completely renovated in 2005.
- The total office area is approximately 700m^2, built on a plot of around 600m^2 and consists of three floors, a basement and a garage.
- The building has become the headquarters of Plaza Centers in Romania.

CURRENT DEVELOPMENTS CONTINUED

Poland

Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Suwalki Plaza	Suwalki	100	20,000	56.9	7	2010
Torun Plaza	Torun	100	44,000	111.4	14.2	2011
Zgorzelec Plaza	Zgorzelec	100	13,000	30.6	3.7	2010
Kielce Plaza	Kielce	100	33,000	87	6.7	2012
Leszno Plaza	Leszno	100	16,000	1.5	1.5	2012
Lodz Plaza	Lodz	100	80,000[2]	192	14.8	–

1 Value as per King Sturge valuation report as at December 31, 2008.
2 GBA.

Plaza has already completed seven shopping and entertainment centers in Poland, including three which were completed and fully let in 2007. The Group has five sites in Poland for the development of shopping and entertainment centers.

SUWALKI PLAZA

- Suwalki Plaza is located in Suwalki, a city crossed by expressway E67(8), which links Augustow with the Lithuanian border. The expressway is to be part of a larger road network called "Via Baltica".
- The creation of the Suwalki Special Economic Zone offers new opportunities for trade and commerce. Suwalki is also becoming a tourist destination.
- The site is located in the main commercial and residential district of the city and is fronted by an important arterial route to the east. The site is also located on the junction of a street which links directly into the city center. The PKS bus terminal and main railway station are located approximately 1km from the site.
- Suwalki Plaza will be a two-floor (ground and first floor) shopping and entertainment center with approximately GLA of 20,000m^2 (anchored by a supermarket, a department store as well as a bowling and entertainment area).

Project status: under construction.

TORUN PLAZA

- Torun Plaza is located in Torun, an almost 800-year-old city of 200,000 inhabitants.
- Torun is one of the most beautiful cities of Poland located at the intersection of ancient trade routes. Gothic buildings of Torun's Old Town won the designation of the World Heritage Site from UNESCO in 1997.
- Torun Plaza will be a three-floor shopping center with approximately 44,000m^2 of GLA (anchored by a supermarket, a department store, a multiscreen cinema as well as a bowling and entertainment area).

Project status: planning and permits stage.

Suwalki Plaza

Zgorzelec Plaza


Torun Plaza


Leszno Plaza

ZGORZELEC PLAZA

- Zgorzelec Plaza is located in Zgorzelec in south-west Poland, near the German border.
- Thanks to two road border crossings (including one of the largest in Poland), a railway border crossing and the restored Old Town Bridge which connects the old towns of Zgorzelec and Goerlitz (58,000 citizens on the German side), Zgorzelec is called the "gate" between Germany and Poland.
- In the vicinity of Zgorzelec there is a spedition terminal, road and a railway (freight) border crossing with the Czech Republic and a freight border crossing with Germany.
- The site is situated less than five minutes walking from the railway station.
- The planned shopping and entertainment center will comprise approximately 13,000m² of GLA and 400 parking spaces.

Project status: under construction.

KIELCE PLAZA

- Kielce Plaza is located in Kielce, a city of 200,000 inhabitants and catchment area of 350,000 inhabitants.
- The center will be located on a 30,000m² plot alongside a major road and two kilometres from the heart of Kielce.
- Kielce Plaza will have a GBA of 46,000m² with 33,000m² of GLA, and approximately 1,000 car-parking spaces.

Project status: planning and permits stage.

LESZNO PLAZA

- Leszno Plaza is ideally located in the center of Leszno, a city with 64,000 inhabitants.
- Leszno is situated in Western Poland between the two big economic centers of Poznan and Wroclaw, and is close to the central railway and bus station.
- The planned shopping and entertainment center will comprise approximately 16,000m² of GLA providing more than 70 units, and 450 car parking spaces.

Project status: under planning.

LODZ PLAZA

- The Group owns part of a development site and has a usufruct over the remaining part of the site, located in the center of Lodz, which is suitable for use as a residential area.
- The site is located in the central university district of Lodz, the second largest city in Poland with 774,000 inhabitants, within 500m of the popular Piotrkowska pedestrian street, at the intersection of two of the main arteries into the city.

Project status: under planning.

India

Project	City	Ownership (%)	GBA (m²)	Market value on completion (€m)(1)	Market value of the land and project (€m)(1)	Expected completion
Koregaon Park	Pune	100	111,000	70.2	25.6	2011
Kharadi	Pune	50	205,000	56.3	13.8	2012
Trivandrum	Trivandrum	50	195,000	47	9.5	–
Bangalore	Bangalore	23.75	2,100,000	466.9	57.9	2012–2017
Chennai	Chennai	38	1,100,000	269.6	18.9	2012–2015
Kochi Island	Kochi	23.75	575,000	105.2	3	–

1 Value as per King Sturge valuation report as at December 31, 2008.

With a population of over one billion, including over 250 million middle class population with increasing purchasing power, Plaza has determined India to be one of its key areas for future expansion. The Group currently develops three large-scale, mixed-use schemes, which combine shopping and entertainment centers with office/hotel development.

In addition, in August 2008, Plaza Centers signed a joint venture agreement with Elbit Imaging Ltd. of which Plaza is an indirect subsidiary, for the development of mega mixed-use projects in India. Under this agreement Plaza has acquired a 47.5% stake in Elbit Plaza India Real Estate Holding Ltd (“JV”), which already owns stakes of between 50% and 80% in three mixed-use projects in India, located in the cities of Bangalore, Chennai and Kochi, in conjunction with local Indian Partners.

KOREGAON PARK

- Plaza Centers acquired a 100% stake from Elbit Imaging in a subsidiary that holds 50% in another Indian private limited liability company.
- In November 2008, Plaza bought the remaining 50% interest in the project from its joint venture partner.
- Plaza owns a plot of land of approximately six acres (24,000m²) in Koregaon Park, an up-market area of Pune, Maharashtra State, India.
- Plaza plans to construct a mixed-use scheme with a total GBA of approximately 111,000m² including parking, shopping center 83,500m², offices 27,500m² (all inclusive underground parking).

Project status: under construction.

KHARADI

- Plaza Centers is party to a 50:50 joint venture with a local Indian developer which holds 14 acres of land (56,000m²) in the Kharadi area in Pune, southern India.
- The Company intends to develop its plots of land through the construction of a project comprising approximately 205,000m² GBA which will include a shopping center with a total area of approximately 150,000m² and an office complex with an area of approximately 55,000m².

Project status: under planning.

TRIVANDRUM

- The Group has a site in the city of Trivandrum (with direct linkage to the bypass road which is adjacent to the project premises) on which it intends to develop 195,000m² GBA of a shopping and entertainment center together with office premises and a serviced apartment facility.
- Trivandrum is a major city in the south of India. The city is the State of Kerala capital and houses many central and state government offices, organizations and IT companies. Apart from being the political center of Kerala, it is also a major academic hub and is home to several educational institutions. It has a population of 3,000,000 inhabitants.

Project status: under planning.

BANGALORE PROJECT

- The JV has 50% stake in a company which holds a 440 acre plot in Bangalore.
- The site is located on the eastern side of Bangalore, India’s fifth largest city, with a population of over seven million people.
- The JV intends to develop the site into a mega mixed-use project with a total built area of over 2.1 million square meters.
- The project will comprise luxury residential units (villas and multi levels), office complexes, a major retail facility, hotel complex, hospital, golf course, club houses and ancillary amenity facilities.

Project status: under planning.


Kharadi


Trivandrum (bird's-eye view)


Koregaon Park


Kochi Island

CHENNAI PROJECT

- The JV has an 80% stake in a company which holds 135 acres plot in Chennai.
- Chennai is India's fourth largest city with a population of over ten million people.
- The site will be developed into an integrated mixed-use project consisting of high quality residential units (in both high-rise buildings and villas), ancillary amenities such as club houses, swimming pools and sport facilities, a local retail facility and an office complex with a total built area of 1.1 million square meters.

Project status: under planning.

KOCHI ISLAND

- The JV has a 50% stake in a company which holds a 41 acre plot in Kochi.
- The site is located on a backwater island adjacent to the administrative, commercial and retail hub of the city of Kochi, in the state of Kerala, with a local population of more than three million people.
- The mixed-use project will comprise over 575,000m^2 of high-end residential apartment buildings, office complexes, a hotel and serviced apartment complex, retail area and marina.

Project status: under planning.

The Czech Republic

Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Liberec Plaza	Liberec	100	17,000	45.3	45.3	Operating
Opava Plaza	Opava	100	13,000	38.4	5.7	2012
Prague III	Prague	100	61,600	160	20	–
Roztoky	Prague	100	14,000	24.4	3.4	2013

1 Value as per King Sturge valuation report as at December 31, 2008.

In June 2008, Plaza completed the successful handover of its second shopping and entertainment center in the Czech Republic, in the city of Plzen.

On March 26, 2009 Liberec Plaza was opened to the public.

Plaza is currently busy in developing one additional shopping and entertainment center and one residential project.

Plaza continues to own an income generating office and warehouse building in Prague which is designated to be re-zoned for a scheme of 61,600m^2 of residential units.

LIBEREC PLAZA

- Liberec Plaza is located in the center of Liberec, a city in the north of the Czech Republic, close to the border with Germany and Poland, with a population of 98,000 and a catchment area of approximately 350,000.
- The site is situated 20m from the main square.
- The shopping and entertainment center which was completed in March 2009 comprises 17,000m^2 of GLA including an anchor supermarket, fashion retailers, a food court and restaurants.
- The center also includes 850m^2 of residential apartments and 800m^2 of office space.

Project status: completed, opened to the public.

OPAVA PLAZA

- Opava Plaza is located in Opava, a city in the north-east of the Czech Republic, close to Ostrava, with a population of 65,000 and a catchment area of 150,000.
- The site of 8,700m^2 is located 50m from the city center.
- The planned shopping and entertainment center will comprise approximately 13,000m^2 of GLA and will include an anchor supermarket, a cinema complex, fashion retailers, a food court and restaurants.

Project status: under planning.

PRAGUE III

- Praha Plaza s.r.o., Company's wholly owned subsidiary, owns a logistics and commercial center in the Prague III district.
- The buildings are located on a site of approximately 46,500m^2 with a current total GLA of approximately 44,300m^2 (44,300m^2 for the current warehouse buildings and potentially 61,600m^2 for future apartments).
- The Prague III district has a number of major domestic and multinational companies such as Vodafone, Cesky Telecom and others. The area also has an extensive range of public services.
- Due to planning difficulties, it is not possible to develop a shopping and entertainment center. Due to its strategic location and good public transport connections, the Group is currently examining the possibilities of developing a residential complex on the site with a three-phase construction program comprising 61,600m^2 of built area.

Project status: currently operating as an office building, re-zoning for future residential use is in progress and is expected to be obtained in H2 2009.

Liberec Plaza

Opava Plaza

Prague III

Roztoky

ROZTOKY

- The Group owns 39,000m^2 of land in Roztoky, a town located north-east to Prague on the way to the airport (6,500 inhabitants). The site is located on the west side of the town, on a hill and attached to a park.
- The Company intends to develop a residential compound which will include 15 row houses and 64 semi-detached units of 150–200m^2 each.
- The plot includes a valid planning permit for 81 units of family houses.

Project status: planning and permits stage.

Hungary

Project	City	Ownership (%)	GLA (m²)	Market value on completion (€m)(1)	Market value of the land and project (€m)(1)	Expected completion
Dream Island	Budapest	43.5	350,000(2)	323(3)	59(3)	2012–2014
Arena Extension	Budapest	100	40,000	69.5	10.4	2012
Uj Udvar	Budapest	35	16,000	3.3	3.3	2011
David House	Budapest	100	2,000	4.4	4.4	Operating

1 Value as per King Sturge valuation report as at December 31, 2008.
2 GBA.
3 The market value reflects only 30% share since the additional 13.5% stake was acquired after December 31, 2008.

During 2007, Plaza completed the development of Arena Plaza, its landmark shopping center scheme in central Budapest, comprising approximately 66,000m² GLA which makes it one of the largest in CEE. The center was sold to aAIM in November 2007 for circa €387m. Plaza continues to work on the extension to Arena Plaza, where construction is planned to commence in 2010-2011.

Plaza is currently holding one office building and developing three sites in Hungary, including the Dream Island mega scheme which is intended to be developed as a major resort area including hotels, recreation facilities, a casino and a business and leisure complex.

In 2008, the consortium formed by the owners of Dream Island project won a concession license for the 20-year operation of a large-scale casino (the first one in Budapest) with an option to extend for an additional ten years. The project is intended to be completed in 2012–2014.

DREAM ISLAND

- Plaza holds a 43.5% stake in Dream Island, a prestigious development on the Obuda Island in central Budapest, with a land area of 320,000m², which is intended to be developed as a major resort area including hotels, recreation facilities, a casino and a business and leisure complex comprising 350,000m² GBA.

Project status: initial excavation and archaeological works commenced, casino license for 20 years (+ ten years option) granted in May 2008.

ARENA PLAZA EXTENSION

- Arena Plaza extension is a planned office addition to the Arena Plaza that will comprise GLA of approximately 40,000m².
- The development will offer A-class offices in central location in Budapest.
- The Arena Plaza extension will occupy part of the former historic Kerepesi trotting track.

Project status: under planning.

UJ UDVAR

- In September 2007, the Company bought a stake in a company holding Uj Udvar shopping center in Budapest. Subsequently, Plaza's interest in the asset is 35%.
- Uj Udvar is located in the center of the third district of Budapest, next to the Kolosy square on the Bécsi street, surrounded by housing estates, office buildings and family houses.
- The shopping center is currently active and has approximately 16,000m² of GLA and approximately 11,600m² of parking areas.
- Uj Udvar shopping center shows significant redevelopment potential for refurbishment and subsequent sale.

Project status: operating, currently working on refurbishment plans.


Dream Island


David House


Arena Extension


Arena Plaza

DAVID HOUSE

- The Company owns an office building located on Andrássy Boulevard, a prestigious location and one of the most sought-after streets in the center of Budapest with several foreign embassies situated nearby.
- The facades of all buildings on the Andrássy Boulevard, including David House, are listed in the "World Heritage" list.
- The building was reconstructed/refurbished by the Group during 2000/2001 in co-operation with the local monument preservation authority. Many of the original features have been retained, including the inner courtyard, staircases, stucco, ornate metalwork and fine wood carvings.
- The building is located on a 796m² plot and consists of four floors, an atrium and a basement, with a total constructed area of approximately 2,000m².

Project status: active office building, mainly serves as Plaza Centers headquarters in Hungary.

Serbia

Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)(1)	Market value of the land and project (€m)(1)	Expected completion
Belgrade Plaza	Belgrade	100	70,000(2)	183.1	28.2	2013
Sport Star Plaza	Belgrade	100	45,000	170.8	18.8	2012
Kragujevac Plaza	Kragujevac	100	24,500	101.6	12.3	2011

1 Value as per King Sturge valuation report as at December 31, 2008.
2 GBA.

With penetration and acquisition of its first development site in July 2007, Plaza is currently developing three sites for mixed-use, retail-led developments. With a population of circa ten million and very limited western-style retail areas, Plaza sees a strong demand for its high-class, western-style developments.

Sport Star Plaza

Kragujevac Plaza

BELGRADE PLAZA

› The new complex will be located on the prominent site of the former Federal Ministry of Internal Affairs, situated on the main street which runs through the center of Belgrade. The area is home to foreign embassies, Serbian Government and the Ministry of Finance. Belgrade chamber of commerce and Belgrade's largest public hospital are also nearby as well as the city fair and the future railway station.

› Serbia is one of the south-eastern European nations where Plaza sees strong potential for future investment opportunities. Plaza also believes that the Belgrade market offers particular potential, with its large populated catchment area of approximately 2.5 million people.

› Belgrade has not, to date, benefited from "institutional grade" investment in retail or commercial real estate. This development will have particular significance in terms of providing a new commercial and cultural destination for both domestic and international visitors.

› Belgrade Plaza will be developed into an office space together with hotel and retail gallery. The development will comprise a total of 70,000m^2 of built area as well as 650 car parking spaces.

Project status: under planning.

SPORT STAR PLAZA

› The Group has purchased a 30,000m^2 plot of land in Belgrade, the capital city of Serbia.

› Plaza plans to build on the land a new shopping and entertainment center, with a total gross lettable area of 44,000m^2.

Project status: under planning.

KRAGUJEVAC PLAZA

› The Group has purchased a 24,500m^2 plot of land in Kragujevac (population of 180,000 and catchment area of approximately 220,000), the largest city in the Sumadija region and the administrative center of Sumadija district.

› Plaza plans to build on the land a new shopping and entertainment center, with a total gross lettable area of 24,500m^2.

› The shopping center will include a cinema, fashion retailer, a food court, restaurants and parking spaces for approximately 600 cars.

Project status: initial construction.

Bulgaria, Latvia, Greece

Project	City	Ownership (%)	GLA (m²)	Market value on completion (€m)(1)	Market value of the land and project (€m)(1)	Expected completion
Shumen Plaza	Shumen	100	20,000	45.2	10.3	2011
Plaza Sofia Business Center	Sofia	51	44,000	–(2)	–(2)	2012
Riga Plaza	Riga	50	49,000	64.1	51.8	Operating
Helios Plaza	Athens	100	25,000	93.3	24.2	2012

1 Value as per King Sturge valuation report as at December 31, 2008.
2 The project was not valued since it was acquired after December 31, 2008.

In Q1 2009 Plaza completed the development of Riga Plaza shopping and entertainment center, its first development in the Baltic States. The center is currently approximately 85% let. Plaza is currently developing one shopping and entertainment center and one mixed-used project in Bulgaria.


Shumen Plaza

SHUMEN PLAZA – BULGARIA

- The Group has purchased a 17,000m² plot of land in Shumen, the largest city in Shumen County, which is situated in the north-east of Bulgaria, 80km from Varna. The City of Shumen has a population of over 100,000 and is located within a larger catchment area of 205,000 people.
- Plaza plans to build on the land a new shopping and entertainment center, with a total gross lettable area of 20,000m² and 23,000m² of parking, providing 650 spaces.
- The shopping center will include supermarket, digital cinema with four halls, 70 shops offering diversity of fashion and services, entertainment complex with bowling, billiards and video games, food court, restaurants and coffee houses.

Project status: under planning.

SOFIA PLAZA BUSINESS CENTER – BULGARIA

- In February 2009, the Group acquired a controlling stake in a 75,000m² project in Sofia, the capital city of Bulgaria.
- Plaza will retain the right to acquire a further 24% stake in the project for six months following the start of construction, based on the current value of the project.
- The site is ideally located at a main junction, 2.7km from the city center.
- Plaza intends to develop the plot into a 44,000m² GLA of retail and office complex.

Project status: under planning.

RIGA PLAZA – LATVIA

- In March 2004, the Group entered into a 50:50 JV with an American capital fund with extensive experience in Latvia for this project.
- Riga Plaza is located on the west coast of the Daugava River, south-west of Riga's city center (population of approximately 740,000, the largest city in the Baltic states) with excellent transportation connections to the city center and primary catchment of 350,000 inhabitants.
- Riga Plaza is a three-floor shopping and entertainment center with a GLA of approximately 49,000m², anchored by a hypermarket, an eight-screen multiplex cinema and 2,000m² bowling and entertainment area.

Project status: completed, opened to the public.

HELIOS PLAZA – GREECE

- The Group currently owns a plot of land measuring approximately 15,000m² located adjacent to the National Highway (Piraeus Avenue) in a highly visible and commercial position at the junction of two major avenues in the heart of Athens. The site is conveniently located in front of the ISAP metro line, which runs from Piraeus to the northern suburbs. The flyover is a major new road link that was completed on time for the 2004 Olympics.
- The site is a flat, cleared area irregular in shape with frontage to Piraeus Avenue of 109m and a maximum depth of 120m.
- Helios Plaza will have a GBA of 35,000m² with 25,000m² of GLA and approximately 800 parking spaces.

Project status: under planning.

CHAIRMAN'S STATEMENT

Mordechay Zisser

We are pleased to report an active year for the Company across all of our operations.

We have continued to make good progress on our strategic plans in 2008, despite the ongoing financial turmoil across the world. We continue to build on our strong track record of developing high quality shopping and entertainment centers targeted towards markets where we have identified strong population and economic growth fundamentals. With our strong financial position, the Company has been able, and will continue, to adapt its business model according to prevailing market conditions.

Major milestones in 2008

1

Strong financial position

Cash balances of circa €178 million at year end 2008, following disposals of investments and bond raisings, forming substantial strength and flexibility.

2

Portfolio and sourcing new opportunties

36 assets in nine countries, using our liquidity to acquire new assets at attractive prices.

3

Focus

Active construction in eight sites with strong demand and more favorable financing opportunities.

4

Net profit

Despite challenging times, €68 million of net profits reported for 2008, with no accounting revaluations per Group policy.

5

NAV

Externally valued at £2.26 per issued share at year end, representing a company value of circa. €693 million.

6

Dividend policy

Strategic decision taken to preserve liquidity within the Company and not paying dividend for 2008.

Key events

Over the past year and since the period end, Plaza has made four project acquisitions, entered into three new joint venture partnerships and completed one handover.

Given the limited number of buyers in the market with the financial strength of Plaza, the Company has been able to make a number of development acquisitions at attractive prices. It has invested a total of €22 million across four projects, adding a further 92,000m^2 GLA to the Company's development pipeline.

In addition, Plaza has also signed a joint venture agreement with Elbit Imaging Ltd., for the development of three major mixed-use projects in India. Under this agreement, Plaza has acquired a 47.5% stake in Elbit Plaza India Real Estate Holding Limited, which already owns stakes of between 50% and 80% in three mixed-use projects in India, in the cities of Bangalore, Chennai and Kochi, in conjunction with local Indian partners. The three projects will have a total combined development budget of approximately US$3.4 billion (of which the JV partners will responsible for circa US$1.9 billion) and a built area in excess of 3.8 million square meters (excluding parking spaces).

We also completed Plzen Plaza in the Czech Republic in December 2007 and, in July 2008, handed it over to Klépierre, 100% let on opening. The disposal price of the property was €61.4 million, compared to a value of €42.8 million at IPO in November 2006, representing a 43% rise.

Plaza raised gross proceeds of approximately €153 million from a debenture issue to Israeli institutional investors between February and May 2008, which followed the initial issuance of €53 million in July 2007. This was an exceptional achievement, given debt market conditions, with significant support shown by debenture investors for the highly rated debentures at interest rates which were favorable to the Company.

In addition, in the fourth quarter of the year, Plaza was able to secure additional development finance for the construction of projects in Suwalki, Poland (€42.2 million), Zgorzelec, Poland (€35.1 million) and Miercurea Ciuc, Romania (€19.9 million).

Results

Despite the challenging market conditions, it is pleasing to report ending 2008 with a gross profit of €43 million and a net profit of €68 million (2007: €510 million and €227 million respectively), resulting mainly from the sale of Plzen Plaza in the Czech Republic, the price adjustment for Arena Plaza, Hungary and financing activities. Basic and diluted EPS was down 70% to €0.23.

A considerable portion of the above stated profit resulting from operations is derived from pure cash gains and is not impacted by property revaluations, as the Company has maintained its accounting policy of not revaluing its inventory of real estate under construction.

Following our continued investment in existing assets under construction, as well as the opportunistic acquisitions that the Company has made over the year, our total investment in real estate inventories under construction ("trading properties") increased to €575 million.

The Company continues to have a strong cash position of approximately €178 million at the period end (and circa €170 million as at today's date), ensuring the Company remains on a solid financial footing to continue its development program, make opportunistic acquisitions where there is clear potential to create shareholder value and that the Company is able to negotiate project finance, despite the difficult credit environment.

NAV

The Company's portfolio was valued by King Sturge LLP as at December 31, 2008 and their summary valuation is shown below.

The main impact on the reduction in NAV came from the decrease in the value of most of the Company's assets, especially in CEE, driven principally by a decline in rental levels as well as yield expansion, a reflection of overall market conditions in the CEE region. This reduction was partially offset by the Arena Plaza price adjustment and the Plzen Plaza value uplift, totaling approximately €23 million. In total, the NAV decreased by 35% compared to December 31, 2007.

The Company's NAV was calculated as follows:

Use	€000
Market value of land and projects by King Sturge LLP(1)	697,055
Assets minus liabilities as at December 31, 2008(2)	(3,976)
Total	**693,079**

1 Per valuation attached below.
2 Excluding book value of assets which were valued by King Sturge LLP.

The resulting NAV per issued share is £2.26 (December 31, 2007: £2.52, post dividend), a 10.3% decrease compared to December 31, 2007. This relatively small decrease is mainly due to the devaluation of sterling against the euro.

Strategic direction

The financial turbulence over past 12 months has had a significant impact on activity in real estate markets across the world, with the lack of availability of financing being a key factor behind the dramatic slowdown in the investment market and the deterioration in consumer confidence having a particular impact on retail tenants.

Despite this, whilst our existing and potential tenant base cannot be entirely immune from current pressures on retailers, the nature of our assets continue to attract strong letting and customer interest.

In light of market conditions, however, we took the strategic decision in the second half of the year to scale back on project starts and acquisitions though we will continue with the development of the eight projects that are in the construction stage (Casa Radio and Miercurea Ciuc in Romania, Dream Island in Hungary Liberec in Czech Republic, Koregaon Park in India, Riga in Latvia and Suwalki and Zgorzelec in Poland). Most of the other projects are either in the design phase or awaiting permitting, and the commencement of these projects will depend on the availability of external financing.

Given the financial strength of the Company, the limited number of development projects in progress, combined with the ability of the Group to adapt to the market conditions, Plaza is strongly placed and does not have to execute forced sales of projects. If yields continue to be high once projects currently under construction are completed, Plaza will capitalize upon its extensive experience gained over eight years of managing and running shopping malls efficiently to hold and manage these as income-generating investments in our portfolio, to the benefit of our shareholders, until market conditions improve.

Plaza has been active in CEE since 1996. We pioneered the concept of western-style shopping and entertainment centers in the region, targeting a growing middle class and an increasingly affluent consumer base. We look forward to building upon this proven and successful business model, whilst looking for opportunities to expand the Company's activities both within its existing markets and into new territories.

As demonstrated by the new joint venture signed with Elbit, Plaza is now leveraging this experience and proven business model, which we believe can be successfully applied across India. The JV is involved in a number of selected projects in India, a market which it believes has a number of attractive characteristics, which include:

- the significant economic growth the country has experienced over the past five years, which is expected to continue in the coming decade;
- the rapid growth in household income, which is a similar trend to one that the Group experienced in CEE when it commenced operations;
- the Group's experience in emerging markets with similar complex legal and regulatory environments to India;
- the interest from major retailers in the areas being considered by the Group; and
- the undeveloped retail industry in India, which is expected to enter a period of exponential growth; and lack of local expertise and, therefore, competition in the development of shopping and entertainment centers.

Furthermore, the Group will examine other countries in CEE and Asia that meet the Group's development criteria with a view to identifying further opportunities in this sector. The Group will also examine other countries or continents with a view to acquiring yielding assets at compelling prices.

Portfolio progress

The Company is currently engaged in 33 projects and assets under development located across the CEE region and in India. The locations of the projects and assets under development are summarised as follows:

Number of assets

Location	Under development	Offices
Romania	7	1
Poland	6	–
India	6	–
Czech Republic	4(1)	1
Serbia	3	–
Hungary	3	1
Bulgaria	2	–
Latvia	1(1)	–
Greece	1	–
Total	**33**	**3**

1 Including one active shopping and entertainment center.

The Company has invested a total of €40 million in five acquisitions during the year to date, namely: two retail development schemes in Poland (Kielce and Leszno); two retail development schemes in Romania at Hunedoara and Targu Mures; one project in Sofia, Bulgaria and a further 27% stake in its Dream Island project in Budapest with its 50:50 joint venture partner. This is in addition to the €85 million invested in the new joint venture with Elbit in India.

Plaza has also undertaken a number of other significant transactions during the year. The most important of these was the closing of the sale of Plzen Plaza in the city of Plzen (Czech Republic). This transaction was the last under the second agreement with Klépierre. The center was 100% let prior to its handover, increasing the sales value to €61.4 million, compared to the €42.8 million valuation published in the Company's IPO Admission document.

In May 2008, a consortium of investors in which Plaza then owned a 30% indirect stake was announced as the winner of a large-scale casino license to be operated on Obuda Island, Budapest. Following the period end, as announced to shareholders on 19 March 2009, Plaza and its 50:50 joint venture partner, MKB Bank (a leading Hungarian commercial bank which is a subsidiary of the German Bayerische Landesbank) purchased a further 27% interest in Dream Island from Obuda Investment Ltd. (a company controlled by Sir Bernard Schreier) for a consideration of €21.4 million (comprising a €12 million cash payment and the rest by debt assumption) and now holds a 87% interest in the project.

The granting of the casino license will enable Plaza to commence construction of this major mixed-use project, named "Dream Island". Totaling over 350,000m^2 of GBA, the scheme will include approximately 3,000 hotel rooms in several hotels of different categories as well as approximately 1,000 leisure apartments, a convention center accommodating 3,500 delegates, a 1,500-seat opera house, a 3,500-seat multi-purpose theatre, a marina with an anchorage for 300 vessels, a shopping and entertainment center including a prestigious "Designer Avenue", a Roman cultural museum, and parking facilities for approximately 5,500 vehicles, as well as the casino of 40,000m^2. The scheme is located on the southern end of Obuda Island in the Danube River in central Budapest.

The exclusive license has been granted to a company held by the consortium members of Dream Island for 20 years from the date of the casino's opening, with a ten-year extension option. During this time, no further major casino licenses will be granted by the Hungarian government in the same area of Budapest. The casino will have more than 200 gaming tables and over 4,000 slot machines, and is expected to be the largest and most prestigious destination of its kind in Europe, where currently no other resort and leisure facility of this magnitude exists.

Liquidity and financing

We ended 2008 with a strong liquidity position, holding circa €178 million of cash and cash equivalents (including €32 million restricted cash). This was mainly due to the disposal of Arena Plaza and receipt of gross proceeds of approximately €153 million raised from a debenture issue to Israeli institutional investors between February and May 2008 and provides the Company with significant additional financial flexibility. Our strong liquidity enabled us, together with our ultimate parent company, to commence a share buyback program of up to 6.61% of the shares currently in issue. As at the balance sheet date, 3.21% of currently issued shares had been purchased.

The real estate market relies on a combination of long-term and short-term financing sources. As a result of the the credit crunch, the global economic situation has continued to deteriorate sharply and the availability of raising funds from the public and arranging bank loans have become increasingly difficult challenges. However, during the period, it is pleasing to report that Plaza has concluded several new loan agreements despite the limited availability of credit.

Financing was secured on the following projects:

- Suwalki and Zgorzelec located in Poland. The loan facility is for 80% of the project budget (and can be increased to 100% based on the leasing progress) for each project at €42.2 million and €35.1 million, respectively. We are delighted to have already made strong letting progress on these projects. They are already 51% and 63% let in terms of GLA.

- Miercurea Ciuc in Romania for 75% of the project budget, a loan of €19.9 million.

The Group continues to pursue a conservative financing policy to decrease its exposure to the liquidity crisis, with the level of gearing being 47% (debt to equity).

People

Over the last decade, the Company experienced impressive growth especially after its IPO in October 2006. As a result, the number of employees increased in line with the number of projects as well as additional staff hired to enable the Company to penetrate new markets such as India. However, in light of current market conditions and the resulting realignment of our strategy, we have taken steps to reduce the Company's headcount, mainly in the CEE region.

Dividend policy

The basis of the Company's stated dividend policy at the time of its IPO was to reflect the long-term earnings and cash flow potential of the Group, taking into account its capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Given market conditions over the past 12 months, and as a material part of annual profits are from finance activities rather than realisation of real estate assets, the Board has taken the prudent step not to recommend the payment of a dividend for the year ended December 31, 2008, in order to preserve capital liquidity within the Company. The Board will continue to monitor overall market conditions, ongoing committed capital requirements of the Company, as well as expected future cash flow, before considering any future dividend payments.

Outlook

Given the extraordinary economic and financial market conditions worldwide, Plaza has undertaken a number of measures to ensure that the Company protects the interests of shareholders. This has included adopting a strategy and financing structure appropriate to the prevailing market conditions, which takes into account its ongoing capital requirements, as well as being able to make opportunistic acquisitions as appropriate.

We are particularly mindful of the impact of market conditions on investor demand in the regions in which we operate. We are, therefore, taking a cautious view on pipeline projects, which are expected to be delivered from 2010 and will keep the timing of the commencement of these schemes under regular scrutiny.

Given our strong financing position we are able to take a flexible position with regard to future development completions. Plaza is not in a position where it will have to execute forced sales of assets on completion. Until such a time when the investment market improves, we will use our experience gained over eight years of managing and running shopping malls effectively and efficiently to hold developed projects as income generating investments in our portfolio.

The current exceptional market conditions serve as the ultimate test for measuring a strong and well-managed company. Companies such as Plaza that want to take advantage of opportunities in the current market as the basis for their future growth must show their ability to adapt their strategies, readjust and reorganize existing projects and maximize liquidity and cash flow.

With this in mind, Plaza will not limit itself only to its traditional development business model and markets and to managing its existing holdings as investment assets, but will seek to acquire high yielding mature assets or invest in interesting new markets, such as the United States, where clear and sometimes exceptional opportunities may arise to enhance capital and income.

We therefore remain well placed to manage the business through this market downturn and remain confident in the Company's excellent long-term growth prospects.

Mordechay Zisser
Chairman

April 30, 2009

CHIEF EXECUTIVE'S REVIEW

Ran Shtarkman

Over the past 12 months Plaza has maintained good progress across its development portfolio and delivered a strong financial performance.

For 2008 we are reporting profits of €68 million, resulting mainly from gains from the completion and handover of Plzen Plaza as well as a price adjustment on the sale of Arena Plaza and financial profits. As per the Company's accounting policy, operational profits exclude accounting (IFRS) revaluation gains/losses.

Success in 2008

The Plaza brand continues to be as important as ever, playing a crucial role in our ability to source opportunities, work closely with local authorities and communities on issues such as planning, securing financing for development of projects and sourcing tenants for our shopping centers. Through applying these same principles and our business model consistently, we have been able to achieve considerable success in all these activities.

2008 and the period since the year end have been active for Plaza across all areas of its business. Particular highlights include:

1 Exits

Handover of the interests in Plzen Plaza, Czech Republic, to Klépierre.

2 Acquisition of development projects

Five new developments acquired in the most attractive markets and a joint venture agreement signed with Elbit for three existing mega projects in India.

3 Investments

Total gross investment in current projects and new pipeline in 2008 of €327 million.

4 Financial strength and flexibility

Gross proceeds of approximately €153 million raised from a debenture issue to Israeli institutional investors between February and May 2008, providing significant additional financial flexibility. The Company has been granted a ilA/Stable updated rating by S&P Maalot and an updated rating of A2/Stable by the Israeli affiliate of Moody's Investors services, Plaza's current cash balances stand at circa €170 million.

To date, Plaza has been involved in the development of 33 schemes in nine countries, of which seven are located in Romania, six in Poland, six in India, four in the Czech Republic, three in Hungary, three in Serbia, two in Bulgaria one in Latvia and one in Greece. In addition, Plaza owns three additional office buildings in Budapest, Prague and Bucharest.

The projects are at various stages of the development cycle, from the purchase of land through to the planning and completion of construction.

The Company's current assets and pipeline projects are summarized in the table below:

Asset/project	Location	Nature of asset	Size m² (GLA)	Plaza's effective ownership %	Status*
Arena Plaza Extension	Budapest, Hungary	Office scheme	40,000	100	Under planning. Construction will commence in 2010–2011; completion scheduled for 2012
Dream Island (Obuda)	Budapest, Hungary	Major business and leisure resort	350,000 (GBA) (for rent and sale)	43.5	Initial excavation and archaeological works commenced; staged completion scheduled for 2012–2014. Exclusive casino license obtained
Uj Udvar	Budapest, Hungary	Retail and entertainment scheme	16,000	35	Operating, currently working on refurbishment plans
David House	Budapest, Hungary	Headquarters/office	2,000	100	Operational office
Suwalki Plaza	Suwalki, Poland	Retail and entertainment scheme	20,000	100	Construction commenced in 2009; completion scheduled for 2010
Lodz	Lodz, Poland	Residential scheme	80,000 (GBA)	100	Under planning
Zgorzelec Plaza	Zgorzelec, Poland	Retail and entertainment scheme	13,000	100	Construction commenced in 2009; completion scheduled for 2010
Torun Plaza	Torun, Poland	Retail and entertainment scheme	44,000	100	Construction will commence in 2010; completion scheduled for 2011
Kielce Plaza	Kielce, Poland	Retail and entertainment scheme	33,000	100	Construction will commence in late 2010; completion scheduled for 2012
Leszno Plaza	Leszno, Poland	Retail and entertainment scheme	16,000	100	Construction will commence in 2011; completion scheduled for 2012
Prague 3	Prague, Czech Rep.	Office, for future residential use	61,600 (residential for sale)	100	Currently operational as an office building, re-zoning for future residential use is in progress, expected to be obtained in H2 2009
Opava Plaza	Opava, Czech Rep.	Retail and entertainment scheme	13,000	100	Construction will commence in 2011; completion scheduled for 2012
Liberec Plaza	Liberec, Czech Rep.	Retail and entertainment scheme	17,000	100	Construction started in 2007; opened to public in March 2009
Roztoky	Prague, Czech Rep.	Residential units	14,000	100	Construction will commence in 2011; completion scheduled for 2013
Casa Radio	Bucharest, Romania	Mixed-use retail and leisure plus office scheme	600,000 (GBA including parking)	75	Construction commenced in 2007, completion scheduled during 2013; approval of the Urban technical commission has been obtained
Timisoara Plaza	Timisoara, Romania	Retail and entertainment scheme	43,000	100	Construction will commence in 2010; completion scheduled for 2012
Miercurea Ciuc Plaza	Miercurea Ciuc, Romania	Retail and entertainment scheme	14,000	100	Construction commenced in late 2008; completion scheduled for 2010
Iasi Plaza	Iasi, Romania	Retail, entertainment and office scheme	62,000	100	Construction will commence in 2010; completion scheduled for 2012

CHIEF EXECUTIVE'S REVIEW CONTINUED

Asset/project	Location	Nature of asset	Size m² (GLA)	Plaza's effective ownership %	Status*
Slatina Plaza	Slatina, Romania	Retail, entertainment and residential	17,000	100	Construction will commence in 2010; completion scheduled for 2011
Hunedoara Plaza	Hunedoara, Romania	Retail and entertainment scheme	13,000	100	Construction will commence in 2010; completion scheduled for 2011
Targu Mures Plaza	Targu Mures, Romania	Retail and entertainment scheme	30,000	100	Construction will commence in 2010; completion scheduled for 2012
Palazzo Ducale	Bucharest, Romania	Office	700	100	Operational
Belgrade Plaza	Belgrade, Serbia	Hotel and business center with a shopping gallery	70,000 (GBA)	100	Construction will commence in 2011; completion scheduled for 2013
Sport Star Plaza	Belgrade, Serbia	Retail and entertainment scheme	45,000	100	Construction will commence in 2010; completion scheduled for 2012
Kragujevac Plaza	Kragujevac, Serbia	Retail and entertainment scheme	24,500	100	Construction started in late 2008; completion scheduled for 2011
Shumen Plaza	Shumen, Bulgaria	Retail and entertainment scheme	20,000	100	Construction will commence in 2010; completion scheduled for 2011
Plaza Sofia Business Center	Sofia, Bulgaria	Retail, entertainment and office scheme	44,000	51	Construction will commence in 2010; completion scheduled for 2012
Riga Plaza	Riga, Latvia	Retail and entertainment scheme	49,000	50	Construction commenced in 2007; opened to the public March 2009
Helios Plaza	Athens, Greece	Retail and entertainment scheme	25,000	100	Construction will commence in 2010; completion scheduled for 2012
Koregaon Park	Pune, India	Retail, entertainment and office scheme	111,000 (GBA)	100	Construction commenced in late 2007; expected completion in 2011
Kharadi	Pune, India	Retail, entertainment, and office scheme	205,000 (GBA)	50	Construction will commence in 2010; expected completion in 2012
Trivandrum	Trivandrum, India	Retail, entertainment, office and apart-hotel scheme	195,000 (GBA)	50	Under planning
Bangalore	Bangalore, India	Mixed-use residential, offices, retail, hotel, hospital and other infrastructure	2,100,000 (GBA)	23.75	Under planning; construction will commence in late 2010; completion scheduled for 2012–2017
Chennai	Chennai, India	Mixed-use residential, commercial, office and retail	1,100,000 (GBA)	38	Under planning; construction will commence in late 2010; completion scheduled for 2012–2015
Kochi Island	Kochi, India	Mixed-use residential, science park, retail, hospitality, infrastructure and marina	575,000 (GBA)	23.75	Under planning

* All completion dates of the projects are subject to securing external financing.

Details of these activities by country are as follows:

Hungary

During 2007, Plaza completed the development of Arena Plaza, its landmark shopping center scheme in central Budapest, comprising approximately 66,000m^2 GLA which makes it one of the largest in CEE. The center was sold to aAIM in November 2007. Plaza continues to work on the extension to Arena Plaza, where construction is planned to commence in 2010–2011. The extension will comprise an office complex with 40,000m^2 of GLA.

Following the year end, Plaza increased its stake in Dream Island from 30% to 43.5% through buying the shareholding of CP Holdings Ltd.. (a company controlled by Sir Bernard Schreier). Plaza and MKB Bank, (a leading Hungarian commercial bank which is a subsidiary of the German Bayerische Landesbank), which together held 60% of the project prior to this transaction, have acquired CP Holdings Ltd.'s 27% stake for circa €21.4 million. The consideration will consist of a cash payment of €12 million and the assumption of €9.4 million of debt, representing 27% of the project's net debt liability. The consortium now comprises the 87% holding interest of the 50:50 joint venture partnership between Plaza and MKB Bank, a company controlled by the Managing Director of the consortium (10% interest) and a further 3% owned by another party and small minorities.

The Dream Island project is a prestigious development on the Obuda Island in central Budapest, with a land area of 320,000m^2, and is intended to be developed as a major resort including hotels, recreation facilities, a casino and a business and leisure complex with a development budget of circa €1.5 billion and 350,000m^2 of GBA. Preliminary design, excavation and archaeological works are already under way. As stated above, in 2008 the consortium formed by the owners of Dream Island project won a concession license for the 20-year operation of a large-scale casino (the first one in Budapest) with an option to extend for an additional ten years. The project is intended to be completed in 2012–2014.

In accordance with its strategy to acquire operating shopping centers that show significant redevelopment potential for refurbishment and subsequent sale, in September 2007, the Company bought a 35% stake in the Uj Udvar shopping center in Budapest, Hungary. The shopping center is operational and the shareholders are working on a new design to be implemented.

The Group continues to own its office building in Budapest, David House on Andrassy Boulevard.

Poland

During 2008, Plaza acquired two further projects in Poland, in Kiecle and Leszno. Leszno will have a GBA of 23,000m^2 as well as a 450 space car park providing space for over 70 shops, with a total lettable area of 16,000m^2. Kielce was acquired via a competitive tender and will have a GBA of 45,000m^2 and GLA of 33,000m^2 and the construction is planned to commence in 2010.

Since the year end, Plaza has commenced the construction of two developments in Suwalki and Zgorzelec, with the completion of both schemes anticipated to occur in H1 2010. The developments will comprise 20,000m^2 and 13,000m^2 of GLA respectively.

In addition, Plaza continued the feasibility and planning studies for two development schemes in Lodz (designated for residential use) and in Torun (comprising approximately 44,000m^2 of GLA).

Czech Republic

On June 30, 2008, Plaza completed the successful handover of its shopping and entertainment center in Plzen (approximately 20,000m^2 GLA) to Klépierre. It was sold for a total consideration of €61.4 million, compared to a value of €42.8 million at IPO in November 2006, representing a 43% rise. The center was 100% let on opening.

Construction of the Liberec Plaza shopping and entertainment center (approximately 17,000m^2 GLA) commenced in 2007 and was opened on March 26, 2009.

During 2008, Plaza continued the feasibility and planning of its development schemes in Opava (13,000m^2), and its residential developments at Roztoky (14,000m^2) and Prague (61,600m^2).

The Company continues to own an income-generating office and warehouse building in Prague which is designated to be re-zoned for a scheme of 61,600m^2 of residential units. Re-zoning is expected to be received in the second half of 2009.

Romania

In November 2006, Plaza acquired a 75% interest in a company in partnership with the Government of Romania to develop Casa Radio (Dambovita), the largest development plot available in central Bucharest. It will comprise approximately 600,000m^2 of GBA, including a 170,000m^2 GBA shopping mall and leisure center (one of the largest in Europe), offices, hotel, casino, hypermarket and convention and conference hall. The project is the Group's biggest project currently under construction and has obtained the approval of the urban technical commission of Bucharest, Romania, and completion is scheduled for 2013.

In the second half of 2008, the Group commenced the construction of its development in Miercurea Ciuc (14,000 sqm GLA) which is expected to be completed in late 2010.

The Company continues the feasibility and planning phases of its development schemes in Timisoara, Iasi and Slatina. Timisoara is in the final stages of design and planning. In Iasi, the Company expects to start demolition works in 2010 and, in Slatina, the detailed design has been agreed, the majority of permits secured and construction is due to commence subject to finance. Iasi and Timisoara are expected to be completed in 2012 and Slatina in 2011.

During 2008, the Group continued its expansion in Romania, with the purchase of two sites located in Hunedoara and Targu Mures. In Hunedoara, Plaza is set to build a shopping center with 13,000m^2 of lettable space. It is located alongside the main road into the city center, and has a large catchment area with 500,000 people in the region. In Targu Mures, the Company is set to deliver 30,000m^2 of lettable retail space, comprising more than 120 units and 800 car parking spaces. The proposed development is ideally located near to the city center.

CHIEF EXECUTIVE'S REVIEW

In addition, Plaza has a 50.1% stake in the Plaza-BAS joint venture. Currently the joint venture company holds seven projects in Bucharest, Brasov and Ploiest:

	Fountain Park	Acacia Park	Primavera Tower	Green Land	Poiana Brasov	Primavera Tower	Pinetree Glade	Total
Location	Bucharest	Ploiest	Ploieast	Ploieast	Brasov	Brasov	Brasov	–
Plaza-Bas share	25%	50%	50%	50%	50%	50%	50%	–
Nature	Residential	Residential	Offices	Residential	Residential	Offices	Residential	–
Size (m^2)	18,000	32,000	10,000	37,000	140,000	12,000	50,000	299,000

Any additional value above book value of the Plaza-BAS venture assets has not been included in the year end NAV and was not valued by King Sturge. In light of this, and as stated in our report to shareholders in May 2008, we believe they offer a future potential uplift in value for shareholders.

Latvia
Construction works started in March 2007 on the Riga Plaza project, which comprises approximately 49,000m^2 of GLA in Riga, Latvia. Plaza owns a 50% holding in this project. The scheme is located on the western bank of the River Daugava, by the Sala Bridge. The opening was held in March 31, 2009 and the center is currently approximately 85% pre-let.

Serbia
Plaza believes that the Belgrade market offers particular potential, with a catchment area of approximately 2.5 million people. Plaza successfully established its presence in Serbia in 2007 with the acquisition of three plots.

The first of these was a state-owned plot and building in Belgrade, which Plaza secured in a competitive tender. The building was formerly occupied by the federal ministry of internal affairs of the former Yugoslavia and is located in the center of Belgrade in a neighbourhood of government offices and foreign embassies. On completion, the scheme, Belgrade Plaza, will comprise a hotel, offices and shopping gallery totaling circa 70,000m^2 of GBA. Construction is planned to commence in 2011 and completion is scheduled for 2013. The project is now in the local planning process.

In December 2007, the Company won a second competitive public auction announced by the Government of Serbia for the development of a new shopping and entertainment center called Sport Star Plaza with a total GLA of approximately 45,000m^2 in Belgrade. Concept design was submitted and the building permit is expected to be granted in 2010.

An additional development in Serbia is located in Kragujevac, a city of 180,000 inhabitants. The planned shopping and entertainment center will comprise approximately 24,500m^2 of GLA. Construction commenced in Q3 2008 and the opening is planned in 2011. The center is already 55% let.

Greece
Plaza owns a 15,000m^2 plot of land centrally located in Piraeus Avenue, Athens. Plaza is currently working on securing building permits for the construction of a shopping center, totalling approximately 25,000m^2 of GLA.

Construction is planned to start in 2010 and completion is scheduled for 2012.

Bulgaria
The Group owns a 20,000m^2 plot of land in Shumen, the largest city in Shumen County, which it intends to develop into a new shopping and entertainment center with a total GLA of 20,000m^2. The Company is currently finalizing the design, and construction is expected to commence later in 2010.

After the year end, Plaza acquired an additional plot in Sofia by purchasing a 51% stake (with an option to increase this to 75%) in a development project from a local developer for a total consideration of €7.14 million.

The consideration consists of a cash payment of €2.78 million and the assumption of €4.36 million of debt financed by a foreign bank, representing 51% of the project's debt liability. The planned scheme will comprise 44,000m^2 GLA of retail, entertainment and offices.

India
Plaza has identified strong potential in India and during 2006 acquired its first development project in the city of Pune in a 50:50 joint venture with a local partner. In November 2008, the Group bought the remaining 50% stake held by its JV partner which enables the Company to have full control over the development. The mixed-use scheme has a total area of 111,000m^2 which will comprise a shopping center and office space. Construction is already under way and completion is expected in 2011.

During 2007, Plaza acquired two additional development projects in a 50:50 joint venture. The first is located in the Kharadi district of Pune and totals approximately 205,000m^2 of GBA. The second is in Trivandrum, the capital city of the State of Kerala and totals approximately 195,000m^2 GBA. Both projects are for mixed-use developments.

During the last financial year, Plaza formed a joint venture with Elbit Imaging to develop three mega mixed-use projects in India with an approximate end value of US$3.4 billion (of which the JV will be responsible for circa US$1.9 billion), located in the cities of Bangalore, Chennai and Kochi. Under this agreement Plaza acquired a 47.5% stake in Elbit India Real Estate Holding Limited, which already owned stakes of between 50% and 80% in three mixed-use projects in India, in conjunction with local Indian partners. This joint venture's voting rights will be split 50:50 between Elbit and Plaza. Plaza has paid an initial US$126 million (circa €85 million), reflecting the share of the land purchase and related expenses. The acquisition of the locations is completed in parts, with an approximate expected end cost of US$410 million for the three locations (the JV's share).

These three projects are as follows:

Bangalore – This mixed-use project, 50% owned by the JV and 50% owned by a prominent local developer, is located on the eastern side of Bangalore, India's fifth largest city with a population of more than seven million people. With a total built area of over 2.1 million square meters, it will comprise luxury residential units (Villas and high and medium-rise apartment buildings), office complexes, a major retail facility, hotel complex, serviced apartments, hospital, club houses, retirement homes and ancillary amenity facilities.

Chennai – A mixed-use development, 80% owned by the JV and 20% owned by a prominent local developer, will be developed into an integrated mixed-use project consisting of residential units (in both high-rise, medium-rise buildings, and villas), ancillary amenities such as club houses, swimming pools and sports facilities, a local retail facility and an office complex, with a total built area of 1.1 million square meters excluding parking. Chennai is India's fourth largest city with a population of more than ten million.

Kochi Island – A 50:50 partnership with a prominent local developer, this mixed-use project will comprise more than 575,000m^2 of high-end residential apartment buildings, office complexes, a hotel and serviced apartments complex, retail area and a marina. It is located on a backwater island adjacent to the administrative, commercial and retail hub of the city of Kochi, in the state of Kerala, with a local population of more than three million people.

All three projects are in the planning and design stages. Construction at Bangalore and Chennai is expected to start in 2010 and at Kochi Island in 2011. The commercial elements are expected to be completed within three to five years while the residential elements will be completed in phases over an average term of five years.

The joint venture will also look for further large-scale mixed-use development opportunities in India, predominantly led by either residential, office or hotel schemes. In addition, Plaza will independently continue to develop, manage and look for new opportunities for shopping center led projects in India. This activity has no impact upon Plaza's existing three shopping center developments in the region.

Prospects

Given the current uncertain economic environment, we have limited our ongoing development programme to eight projects, focusing on areas with the high market demand and where financing terms are more favourable.

With letting activity progressing well across our developments, we expect to see continued interest from potential occupiers, as we use our strong contacts with key international and local tenants, who know and trust the Plaza brand. In addition to this, as many international retailers are only looking at the very best opportunities for international expansion, we are seeing a "flight to quality", which we believe will leave Plaza's shopping centers ideally positioned to meet such demands.

We are fortunate in being well positioned to prosper thanks to our conservative gearing levels, with minor debt comprising only 47% of equity, significant cash resources and very good relationships with our financing banks, who recognize Plaza's strong track record and standing. This means that Plaza is well placed to make opportunistic acquisitions at compelling prices and take a flexible approach to its development pipeline, as well as continuing to progress our large-scale projects, such as our joint venture projects in India.

Furthermore, we also expect to benefit from revenues generated from mature, income producing assets, which Plaza may elect to hold on its balance sheet until the investment market improves. Plaza has a strong history of managing such assets, having owned and managed retail investment properties in the past for over eight years.

Our further diversification into markets such as India also creates the opportunity for Plaza to continue to expand as we look to ensure that the business will grow significantly over the long term. With that in mind, we will continue to examine other future emerging and mature market opportunities, which we consider to offer the highest returns with minimum risks. Therefore, we will seek to utilize our cash position to find attractive new opportunities including purchasing existing shopping malls in markets other than our traditional areas of operation.

Ran Shtarkman
President and CEO

April 30, 2009

FINANCIAL REVIEW

Roy Linden

Results

The 2008 financial year reflects the handover of one shopping and entertainment center, as well as significant investment in current projects, in four additional schemes acquired during the year and substantial gains from financing activities.

In line with the Group's commercial decision to focus its business more on the development and sale of shopping and entertainment centers rather than operating them, the Group is classifying its current projects under development as trading properties rather than investment properties. Accordingly, revenues from the sale of trading properties are presented as gross amounts. As the Group does not revalue its trading properties and profits these assets, therefore, represent actual cash-based profits due to realizations.

Revenues for the year ended December 31, 2008 decreased to €99 million (2007: €510 million). These revenues are attributable mainly to the sale of Plzen Plaza in the Czech Republic and the positive price adjustment resulting from the disposal of Arena Plaza earlier in 2007.

No gains or losses were recorded in connection to investment property (2007: €2.1 million – net result from the sale of Duna Plaza Offices).

The majority of the cost of operations is attributable to the cost of the sale of Plzen Plaza mentioned above.

The level of administrative expenses was €24.5 million (2007: €23.1 million). The cost of non-cash share-based payments decrease slightly mainly due to the graded vesting method of the employee share option plan (ESOP) resulting in a non-cash payment in 2008 of €6.3 million (2007: €7.6 million). The options are amortized in the profit and loss statement using the conservative graded vesting method as required by IFRS. Using this method, the majority of the expense (approximately 60%) is recognized during the first year (out of three) of vesting, i.e. most of the expenses for the options granted at IPO were reflected in the 2007 financial statements.

In addition, in the second half of 2008, the Company initiated a thorough cost-cutting plan under which headcount has been reduced, payroll to current employees was decreased and agreements with construction suppliers, land sellers and service providers were re-negotiated and reduced. Due to these measures it is anticipated that the level of administrative expenses will be materially reduced in 2009.

Depreciation and amortization, as well as the cost of office rents, has increased as local headquarters were opened in the course of 2007, which were not present for the whole year of that year, but were in place throughout 2008.

Net finance significantly increased in 2008 to €58 million (2007: €9 million), mainly due to two components; the first being the changes in the fair value of the debentures issued in 2007 and 2008 and presented in the balance sheet at fair value (€30 million), as well as the gain derived from the increase in value of a cross currency swap transaction (€18 million), which is hedging the NIS (New Israeli Shekel) denominated debentures to the euro. Other factors which contributed to the increase are higher cash balances in the Group during the course of 2008, compared to 2007, which resulted in high interest income, net.

Current tax expenses continue to remain very low at €143,000 (2007: €90,000), reflecting less than 1% of profits before tax and resulting from the Group's favourable tax structure. The total increase in the tax expense is attributable to the deferred tax liability increase which is mainly due to gains from change in fair values of debentures and the swap transaction mentioned above.

Net profit for the period amounted to €68 million in 2008, compared to €227 million in 2007.

Basic and diluted earnings per share for 2008 were both €0.23 (2007: €0.78 and €0.77 respectively).

Balance sheet and cash flow

The balance sheet as at December 31, 2008 showed current assets of €824 million compared to current assets of €721 million at the end of 2007. This rise results from Plaza's realization of the Plzen project and investment in our substantial pipeline of development projects through bank financing and long-term debentures raised.

The Company's cash and restricted cash deposits position increased to €178 million (2007: €91 million), mainly due to the sale of Plzen Plaza, the payment received on Arena Plaza and the debentures issuance effected between February and May 2008. The Company has also invested in its projects under development, the acquisition of four projects and a new joint venture in India.

Trade receivables have decreased significantly from €263 million to €0.8 million as a result of funds received in connection with the sale of Arena Plaza.

There was no change in the value of the investment properties both in 2007 and 2008 as the fair value of the Prague 3 logistics building (which is the only investment property) has not changed based on management's estimation.

Long-term deposits and balances have increased significantly as a result of secured deposits used as collateral in respect of the cross currency interest rate swap, as well as investment in long-term financial instruments.

Total bank borrowings (long and short term) increased to €111 million (2007: €6 million) due to the drawdown of construction loans and loans related to investment in long-term financial instruments.

Apart from bank financing, Plaza has on its balance sheet a liability with fair value of €175 million (and face value of circa €206 million) from issuing debentures on the Tel Aviv Stock Exchange. These debentures are presented at their fair value. Plaza has hedged the future expected payments in New Israeli Shekels (principal and interest linked to the Israeli CPI index) to correlate with the euro currency and the Euribor interest rate, using a cross currency interest rate swap.

Trade payables increased to €23 million (2007: €19 million), due to the increase in the volume of construction activities (at year end 2008, eight projects were under construction).

Other liabilities and provisions represent the amount payable in respect of new acquisitions. The balance has decreased from €53 million in 2007 to €31 million as most of the land purchase transactions were finalized by the end of the year.

Related Party balances are presented gross (both in the assets and in the liabilities sections of the balance sheet) as the balances are with different Plaza Group subsidiaries and therefore netting was not possible under IFRS. That created a material asset and liability at year end 2007. However, a netting settlement agreement was concluded during 2008 that resulted in a significant decrease in both the liability and asset side of the balance sheet with regard to the Related Party balances. At the 2008 year end, the net balance of the Plaza Group with its controlling shareholders is a liability of approximately €2.3 million of which €1.1 million is due to a provision in respect of liability to Elbit Imaging's ("EI") Vice Chairman through an option granted in connection with Indian operations and €0.9 million is due to a provision in respect of project management fees charged by the Control Centers group. These fees relate to the project supervision services granted in respect of the extensive schemes within the Group. The remaining net balance includes a net liability regarding charges and loans to and from Elbit Imaging group companies to the Company as well as loans to Group subsidiaries in Poland.

In conclusion, Plaza's balance sheet reflects significant strength. Our increasing balance of inventories under construction should result in successful returns in the future and the generation of substantial revenues in the coming years. Plaza has a proven ability to be able to generate substantial profits, which arise from the actual realization of cash from assets and not from revaluations. Our high level of liquid balances and low gearing, with the majority of the Group's debt maturing only between 2011 and 2017, will enable us to bring the current portfolio to fruition. High cash balances and substantial (non-revalued) shareholders equity of more than €600 million will enable the Company to make opportunistic purchases of new projects in the best-performing markets under current economic conditions.

Roy Linden
Chief Financial Officer

April 30, 2009

MANAGEMENT STRUCTURE

PLAZA CENTERS' BOARD

EXECUTIVE DIRECTORS

Mordechay (Motti) Zisser
Chairman

Ran Shtarkman
President & CEO

Shimon Yitzhaki
Non-executive director

Edward Paap
Non-executive director

Marco Wichers
Non-executive director

Marius van Eibergen Santhagens
Non-executive director

- Oversight of Company strategy and all project development decisions
- Wide-ranging propety development expertise
- Review and approval of business plan and budgets
- Active management and monitoring of development risks

SENIOR MANAGEMENT

Ran Shtarkman
President & CEO

Roy Linden
CFO

Uzi Eli
General Counsel

Uri Shetrit
Chief Architect

Ami Hayut
Chief Engineer

Functional Management Support

- Experienced property development professionals with global property development expertise
- Responsible for sourcing development projects
- Development of business plans
- Overseeing the management of development projects

LOCAL COUNTRY MANAGEMENT

Eli Mazor
Country Director (Poland)
Regional Marketing Director (Europe)

Tal Ben Yehuda
Country Director
Czech Republic, Slovakia, Baltic States

Luc Ronsmans
Country Director
The Netherlands, Romania, Greece

Yossi Ofir
Country Director
India

Sagiv Meger
Country Director
Serbia and Balkan States

Rostislav Levinzon
Country Director
Ukraine and Russia federations

Daniel Belhassen
Country Director
Bulgaria

- Extensive local experience
- Cultivating connections within market to source opertunities
- Day-to-day management of local operations and developments

BOARD OF DIRECTORS

Mordechay Zisser

Ran Shtarkman

Shimon Yitzhaki

Edward Paap

Marius van Eibergen Santhagens

Marco Wichers

EXECUTIVE DIRECTORS

Mordechay Zisser, Chairman (male, 53, Israeli)
Mordechay Zisser is the founder and Chairman of the Europe Israel Group of companies, of which Plaza Centers is a member. During more than 25 years' active involvement in some of the world's most prestigious real estate developments, he has led successful projects in Israel, Western Europe, Central and Eastern Europe (CEE), South Africa and India. Mr Zisser was appointed as Executive Director and Chairman of the Board of Directors of Plaza Centers on August 17, 2006.

Ran Shtarkman, President and CEO (male, 41, Israeli)
Ran Shtarkman (CPA, MBA) joined Plaza Centers in 2002, becoming Chief Financial Officer in 2004 and CEO in September 2006. He was additionally appointed as Executive Director on October 12, 2006 and as President in 2007. Previous roles include CFO of SPL Software Ltd., Finance and Administration Manager for Continental Airlines' Israeli operations and Controller of Natour Ltd..

NON-EXECUTIVE DIRECTORS

Shimon Yitzhaki (male, 53, Israeli)
Shimon Yitzhaki (CPA), President of Elbit Imaging Ltd. (the Company's indirect controlling shareholder) since 1999. Mr Yitzhaki has been with the Europe Israel Group since 1985 and has held several positions within the Group, among which, he served as Executive Director of Plaza Centers for the period commencing on March 3, 2000 and ending on October 12, 2006, and thereafter he was appointed as Non-executive Director of Plaza Centers.

Edward Paap (male, 45, Dutch)
Edward Paap is an expert in international tax, having gained a masters degree as a tax lawyer from the University of Leiden. Following seven years as a tax adviser in a medium-sized accountancy practice, working principally in the international tax field, since 1997 he has been acting as Managing Director of an Amsterdam-based Trust Office with many international clients. Mr Paap served as Executive Director of Plaza Centers for the period commencing on March 3, 2000 and ending on October 12, 2006, and thereafter he was appointed as Non-executive Director of Plaza Centers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Marius van Eibergen Santhagens (male, 57, Dutch)
Marius van Eibergen Santhagens has over 25 years' experience at the forefront of corporate finance and change management, with a specialist focus on leisure since 2000. Today, he is the General Manager and owner of Leisure Investments & Finance B.V., prior to which he was a consultant at Beauchamp Leasing and Metro B.V. and held a number of positions at Generale Bank Nederland B.V.. Mr van Eibergen Santhagens was appointed as Non-executive Director of Plaza Centers on November 1, 2006.

Marco Wichers (male, 49, Dutch)
Marco Wichers is the CEO and owner of AMGEA Holding B.V. and the CEO of real estate consultancy AMGEA Vastgoed Adviseurs B.V.. Previously, he was the CEO of two New York-based manufacturing companies – Branco International Inc. (1988–1995) and Cravat Club Inc. (1983–1995), which he also owned. Mr Wichers was appointed as Non-executive Director of Plaza Centers on November 1, 2006.

SENIOR MANAGEMENT

Roy Linden, (32), BBA, CPA (USA, Israel), Chief Financial Officer
Roy Linden joined Plaza Centers in November 2006 and acts as the Group's CFO. Prior to joining the Company, he spent nearly four years at KPMG in Hungary, acting as Manager in the real estate desk, specializing in auditing, business advisory, local and international taxation for companies operating throughout the CEE region. He also spent three years at Ernst and Young in Israel, as a senior member of an audit team specialized in hi-tech companies.

Ami Hayut, (43), BSc, Chief Engineer
Ami Hayut joined Plaza Centers in November 2008 and acts as the Group's Chief Engineer and Head of Construction. Prior to joining the Company he acted as a management member in a project management firm "Nizan Inbar Ltd.", and for the last 15 years acted as the head of management teams of various multidiscipline, complex projects and as a member of the Ben Gurion Airport management in Israel (1995–1997).

Uri Shetrit, (57), B Arch & TP, MAUD, Chief Architect
Uri Shetrit is the Chief Architect of Plaza Centers and is in charge of the whole Group's architectural design and urban planning activities in Europe and Asia. Before becoming the Chief Architect for the Group, he was the Director of urban planning, urban design and architectural administration for the City of Jerusalem, Israel, from 2000 until 2005. He is also the Principal and owner of Uri Shetrit Architects Ltd., a private company established in 1993. Prior to this, he collaborated with Moshe Safdie and Associates from 1982, for over 12 years, at which time he held the positions of Associate and Principal, both in Boston and in Jerusalem. Since 2003, he is also the Chairman of the Israel National Council of Engineering and Architecture. He is a graduate of Harvard University's Graduate School of Design (1982, MAUD), and a graduate of the Israel Institute of Technology – "Technion" (1980, B Arch and TP).

Uzi Eli, (33), LL.B, Attorney at Law (Israel), MBA, General Counsel and Compliance Officer
Uzi Eli joined Plaza Centers as the Group's General Counsel and Compliance Officer in 2007. Prior to joining the Company, he practiced law in two of the leading commercial legal firms in Israel. His main practice was concentrated in commercial and corporate law, providing ongoing legal services to corporate clients (mainly hi-tech and bio-tech companies, and venture capital funds) in all aspects of corporate governance, and representation in various transactions, such as financing and M&A transactions and other wide varieties of licensing and technology transactions.

Luc Ronsmans, (58), MBA, Netherlands, Romania and Greece Country Director
Luc Ronsmans joined the Europe Israel Group in 1999. Located in Amsterdam and Bucharest, he acts as Manager for European Operations for both the Company and its Group affiliates. Prior to joining the Europe Israel Group, he was active in the banking sector, holding managerial positions with Manufacturers Hanover Bank, Continental Bank (Chicago), AnHyp Bank and Bank Naggelmachers in Belgium.

Tal Ben Yehuda, (40), MSc in Business Management and Accounting, Czech Republic, Slovakia and Baltic States Country Director
Tal Ben Yehuda acts as Country Manager for the Czech Republic, Slovakia and the Baltic States, having joined the Group in 2002. Prior thereto, he held a series of managerial positions with companies active in Europe and Israel.

Eli Mazor, (54), Regional Marketing Director (Europe) and Poland Country Director
Eli Mazor, who acted as a Regional Marketing Manager in Poland since joining the Group in 2005 was appointed Poland Country Manager and Regional Marketing Director in 2007. Prior thereto, he acted as the CEO of a shopping center in Israel.

Yossi Ofir, (52), Republic of India Country Director
Yossi Ofir joined Plaza Centers in 2008 as a Country Director for the Republic of India. Prior to joining the Company, he acted as a Head of Commercial Department in "Pele-phone Communication Ltd." (a leading company in the Israeli telecommunication sector). Prior to this position he acted as the Head of National Marketing Department in an Israeli credit card company.

Rostislav Levinzon, (44), Master of Engineering, Ukraine and Russia Country Director
Rostislav Levinzon joined the Company in 2007 and acts as Country Director for the Ukraine and Russia. Prior to joining the Company, he provided advisory and business supporting services to investment, engineering and development companies dealing with property, industry and finance projects in the Ukraine, particularly international financial institutions involved in large-scale projects with governmental enterprises. Prior to that, he served for four years as Deputy General Manager for the Ukrainian conglomerate with its core competence in the airspace industry, with responsibility for the overall management and strategic business development. Prior to this, he worked in Israel as Deputy General Manager for the Israeli branch of a Japanese company, the leading manufacturer of medical hi-tech equipment and materials worldwide.

Sagiv Meger, (31), Republic of Serbia and Balkan States Country Director
Sagiv Meger joined the Plaza team in late 2007 as the Country Director of Plaza Centers Serbia. Prior to joining Plaza Centers he was the COO of a company based in Angola, Africa, for four years, supporting over 50 various projects, ranging from telecommunications, real estate, agriculture to military intelligence. He gained an extensive range of first-hand experience in previous management positions.

Daniel Belhassen, (39), LL.B and BA in Economics and Business Administration, Republic of Bulgaria Country Director
Daniel Belhassen joined the Plaza team in the beginning of 2008, as the Country Director for Plaza Centers Bulgaria. Prior to joining Plaza Centers, Mr Belhassen was acting for two years as a business development manager in a real estate development company based in Israel, supporting several retail projects in Hungary, Poland, Germany, and the Czech Republic. Mr Belhassen has gained vast experience in the purchasing, financing, development and management of retail projects in the CEE region.

DIRECTORS' REPORT

Principal activities and review of business

Plaza Centers N.V. is a leading developer of shopping and entertainment centers with a focus on the emerging markets of Central and Eastern Europe ("CEE"), where it has operated since 1996 when it become the first company to develop western-style shopping and entertainment centers in Hungary. This followed its early recognition of the growing middle class and increasingly affluent consumer base in such markets.

Since then, it has expanded its CEE operations into Poland, Czech Republic, Latvia, Romania, Bulgaria, Greece, Serbia and India.

The Group has been present in real estate development in emerging markets for over 13 years, initially pursuing shopping and entertainment center development projects in Hungary and subsequently expanding into Poland, the Czech Republic, Romania, Latvia, Greece, Serbia, Bulgaria and India. To date, the Group has developed and let 28 shopping and entertainment centers in the CEE region, of which 26 were sold. Twenty-one of these centers were acquired by Klépierre, the second largest shopping center owner/operator in Europe, which owns more than 230 shopping centers in ten countries. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors. One shopping center was sold in 2007 to active Asset Investment Management ("aAIM"), a UK commercial property investment group. The transaction had a completion value totaling approximately €387 million, representing circa 20% of all real estate transactions completed in Hungary in 2007.

For a more detailed status of current activities and projects, the directors refer to the Chairman's statement and the Chief Executive's review on pages 24 to 33.

Pipeline projects

The Company is active in seeking new sites and development opportunities and is actively involved in securing the necessary contracts to undertake further projects in countries in which the Company is currently operating. The Company is also analyzing and contemplating to invest in further countries that meet its development parameters and investment criteria.

Going concern

The directors' review of the 2009 budget and longer term plans for the Company has satisfied them that, at the time of approving the financial statements, it is appropriate to adopt the "going concern" basis in preparing the financial statements of the Company.

Dividends

According to the Company's Dividend Policy, dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the Company's Board of Directors, on any additional annual net profits which exceed €30 million. In accordance with the said policy, the Company distributed a dividend following the year ended December 31, 2007 of approximately €57 million, which was paid in June 2008.

Given market conditions over the last 12 months, and as a material part of annual profits resulting from finance activities rather than realization of real estate assets, on March 26, 2009, the Company's Board of Directors has taken the prudent step not to recommend the payment of a dividend for the year ended December 31, 2008, in order to preserve capital liquidity within the Company. The Company's Board of Directors will continue to monitor overall market conditions, ongoing committed capital requirements of the Company, as well as expected future cash flow, before considering any future dividend payments.

Directors' interests

The directors have no interests in the shares of the Company. Details of the directors' share options are given on page 49 of this report.

Directors and appointments

The following served as directors of the Company at December 31, 2008:

Mordechay Zisser, Chairman
Ran Shtarkman, President and CEO
Shimon Yitzhaki, Non-executive Director
Edward Paap, Non-executive Director
Marius van Eibergen Santhagens, Independent Non-executive Director
Marco Wichers, Independent Non-executive Director

Financial risk management

The Company faces a number of risks in the areas of credit, interest rates and currency. The Company 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. Transactions involving deposits, investment in marketable securities and derivatives financial instruments are entered into with counterparties, that have high credit rating. Given their high credit ratings (at least investment grade ratings, management does not expect any counterparty to fail to meet its obligations. The Company holds the majority of its financial instruments with variable rate, and thus eliminating the interest rate risk. In respect of currency risk, and in connection with NIS linked debt securities issued in July 2007 and in the course of 2008, and as the Company's functional currency is the euro, the Company is hedging the majority of its future expected payments in NIS (principal and interest) to correlate with the euro, and by that eliminating the main currency risk it faces.

Substantial shareholdings

Except as disclosed under "directors' interests" above, the Company is not aware of any interests amounting to 3% or more in the Company's shares besides that of its parent company.

Buyback

On October 16, 2008, the Board of Directors of the Company resolved to approve a share repurchase program, in the framework of which the Company will purchase up to 19,323,536 shares, representing 6.61% of the Company's share capital. The shares will be purchased on-market on the London Stock Exchange in accordance with shareholder approval obtained at the Company's Annual General Meeting on May 27, 2008.

The buyback program was fully utilized in three months and the purchased shares are held in treasury. The Company has also been informed by its majority shareholder, Elbit Imaging Ltd. ("Elbit"), which held indirectly 68.4% of the Company's share capital that Elbit intends to purchase the Company's shares through a series of on-market purchases. Elbit's purchase of the Company's shares shall be within the above mentioned limit of the Company's repurchasing program. As at balance sheet date,

DIRECTORS' REPORT CONTINUED

the Company has purchased 9,209,443 of its own shares and Elbit has purchased 200,000 of the Company's shares. Following these purchases, Elbit (as of the balance sheet date) indirectly owns 70.6% of the Company.

In the course of January 2009, both the Company and Elbit continued with the share buyback program. In the course of January 2009 the Company purchased 5.3 million shares in an average price of 60 pence per share, while EI purchased 4.6 million shares in an average price of 62 pence per share.

Following the above mentioned purchase and the conclusion of the share buyback program, the effective holding percentage of Elbit in the Company is 73.69%. In total, and up to January 15, 2009, the Company acquired 14.5 million shares at an average price of 53 pence.

Repricing

On November 25, 2008 the Company's general shareholders meeting and Board of Directors approved to amend the exercise price of all options granted prior to October 25, 2008 ("Record Date") to the average closing price of the Shares on the London Stock Exchange during the 30-day period ending on November 25, 2008 (i.e. £0.52 per option). In addition, the amendment plan determined that all Options that were not vested on the Record Date shall vest over a new three-year period commencing on the Record Date, in such way that each year following that date one-third of such Options shall be vested. Furthermore, the Option Term was extended in additional two years to a total period of seven years, which starts at the date of grant by the Company's Board of Directors. In addition, the 180% limit on the potential benefit from each Option was changed to a cap of 324 pence per Option. The maximum number of shares issuable upon exercise of all outstanding options as of the balance sheet date is 24,773,405 shares.

Employee involvement

The Company's employees are vital to its ongoing success. It is therefore important that all levels of staff are involved in its decision-making processes. To this end, the Company has an open culture and flexible structure, and staff are encouraged formally and informally to become involved in discussions on the Company's future strategy and developments. An employee share option scheme was adopted on October 26, 2006 which enables employees to share directly in the success of the Company.

Annual General Meeting (AGM)

The Annual General Meeting of shareholders was held at Park Plaza Victoria Hotel Amsterdam, Damrak 1–5, 1012 LG Amsterdam, The Netherlands on May 27, 2008 at 1pm (CET).

In this AGM, inter alia, the following resolutions were taken by the shareholders: (i) to approve the Company's Dutch statutory annual accounts and annual report being drawn up in the English language; (ii) to consider the Company's Dutch statutory annual accounts and the annual report for the year ended December 31, 2007; (iii) to adopt the Company's Dutch statutory annual accounts for the year ended December 31, 2007; (iv) to discharge the directors of the Company from their liability for the conduct of business for the year ended December 31, 2007; (v) to resolve to distribute a dividend of €0.1949 per share, being a total amount of €57 million in respect of the year ended December 31, 2007; (vi) to authorize the Board of managing directors of the Company generally and unconditionally to exercise all powers of the Company to allot equity securities in the Company up to an aggregate nominal value of €965,024, being 33% of the Company's issued Ordinary Share capital, provided that such authority shall expire on the conclusion of the Annual General Meeting to be held in 2009 unless previously renewed, varied or revoked by the Company in a general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired; (vii) to give a special instruction to the Board authorising it to disapply the pre/emption rights set out in Article 6 of the Company's Articles of Association, such power to expire at the conclusion of the next Annual General Meeting to be held in 2009, and the Board may allot equity securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to the allotment of the equity securities up to a maximum aggregate nominal amount of €292,431; (viii) To re-elect as a director Mr Mordechay Zisser, who is retiring by rotation under Article 15.3 of the Company's Articles of Association; (ix) To re-elect as a director Mr Ran Shtarkman, who is retiring by rotation under Article 15.3 of the Company's Articles of Association; and (x) to authorize the Company, generally and unconditionally, for the purpose of Article 8 of the Articles of Association of the Company, to make market purchases of Ordinary Shares in the capital of the Company on such terms and in such manner as the directors may from time to time determine, subject to certain conditions.

Extraordinary General Meetings (EGM)

On January 7, 2008, in an extraordinary meeting of shareholders of the Company, it was inter alia resolved: (i) to approve the proposed issue and offering to the public in Israel of Series B Notes with an aggregate nominal value in NIS, which will be the equivalent of an amount up to US$327,965,911 (in accordance with the exchange rate on the date of issue); (ii) to ratify the issue and offering in Israel of Series A Notes with an aggregate nominal value of NIS 305,136,400 and (iii) to approve the admission to listing on the TASE of the Notes in issue and to be issued.

By a shareholders' resolution adopted in an extraordinary meeting of shareholders held on February 18, 2008, it was inter alia resolved: (i) to consider the Company's Dutch statutory annual accounts and the annual report for the year ended December 31, 2006; (ii) to adopt the Company's Dutch statutory annual accounts for the year ended December 31, 2006; (iii) to discharge the directors of the Company from their liability for the conduct of business for the year ended December 31, 2006; (iv) to resolve that no dividends be distributed in respect of the year ended December 31, 2006; and (v) to amend the Articles of Association of the Company.

By a shareholders' resolution adopted in an extraordinary meeting of shareholders held on November 25, 2008, it was inter alia resolved: (i) to approve and to the extent necessary ratify the issue and offering to the public in Israel by the Company of unsecured Series B Notes of the Company (Series B Notes) in the aggregate nominal amount of NIS 84,419,196 (eighty-four million four hundred and nineteen thousand one hundred and ninety-six New Israeli Shekels) and the subsequent admission of those Series B Notes to listing on the Tel Aviv Stock Exchange; (ii) to approve the proposed amendment by the Board of Directors of the Plaza Centers N.V. Incentive Plan; (iii) to honorably dismiss KPMG Accountants N.V. as the Company's statutory accountant with immediate effect; (iv) to appoint Mazars Paardekooper Hoffman Accountants N.V. as statutory accountants of the Company with immediate effect.

CORPORATE GOVERNANCE

The Company was incorporated in the Netherlands on May 17, 1993 as a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid). The Company was converted into a public limited liability company (naamloze vennootschap) on October 12, 2006, with the name "Plaza Centers N.V.". The principal applicable legislation and the legislation under which the Company and the Ordinary Shares in the Company have been created is book two of the Dutch Civil Code (Burgerlijk Wetboek).

Compliance

The Board is committed to high standards of Corporate Governance, in order to maintain the trust of the Company's shareholders and other stakeholders. It complies with the Combined Code and the Dutch Corporate Governance Code, with the exception of a limited number of best practice provisions from the Dutch Corporate Governance Code which it does not consider to be in the interests of the Company and its stakeholders.

These exceptions are listed below.

The Best Practice Provisions not applied by the Company in the year 2008 are:

- Best Practice Provision II.1.3 stipulates inter alia that the Company should have an internal risk management and control system which should in any event employ as instruments of the internal risk management and control system a code of conduct which should be published on the Company's website. Such code of conduct is not available at the date of publication of this document.

- Best Practice Provision II.2.1 stipulates that options to acquire shares should be a conditional remuneration component. The Company grants unconditional options, thereby deviating from this Best Practice Provision. The reason for this is that the Company wishes to have the same system of granting of options as is currently used by the Europe Israel Group.

- Best Practice Provision II.2.2 stipulates that if, notwithstanding Best Practice Provision II.2.1 (see above), a company grants unconditional options to board members, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted. The Company deviates from this Best Practice Provision in respect of both the requirement for performance criteria and from the requirements for a vesting period of three years. Under the Company's Share Option Incentive Plan, unconditional options may be granted to executive directors and non-executive directors without performance criteria. The Company considers this to be appropriate given the extensive experience of the directors who will be granted options and the fact that they have made special efforts in the growth of the Company prior to the Admission.

  Furthermore, options (including those of Board members) will vest annually in three equal parts, whereby one-third of the options granted vest upon the lapse of one year from the date of grant, another third of the options granted vest the lapse of two years from the date of grant and the last third vest upon the lapse of three years from the date of grant. The deviation from this Corporate Governance rule is due to the fact that similar vesting schedules are common in incentive plans adopted by the Europe Israel Group. The Company, as part of the Europe Israel Group, wished to adopt a similar vesting schedule to avoid material changes to the incentives granted to its employees and officers.

- Best Practice Provision II.2.5 stipulates that neither the exercise price nor the other conditions regarding the granted options shall be modified during the term of the options, except in so far as prompted by structural changes relating to the shares of the Company in accordance with established market practice. The Company has on November 25, 2008 adjusted the exercise price of the granted options. This has been done since the Board of Directors was of the view that the current Share Option Scheme should serve as an effective incentive for the employees of the group of companies, headed by the Company, to encourage them to remain in employment and work to achieve the best possible results for the Company and its shareholders. Market conditions, however, led to a strong decline in the Company's share price at both the London Stock Exchange and the Warsaw Stock Exchange (WSE) resulting in practically all options being out of the money without the favorable outlooks for a quick recovery. In order to maintain the incentive for all employees, the Board has submitted to the extraordinary meeting of shareholders that was held on November 25, 2008, a proposal to amend the Share Option Scheme and to determine the exercise price of all options granted on or prior to October 25, 2008, to £0.52. In an attempt to insure that the options are and remain an effective incentive and to assist in the retention of employees, the revised Share Option Scheme includes an extension of the vesting term for options granted less than one year prior to October 25, 2008. The shareholders approved the amendment of the Share Option Scheme and the adjustment of the exercise price.

- Best Practice Provision II.3.2 and Best Practice Provision III.6.1 stipulate that both executive directors and non-executive directors shall immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, to the Chairman and to the other Board members and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. Section 17.3 of the Articles now, inter alia, provides that a Board member shall inform the Board of any possible direct and/or indirect conflicting interest as soon as practically possible after becoming aware of such possible conflict. It is, however, envisaged that Board members shall comply with the contents of Best Practice Provision II.3.2 and Best Practice Provision III.6.1 in respect of providing the additional information as required under the Dutch Corporate Governance Code. Best Practice Provision II.3.3 and Best Practice Provision III.6.2 stipulate that both executive directors and non-executive directors shall not take part in any discussion or decision making that involves a subject or transaction in relation to which they have a conflict of interest with the Company. Section 17.2 of the Articles stipulates that a member of the Board shall neither be counted in the quorum nor vote upon a resolution approving a transaction with the Company in which he has a material personal interest.

CORPORATE GOVERNANCE CONTINUED

Thus the Company does not apply Best Practice Provision II.3.3 and Best Practice Provision III.6.2 to the extent it relates to non-material personal interests or material non-personal interests. However, the Company does intend to adopt procedures to ensure that the non-independent directors shall not vote on matters in which they have an interest as a result of their ties with the controlling shareholder. Furthermore, Best Practice Provision II.3.4 and Best Practice Provision III.6.3 stipulate, inter alia, that decisions to enter into transactions in which there are conflicts of interest with management Board members that are of material significance to the Company and/or to the relevant Board members require the approval of the non-executive directors. Such provision has not been inserted into the Articles.

› Best Practice Provision III.1.7. stipulates that the supervisory board shall discuss, at least once a year on its own, both its own functioning and that of its individual members, and the conclusions that must be drawn on the basis thereof. The desired profile, composition and competence of the supervisory board shall also be discussed. Moreover, the supervisory board shall discuss at least once a year without the management board being present, the functioning of the management board as an organ of the Company and the performance of its individual members, and the conclusions that must be drawn on the basis thereof. In 2008 the non-executive directors have not specifically discussed the items that appear in this best practice provision on separate occasions, predominantly since the crisis that appeared in 2008 and which affects the real estate business has forced the Board to first focus on the Company's core business and the position of the Company in changing markets. The Board feels, however, that it is important to notify the shareholders that as a rule, every Board meeting includes and assessment by all Board members of their own functioning and that of their fellow Board members. The Board is of the view that, given the fact that the Company has a one-tier board rather than a separate management board and supervisory board, this course of action appropriately meets the requirements as laid down in this best practice provision.

› Best Practice Provision III.1.8. stipulates that the supervisory board shall discuss, at least once a year, the corporate strategy and the risks of the business, and the results of assessment by the management board of the structure and operation of the internal risk management and control systems, as well as any significant changes thereto. In 2008, there have not been separate meetings of the non-executive directors to discuss the items mentioned in this Best Practice Provision. This is because risk management at Plaza Centers is, pursuant to the internally applicable Corporate Governance regulations, a matter specifically reserved for the full Board. Board meetings in 2008 have included discussion in respect of corporate strategy and risk management and periodically throughout the year, the internal system of risk management has been assessed by the full Board.

› Best Practice Provision III.3.5 stipulates that a non-executive director (in terms of the Dutch Corporate Governance Code a supervisory director (commissaris) may be appointed to the Board for a maximum of three four-year terms. Section 15 of the Articles provides for a retirement schedule whereby directors who have been in office for not less than three consecutive annual general meetings shall retire from office. Pursuant to section 15.6 of the Articles, such a director may be reappointed, which could result in a term of office which is longer than three four-year terms.

› Best Practice Provision III.4.1 stipulates that the chairman of the supervisory board shall ensure that: (a) the supervisory board members follow their induction and education or training program; (b) the supervisory board members receive in good time all information which is necessary for the proper performance of their duties; (c) there is sufficient time for consultation and decision making by the supervisory board; (d) the committees of the supervisory board function properly; (e) the performance of the management board members and supervisory board members is assessed at least once a year; (f) the supervisory board elects a vice-chairman; and (g) the supervisory board has proper contact with the management board and the works council (or central works council). Since the Company has a one-tier board without a separate supervisory board, this provision has not been complied with in such manner that the tasks as mentioned in this Best Practice Provisions are carried out by the non-executive directors acting jointly.

› Best Practice Provision III.4.2 states that the Chairman of the supervisory board shall not be a former member of the management board of the Company. Mr Mordechay Zisser functions as Chairman of the Board while being an executive director. For an explanation of the deviation from this Best Practice Provision, see the remark made for Best Practice Provision III.8.1.

› Best Practice provision III.5.6 stipulates that the Audit Committee must not be chaired by the Chairman of the Board or by a former executive director of the Company. The Company's Audit Committee is chaired by Mr Shimon Yitzhaki, who has been an executive director of the Company and thus the Company deviates from this Best Practice Provision. The Company, however, believes that given Mr Yitzhaki's extensive financial experience, chairmanship of the Audit Committee is appropriate.

› Best Practice Provision III.5.1 provides that the committee rules stipulate that a maximum of one member of each committee need not be independent within the meaning of Best Practice Provision III.2.2 The Company's Nomination Committee is comprised of three members, two of whom, Messrs Yitzhaki and Paap, are considered to be non-independent. The Company believes that the composition of the nomination committee as currently envisaged is in the best interests of the Company, given the skills and experience of the Committee members.

- Best Practice Provision III.5.11 inter alia provides that the Remuneration Committee shall not be chaired by a non-executive director who is either a former executive director or a member of the management board of another listed company. Since the Remuneration Committee is chaired by Mr Shimon Yitzhaki, who is a former executive director and serves as President of Elbit Imaging Ltd., the Company deviates from this requirement. The Company is convinced that the experience of Mr Yitzhaki in this respect should be considered more important than the fact that Mr Yitzhaki is a Board member of another listed company.

- Best Practice Provision III.7.1 stipulates that non-executive directors should not be granted any shares and/or rights to shares by way of remuneration. Under the Share Option Scheme, prior to Admission, options were granted to Mr Yitzhaki, a non-executive director. Furthermore, the Share Option Scheme does not exclude the possibility of making further grants of options to non-executive directors. In particular, the Company believes that the granting of options to Mr Yitzhaki is appropriate, given his extensive involvement in the Company to date and his special efforts made in respect of the preparation of the Company for Admission. Furthermore, the Company has retained the right to grant options to non-executive directors as it believes that granting such options is appropriate in order to offer future non-executive directors a competitive remuneration package.

- Best Practice Provision III.8.1 states that the Chairman of the Board shall not also be or have been an executive director. Mr Zisser is Executive Chairman and the Company considers, given Mr Zisser's extensive business experience, that this is in the best interests of the Company.

- Pursuant to Best Practice Provision III.8.4 of the Dutch Corporate Governance Code, the majority of the members of the Board shall be independent non-executives within the meaning of Best Practice Provision III.2.2. The Company currently has two executive directors (who are considered to be non-independents) and four non-executive directors out of whom two non-executive directors are considered to be independent, applying the criteria of Best Practice Provision III.2.2. The non-executive directors who are considered to be non-independent are Messrs Shimon Yitzhaki and Edward Paap. The independent non-executive directors are: Messrs Mark Wichers and Marius Van Eibergen Santhagens. See also page 37 – Additional Information for an overview of the directors' former and current functions. Consequently, two out of the six directors are considered to be independent. The Company believes that the experience of the non-independent directors is of great importance to the Company.

- Best Practice Provision V.3 stipulates inter alia that the Company should have an internal auditor. The Company, however, believes that it has no need to have an internal audit function, since as part of the Europe Israel Group, the Company has a Quality Control Regulator, which practically functions as an internal auditor.

On July 4, 2007, the WSE Supervisory Board adopted the Corporate Governance rules of the WSE contained in the Code of Best Practice for WSE-Listed Companies (the "WSE Corporate Governance Rules"). The WSE Corporate Governance Rules apply to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules consist of general recommendations relating to best practice for listed companies (Part I) and best practice provisions relating to management boards, supervisory board members and shareholders (Parts II to IV). The WSE Corporate Governance Rules impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I, in respect of which and based on a resolution of the Management Board of the WSE dated December 11, 2007, WSE-listed companies are not required to publish a current report). Moreover, every year each WSE-listed company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with the Company's annual report. Companies listed on the WSE are required to justify non-compliance or partial compliance with any WSE Corporate Governance Rule and to show the ways of eliminating the possible consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in future. The Issuer intends, to the extent practicable, to comply with all principles of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent permitted by Dutch law. Detailed information regarding non-compliance, as well as additional explanations regarding partial compliance with certain Corporate Governance Rules of the WSE due to incompatibilities with Dutch law, will be included in the aforementioned reports, which will be available on the Company's website and published by way of a current report.

Role of the Board

The Board sets, inter alia, the Company's strategic aims, policy and standards of conduct. It monitors performance against business plan and budget, ensuring that the necessary human and financial resources are in place to meet its objectives and that the Board and all employees act ethically and in the best interests of all stakeholders. It has decision-making authority over a formal schedule of matters such as important business matters, policies and budgets. It delegates authority to various committees that are described herein.

Board practices

Dutch statutory law does not provide for a one-tier governance structure, in which a board is made up of executive and non-executive directors. Instead, it provides for a two-tier structure comprising separate management and supervisory boards. It is, however, well-established practice to have a structure for the management board that resembles a one-tier structure. Under this organization, all members are formally managing directors with the Articles of Association allocating to certain members tasks and obligations similar to those of executive directors, and to others tasks and obligations that are similar to those of non-executive directors.

CORPORATE GOVERNANCE CONTINUED

This is the structure the Company operates, providing that some directors are responsible for day-to-day management and others for supervising day-to-day management of the Company. All statutory provisions relating to members of the Company's Management Board apply in principle to all members of a one-tier board.

All responsibilities are subject to the overall responsibility of the Management Board.

The Board is accountable to the General Meeting of Shareholders.

Composition and operation of the Board

The Company has six directors – two executive directors (Chairman and CEO/President) and four non-executive directors, of whom two are independent.

The Board meets regularly throughout the year, when each director has full access to all relevant information. Non-executive directors may if necessary take independent professional advice at the Company's expense. The Company has established three committees, in line with the Combined Code and the Dutch Corporate Governance Code. These are the Audit Committee, the Remuneration Committee and the Nomination Committee, and a brief description of each may be found below.

In addition, the Board has established an Executive Committee, comprising the four non-independent directors and any relevant senior managers, that meets each month to discuss such matters as contract status, budgets, contingencies and risk-management issues.

Audit Committee

Comprising three non-executive directors, the Audit Committee meets at least three times each financial year. The Audit Committee has the general task of evaluating and advising the Board on matters concerning the financial administrative control, the financial reporting and the internal and external auditing. Among other matters, it must consider the integrity of the Company's financial statements, the effectiveness of its internal controls and risk management systems, auditor's reports and the terms of appointment and remuneration of the auditor.

Composition: Mr Yitzhaki, Mr Wichers and Mr van Eibergen Santhagens. **Chairman:** Mr Yitzhaki.

Remuneration Committee

The Remuneration Committee, comprising three non-executive directors, meets at least twice each financial year to prepare the Board's decisions on the remuneration of directors and the Company's share incentive plans (Under Dutch law and the Articles, the principal guidelines for directors' remuneration and approval for directors' options and share incentive schemes must be determined by a General Meeting of Shareholders). The Committee also prepares an Annual Report on the Company's remuneration policy. The remuneration report may be found on pages 46 and 47 of this document.

Composition: Mr Yitzhaki, Mr Wichers and Mr van Eibergen Santhagens. **Chairman:** Mr Yitzhaki.

Nomination Committee

Meeting at least twice a year, the Nomination Committee comprises three non-executive directors. Its main roles are to prepare selection criteria and appointment procedures for Board members and to review the Board's structure, size and composition. Whereas all senior management of the Company was already nominated and since there wasn't any other necessity, the Nomination Committee didn't meet in 2008 as frequently as required.

Composition: Mr Yitzhaki, Mr van Eibergen Santhagens and Mr Paap. **Chairman:** Mr Paap.

Internal control/risk management

The Company fully complies with the internal control provisions of the Combined Code and the Dutch Corporate Governance Code. The Board has established a continuous process for identifying and managing the risks faced by the Company, and confirms that any appropriate actions have been or are being taken to address any weaknesses.

It is the responsibility of the Audit Committee to consider the effectiveness of the Company's internal controls and risk management procedures, and the risks associated with individual development projects are addressed each month by the Executive Committee.

Share-dealing code

The Company operates a share-dealing code, particularly relating to dealing during close periods, for all Board members and certain employees, as is appropriate for a listed company. The Company takes all reasonable steps to ensure compliance by those parties affected.

The share-dealing code meets the requirements of both the Model Code set out in the Listing Rules and the Market Abuse chapter of the Wte 1995.

Controlling shareholder and conflicts of interest

The Company has a controlling shareholder who owns approximately 73.69% of the Enlarged Share Capital and therefore has effective control of the Company. The Board is satisfied that the Company is capable of carrying on its business independently of the Controlling Shareholder, with whom it has a relationship agreement to ensure that all transactions and relationships he has with the Group are conducted at arm's length and on a normal commercial basis.

The Articles of Association of the Company include provisions on conflicts of interest between the Company and holders of control. If a conflict of interest arises between the controlling shareholder and the Company, the non-independent directors will take no part in the Board's decisions on the matter.

Shareholder communication

The Company's management meets with shareholders each year at the Annual General Meeting (AGM) to discuss matters relating to the business.

Details of this year's AGM can be found on page 40.

The Board is committed to maintaining an open, honest and positive dialogue with shareholders.

To ensure that all its communications are factually correct, it is furnished with full information before every meeting on the state and performance of the business. It also has ultimate responsibility for reviewing and approving all information contained in its annual, interim and other reports, ensuring that they present a balanced assessment of the Company's position.

The main channels of communication with shareholders are the Chairman, CEO, CFO and our financial PR advisers, although all directors are open to dialogue with shareholders as appropriate. The Board encourages communication with all shareholders at any time other than during close periods, and is willing to enter dialogue with both institutional and private shareholders.

It also actively encourages participation at the AGM, which is the principal forum for dialogue with private shareholders. As well as presentations outlining the progress of the business, it includes an open question and answer session in which individual interests and concerns may be addressed. Resolutions put to vote and their results will be published following the meeting.

The Company's website (www.plazacenters.com) contains comprehensive information about the business, and there is a dedicated investor relations section where detailed financial information on the Company may be found.

Corporate, social and ethical policies

The Company is responsible not only to its shareholders, but also to a range of other stakeholders including employees, customers, suppliers and the communities upon whom its operations have an impact.

It is therefore the responsibility of the Board to ensure that the Company, its directors and its employees act at all time in an ethical manner. As a result, the Company seeks to be honest and fair in its relations with all stakeholders and to respect the laws and sensitivities of all the countries in which it operates.

Environment

The Company regards compliance with environmental legislation in every country where it operates as its minimum standard, and significant levels of management attention are focused on ensuring that all employees and contractors achieve and surpass both regulatory and internal environmental standards.

The Company undertakes a detailed environmental impact study of every project it undertakes, including an audit of its waste management, water and energy usage, emissions to air and water, ozone depletion and more.

Health and safety

The Company is committed to promoting the health, safety and welfare of its employees, and is supported in achieving its "zero harm" goal through an active health and safety educational program involving all employees across the organization.

REMUNERATION REPORT

Remuneration Committee

As stated in the Corporate Governance report on pages 41 to 45 of this document, the Remuneration Committee meets at least twice each financial year to prepare, among other matters, the decision of the Board relating to the remuneration of directors and any share incentive plans. It is also responsible for preparing an annual report on the Company's remuneration policies and for giving full consideration in all its deliberations to the principles set out in the Combined Code.

The committee comprises three non-executive directors – it is chaired by Shimon Yitzhaki and the other members are Marius van Eibergen Santhagens and Marco Wichers.

Under Dutch corporate law and the Articles of the Company, a General Meeting of Shareholders must determine the principal guidelines governing the remuneration both of executive and non-executive directors. In addition, such a meeting also has to approve the granting to them of options and share incentive plans.

The Board may only determine the remuneration of directors within such guidelines, and no director or manager may be involved in any decisions relating to his or her own remuneration.

Remuneration policy

Plaza Centers' remuneration policy is designed to attract, motivate and retain the high-calibre individuals who will enable the Company to serve the best interests of shareholders over the long term, through delivering a high level of corporate performance. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

The Remuneration Committee reviews base salaries annually. Increases for all employees are recommended by reference to cost of living, responsibilities and market rates, and are performed at the same time of year.

The Remuneration Committee believes that any director's total remuneration should aim to recognize his or her worth on the open market and to this end pays base salaries in line with the market median supplemented by a performance-related element with the capacity to provide more than 50% of total potential remuneration.

2008	Salary and fees €'000	Share incentive plan[1] €'000	Total non-performance related remuneration €'000	Total performance related remuneration €'000
Chairman and executive directors				
Non-performance related remuneration				
Mr Mordechay Zisser	214	1,370	1,584	–
Mr Ran Shtarkman	396	2,840	3,236	796[2]
Total	610	4,210	4,820	796
Non-executive directors				
Non-performance related remuneration				
Mr Shimon Yitzhaki	–	315	315	–
Mr Marius van Eibergen Santhagens	50	–	50	–
Mr Edward Paap	50	–	50	–
Mr Marco Wichers	50	–	50	–
Total	150	315	465	–
Total – all directors	760	4,525	5,285	796

1 Accounting non-cash expenses recorded in the Company's income statement in connection with the share option plan.
2 Per management agreement, provision was calculated as 0.75% of net pre-tax profits of up to €10 million, and thereafter 1.25% of any net pre-tax profits which exceed €10 million.

Total shareholder return performance 2008

Service arrangements

The executive directors have rolling service contracts with the Company, which may be terminated on 12 months' and three months' notice in the cases of the Chairman and the CEO/ President respectively.

The non-executive directors have specific terms of reference. Their letters of appointment state an initial 12-month period, terminable by either party on three months' written notice. Save for payment during respective notice periods, these agreements do not provide for payment on termination.

Bonuses

The Company has a performance-linked bonus policy for senior executives and employees, under which up to 3% of net annual profits are set aside for allocation by the directors to employees on an evaluation of their individual contributions to the Company's performance. In addition, the Board can award ad hoc bonuses to project managers, area managers and other employees on the successful completion and/or opening of each project. The directors also have the authority to award discretionary bonuses to outstanding employees which are not linked to the Company's financial results.

Share options

The Company adopted its Share Option Scheme on October 26, 2006 which was amended on November 25, 2008 (refer to page 40). The terms and conditions of which (except for the exercise price) are regulated by the Share Option Scheme. Options will vest in three equal annual portions and have contractual life of seven years following grant.

In the course of 2008, 3,625,000 options were granted. For the exercise and forfeit of options refer to the table below.

	Number of options	Number vested as at December 31, 2008	Exercise price of options £
Mr Mordechay Zisser	**3,907,895**	**1,302,632**	**0.52**
Mr Ran Shtarkman	**10,150,376**	**3,383,459**	**0.52**
Mr Shimon Yitzhaki	**1,116,541**	**372,180**	**0.52**
Mr Marius van Eibergen Santhagens	**–**	**–**	**N/A**
Mr Edward Paap	**–**	**–**	**N/A**
Mr Marco Wichers	**–**	**–**	**N/A**

	Number of options as at December 31, 2008
Total pool	**33,834,586**
Granted	**33,827,174**
Exercised	**(435,182)**
Forfeited	**(3,276,784)**
Left for future grant	**3,284,196**

Amsterdam, April 30, 2009

The Board of Directors

Mordechay Zisser **Ran Shtarkman** **Shimon Yitzhaki**

Marius van Eibergen Santhagens **Marco Wichers** **Edward Paap**

STATEMENT OF THE DIRECTORS

The responsibilities of the directors are determined by applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are responsible for preparing the Annual report and the annual financial statements in accordance with applicable law and regulations.

Netherlands law requires the directors to prepare financial statements for each financial year that give, according to generally acceptable standards, a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the companies that are included in its consolidated accounts for that period.

Netherlands law requires the directors to prepare the Annual report that gives a true and fair view of the position as per the balance sheet date, the course of business during the past financial year of the company and its affiliated companies included in the annual financial statements, and that the annual report contains a proper description of the principal risks the company faces.

Directors are required to abide by certain guidelines in undertaking these tasks.

The directors need to select appropriate accounting policies and apply them consistently in their reports. They must state whether they have followed applicable accounting standards, disclosing and explaining any material departures in the financial statements.

Any judgments and estimates that directors make must be both reasonable and prudent. The directors must also prepare financial statements on a “going concern” basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Throughout the financial year, the directors are responsible for keeping proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Company. They are also responsible for ensuring that these statements comply with applicable company law.

In addition, they are responsible for internal control systems that help identify and address the commercial risks of being in business, and so safeguard the assets of the Company. They are also responsible for taking reasonable steps to enable the detection and prevention of fraud and other irregularities.

The Company’s website may be accessed in many countries, which have different legal requirements. The directors are responsible for maintaining the accuracy of corporate and financial information on the website, where a failure to update or amend information may cause inappropriate decision making.

On the basis of the above and in accordance with Best Practice Provision II.1.4. of the Netherlands Corporate Governance Code of December 2003, taking into account the recommendation of the Corporate Governance Monitoring Committee on the application thereof, the directors confirm that internal controls over financial reporting within the company provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirm that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so.

The financial statements fairly represent the Company’s financial condition and the results of the Company’s operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliance with legislation, rules and regulations.

In view of all of the above, hereby following the requirements of article 5:25c paragraph 2 under c. of the Netherlands Act on the financial supervision (Wet op het financieel toezicht), the directors hereby confirm that (i) the annual financial statements 2008 as included herein, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and its affiliated companies that are included in the consolidated financial statements; and (ii) the annual report includes a fair review of the position at the balance sheet date and the development and performance of the business of the company and its affiliated companies that are included in the consolidated annual financial statements and that the principal risks and uncertainties that the Company faces are described.

The board of managing directors

Mordechay Zisser
Executive director and Chairman

Ran Shtarkman
Executive director, President and CEO

Shimon Yitzhaki
Non-executive director

Edward Paap
Non-executive director

Marius van Eibergen Santhagens
Non-executive director

Marco Wichers
Non-executive director

April 30, 2008

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Plaza Centers N.V.

We have audited the accompanying consolidated financial statements of Plaza Centers N.V. (hereinafter referred to as "the Company"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 the 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the 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 judgement, 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

April 30, 2009

KPMG Hungária Kft.

CONSOLIDATED BALANCE SHEET

For the year ended December 31, 2008

	Note	December 31, 2008	December 31, 2007
ASSETS			
Cash and cash equivalents	5	**146,026**	66,381
Restricted bank deposits	6	**32,253**	25,155
Short-term deposits and investments		**–**	1,033
Available-for-sale financial assets	7	**8,608**	–
Trade receivables, net	8	**838**	262,595
Other receivables and prepayments	9	**60,550**	48,102
Related parties	19	**481**	19,525
Trading properties	10	**575,334**	298,339
Total current assets		**824,090**	721,130
Long-term deposits and other investments	11	**50,385**	1,987
Equity accounted investees	15	**188**	1,129
Derivatives	16	**20,323**	2,228
Property and equipment	12	**15,793**	16,465
Investment property	13	**12,970**	12,970
Restricted bank deposits	6	**34,497**	5,302
Other non-current assets		**310**	–
Total non-current assets		**134,466**	40,081
Total assets		**958,556**	761,211
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest bearing loans from banks	17	**69,415**	409
Trade payables	18	**23,197**	19,432
Amounts due to related parties	19	**2,748**	23,103
Provisions	20	**16,985**	17,536
Other short-term liabilities	21	**13,673**	35,200
Total current liabilities		**126,018**	95,680
Interest bearing loans from banks	17	**41,273**	5,461
Long-term debentures at fair value through profit or loss	22	**175,144**	53,821
Amounts due to related parties	19	**–**	1,871
Other long-term liabilities	21	**399**	355
Deferred tax liabilities	23	**6,191**	552
Total non-current liabilities		**223,007**	62,060
Share capital	24	**2,924**	2,924
Translation reserve	24	**(12,175)**	(1,727)
Other reserves	24	**21,778**	13,498
Share premium	24	**248,860**	248,860
Treasury shares	24	**(5,469)**	–
Retained earnings		**350,605**	339,916
Total equity attributable to equity holders of the Company		**606,523**	603,471
Minority interest		**3,008**	–
Total equity		**609,531**	603,471
Total equity and liabilities		**958,556**	761,211

The notes on pages 55 to 107 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of directors on March 26, 2009 and were signed on its behalf by:

Ran Shtarkman
Director, President and Chief Executive Officer

Shimon Yitzhaki
Director and Chairman of the Audit Committee

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2008

	Note	For the year ended December 31, 2008	For the year ended December 31, 2007
Revenues	27	**98,613**	507,843
Gain from the sale of investment property, net		**–**	2,071
		98,613	509,914
Cost of operations	28	**55,934**	268,730
Gross profit		**42,679**	241,184
Administrative expenses*	29	**24,540**	23,117
Other income	30	**(193)**	(85)
Other expenses	30	**2,882**	423
Results from operating activities		**15,450**	217,729
Finance income	31	**67,356**	12,407
Finance expenses	31	**(9,268)**	(3,060)
Finance income, net		**58,088**	9,347
Share in loss of associate	15	**(941)**	(19)
Profit before income tax		**72,597**	227,057
Income tax expenses	32	**4,913**	90
Profit for the year		**67,684**	226,967
Basic earnings per share (in euros)	25	**0.23**	0.78
Diluted earnings per share (in euros)	25	**0.23**	0.77

* Including non-cash expenses due to the share option plan in the amount of €6.3 million (2007: €7.6 million).

The notes on pages 55 to 107 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2008

Attributable to the equity holders of the Company

	Share capital	Share premium	Other capital reserves	Translation reserve	Reserve for own shares	Financial assets available for sale reserve	Retained earnings	Total	Minority interest	Total
Balance at December 31, 2006	2,923	248,860	1,840	(1,895)	–	–	112,949	364,677	–	364,677
Changes in translation reserve*	–	–	–	168	–	–	–	168	–	168
Share option exercised	1	–	–	–	–	–	–	1	–	1
Share based payment	–	–	11,658	–	–	–	–	11,658	–	11,658
Profit for the year	–	–	–	–	–	–	226,967	226,967	–	226,967
Balance at December 31, 2007	2,924	248,860	13,498	(1,727)	–	–	339,916	603,471	–	603,471
Changes in translation reserve*	–	–	–	(10,448)	–	–	–	(10,448)	(170)	(10,618)
Changes in financial assets available for sale	–	–	–	–	–	(1,120)	–	(1,120)	–	(1,120)
Share-based payment	–	–	9,400	–	–	–	–	9,400	–	9,400
Own shares acquired	–	–	–	–	(5,469)	–	–	(5,469)	–	(5,469)
Effect of acquisition of subsidiaries	–	–	–	–	–	–	–	–	3,178	3,178
Dividend paid	–	–	–	–	–	–	(56,995)	(56,995)	–	(56,995)
Profit for the year	–	–	–	–	–	–	67,684	67,684	–	67,684
Balance at December 31, 2008	**2,924**	**248,860**	**22,898**	**(12,175)**	**(5,469)**	**(1,120)**	**350,605**	**606,523**	**3,008**	**609,531**

* Mainly in connection with India operation.

The notes on pages 55 to 107 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2008

	Note	For the year ended December 31, 2008	For the year ended December 31, 2007
Cash flows from operating activities			
Profit for the year		**67,684**	226,967
Adjustments necessary to reflect cash flows used in operating activities:			
Depreciation and impairment on property and equipment	12,30	**3,295**	907
Advance payment on accounts of trading properties		**(38,567)**	(52,358)
Finance income, net	31	**(58,088)**	(9,347)
Interest received in cash		**14,213**	6,732
Loss on sale of property and equipment		**497**	40
Share in loss of associate		**941**	19
Gain on sale of investment property		**–**	(2,071)
Gain on sale of trading property	36	**(41,644)**	(235,499)
Income tax expenses		**4,913**	90
Tax repaid in cash		**235**	–
		(46,521)	(64,520)
Decrease (increase) in trade accounts receivable	8	**277,761**	(5,807)
Decrease (increase) in other accounts receivable		**9,105**	(18,816)
Change in restricted cash for projects to be acquired		**(56,035)**	(24,540)
Increase in trading properties	10	**(192,949)**	(302,996)
Purchase of trading property companies (see appendix A)	36	**(75,238)**	(16,244)
Increase (decrease) in trade accounts payable		**(13,386)**	38,822
Increase (decrease) in other liabilities and provisions		**(20,055)**	20,423
Net proceeds from selling of trading property (see appendix B)	36	**60,189**	63,718
Share-based payment		**6,988**	7,644
		(3,620)	(237,796)
Interest paid		**(2,591)**	(368)
Income tax paid		**(202)**	(7)
Net cash used in operating activities		**(52,934)**	(302,691)
Cash from investing activities			
Purchases of fixed assets and other assets		**(2,071)**	(9,880)
Proceeds from sale of property and equipment		**3,182**	19
Decrease (increase) of short-term deposits, net		**1,025**	(5,121)
Purchase of available-for-sale marketable securities	7	**(10,011)**	–
Long term deposits, net		**(162)**	(5,430)
Net proceeds from disposal of other subsidiaries (see appendix B)		**–**	11,526
Long-term structured deposit	11	**(51,305)**	–
Net cash used in investing activities		**(59,342)**	(8,886)
Cash from financing activities			
Proceeds from loans from banks and financial institutions	17	**105,586**	124,747
Dividend paid	24	**(56,995)**	–
Treasury shares purchased		**(5,469)**	–
Proceeds from issuance of long-term debentures	22	**151,627**	53,003
Long-term loans repaid to banks		**(768)**	(7,115)
Loans repaid to related parties		**(1,260)**	(5,735)
Loans received from related parties		**–**	386
Net cash provided by financing activities		**192,721**	165,286
Effect of exchange rate fluctuations on cash held		**(800)**	(11)
Increase (decrease) in cash and cash equivalents during the year		**79,645**	(146,302)
Cash and cash equivalents at the beginning of the year		**66,381**	212,683
Cash and cash equivalents at the end of the year		**146,026**	66,381

The notes on pages 55 to 107 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT CONTINUED

For the year ended December 31, 2008

	For the year ended December 31, 2008	For the year ended December 31, 2007
Appendix A – Acquisition of subsidiaries		
Cash and cash equivalents of subsidiaries acquired	**5,526**	14
Short-term deposits	**–**	(12,021)
Trade receivables and other receivables	**15,622**	98
Long-term deposit	**104**	–
Fixed assets	**4,675**	–
Trading property	**58,531**	53,848
Other assets	**59**	
Trade payables	**(20)**	(176)
Related parties	**–**	–
Minority interest	**(3,182)**	–
Other accounts payable	**(551)**	(25,505)
Less – cash and cash equivalents of subsidiaries acquired	**(5,526)**	(14)
Acquisitions of subsidiaries, net of cash held	**75,238**	16,244
Appendix B – Disposal of subsidiaries		
Cash and cash equivalents of subsidiaries disposed	**1,388**	28,693
Short-term deposits	**–**	3,130
Trade receivables*	**800**	2,937
Other receivables	**80**	51,005
Trading properties	**40,822**	257,292
Investment properties	**–**	13,684
Long-term balances and deposits	**–**	748
Interest bearing loan from banks	**–**	(168,838)
Trade payables	**(5,248)**	(54,700)
Other accounts payables	**(1,105)**	(11,942)
Related parties	**–**	2,251
Deferred taxes and long-term balances	**–**	(4,167)
Foreign currency translation adjustment	**–**	637
Net identifiable assets and liabilities disposed	**36,737**	120,730
Cash from sale of subsidiaries	**61,577**	103,937
Less – cash and cash equivalents of subsidiaries disposed	**(1,388)**	(28,693)
	60,189	75,244
Non-cash transactions		
Suppliers and creditors for trading properties	**20,378**	34,020
Share-based payment capitalized to trading properties	**2,905**	4,806

* 2007 – restated to exclude debtor from selling of Arena Plaza shopping center.

The notes on pages 55 to 107 form an integral part of these consolidated financial statements.

NOTE 1 – PRINCIPAL ACTIVITIES AND OWNERSHIP

Plaza Centers N.V. ("the Company") was incorporated and registered in the Netherlands in May 1993 as a private company by the name of Shaka B.V. In September 2006 the Company changed its name to its present name, as part of the London IPO reorganization. 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, and, starting 2006, India. 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.

In line with the Group's commercial decision to focus its business more on development and sale of shopping and entertainment centers rather than operating them, the Group has classified its current projects under development as trading properties rather than investment properties.

The Company's shares are traded on the Official List of the London Stock Exchange ("LSE") and starting October 19, 2007, the Company's shares are also listed in the Warsaw Stock Exchange ("WSE").

The Company's immediate parent company is Elbit Ultrasound B.V. ("EUL"), which holds 70.6% of the Company's shares, as of balance sheet date. The ultimate parent company is Elbit Imaging Limited ("EI"), which is indirectly controlled by Mr Mordechay Zisser. EI itself holds as of balance sheet date 0.1% of the Company's shares. Regarding share purchase of the Company by EI and treasury shares purchase refer to note 36. For the list of the Company's subsidiaries, joint ventures and affiliates, refer to note 41.

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 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, 2008 in accordance with the Netherlands Civil Code.

The financial statements were approved by the Board of Directors on March 26, 2009.

B Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the following:

- Investment property 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; and
- 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 euros, which is the Company's functional currency. All financial information presented in euros has been rounded to the nearest thousand, unless otherwise indicated.

D Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 2 – BASIS OF PREPARATION CONTINUED

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in the following Notes:

- Note 10 – valuation of trading properties
- Note 13 – valuation of investment property
- Notes 20, 35 – provisions and contingencies
- Note 26 – measurement of share-based payments
- Note 32 – utilization of tax losses
- Note 34 – valuation of financial instruments. (Bonds, Swaps, structure)

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.

A Basis of consolidation

1 Subsidiaries

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

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

When non-controlling interests in subsidiaries are acquired, the difference between the amount paid and the amount of the acquired share in the non-controlling interest at the acquisition date is attributed to assets and liabilities as aforesaid. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group in the consolidated financial statements.

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% of the voting power of another entity.

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

Investments in associates are carried in the balance sheet 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 associate 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 Acquisitions from entities under common control
Transactions arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognized at their fair value at the date of the acquisition. Any excess of the cost of acquisition over the Group's interest in the fair values of the net identifiable assets acquired is recognized as goodwill. When the excess is negative (negative goodwill), it is recognized directly in profit or loss in the period of acquisition.

5 Transactions eliminated on consolidation
Material intra-group balances and transactions, and any unrealized 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in equity.

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 euros at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euros at exchange rates at the dates of the transactions. Foreign exchange differences arising on retranslation are recognized directly in the foreign currency translation reserve (FCTR).

The euro (EUR) is the functional currency for Group companies (with the exception of Indian companies – in which the functional currency is the Indian Rupee – INR) since it best reflects the business and results of operations of the Group companies. This is based upon the fact that the euro (and in India – the INR) 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.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the FCTR.

3 Net investment in foreign operations exchange
Differences arising from translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal.

C Financial instruments
1 Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

C Financial instruments continued

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of three months or less from the acquisition date.

Restricted deposits and cash in escrow

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

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

Trade receivables

Trade receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in certain debt and equity 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 (see note 7) are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. Held to maturity investment comprise of structure A (see note 11(1)).

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis unless those costs are capitalized.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss includes structured deposit B (see note 11(1)) and unsecured non-convertible Debentures series A and series B (see note 22).

Upon initial recognition a financial asset or a financial liability may be designated by the Company as 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 it eliminates or significantly reduces a measurement or recognition inconsistency. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

2 Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

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

Swap transactions

The Group measures Cross Currency Interest Rate Swaps transactions as hedging transactions not recognized for accounting purposes, at fair value through profit and loss (see note 16).

3 De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement. If the exchange or modification is immaterial, it is treated in the term of the original commitment and no gain or loss is recognized from the exchange.

4 Share capital – Ordinary Shares

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.

5 Repurchase of share capital (treasury shares)

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

D 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 capitalized 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 borrowing 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

E Operating cycle
The Group is involved in projects some of which may take up to five years to complete. The cost of inventory and loans which financed the development projects is presented as current assets and liabilities (see note 10).

F Investment property
Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value at the balance sheet date. For measuring fair value of Investment property please refer to note 4.

Any gain or loss arising from a change in fair value is recognized in the income statement in the period in which it arises. Rental income from investment property is accounted for as described in accounting policy 3(j).

G Property and equipment
Items of property and equipment are stated at cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy 3(i)). 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 recognized 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
Shopping centers – building	2–4
Mechanical systems in the buildings	7–10
Aircraft	3.7–5
Other*	6–33

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

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

H Other non-current assets
1 Initiation costs of shopping centers
Expenditure on assessment and research activities, undertaken with the prospect of developing new shopping centers, are recognized in the income statement as an expense as incurred.

Costs which are directly relating to initiation activities (prior to the conclusion of the land acquisition, etc.), are capitalized as they arise, when a property acquisition transaction is foreseen and probable, and are charged to the cost of constructing of the real estate project upon execution of the transaction. When there is no longer a probable expectation of completing the transaction, the above mentioned costs are written-off to the statement of income.

2 Cost of obtaining long-term lease agreements
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.

I Impairment
1 Financial assets
A financial asset 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 amortized 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 recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

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 each balance sheet date 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 other assets is the greater of their 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 specified to the asset.

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

3 Reversal of impairment
An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss 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.

J 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.

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.

Provision in respect to sold projects
The Group's financial statements include provisions for expenses for further works to be provided on real estate assets already delivered to the buyer.

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.

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.

K Revenue recognition
1 Rental income from tenants, management fees and operation of shopping centers and investment properties
Revenues from the leasing of property and management fees, as well as other revenue relating to the operations of shopping and entertainment centers, are recognized on a straight-line basis over the term of the lease and/or the service.

2 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 of the goods;

b the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

K Revenue recognition continued

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

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.

In circumstances where the terms of the transaction provide for the Group to receive additional consideration which is contingent upon fulfillment of certain conditions without risk of loss, and the transaction otherwise qualifies for profit recognition, the contingent future profits are recognized when the contingency is resolved.

L Operational lease payments

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

M 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 hedging instruments that are recognized in profit or loss, interest on late payments from receivables and 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 recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. For capitalization 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.

Foreign currency gains and losses are reported on a net basis.

For the Company's policy regarding capitalization of borrowing costs refer to note 3(d).

N Taxation

Income tax expense on the profit or loss for the year comprises current and deferred tax.

The tax currently payable is based on taxable profit for the year, and any adjustment to tax payable in respect of previous years. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized using the balance sheet 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 recognized 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 recognized 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 realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference 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 realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time that the liability to pay the related dividend is recognized.

O Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments.

The Group's primary format for segment reporting is based on geographical segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

P 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.

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 fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. 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 personnel expenses in the income statement. As at balance sheet date 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. See also note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Q Earning 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.

R New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2008, and have not been applied in preparing these consolidated financial statements:

› Amendment to IFRS 2 Share-based Payment (effective for annual periods beginning on or after January 1, 2009)

The amendments to the Standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The Group has not yet completed its analysis of the impact of the amended Standard.

› Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after July 1, 2009)

Revised IFRS 3 is not relevant to the Group's financial statements as the Group does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

› IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1, 2009)

The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance.

Currently the Group presents segment information in respect of its geographic and business segments (see note 38). The Group has not yet completed its analysis of the impact of the revised Standard. The Standard will have no effect on the profit or loss or equity.

› Revised IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009)

The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

› Revised IAS 23 Borrowing Costs (effective for annual periods beginning on or after January 1, 2009)

The revised Standard removes the option to expense borrowing costs and requires the capitalization of borrowing costs that relate to qualifying assets (those that take a substantial period of time to get ready for use or sale).

The revised standard does not have any impact the Group financial statements since the option in IAS 23 was not adopted by the Group in previous periods.

› Amendments to IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after January 1, 2009)

The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognized as income in the separate financial statements of the investor when the right to receive the dividend is established.

In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment.

Amendments to IAS 27 are not relevant as these are the consolidated financial statements of the Group.

› Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009).

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

The Group has not yet completed its analysis of the impact of the revised Standard.

› Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009)

The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions.

The amendments are not relevant to the Group's financial statements as none of the Group entities have issued puttable instruments that would be affected by the amendments.

› Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after July 1, 2009)

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however, inflation cannot be designated, except in limited circumstances.

The amendments to IAS 39 are not relevant to the Group's financial statements as the Group does not apply hedge accounting.

› IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)

The Interpretation explains how entities that grant loyalty award credits to customers who buy goods or services should account for their obligations to provide free or discounted goods or services ("awards") to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations.

The Group does not expect the interpretation to have any impact on the consolidated financial statements.

› IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009)

IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognized by reference to the stage of completion of the contract activity in the following cases:

1 The agreement meets the definition of a construction contract in accordance with IAS 11.3;

2 The agreement is only for the rendering of services in accordance with IAS 18 (e.g. the entity is not required to supply construction materials); and

3 The agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognized when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).

The Group does not expect the Interpretation to have any impact on the consolidated financial statements.

› IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 1, 2008)

The Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

R New standards and interpretations not yet adopted continued

IFRIC 16 is not relevant to the Group's financial statements as the Group has not designated any hedges of a net investment in a foreign operation.

› IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after July 15, 2009)

The interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the interpretation a liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognized in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognized in profit or loss.

As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the Board of directors/shareholders it is not possible to determine the effects of application in advance.

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 securities is determined with reference to an active market price quotation.

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

The fair value of Structure B is determined using a valuation technique based on discounted expected cash flow, taking into consideration factors such as the credit rating of the issuer, the prevailing and the expected relevant interest rates.

Investment property

The fair value of investment properties is determined using an internal valuation technique. The method of the valuations is based on discounted cash flows and takes into consideration the actual rental income and the relevant market yield.

Swap transactions

An external, independent valuation company, having appropriate recognized qualifications and recent experience in the field of the financial instruments being valued, values the Group's cross currency interest rate swaps every three months.

In determining the fair values of the cross currency interest rate swaps the external valuator estimates the expected future cash flow based on the terms and maturity of each contract using market interest rates for a similar instrument prevailing at the measurement date.

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"). However, due to the decrease in the volume of trading in the debentures, the increase in the spread between the BID and the ASK prices for the Company's debentures and the significant increase in the risk premium attributable to the Company's debentures as of December 31, 2008, the Company's management believes, based on professional advice received, that the quoted market prices of the debentures in the TASE are not considered to be the best estimates for the fair value of the debentures as of the balance sheet date, since there are significant indications that the trade in the debentures as of the end of 2008 point to the existence of an inefficient market and that the market for the Company's debentures is no longer active as of December 31, 2008. Accordingly, the Company determined the fair value of the debentures using a valuation technique done by three different external valuation companies having appropriate recognized qualifications and recent experience in the field of the financial instruments being valued. Two of the valuators used the discounted cash flow method taking into consideration the terms and maturity of the debentures as well as market interest rates and the credit risk of the Company. The third valuator used the Merton model, taking into consideration the Company asset value, risk free interest, standard deviation of assets and exercise price. The debentures are measured as an average of these three valuations. The quoted market prices as of December 31, 2008 of Series A Debentures was 0.563 NIS as opposed to 0.812 NIS using the valuation technique. The quoted market prices of Series B Debentures was 0.852 as opposed to 0.679 using the valuation technique.

Share-based payments transactions

The fair value of employee share options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), 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

	Interest rate as of December 31, 2008	December 31, 2008 '000	December 31, 2007 '000
Bank deposits – in euros	Mix of fixed and floating interest rates between 2.29%–3.94% – see (1) below	136,575	61,917
Bank deposits – in Hungarian forints (HUF)	3–4%	156	143
Bank deposits – in Polish zlotys (PLN)	1.8%–3.7%	1,670	1,586
Bank deposits – in Czech crowns (CZK)	0%–1.5%	196	1,174
Bank deposits – in Indian rupee (INR)	Mainly 0%	1,983	663
Bank deposits – in Latvian lats (LVL)	Mainly O/N RIGIDBOR–0.4%	441	350
Bank deposits – in US$	Mainly O/N LIBOR–0.4%	2,913	263
Bank deposits – in Romanian lei (RON)	Mainly 11%–15%	1,461	16 5
Bank deposits – in Serbian dinar (RSD)	13.25%–16.23%	599	15
Bank deposits – in other currencies	0%	32	105
Total		146,026	66,381

1 As of balance sheet date, cash in banks are deposited for periods between overnight deposits and three months' deposits. The Company has deposits in several commercial banks. Fixed deposits bear interest rates varying between 2.29% and 3.94%, while floating deposits bear interest rates between EONIA -0.02% and three months' EURIBOR +0.34%.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 34.

NOTE 6 – RESTRICTED BANK DEPOSITS

	Interest rate as of December 31, 2008	December 31, 2008 '000	December 31, 2007 '000
Short-term restricted bank deposits			
In EUR	See (1) below	28,037	22,364
In NIS	1.35%	488	–
In RON	See (2) below	1,855	–
In USD	USD LIBOR – 0.25%	431	650
In PLN	See (3) below	1,442	2,141
Total short term		32,253	25,155
Long-term restricted bank deposits			
In euros	Mix of fixed and floating interest rates between 2.61%–4.79% – see (4) below	34,218	5,302
In euros	0%	279	–
Total long term		34,497	5,302

The Group pledged the above restricted bank deposits to secure banking facilities received, or to secure acquisition and construction activities to be performed by the Group. Regarding the release of long-term restricted cash after balance sheet date, refer to note 39.

1 As of December 31, 2008, this amount includes cash in escrow in respect of the Casaradio project in Bucharest, Romania for a total amount €11.2 million. This amount bears a fixed annual interest rate of 4.8%. An additional €13.7 million is restricted in respect of bank facility agreement signed to finance the Project in Liberec, Czech Republic. This amount carries an annual interest rate of three months' EURIBOR +1.65%.The remaining amount of €3.6 million is cash in escrow in respect to the purchase of one of the Company's projects in Romania. This amount bears an interest of EONIA -1.65%.
2 As of December 31, 2008 an amount of RON 7.2 million (€1.9 million) is cash in escrow in respect to the purchase of one of the Company's projects in Romania.This amount bears a fixed interest of 10%.
3 As of December 31, 2008 an amount of PLN 5.9 million (€1.4 million) is cash in escrow in respect to the purchase of one of the Company's projects in Poland.This amount bears a fixed interest of 5.6%.
4 As of December 31, 2008 an amount of €19.6 million is restricted in respect of the swap transactions (see note 16) The deposits are carrying fixed interest in rates ranging between 2.75%-4.79%. In addition, an amount of €14.6 million is restricted in respect of long term deposits financial instruments ("structures"). This amount is carrying an interest rate of one month Libor (see note 11).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 7 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets with a carrying amount of €10.3 million are outstanding as of December 31, 2008 (2007: nil). The available-for-sale financial assets have stated interest rates of 4.4% to 8.8% and mature in a range of one year to perpetual.

As at December 31, 2008, the Company recorded a capital reserve due to decrease in fair value of available-for-sale financial assets in a total amount of €1.4 million, and reallocated out of this amount €0.3 million as an expense, due to non-temporary decrease in fair value in one of its marketable securities.

NOTE 8 – TRADE RECEIVABLES, NET

	December 31, 2008 €'000	December 31, 2007 €'000
Receivable aAIM – selling of Arena Plaza[(1)]	–	254,363
Receivable Klepierre[(2)]	–	6,419
Other receivables[(3)]	933	1,925
Less – Provision for doubtful debts	(95)	(112)
	838	262,595

1 Collected in January 2008. For the selling of Arena Plaza refer to note 36.
2 Collected in July 2008. This amount is mainly from the price adjustment from the sale of Novo Plaza in Czech Republic.
3 The balances represent amounts receivable from leases of space in shopping centers and offices less any impairment for doubtful debts.

NOTE 9 – OTHER RECEIVABLES AND PREPAYMENTS

	December 31, 2008 €'000	December 31, 2007 €'000
Advances for plot purchase[(1)]	28,140	36,340
Advance to suppliers[(2)]	12,910	4,984
Prepaid expenses	515	230
VAT receivable[(3)]	15,706	5,848
Partners in jointly controlled entities	1,474	117
Accrued interest receivable	1,203	199
Others	602	384
	60,550	48,102

1 As of December 31, 2008, including mainly advance payments in the amount of €22.9 million for the purchase of plots in India, as part of the Joint venture with EI (refer also to note 36). Out of this amount, an amount of €4.3 million is guaranteed by EI.
An additional €5.2 million are advance payments in respect of plots in Poland, Romania and the Czech Republic.
2 As of December 31, 2008 including mainly advance payments in amount of €7.9 million mainly to General Contractors in Romania, Latvia, Czech Republic and India.
3 As of December 31, 2008, VAT receivable is mainly due to projects in Romania (€7.5 million), Czech Republic (€3.5 million), Latvia (€2.1 million) and Poland (€1.2 million).

NOTE 10 – TRADING PROPERTIES

	December 31, 2008 €'000	December 31, 2007 €'000
Balance at January 1	298,339	159,961
Acquisition and construction costs	254,965	336,588
Capitalized interest	14,600	5,693
Addition due to acquisitions of subsidiary	58,531	53,848
Change of translation reserve	(8,932)	(459)
Trading properties disposed (see note 36)	(42,169)	(257,292)
Balance at December 31	575,334	298,339

As of December 31, 2008, 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 combination thereof. Regarding segment reporting, refer to note 38. The Company decided to discontinue the development of Duna Plaza Extension projects in Budapest, Hungary. This discontinuation did not have any affect on the financial results of the Company.

Regarding the changes in global markets and their effect on the development of trading properties under construction refer to note 36.

A total carrying amount of €106 million (2007: nil) of the above mentioned trading property is secured against bank loans granted to the Company by banks.

As of December 31, 2008, trading property include capitalization of share-based payments in the amount of €7.8 million (December 31, 2007: €4.7 million).

Below is a summary table for project status:

		December 31, 2008			General information		
			Share holding				
Project	Location	Purchase/ transaction date	Rate (%)	Nature of rights	Status of registration of land	Status of Permit status	GLA (m²)
Suwalki Plaza	Poland	Jun-06	100	Ownership	Completed	Building permit pending	20,000
Zgorzelec Plaza	Poland	Dec-06	100	Leasing for 25 years	Completed	Building permit pending	13,000
Torun Plaza	Poland	Feb-07	100	Perpetual leasehold	In process	Building permit pending	45,000
Lodz	Poland	Sep-01	100	Ownership/ Perpetual usufruct	Completed	Building permit valid	80,000*
Kielce Plaza	Poland	Jan-08	100	Perpetual leasehold	Completed	Planning permit pending	33,000
Leszno Plaza	Poland	Jun-08	100	Perpetual leasehold	Completed	Planning permit pending	16,000
Liberec Plaza	Czech Republic	Jun-06	100	Construction lease period with subsequent ownership	Completed	Building permit valid	17,000
Opava Plaza	Czech Republic	Jun-06	100	Construction lease period with subsequent ownership	Completed	Planning permit pending	13,000
Roztoky	Czech Republic	May-07	100	Ownership	Completed	Planning permit valid	14,000*
Riga Plaza	Latvia	Feb-04	50	Ownership	Completed	Building permit valid	49,000
Bangalore	India	Aug-08	23.75	Ownership	In process	Under negotiations	2,100,000*
Chennai	India	Aug-08	38	Ownership	In process	Under negotiations	1,100,000*
Koregaon Park	India	Oct-06	100	Ownership	Completed	Building permit valid	111,000*
Kharadi	India	Feb-07	50	Ownership	Completed	Excavation permit valid	225,000*
Trivandrum	India	Jun-07	50	Ownership	Completed	Under negotiations	195,000*
Casa Radio	Romania	Feb-07	75	Leasing for 49 years		Planning permit pending	600,000*
Timisoara Plaza	Romania	Mar-07	100	Ownership	Completed	Planning permit pending	43,000

* GBA (m²)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 10 – TRADING PROPERTIES CONTINUED

		December 31, 2008	Share holding		General information		
Project	Location	Purchase/ transaction date	Rate (%)	Nature of rights	Status of registration of land	Status of Permit status	GLA (m²)
Miercurea Ciuc Plaza	Romania	Jul-07	100	Ownership	Completed	Planning permit valid	14,000
Iasi Plaza	Romania	Jul-07	100	Ownership	In process	Planning permit to be submitted	62,000
Slatina Plaza	Romania	Aug-07	100	Ownership	Completed	Planning permit valid	17,000
Targu Mures Plaza	Romania	Mar-08	100	Ownership	Completed	Under negotiations	30,000
Hunedoara Plaza	Romania	Fev-08	100	Ownership	Completed	Planning permit pending	13,000
Belgrade Plaza**	Serbia	Aug-07	100	Leasing for 99 years	In process	Under negotiations	70,000*
Kragujevac Plaza**	Serbia	Oct-07	100	Leasing for 99 years	In process	Building permit valid	26,000
Sport Star Plaza**	Serbia	Dec-07	100	Leasing for 99 years	In process	Under negotiations	45,000
Shumen Plaza	Bulgaria	Nov-07	100	Ownership	In process	Planning permit to be submitted	20,000
Arena Plaza Extension	Hungary	Nov-05	100	Land use rights	Completed	Under negotiations	40,000
Uj Udvar	Hungary	Sep-07	35	Ownership	Completed	Permit under progress	16,000
Helios Plaza	Greece	May-02	100	Ownership	Completed	Building permit expired	25,000

* GBA (m²)

** In respect of all the projects in Serbia, the Company is retaining the 100% holding in these projects after a decision to discontinue the negotiations with a Serbian developer. The Company paid, as of the balance sheet date, an amount of €1.2 million as part of a settlement agreement signed with the Serbian developer.

NOTE 11 – LONG-TERM DEPOSITS AND OTHER INVESTMENTS

	Interest rate – December 31, 2008	December 31, 2008 €'000	December 31, 2007 €'000
Financial structure A[1]	0–11.5%	38,000	–
Financial structure B[1]	6.25%–12.5%	9,864	–
Long-term loan to associated Companies[2]	6.76%	2,094	1,545
Charges to associated company	0%	351	367
Long-term deposits[2]		76	75
		50,385	1,987

1 Structure A – On February 28, 2008 the Group entered into a financial transaction with a major US bank supported by the US government, according to which the Group invested an amount of €37.96 million for a period of 15 years in a note which bears interest of 11.5% per annum, payable to the extent that the margin between the 30 years euro CMS (Constant Maturity Swap) and the ten years euro CMS (measured on a daily basis) is higher than the accrual barrier which was set at 0.05%. For days in which the margin is lower than the barrier no interest is paid. The principal amount is €38 million and the interest is payable quarterly commencing May 28, 2008. The financing bank has a call option to redeem the note at par in whole on February 28, 2009 and on each quarter thereafter by giving at least five business days prior notice. The Principal is 100% protected at Maturity. Structure A is presented in the financial statement as held to maturity financial instruments at amortized cost. The fair value of the structure, based on the bank confirmation, as of December 31, 2008 was €22 million.
Structure B – On February 26, 2008 the Group entered into a financial transaction with the same bank, according to which the Group invested an amount of €13 million in a Note which pays a variable interest linked to the ten years euro CMS rate subject to a minimum interest of 6.25% p.a and a maximum interest of 12.50% p.a. The Principal is 100% protected at Maturity. The interest is payable annually, commencing at February 19, 2009 and up to and including February 19, 2018 (maturity date). Structure B is presented in the financial statement at fair value through profit and loss. For determining the fair values of the structured deposits refer to note 4. As of December 31, 2008, the Company recorded a fair value loss of €3.1 million in respect to structure B.
The Company is required to secure certain amount of cash upon request from the issuing bank as collateral for the credit facilities taken to finance part of these structures. The amount of the collateral is determined based on the fair value of the structures calculated by the issuing bank. As of balance sheet the Company secured total amount of €14.6 million in respect to both structures (see also note 35). Regarding the credit facility taken to finance part of these structures, refer to note 17.

2 The loan to one of the associated companies bears a fixed interest rate of 6.76% per annum as at December 31, 2008, and 2007. The interest is fixed, and was predetermined by both parties to the joint venture. The loan has no stated maturity date; however, the Company estimates the maturity date to be not earlier than 2012.

NOTE 12 – PROPERTY AND EQUIPMENT

	Land and buildings	Equipment	Fixtures and fittings	Airplane	Total
Cost					
Balance at December 31, 2006	3,356	2,742	694	3,921	10,713
Additions	4,429	714	–	4,734	9,877
Disposals	–	(455)	–	–	(455)
Reclassification	–	(478)	478	–	–
Balance at December 31, 2007	7,785	2,523	1,172	8,655	20,135
Additions	–	1,874	86	4,581	6,541
Disposals	(530)	–	–	(3,921)	(4,451)
Reclassification	(198)	198	–	–	–
Exchange rate effect	–	(23)	–	(216)	(239)
Balance at December 31, 2008	7,057	4,572	1,258	9,099	21,986
Accumulated depreciation and impairment losses					
Balance at December 31, 2006	334	1,889	414	526	3,163
Additions	367	332	–	204	903
Disposals	–	(396)	–	–	(396)
Reclassification	–	(491)	491	–	–
Balance at December 31, 2007	701	1,334	905	730	3,670
Additions and impairments	1,622	534	23	1,116	3,295
Disposals	–	(29)	–	(743)	(772)
Reclassification	(34)	34	–	–	–
Balance at December 31, 2008	2,289	1,873	928	1,103	6,193
Carrying amounts					
At December 31, 2007	7,084	1,189	267	7,925	16,465
At December 31, 2008	4,768	2,699	330	7,996	15,793

Major acquisitions, disposals, and impairment of fixed assets throughout the year ended December 31, 2008:

- In June 2008 the Company sold its airplane for a total consideration of €2.5 million, and recorded a loss of €0.7 million from the transaction. An impairment of €0.7 million was recorded in respect of one of the Company's airplanes.
- In August 2008, and as part of the joint venture with EI, the Company also purchased 50% of an airplane.
- The Company has impaired its headquarters office building in Bucharest, Romania in a total amount of €1.5 million in view of an updated valuation.

NOTE 13 – INVESTMENT PROPERTY

	December 31, 2008 €'000	December 31, 2007 €'000
Balance at January 1	**12,970**	26,654
Disposals	**–**	(13,684)
Balance at December 31	**12,970**	12,970

Investment property at December 31, 2008 and 2007 includes one logistic building in Prague that is leased to third parties. Generally, leases contain an initial period of 1 to 10 years. Subsequent renewals are negotiated with the lessee. The contracts are denominated in, or linked, to the euro. For the Company's policy to determine the fair value of the investment property see note 4. The yield used for the valuation was 8.1% and 7.7% for 2008 and 2007, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 14 – PROPORTIONATE CONSOLIDATION

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

	2008 €'000	2007 €'000
Current assets	**160,609**	40,230
Non-current assets	**4,016**	–
Current liabilities	**34,614**	3,795
Non-current liabilities	**67**	–
Minority interest	**3,008**	–

	For the year ended December 31, 2008	For the year ended December 31, 2007
Income	**1,116**	37,207
Expenses	**2,828**	30,734
(Loss)/gain after tax	**(1,712)**	6,473

Regarding list of jointly controlled entities and percentage of ownership and control, see note 41.

NOTE 15 – EQUITY ACCOUNTED INVESTEES

The Company owns 50% of the share capital of Ercorner Kft. ("Ercorner"). The additional 50% is held by a large commercial bank. Ercorner, through its 60% owned subsidiary, Alom Sziget 2004 Kft. ("Alom Sziget"), owns a plot of land on the Hajogyari Island located in Budapest. Ercorner is a holding company with no activity of its own, and in addition, decisions in Alom Sziget are required to be taken with a 75% majority, thus Ercorner does not hold control over Alom Sziget. In view of the above, the investment in Alom Sziget is presented according to the equity method. For the progress in the project refer to note 36. In respect of commitments connected with Ercorner refer to note 35.

The Company is also holding, through the Holding Company of the BAS Group ("Plaza BAS B.V."), a 25% ownership in Malibu invest s.r.l ("Malibu"). Malibu is engaged in the development of residential project in Bucharest, Romania.

The composition of investment in both Ercorner and Malibu are shown in the table below:

	December 31, 2008 €'000	December 31, 2007 €'000
Composition:		
Cost of investment	**740**	740
Cumulative Share of profits (losses)	**(552)**	389
Total	**188**	1,129

Other information on equity-held subsidiaries (not adjusted for the percentage ownership held by the Company):

	December 31, 2008 €'000	December 31, 2007 €'000
Assets	**21,522**	19,496
Liabilities	**21,210**	17,238
Net assets	**312**	2,258
Revenues	**26**	27
Loss	**(1,947)**	(38)

NOTE 16 – DERIVATIVES

Cross currency interest rate swap transaction series A Debentures.
On July 9, 2007, subsequent to the issuance of debentures for proceeds of NIS 305.14 million (approximately €53.3 million) (see note 22), the Group entered, consistent with its risk management policies, into cross currency interest rate swap with par value of NIS 305.2 million. The Company will pay six month EURIBOR + 2.19% and receive 4.5% (5% until February 2008, reduced after listing of these debentures in the Tel-Aviv Stock Exchange ("TASE")) interest on the NIS par value linked to the Israeli CPI with the same amortization schedule as the debentures. At each payment date of the annual instalments of the debentures the Company will receive the principal amount in NIS and will pay the principal amount in euros (subject to the amortization schedule).

As at the date of these financial statements, the Company has pledged a security deposit in the amount of €5.3 million.

The derivative is measured at fair value at each balance sheet date with changes in the fair value are charged to the profit or loss. The fair value of the swap, relating to series A Debentures, based on a valuation technique done by an external valuation company, was €10.1 million. For the input used in the valuation technique refer to note 34. Regarding the settlement of the abovementioned cross currency transaction refer to note 39.

Cross currency interest rate swap transaction series B Debentures.
On March 31, 2008, subsequent to the issuance of series B Debentures for proceeds of NIS 713.5 million (approximately €137 million), the Group entered, consistent with its risk management policies, into a cross currency interest rate swap with par value of NIS 100 million with an Israeli financial institutions. The Company will pay six-month EURIBOR + 3.62% and receive 5.4% interest linked to the Israeli CPI with the same amortization schedule as the series B Debentures. At each payment date of the annual instalments of the debentures the Company will receive the principal amount in NIS and will pay the principal amount in euros (subject to the amortization schedule).

As at the date of these financial statements, the Company has pledged a security deposit in the amount of €1.8 million.

In addition and on the same date, the Group entered, consistent with its risk management policies, into cross currency interest rate swap with par value of NIS 200 million with another Israeli financial institution. The Company will pay six-month EURIBOR + 3.52% and receive 5.4% interest linked to the Israeli CPI with the same amortization schedule as the Series B Debentures. At each payment date of the annual instalments of the debentures the Company will receive principal amount in NIS and will pay the principal amount in euros (subject to the amortization schedule).

As of the date of these financial statements, the Company has pledged a security deposit in the amount of €3.6 million.

On April 2, 2008, the Group entered, consistent with its risk management policies, into two cross currency interest rate swaps with par value of NIS 278.8 million and NIS 134.7 million, with another Israeli financial institution. The Company will pay between six month EURIBOR + 3.59% and 3.66%, respectively and will receive 5.4% interest linked to the Israeli CPI with the same amortization schedule as the Series B Debentures. At each payment date of the annual instalments of the debentures the Company will receive the principal amount in NIS and will pay the principal amount in euros (subject to the amortization schedule).

As at the date of these financial statements, the Company has pledged a security deposit in the amount of €7.4 million.

On July 21, 2008, the Company entered, consistent with its risk management policies, into a cross currency interest rate swap transaction with par value of NIS 85 million with an Israeli financial institution. The Company will pay six-month EURIBOR + 3.52% and will receive 5.4% interest linked to the Israeli CPI with the same amortization schedule as the additional series B Debentures. At each payment date of the annual instalments of the debentures the Company will receive the principal amount in NIS and will pay the principal amount in euros (subject to the amortization schedule).

As at the date of these financial statements, the Company has pledged a security deposit in the amount of €1.56 million in regard of the above mentioned cross currency transaction.

The derivatives are measured at fair value at each balance sheet date with changes in the fair value are charged to the profit or loss. The aggregate fair value of the swaps, relating to series B debentures, based on a valuation technique done by an external valuation company, was €10.2 million. For the input used in the valuation technique refer to note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 17 – 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 amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 34. All interest bearing loans from banks are of balances of secured bank loans and are all denominated in euros. Terms and conditions of outstanding loans were as follows:

	Nominal interest rate	Year of maturity	**December 31, 2008 Carrying amounts €'000**	December 31, 2007 Carrying amounts €'000
Secured bank loan	3M EURIBOR+1.8%	2014	**20,189**	–
Secured bank loan[1]	3M EURIBOR+2.7%	2014	**38,640**	–
Secured bank loan	3M EURIBOR+0.5%	2009	**5,095**	–
Secured bank loan	3M EURIBOR+4.5%	2009	**3,633**	–
Secured bank loan	3M EURIBOR+4.75%	2009	**700**	–
Secured bank loan	3M EURIBOR+2.5%	2009	**750**	–
Secured bank loan[2]	3M EURIBOR+0.4%	2023	**26,225**	–
Secured bank loan[2]	12M EURIBOR+0.4%	2018	**10,000**	–
Secured bank loan[3]	3M EURIBOR+1.75%	2016	**5,456**	5,870
Total interest bearing liabilities			**110,688**	5,870

1 Refer to note 35 (d) for details on a breach of certain covenants regarding this loan.
2 Secured bank loans taken in respect of structures.
3 Including €0.4 million current portion of long-term liabilities.

NOTE 18 – TRADE PAYABLES

	Currency	**December 31, 2008 €'000**	December 31, 2007 €'000
Construction-related suppliers	Mainly in EUR, CZK, RON, PLN	**22,482**	18,324
Other trade payables		**715**	1,108
		23,197	19,432

NOTE 19 – AMOUNTS DUE TO RELATED PARTIES

	Currency	**December 31, 2008 €'000**	December 31, 2007 €'000
Short term			
EI Group – ultimate parent Company – charges	EUR, USD	**2,804**	5,309
EI Group – ultimate parent Company – loan[1]	EUR	**(16,750)**	–
Other related parties[3]	EUR	**874**	1,985
Vice chairman of EI	INR	**1,106**	762
EUL (parent Company)[2]	EUR, USD	**14,714**	15,047
		2,748	23,103
Long term			
EUL – parent Company[2]	EUR, USD	**3,837**	1,871
EI Group – ultimate parent Company – loan[1]	EUR	**(3,837)**	–
		–	1,871

1 According to agreement signed between the Company and its controlling shareholders (see also note 35), the Company is offsetting its upstream loan to EI with its liabilities (including liabilities of part of the Company's subsidiaries in Poland). The upstream loan bears interest rate of three months' EURIBOR + 1.625%. Part of the offset is against short-term liabilities, and part is allocated to long term liabilities of the Company towards its direct and indirect controlling shareholder. In 2007 financial statements the upstream loan was presented as part of the current assets of the Company.
2 The loans received from Elbit Ultrasound B.V. (the main shareholder) ("EUL"), bear interest at three months' USD LIBOR (or three months' EURIBOR) plus a margin of between 1.5% and 2.0% (effective interest rate as of December 31, 2008, and December 31, 2007 is 4.5% p.a and 6.5% p.a respectively). Loans are financing trading properties of the Group.
3 Other related parties reflect liability to the Control Centers group, a group of companies which provides project management services, controlled by the ultimate parent Company's controlling shareholder.

NOTE 20 – PROVISIONS

	Provision in respect of liability to governmental institution	Provision in respect of liability due to selling of trading and property	Total
Current provisions			
Balance at January 1, 2008	16,750	786	17,536
Provision used during the period	(332)	(219)	(551)
Balance at December 31, 2008	**16,418**	**567**	**16,985**

The Group 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 2012.

NOTE 21 – OTHER SHORT-TERM LIABILITIES

		December 31, 2008 €'000	December 31, 2007 €'000
Short term			
Obligation in respect of plot purchase(1)	Mainly EUR	**7,553**	21,413
Advance payment received – short term	EUR	**593**	1,914
Accrued expenses and commissions(2)	EUR	**515**	6,923
Accrued bank interest	EUR	**539**	44
Government institutions and fees	HUF, PLN, CZK	**333**	508
Salaries and related expenses(3)	EUR, HUF, PLN, CZK, USD	**2,156**	3,123
Partner in joint controlled company and subsidiaries(4)		**1,779**	1,170
Other	HUF, PLN, CZK	**205**	105
Total		**13,673**	35,200

1 2008 – Includes liabilities in respect of the Casa Radio project in Bucharest Romania – €5.4 million. The decline from 2007 is due to the payment of liabilities due to the purchase of plots in Romania and Bulgaria.
2 2007 – Included mainly accrual in respect of selling the Arena Plaza shopping center – €5.7 million which was paid in January 2008.
3 2007 – Included provision for management bonuses – €2.8 million, out of which €1.9 was paid in the course of 2008.
4 2008 – includes mainly liability in respect of partner in BAS project.

		December 31, 2008 €'000	December 31, 2007 €'000
Long term			
Advance payment received – long term(1)	EUR	**332**	355
Trade payables	EUR	**67**	–
		399	355

1 Advance payment received – mainly from the Prague 3 logistic building in Czech Republic.

NOTE 22 – LONG-TERM DEBENTURES AT FAIR VALUE THROUGH PROFIT OR LOSS

On July 5, 2007, the Company agreed with Israeli institutional investors to issue an aggregate principal amount of NIS 305 million (approximately €53 million) par value of series one of unsecured non-convertible debentures to institutional investors in Israel. The debentures are repayable in eight equal annual instalments, on December 31 of each of the years 2010 to 2017, inclusive.

The debentures bear an annual interest rate of 4.5%. Interest is payable semi-annually in arrears on December 31 and July 1 of each of the years 2007 to 2017 (the first instalment to be effected on December 31, 2007 and the last instalment to be effected on December 31, 2017). The debentures are linked to the increase in the Israeli Consumer Price Index.

As the Company's functional currency is the euro, the Company has hedged the future expected payments in NIS (principal and interest) to correlate with the euro using a cross currency interest rate swap (see note 16).

The debentures will be repaid by the Company, inter alia, at the option of the trustee or the holders of the debentures if the Company delays the publication of its financial reports for more than 60 days from the dates provided by applicable law or if the debentures cease to be rated for a period of more than 60 days.

NOTE 22 – LONG-TERM DEBENTURES AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED

On February 13, 2008, the Company completed an offering to the public in Israel of unsecured non-convertable Series B Debentures ("Series B Debentures") in the aggregate principal amount of NIS 713.5 million (€137 million) and their listing in TASE. The debentures are repayable in five equal annual instalments, on July 1 of each of the years 2011 to 2015, inclusive. The debentures bear an annual interest rate of 5.4%. Interest is payable semi-annually in arrears on July 1 and December 31 of each of the years 2008 to 2014 and July 2015. The debentures are linked to the increase in the Israeli Consumer Price Index.

In April 2008 the Company agreed with Israeli Investors to issue an additional approximately NIS 85 million (approximately €16 million) in principal amount of Series B Debentures (the "Additional Debentures") for an aggregate consideration of approximately NIS 85 million (approximately €16 million). The terms of the Additional Debentures are identical to the terms of the Series B Debentures issued to the public under Plaza's prospectus dated February 2008.

As of the balance sheet date, Series A Debentures and the Series B Debentures are rated Aa3/negative by Midroog Ltd. (an affiliate of Moody's Investor services), on a local scale, and the Series A Debentures are rated ilA+/Positive by S&P Maalot Ltd. on a local scale.

The fair value of Debentures A and Debenture B was evaluated by management, using three external independent valuators using the discounted cash flow model, of which one valuator used the Merton model.

The main assumptions used are described as follows:

	Debenture A	Debenture B
Discount rate	7.7%–12.73%	7.1%–13.23%
Standard deviation of assets (yearly basis)	42%	42%
Risk-free interest rate	3.45%	3.17%
Remaining contractual life	9	6.5
Exercise price (€'000)	116,961	246,247

Company's asset value: (€'000) 342,325

Regarding the changes in ratings subsequent to the balance sheet date refer to note 39. For determining the fair value of the debentures refer to note 4.

NOTE 23 – DEFERRED TAX LIABILITIES

Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

	December 31, 2008 €'000	December 31, 2007 €'000
Liabilities		
Investment property	**726**	646
Property and equipment and other assets	**382**	217
Debentures and structures at fair value through profit or loss	**4,614**	–
Derivatives	**5,182**	–
Impaired receivables and others, net	**32**	(15)
Tax value of losses carry-forwards recognized	**(8,443)**	(5,522)
Deferred tax assets not provided	**3,698**	5,226
Net deferred tax liability	**6,191**	552

Unrecognized deferred tax assets

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

	December 31, 2008 €'000	December 31, 2007 €'000
Tax losses	**3,698**	5,757

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.

The decrease in the tax asset not recognized between 2007 and 2008 is attributable to two major items:

1 Utilization of losses in the Netherlands – in 2008 the one fiscal tax unit of the Company and its Dutch subsidiaries are expected to utilize losses in an approximate amount of €14 million (€3.7 million in tax value). The Company is estimating, due to significant finance expenses which are to be incurred from 2009 onwards, that it will continue to incur losses for tax purposes.

2 The above is mainly offset by generating new losses with a total tax value of approximately €1.4 million.

As of December 31, 2008 the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	2009	2010	2011	2012	2013	After 2013
40,087	146	848	1,747	692	1,979	34,675

Tax losses are mainly generated by operations in Hungary, Romania and the Netherlands.

NOTE 24 – EQUITY

	Remarks	**December 31, 2008 Number of shares**	December 31, 2007 Number of shares
Ordinary Shares of par value €0.01 each		**1,000,000,000**	1,000,000,000
Issued and fully paid:			
At the beginning of the year		**292,403,787**	292,346,087
Options exercised to shares	See (a) below	**27,594**	57,700
At the end of the year		**292,431,381**	292,403,787

a In the course of the last quarter of 2007, 303,471 vested options were exercised into 57,700 shares of €0.01. In the course of the first quarter of 2008, 131,711 vested options were exercised into 27,594 shares of €0.01.

Capital reserve due to share option plan

Capital reserve is in respect of Employee Share Option Plan (“ESOP”) in the total amount of €24,955 as of December 31, 2008 (2007: €13,679). Regarding the amendment of ESOP and its effect on the capital reserve refer to note 36.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of balance sheet items of the Company’s subsidiaries 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, 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.

Subject to all of these factors, and where it is otherwise appropriate to do so, the directors intend to make distributions out of the annual net profits (after deduction of all directly related costs) derived from transactions for the sale of projects developed by the Group during any financial year, following the approval of the financial statements as of December 31, 2007 and onwards.

Dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the directors, on any additional annual net profits which exceed €30 million. In accordance with the said policy, the Company distributed a dividend for the year ended December 31, 2007 in the amount of €57 million which was paid on June 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 24 – EQUITY

Treasury shares

On October 20, 2008 the Company announced its intention to commence a share repurchase program in the framework of which the Company will purchase up to 19,323,536 shares, representing 6.61% of the Company's share capital. The shares will be purchased on-market on the London Stock Exchange in accordance with shareholder approval obtained at the Company's Annual General Meeting on 27 May 2008.

The buyback program was fully utilized in three months and the purchased shares are held in treasury. The Company has also been informed by its majority shareholder, Elbit Imaging Ltd. ("Elbit"), which held indirectly 68.4% of the Company's share capital that Elbit intends to purchase the Company's shares through a series of on-market purchases. Elbit's purchase of the Company's shares shall be within the above mentioned limit of the Company's repurchasing programme.

As at balance sheet date, the Company has purchased 9,209,443 of its own shares, and Elbit had purchased 200,000 of the Company's shares. Following these purchases Elbit holds (as of balance sheet date) indirectly owns 70.6% of the Company. Regarding the repurchase of shares after balance sheet date, refer to note 39.

NOTE 25 – EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of €67,684 thousand (2007: €226,967 thousand) and a weighted average number of Ordinary Shares outstanding of 291,188 thousand (2008: 292,355 thousand).

Weighted average number of Ordinary Shares

In thousands of shares with a €0.01 par value	**December 31, 2008 '000**	December 31, 2007 '000
Issued Ordinary Shares at January 1	**292,404**	292,346
Effect of own shares held	**(1,243)**	–
Share based payment – exercise of options	**27**	9
Weighted average number of Ordinary Shares at December 31	**291,188**	292,355

The calculation of diluted earnings per share at December 31, 2008 was based on profit attributable to ordinary shareholders of €67,685 thousand and a weighted average number of Ordinary Shares outstanding after adjustment for the effects of all dilutive potential Ordinary Shares of €2,735 thousand, calculated as follows:

Weighted average number of Ordinary Shares (diluted)

In thousands of shares with a €0.01 par value	**December 31, 2008 '000**	December 31, 2007 '000
Weighted average number of Ordinary Shares (basic)	**291,188**	292,355
Effect of share options on issue	**2,735**	1,129
Weighted average number of Ordinary Shares (diluted) at December 31	**293,923**	293,484

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

NOTE 26 – EMPLOYEE SHARE OPTION PLAN

On October 26, 2006 the Company's Board of Directors approved the grant of up to 33,834,586 non-negotiable options over 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. The exercise price of each option shall be the average price of the Company's shares in the LSE during the five-day period before the date of grant. Notwithstanding the foregoing the exercise price of the options granted on October 26, 2006 was £1.8 per option ("Exercise Price").

Exercise of the options is subject to the following mechanism: 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 on the exercise date, provided that if the opening price exceeds 180% of the Exercise Price the opening price shall be set at 180% 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 in the LSE on the exercise date. The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employees entitled	Number of options	Vesting conditions	Contractual life of options
Option grant to key management at 27 October 2006*	18,824,812	Three years of service starting October 27, 2006	5 years
Option grant to employees at October 27, 2006	5,234,324	Three years of service starting October 27, 2006	5 years
Total granted in 2006*	24,059,136	Three years of service starting 2006	5 years
Total granted in 2007	3,081,072	Three years of service starting 2007	5 years
Total granted in 2008	2,975,000	Three years of service starting 2008	1.3 million options – 5 years Remaining options – 7 years
Total share options granted	30,115,208		

* Including 5,424,436 options which were subject to the approval of the Annual General Meeting of shareholders of EI. The approval was received on November 1, 2007.

	Weighted average exercise price 2008 £	**Number of options 2008**	Weighted average exercise price 2007 £	Number of options 2007
Outstanding at the beginning of the year	**1.81**	**28,945,704**	1.80	26,108,602
Forfeited during the year – back to pool	**1.80**	**(2,323,785)**	1.81	(952,999)
Exercised during the year	**1.80**	**(131,711)**	1.80	(303,471)
Granted during the year	**1.67**	**3,625,000**	1.88	4,093,572
Outstanding at the end of the year	**1.79**	**30,115,208**	1.81	28,945,704
Exercisable at the end of the year		**9,031,603**		8,195,777

Following the modifications of the employee share option plan (as described below) the options outstanding at December 31, 2008 have an exercise price in the range of £0.52 to £1.64 (app. €0.55–€1.72 and a weighted average contractual life of 4.96 years. The weighted average share price at the date of exercise for share options exercised in 2008 was £2.29 (2007: was £2.225).

Modification of employee share option plan

On November 25, 2008 the Company's general shareholders meeting and the Board of Directors approved to amend the exercise price of all options granted more than one year prior to October 25, 2008 ("Record Date") to the average closing price of the Shares on the London Stock Exchange during the 30-day period ending on November 25, 2008 (i.e. £0.52 per option). In addition, the amendment plan determined that all Options that were not vested on the Record Date shall vest over a new year period commencing on the Record Date, in such way that each year following that date one-third of such Options shall be vested. Furthermore, the Option Term was extended in additional two years to a total period of seven years, which starts at the date of grant by the Company's Board of Directors. The above mentioned 180% limit on the potential benefit from each Option was changed to a cap of 324 pence per option. The number of options which were modified under the amendment was 28,182,589. The incremental fair value granted (i.e: the increase in fair value of the share options measured immediately before and after the modifications) as a result of the above mentioned modifications was €6.4 million which will be recognized over the vesting period or immediately for vested options. The immediate affect of the modification on the profit or loss statement was an expense of €1.8 million. Following the modification of the employee share option plan, the contractual life of the options (7 years) is used for future grants and the assumed suboptimal exercise multiple is 3 for management and 2.5 for employees due to the cap of 324 pence.

Following the modification of the option plan, the maximum number of shares issuable upon exercise of all outstanding options as of the balance sheet date is 24,773,405.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 26 – EMPLOYEE SHARE OPTION PLAN CONTINUED

	Key management personnel 2008* €	Key management personnel 2007 €	Employees 2008 €	Employees 2007 €
Fair value of share options and assumptions				
Fair value at measurement date (in euros)*	529,723	5,722,158**	1,959,766	2,735,563
Weighted average exercise price	1.38	2.46	1.87	2.57
Expected volatility	35%–51.1%	25–30%	35%–51.1%	30%–35%
Weighted average share price	1.38	2.94	1.88	2.59
Suboptimal exercise multiple	1.8–3	1.8	1.8–2.5	1.8
Expected dividends	–	–	–	–
Risk-free interest rate (based on the yield rates of the non indexed linked UK treasury bonds)	2.89%–4.82%	4.89%–5.01%	2.89%–4.82%	4.62%–5.55%

* 2008 – not including information in respect of the amended of the option plan
** Including €5,541 (thousands) which represents the grant date fair value of 5,424,436 share options approved by the Annual General meeting of EI, on November 1, 2007

During 2008 the total employee costs due to the share options granted (including the modifications) was €9,453 thousands (2007: €11,658 thousands).

Due to the changes in the global economics, the data regarding share prices and companies' volatilities do not reflect the future results. The stock prices data of the Company during the last quarter of 2008 presents a high volatility that is in irregular form, and therefore could not be implemented as the expected volatility for the relevant term of the options. Since the Company has been publicly traded for two years only, the current state of the financial markets affects the Company's volatility in a greater manner and is not reflecting the predicted volatility. In order to estimate the Company's expected volatility, the calculation was based on the Company's share performance during the last two years and a comparison to similar companies with historical share price of five–seven years. The difference in the volatility between two years and five–seven years, while neutralizing the fourth quarter of 2008 for each company is significant. Therefore, the implemented volatility for options granted in 2008 (including the modification of the option plan) was set to 51.1%, which takes into account the influence of the current state of the markets if the Company has been publicly traded for a longer period. (2007: The expected volatility was based on companies in comparable stages as well as companies in the industry and considering historic share price volatility of the Company).

NOTE 27 – REVENUES

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Revenue from selling trading properties(1)	**82,576**	495,565
Rental income from tenants(2)	**4,939**	2,153
Management fees	**951**	1,395
Operation of entertainment centers(3)	**9,531**	6,608
Other	**616**	2,122
Total	**98,613**	507,843

1 Revenue from selling trading properties consists of asset value of shopping centers, as determined between the Company and the buyer of the property. 2008 includes mainly €61.4 million revenues from selling Plzen shopping center in Plzen Czech Republic, as well as price adjustment from the selling of Arena Plaza in Hungary – €22.3 million. In 2007 the revenue includes the agreed asset value of the following shopping centers: Arena Plaza Hungary – €366 million, Rybnik and Sosnowiec Plaza in Poland – €89 million, Lublin Plaza in Poland – €39 million, and Novo shopping center in Prague, the Czech Republic (additional proceeds) – €1.7 million. For more details on the selling of the shopping centers refer to note 36.
2 Rental income relates either to revenues from investment properties the Company held (which totaled in both 2008 and 2007 €1 million), or from the trading properties the Company held in the interim period between the completion of the construction and the selling of the said trading property.
3 Revenue from operation of entertainment centers is attributed to special subsidiaries of the Company which provide gaming and entertainment services in active shopping centers. As of December 31, 2008 these subsidiaries operate in nine shopping centers.

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Gain on sale of investment properties	**–**	2,071
	–	2,071

In 2007, the gain recorded was mainly from the sale of Duna Plaza offices investment property.

NOTE 28 – COST OF OPERATIONS

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Direct expenses:		
Cost of sold trading properties	**42,279**	258,510
Salaries and related expenses	**2,034**	1,216
Initiation costs	**3,083**	786
Municipality taxes	**5**	24
Property taxes	**485**	206
Property operations and maintenance	**5,556**	5,909
	53,442	266,651
Other operating expenses	**2,282**	1,538
	55,724	268,189
Depreciation and amortization	**210**	541
	55,934	268,730

Costs of sold trading properties include the cost of purchasing and developing the trading properties which were sold in 2008, consist almost entirely from the cost of selling of the Plzen Plaza shopping center in the Czech Republic – €42.2 million. 2007 consists mainly of the cost of selling of the following trading properties: Arena Plaza Hungary – €162 million Rybnik and Sosnowiec Plaza in Poland – €66 million, Lublin Plaza in Poland – €30 million, others – €0.5 million. The cost of operations of investment properties totalled in both 2008 and 2007 €0.4 million.

Increase in initiation costs in 2008 is attributable to write off of costs allocated to planned projects in which the Company decided to cease its investment.

NOTE 29 – ADMINISTRATIVE EXPENSES

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Selling and marketing expenses		
Advertising and marketing	**2,465**	2,649
Salaries and relating expenses	**791**	761
Others	**27**	23
	3,283	3,433
General and administrative expenses		
Salaries and related expenses(1)	**12,273**	12,167
Depreciation and amortization	**748**	366
Management fees	**395**	500
Professional services	**4,087**	4,206
Traveling and accommodation	**1,364**	1,071
Offices and office rent(2)*	**1,472**	735
Others*	**918**	639
	21,257	19,684
Total	**24,540**	23,117

* 2007 – reclassified

General and administrative

1 Including non-cash expenses due to the share option plan in the amount of €6.3 million (2007: €7.6 million) see also note 26 for more details on share based payments.

2 Main increase is attributable to the establishment of headquarters offices in India, Serbia and Romania in the course of 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 30 – OTHER INCOME AND OTHER EXPENSES

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
A Other income		
Gain from selling of property and equipment	**167**	34
Gain from writing off of old suppliers	**–**	51
Other income	**26**	–
Total other income	**193**	85
B Other expenses		
Write off of old debit balances	**–**	(238)
Loss from selling property and equipment	**(664)**	(74)
Impairment of property and equipment	**(2,214)**	–
Other expenses	**(4)**	(111)
Total other expenses	**(2,882)**	(423)
Total	**(2,689)**	(338)

NOTE 31 – FINANCE INCOME (EXPENSES)

	For the year ended December 31, €'000 2008	For the year ended December 31, €'000 2007
Recognized in profit or loss		
Interest income on bank deposits	**13,477**	6,468
Interest income on structured deposits	**2,246**	–
Loans to related parties	**1,277**	1,084
Changes in fair value of derivative	**18,111**	2,228
Changes in fair value of debentures measured at fair value through profit or loss	**30,261**	–
Foreign exchange gains – related parties	**–**	1,101
Other interest income – due to receivables arising from sale of shopping centers	**1,984**	1,526
Total finance income	**67,356**	12,407
Interest expense on bank loans and debentures	**(16,040)**	(6,216)
Interest paid on structure loan	**(1,505)**	–
Interest on loans from related parties	**(547)**	(642)
Changes in fair value of structure (2007: debentures measured at fair value through profit or loss)	**(3,136)**	(818)
Foreign exchange losses – related parties	**(427)**	–
Foreign exchange losses	**(557)**	(105)
Other finance expenses	**(1,656)**	(972
	(23,868)	(8,753)
Less – Finance expenses capitalized to trading properties under development	**14,600**	5,693
Total finance expenses	**(9,268)**	(3,060)
Total net finance income	**58,088**	9,347

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Recognized in equity		
Net change in fair value of available-for-sale financial asset	**(1,401)**	–
Net change in fair value of available-for-sale financial asset transferred to profit or loss	**281**	–
Foreign currency translation differences for foreign operations	**(10,448)**	168
	(11,568)	168

NOTE 32 – INCOME TAX EXPENSES

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Current tax	143	106
Deferred tax	5,626	(16)
Prior year's taxes[1]	(856)	–
Total	4,913	90

1 Prior year tax received relates mainly to a settlement reached with Czech Republic Tax authorities in respect of one of the Group's subsidiaries, following which the Company also received a cash repayment of €0.2 million, as well as reversal of previously recorded tax provision.

Deferred tax expense

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Origination and reversal of temporary differences	9,866	(16)
Recognition of previously unrecognized tax losses	(4,240)	–
	5,626	(16)

Reconciliation of effective tax rate:

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Dutch statutory income tax rate	25.5%	25.5%
Profit before taxes	72,597	227,057
Tax at the Dutch statutory income tax rate	18,513	57,810
Utilization of prior-year losses for which deferred taxes had not been created in the past (see note 23)	(4,195)	(1,593)
Changes in tax burden as a result of differences in statutory tax rates of subsidiaries	1,864	317
Deferred taxes not provided for losses and other temporary differences, net	3,508	1,447
Variances stemming from different measurement rules applied for the financial statements and those applied for income tax purposes (including exchange-rate differences)	(1,270)	164
Changes in future tax rate enacted at the balance sheet date	–	37
Non taxable income*	(12,651)	(58,093)
Prior year's taxes	(856)	–
Other differences, net	–	1
Income tax expenses	4,913	90

* Non taxable profit is attributable to the participation exemption that the Company has in the Netherlands, see also the Netherlands section below.

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 25.5%. Under the amended rules effective January 1, 2007 tax losses may be carried forward and set of against income of the immediately preceding tax year and the nine subsequent tax years. Transitional rules apply for tax losses on account of tax years up through 2002 which may be carried forward and set of against income up through 2011.

B Under the participation exemption rules, income including dividends and capital gains derived by Dutch companies in respect of qualifying investments in the nominal paid up share capital of resident or non-resident investee companies, are 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 either of, or both the newly introduced "assets" – test and the amended "subject to tax" – test. The Company is in compliance with all participation exemption requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 32 – INCOME TAXES CONTINUED

C Dividend distributions from a Dutch company to qualifying Israeli corporate shareholders holding at least 25% of the shares of such Netherlands company is subject to withholding tax at a rate of 5% provided certain compliance related formalities have been satisfied. In other situations, dividend distributions from Dutch companies to Israeli shareholders are subject to withholding tax at a rate of 15%.

Romania

Corporate income tax rate for resident companies and non-resident entities with a permanent establishment in Romania is 16% (including capital gains). Dividends distributed by a resident entity to EU shareholders are not subject to withholding tax in Romania in line with the provisions of the EU Parent-Subsidiary Directive. Fiscal losses incurred up to 2008 can be carried forward and relieved against future taxable profits for a period of five years. Such period has been extended to seven years for fiscal losses incurred starting 2009.

Hungary

The corporate income tax rate imposed on the income of the subsidiaries incorporated in Hungary is 16%. Capital gains are exempted from corporate income tax provided that certain criteria are fulfilled. A special solidarity tax is levied on companies being 4% of the modified accounting profit as determined by law. Dividends, interest, royalty paid out to companies are not subject to withholding tax. Losses in the first three years of operation can be carried forward without limitation. Losses incurred until 2004 can be carried forward for the period of five years, subject to certain limitations. Losses incurred in 2005 and thereafter, may be carried forward indefinitely, subject to certain limitations.

Poland

The corporate tax applicable to income of Polish subsidiaries (including capital gains) is 19%. Dividends paid out of these profits are subject to an additional (final) tax rate of 19%, subject to the relevant double taxation treaty. Distribution of dividend of Polish subsidiary to Dutch parent company, holding at least 15% (commencing 2009 – 10%) of shares for a period of at least two years, is exempt from withholding tax. Losses may be offset against taxable income over a five-year period, subject to a maximum annual utilization of up to 50% of the accumulated loss from each particular tax year.

Serbia

Corporate income tax ('CIT') rate applicable to income of Serbian subsidiaries is 10%. Losses stated in the tax balance (i.e. losses adjusted according to the CIT Law rules) may be carried forward for the period of ten years and offset against taxable income from the tax balance. Withholding tax at the rate of 20% is due on the payment by resident companies to non-resident companies of dividends and share in the profit of a legal entity, and on royalties, interest, capital gains and proceeds from leasing real estate. Withholding tax may be reduced if such possibility is provided by the respective double taxation avoidance treaty.

India

The corporate income tax applicable to the income of Indian subsidiaries is 33.99%. Minimum alternate tax (MAT) of 11.33% is applying to the book profits (i.e. profits shown in the financial statements), if the company's corporate tax liability is less than 10% of its book profits. The paid amount will be credited if the company has taxable profits in the following five years. Capital gains on sale of fixed assets and real estate assets are taxed at the rate of 22.66% provided that they were held at least 36 month immediately preceding the date of the transfer or 33.99% if they were held for not more than 36 months. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.99%. There is no withholding tax on dividends distributed by Indian companies. Losses can be offset against taxable income for a period of eight years from the incurrence year's end.

Bulgaria

Corporate income tax rate for resident companies and non-resident entities with a permanent establishment in Bulgaria is 10% (including capital gains). Dividends paid to resident individuals and non-resident corporations and individuals are subject to a final withholding tax of 5%, unless lower double taxation treaty rates apply. Such final tax is not levied on dividends payable to EU tax resident. Losses may be offset against taxable income for a period of five years from the incurrence year-end.

Cyprus

The taxation of companies incorporated in Cyprus is based on tax residence and all companies are taxed at the rate of 10%. A special levy of 10% is imposed on interest received.Dividend income 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. A special levy at 15% 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 special levy is payable for the account of the shareholders.

Czech Republic

Corporate income tax rate imposed on the income of the subsidiaries incorporated in the Czech Republic (including capital gains) in 2008 is 21% which will gradually decrease to 19% in 2010. Tax losses incurred in taxable periods commenced in 2004 or later may be carried forward for up to five years. Tax losses incurred earlier may be carried forward up to seven years. Dividends paid out of net income are subject to a withholding tax of 15%, subject to the relevant double taxation treaty. The Czech Republic exempts domestic dividends paid to EU parent companies that hold a participation of 20% or more for at least two years. Tax losses incurred earlier may be carried forward for up to seven years.

Latvia

Corporate income tax rate imposed on the income of the subsidiaries incorporated in Latvia (including capital gains) is 15%. Tax losses incurred prior to 2007 can be carried forward and be offset against taxable income of five years following the accounting year in which they were incurred. Such period of five years was extended to six years for losses incurred in 2008, seven years for losses which will be incurred in 2009 and eight years for losses which will be incurred in 2010 and thereafter. Dividends paid out of net income to non-resident are subject to a withholding tax of 10%, subject to the relevant double taxation treaty or 0% withholding tax could be applied if the recipient is resident in another EU country or resident in country included in European Economic region.

Greece

Corporate income tax rate imposed on the income of the subsidiary incorporated in Greece (including capital gains) is 25% which will gradually decrease from 24% in 2010 to 20% in 2014. Dividends paid to resident and non-resident Corporation are subject to a final withholding tax of 10%. 0% withholding tax will apply in respect of dividend distribution if the recipient is the parent company and an EU resident or in a country included in the European Economic Region, provided certain criteria are met. Tax losses can be carried forward and offset against taxable income of the five years following the accounting year in which they were incurred.

NOTE 33 – OPERATING LEASES

The Company is a lessee of a number of plots of land and paid a total rent of €0.05 million in the year ended December 31, 2008 (€0.05 million for year ended December 31, 2007) under operating leases in Poland. The leases typically run for a period of 99 years. The leases in Poland which are held under perpetual usufruct are governed by the law of management over real estate. Lease payments regarding perpetual use of land can be changed according to a new valuation of the plot. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	For the year ended December 31, 2008 €'000	For the year ended December 31, 2007 €'000
Less than one year	**42**	52
Between one and five years	**220**	600
More than five years	**785**	3,516
	1,047	4,168

NOTE 34 – FINANCIAL INSTRUMENTS

Financial risk management

Overview

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

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board has established a continuous process for identifying and managing the risks faced by the Company, and confirms that any appropriate actions have been or are being taken to address any weaknesses.

The Board has established the Investment committee, which is responsible for developing and monitoring the Group's financial risk management policies.

NOTE 34 – FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

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 Group 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 other financial institutions.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires collateral in the form of a bank guarantee or deposit equal to three months of rent from tenants of shopping centers.

Cash and deposits, including structured deposits and assets available for sale

The Group limits its exposure to credit risk in respect to cash and deposits, including structured deposits and assets available for sale by investing only in deposits and other financial instruments with counterparties that have a credit rating of at least A from rating agencies. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

B Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group use frequent budget meetings with senior management in order to assist management in monitoring cash flow requirements for a period of 60 days.

C Market risk

Currency and inflation risk

Currency risk is the risk that the Company will incur significant fluctuations in its reports as a result of utilizing currencies other than its functional currency.

The Group is exposed to currency risk mainly on purchases (plots of land purchases in India) and borrowings (debentures issues in Israel) that are denominated in a currency other than the respective functional currency of the Group, which is the euro. The currencies in which these transactions primarily are denominated are INR and NIS, respectively. As these currencies are subject to fluctuations, the Company is holding a small amount of financial instruments denominated in these currencies, and hedging them, where appropriate. Regarding the hedging of the currency and inflation risk of the debentures see also note 16.

Interest rate risk

The Group's interest rate risk arises mainly from short- and long-term borrowing (as well as debentures). Borrowing issued at variable rate expose the Group to cash flow interest risk. Borrowing issued at fixed rate expose the Group to fair value interest risk. Except for the debentures, the Group does not currently engage in hedging or use of other financial arrangements to minimise the exposure to these risks. Regarding the hedging of the interest rate risk of the debentures see also note 16.

D Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors also monitors the level of dividends to ordinary shareholders, as well as the percentage of holdings of employees in Company's shares.

At present employees hold 0% of Ordinary Shares, but with future potential of about 6% assuming that all outstanding employee share options vest and are exercised at maximum price.

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:

	Note	Carrying amount December 31, 2008 €'000	Carrying amount December 31, 2007 €'000
Cash and cash equivalents	5	**146,026**	66,381
Restricted bank deposits	6	**32,253**	25,155
Short-term deposits and investments		**–**	1,033
Available for sale financial assets	7	**8,608**	–
Trade receivables, net	8	**838**	262,595
Other receivables and prepayments	9	**19,500**	6,778
Related parties	19	**481**	19,525
Derivatives	16	**20,323**	2,228
Long-term deposits and other investments	11	**50,385**	1,987
Restricted bank deposits	6	**34,497**	5,302
		312,911	390,984

The maximum exposure to credit risk for the above mentioned table at the reporting date by type of customer was as follows:

	December 31, 2008 €'000	December 31, 2007 €'000
Banks and financial institutions	**290,774**	100,298
Trade receivables	**838**	262,595
Governmental institutions	**15,706**	5,848
Related parties and other	**5,593**	22,243
	312,911	390,984

Liquidity risk

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

December 31, 2008	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	6–12 months €'000	1–2 years €'000	2–5 years €'000	More than 5 years €'000
Non-derivative financial liabilities							
Secured bank loans	**110,688**	**(152,526)**	**(2,664)**	**(7,514)**	**(4,392)**	**(18,880)**	**(119,076)**
Unsecured bond issued[(1)]	**175,144**	**(244,592)**	**(5,111)**	**(5,111)**	**(16,849)**	**(127,694)**	**(89,827)**
Trade and other payables	**54,254**	**(54,254)**	**(53,878)**	**–**	**(376)**	**–**	**–**
Related parties	**2,748**	**(2,748)**	**–**	**(2,748)**	**–**	**–**	**–**
	342,834	**(454,120)**	**(61,653)**	**(15,373)**	**(21,617)**	**(146,574)**	**(208,903)**
December 31, 2007							
Non-derivative financial liabilities							
Secured bank loans	5,870	(7,970)	(421)	(411)	(801)	(2,227)	(4,110)
Unsecured bond issued[(1)]	53,821	(71,443)	(1,244)	(1,244)	(2,487)	(27,257)	(39,211)
Trade and other payables	72,523	(72,523)	(72,168)	–	(355)	–	–
Related parties	24,974	(24,974)	(23,103)	–	(1,871)	–	–
	157,188	(176,910)	(96,936)	(1,655)	(5,514)	(29,484)	(43,321)

1 Unsecured bond issued are presented at their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 34 – FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

December 31, 2008	EUR	NIS	USD	HUF	PLN	CZK	RON	INR	LVL	RSD	Other
Current assets	175,980	488	3,451	774	5,054	3,799	11,201	2,524	2,788	1,500	147
Non-current assets	84,882	208,158	–	–	–	–	–	–	–	–	–
Total	260,862	208,646	3,451	774	5,054	3,799	11,201	2,524	2,788	1,500	147
Current liabilities	109,768	–	–	501	2,730	8,379	2,019	2,036	180	356	49
Non-current liabilities	41,672	208,158	–	–	–	–	–	–	–	–	–
Total	151,440	208,158	–	501	2,730	8,379	2,019	2,036	180	356	49
Net exposure	109,422	488	3,451	273	2,324	(4,580)	9,182	488	2,608	1,144	98

December 31, 2007	EUR	NIS	USD	HUF	PLN	CZK	RON	INR	LVL	Other
Current assets	365,081	–	1,015	609	5,122	5,297	1,514	1,754	899	176
Non current assets	(45,732)	55,249	–	–	–	–	–	–	–	–
Total	319,349	55,249	1,015	609	5,122	5,297	1,514	1,754	899	176
Current liabilities	74,246	–	11,685	385	901	2,451	3,035	1,812	1,093	72
Non-current liabilities	6,344	53,821	988	72	–	283	–	–	–	–
Total	80,590	53,821	12,673	457	901	2,734	3,035	1,812	1,093	72
Net exposure	238,759	1,428	(11,658)	152	4,221	2,563	(1,521)	(58)	(194)	104

The following significant exchange rate applied during the year:

			Reporting date	
	Average rate		Spot rate	
Currency	2008	2007	2008	2007
RSD 10	0.123	0.130	0.113	0.126
USD 1	0.680	0.730	0.714	0.679
PLN 1	0.285	0.265	0.240	0.279
HUF 100	0.398	0.398	0.378	0.395
RON 1	0.272	0.300	0.251	0.277
CZK 10	0.401	0.361	0.371	0.376
INR 10	0.157	0.177	0.147	0.172
NIS 1	0.190	0.178	0.189	0.177

Sensitivity analysis

The following table demonstrates the post-tax impact of:

› 15% strengthening of the euro against the US dollar, Serbian dinar, Hungarian florint, Polish zloty and Indian rupee;

› 10% strengthening of the euro against the Czech crown, and Romanian lei; and

› 20% strengthening of the euro against the new Israeli shekel

With all other variables held constant (the impact on the Group's equity is the same):

	Increase in currency rate	Effect on post tax profit for the year ended December 31, 2008 €'000	2007 €'000
EUR vs. USD, RSD, HUF, and PLN	15%	**(1,079)**	1,101
EUR vs. INR[1]	15%	**(73)**	–
EUR vs. CZK, RON	10%	**(460)**	(104)
EUR vs. NIS	20%	**(98)**	–

1 Effect on equity

A similar weakening of the euro against all currencies at December 31 would have had the equal but opposite effect on the post tax profit and equity to the amount shown above on the basis that all other variables remain constant.

Derivatives and debentures

Sensitivity analysis – changes in Exchange rates euro to new Israeli shekel

	Fair value change (NIS weakening against EUR) €'000	Fair value €'000	Fair value change (NIS strengthening against EUR) €'000
	20%	5.2973	-20%
Derivative A	(11,758)	10,142	11,758
Derivative B	(32,979)	10,181	32,979
Debentures A	9,355	(46,773)	(9,355)
Debentures B	25,674	(128,371)	(25,674)
Total net	(9,708)	(154,821)	9,708

Interest rate risk

Profile

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

Currency rate	Carrying amount 2008 €'000	Carrying amount 2007 €'000
Fixed rate instruments		
Financial assets	**64,301**	5,898
Variable rate instruments		
Financial assets	**207,468**	370,076
Financial liabilities	**(288,580)**	(70,083)
	(81,112)	299,993

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 2007.

Variable Interest balances (excluding debentures and structure A).

December 31, 2008	Profit or loss 30 bp Increase	30 bp Decrease
Variable rate Instruments	**54**	**(54)**

December 31, 2007	Profit or loss 100 bp Increase	100 bp Decrease
Variable rate Instruments	(52)	52

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 34 – FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

Fair value sensitivity analysis for structure B

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

Sensitivity analysis – changes in Interest on structure

	Fair value change increase 5 bp €'000	Fair value €'000	Fair value change decrease 5 bp €'000
Structure B (see note 11)	(29)	9,864	32

Derivatives and debentures

Sensitivity analysis – changes in Israeli CPI

	Fair value change 2% €'000	Fair value 106.5 €'000	Fair value change 2% €'000
Derivative-A	1,379	10,142	(1,379)
Derivative-B	3,501	10,181	(3,501)
Debenture-A	(648)	(46,774)	648
Debenture-B	(2,046)	(128,370)	2,046
Total net	2,186	(154,821)	(2,186)

Sensitivity analysis – changes in interest on debenture

	Fair Value change – increase 100 bp €'000	Fair Value €'000	Fair Value change – decrease 100 bp €'000
Derivative-A	(3,177)	10,142	3,403
Derivative-B	(6,775)	10,181	7,164
Debenture-A	1,103	(46,774)	(1,164)
Debenture-B	2,808	(128,370)	(2,926)
Total net	(6,041)	(154,821)	6,477

Fair values

Fair values versus carrying amounts

The carrying amounts of financial assets and liabilities shown in the balance sheet are a reasonable approximation of the fair value of such financial assets and liabilities, with the exception of Structure A (refer also to note 11).

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the Israeli government Galil debentures yield curve at the reporting date plus an adequate credit spread, and were as follows:

	December 31, 2008	December 31, 2007
Derivatives – outflow*	**2.67%–3.73%**	6.33%–6.6%
Derivatives – inflow*	**2.39%–3.86%**	4.1%–4.25%
Loans and borrowings	**4.30%**	6.30%

* Including a margin of 1.825%

NOTE 35 – CONTINGENT LIABILITIES AND COMMITMENTS

A Commitments and contingent liabilities to related parties
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

1 A framework agreement to provide coordination, planning and supervision services over projects for the construction of shopping centers, the initiation of which began during the term of the agreement (through December 31, 2002), in consideration of 5% of the actual execution costs of each project (excluding land acquisition costs, general and administrative expenses and financing costs), payable according to milestones stipulated in the specific agreement for each project. Additionally, Control Centers will be entitled to reimbursement of reasonable expenses directly incurred thereby for fees of external consultants required for the provision of the services and the like, at an amount not to exceed US$50,000 per project.

On October 27, 2006, the Company entered into an agreement with Control Centers under which Control Centers will provide coordination, planning, and execution and supervision services in respect of the Group's projects (the "Agreement"). This agreement is concluded within the framework substantially the same as a similar agreement concluded between EI and Control Centers, which was approved by the shareholders of EI on May 31, 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 (as defined below) 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. "Real Estate Projects" shall mean any real estate project intended for one or more of the following:

Shopping and entertainment centers, or any other shopping center, permanent, temporary or seasonal residential projects, offices, business enterprises, warehouses, congressional centers, lecture or convention centers, hotels, guest houses, apartment hotels, leisure apartments, leisure, entertainment, sports or health centers and/or any other real estate projects decided upon for its development, construction or renovation by the Company, by itself or in participation with third parties.

Coordination, planning and execution services include the receipt of approvals and permits relating to construction and coordination, negotiations with consultants and planners, coordination with licensing authorities and supervision of the planning process. Supervision services include locating and negotiating with suitable contractors, supervising their work and coordinating the operating activities of the real estate project prior to its completion.

The actual execution costs are the aggregate costs incurred in connection with the Real Estate Project excluding the cost of the purchase of the land, financing costs and the consideration for Control Centers under the Agreement. Such fee will be paid in instalments upon the meeting of specified targets (receipt of planning approval or other approval similar in its nature, receipt of a building permit and completion of the Real Estate Project).

The calculation of the actual execution costs and the final payment to Control Centers is subjected to an approval by an external accountant. In addition, the Company will reimburse Control Centers for all reasonable costs incurred in connection with the services rendered thereby, not to exceed a total of €75,000 per Real Estate Project.

If the intended use of a Real Estate Project is changed for any reason prior to the completion of the Project, the payment to Control Centers will be calculated as a percentage of the budget for the Real Estate Project and provided that such percentage shall not exceed the percentage determined for the next target had it continued as planned. The calculation of the payments to Control Centers will be subject to the approval of an external accountant and the approval of the Audit Committee and the Board of the Company and of EI.

At December 31, 2008 the financial statements include a provision for engineering supervision services supplied by a related party in the Control Centers Group in the amount of €1.8 million related to twelve projects under development in Romania, Serbia, Poland, Czech Republic and Greece (for the total charges in 2008 and 2007 refer to note 37).

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 is in effect for a five-year term (see also note 37).

3 On October 27, 2006, the Company entered into an agreement with the Executive Vice-Chairman of EI ("VC") who has 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 the holding company through which the Company will carry on its operations in India. However, where considered appropriate and by agreement, the VC will be entitled to take up a 5% interest in specific projects, in which case necessary adjustments will be made at the holding company level. The Company and the VC will agree on the terms of the Option for each acquisition, taking into account taxation, securities laws and regulations applicable to either party or their respective affiliates, and other considerations of the respective parties. If the VC exercises all of his Options (5%) at the holding company level, his right to take up interests on a project by project basis will lapse. The Options will be subject to vesting over a three-year period, with an initial vesting of 2% on award of the options following commencement of the relevant project with an additional 1% on the following dates: March 31, 2007,

NOTE 35 – CONTINGENT LIABILITIES AND COMMITMENTS CONTINUED

Financial risk management continued

March 31, 2008 and March 31, 2009. If the VC elects to take up Options in a specific project which commences after any of the vesting dates specified above, an immediate vesting will be allowed in respect of Options which would have vested as of the above dates. The vested options may be exercised at any time, at a price equal to the Company's net equity investment made in the projects as at the Option exercise date plus interest at the rate of LIBOR plus 2% per annum from the date of the investment until the Options exercise date ("Exercise price").

The 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. In addition, the VC has the right to pay the Exercise Price on a partial exercise of Options by way of the surrender to the Company of Options valued at the Exercise Price of the exercised Options. The agreement includes tag-along rights and a right of first refusal.

The agreement was approved by EI's shareholders on January 17, 2008.

As of December 31, 2008, the liability recorded in these financial statements in respect of this agreement, is €1.1 million.

4 On January 17, 2008, EI's shareholders approved another agreement with the VC according to which EI has undertaken to allot the VC 5% of the aggregate issued and outstanding share capital in the Company's jointly controlled subsidiary with EI (see note 36), Elbit Plaza India Real Estate Holdings Limited ("EPI").

The VC shares in EPI shall not be entitled to receive any distributions (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) from EPI 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 VC's right to receive the shares in EPI will be subject to vesting over a three-year period, whereby as of the balance sheet date the right to receive 80% of the VC shares have already vested and the right to receive 20% of the VC shares will vest on March 31, 2009. The VC's right to receive the VC shares shall continue to vest, according to the above vesting schedule, for so long as the VC devotes, in the aggregate, a substantial part of his time and attention to the sourcing activities. In the event the VC ceases for any reason to devote, in the aggregate, a substantial part of his time and attention to the sourcing activities (the "Cut-Off Date"), then the VC's vesting rights as discussed above shall cease as and from the Cut-Off Date, provided however, that in such event, the VC shares that have not yet vested shall vest pro rata from the last vesting date as aforementioned until the Cut-Off Date. The agreement includes "tag along" and "drag along" rights.

5 On October 27, 2006, the Company and the Chairman of its Board entered into a service agreement, pursuant to which the Chairman will be entitled to a monthly salary of US$25 thousand (€17 thousand) which includes pension, retirement and similar benefits for his services as the Company's Chairman. The agreement was approved by the Annual General Meeting of EI on November 1, 2007.

6 In October 2006, the Company and EI entered into a transitional services agreement, pursuant to which EI will provide the Company with legal and accounting services. The services are to be provided by EI for a period of 24 months (from October 2006), unless terminated earlier by the Company, at a cost to be agreed between the parties from time to time.

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

8 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 (see also note 36), but both EI and the Company agreed that upon the termination of the Joint Venture agreement they will re-execute the agreement.

9 On November 1, 2007, the Annual General Meeting of EI approved the Grant by the Company of a deed of indemnity to the Executive Chairman of the board of directors of the Company – the maximum indemnification amount to be granted by the Company to the Chairman 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.

10 On November 1, 2007, the Annual General Meeting of EI approved the grant by the Company of a deed of indemnity to one of the Company's non-executive directors. No consideration was paid by the Company in this respect since the agreement was signed.

B Commitments and contingent liabilities 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 €6.9 million. The entire amount of €6.9 million 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 Lublin Stage B Project

The Company has granted in respect of Lublin Stage B Project (construction of the hotel and office area above the shopping center) a commitment to Klepierre (back to back with Klepierre commitment to Lublin Municipality according to which Stage B Project shall commence by no later than September 30, 2009 and conclude by the end of 2011 (“Stage B Project”). Should the Company fail to comply with the timetable of the second stage a penalty shall be imposed thereon in the amount of PLN 2.5 million (€0.7 million). The municipality reserves also the right in this case to buy back the shopping center at cost base.

In addition, the Company will indemnify Klepierre for any damage in relation to the construction of Stage B Project and will cause Stage B project to assume full liability for the full and timely performance of all the obligations (other than payment of usufruct fee) of the Joint Venture (“JV”) agreement for the ownership (indirectly) of a Company registered in Lublin, Poland in favour of the municipality of Lublin including for damages for the failure of Project B Company to construct the Stage B Project in accordance with the usufruct agreement. The Company and the JV partner are jointly and severally guarantee to the Vendor’s obligations under the transaction agreement.

The JV partner guarantees to the Company’s obligation under the transaction agreement related to Stage B Company and/or Stage B Project including any liabilities to indemnify Klepierre for non-performance of Stage B Company’s obligations under the usufruct agreement with the municipality of Lublin.

3 General liability 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 integrity 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 caped 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 caped to 25% to 50% of the purchase price. The Group’s management estimates, based, inter alia, on a professional opinion and past experience, that no significant costs will be born thereby, in respect of these indemnifications.

Aggregate amount of the Group’s commitments in respect of construction services and in respect of purchase of plots totalled, as of December 31, 2008, approximately €90 million.

C Contingent liabilities due to legal proceedings

On April 5, 2006, the Company and EI were claimed by a third party requesting the court to order the Company and EI to pay the plaintiff an amount of NIS 10.8 million (€2 million) as an intermediary fee for certain sales of shopping centers in Poland and the Czech Republic. On August 31, 2006, EI filed the statements of defence and on January 25, 2007, the Company filed statements of defence.

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

The Company is involved from time to time in litigation arising in the ordinary course of its business. Although the final outcome of each of these cases cannot be estimated at this time, the Company’s management believes, based on legal advice, that it is not probable that these litigations will cause any outflow of resources to settle them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 35 – CONTINGENT LIABILITIES AND COMMITMENTS CONTINUED

Financial risk management continued

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 awarded by financing banks, in a total amount of €176 million (for projects in Romania, Latvia, Czech Republic), by providing the 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 goodwill and other intangible assets, on rights pertaining to certain contracts (including lease, operation and management agreements), on rights arising from insurance policies, and the like. Shares of Project Companies were also pledged in favour of the financing banks. The Company guarantee fulfillment of one of the project companies' obligations under loan agreements up to an aggregate amount of €20 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 of certain preconditions.

Certain loan agreements include an undertaking to fulfill certain financial and operational covenants throughout the duration of the credit, namely: complying with "a minimum debt services cover ratio", "loan outstanding amount" to secured assets value ratio; complying with certain restrictions on interest rates; maintaining certain cash balances for current operations; maintaining equity to project cost ratio and net profit to current bank's debt; occupancy percentage and others. All of the companies are in compliance with the entire loan covenants with the exception of one covenant in respect of one of the secured loan granted. The Company is in negotiation with the financing bank in respect of settling the bank requirement and is expected to deposit up to €6 million as additional security for the loan.

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 Company in favour of third parties; (v) receipt of loans by the Project Company and/or the provision thereby of a guarantee to third parties; and the like.

Alom Sziget has a bank loan (of €40 million); The Company has committed to repay 30% of the outstanding loan amount in case Alom Sziget fails to do so.

2 **Commitment in respect of derivative transaction**

Within the framework of cross currency interest rate swap transactions (see note 16), executed between the Company and Israeli banks (the "Banks"), the Company agreed to provide the Banks with a cash collateral deposit which will be calculated in accordance with a specific mechanism provided in each swap transaction agreement. Accordingly, as of the balance sheet date, the Company has pledged, a security deposit in the amount of €19.6 million in respect of these swap transactions.

3 **Commitment in respect of structures**

In order to secure credit lines provided to the Company for the purpose of investing the credit funds in financial structures (see note 11), the Company has provided the financing banks a pledge on the structures issued. In addition the Company also has to comply with certain covenants stipulated in the loan agreement. Failing to comply with the said covenants shall oblige the Company to provide an additional cash collateral. As of the balance sheet date the Company has secured cash collateral of €14.6 million.

NOTE 36 – SIGNIFICANT ACQUISITIONS AND EVENTS

Joint venture agreement with the controlling indirect shareholder

On August 25, 2008, the Company and EI signed on a joint venture agreement in the framework of which, the Company acquired 47.5% of EI shareholding in Elbit-Plaza India Real Estate Holdings Limited ("EPI") in exchange of an assignment of 50% of the shareholders loans granted by EI to EPI up to the closing date, and which totaled to €81 million. As at the closing date EPI holds plots in Bangalore and Chennai (see below). Following the execution of the transaction the Company and EI each hold 50% of the voting rights in EPI and 47.5% of the equity rights. The additional 5% equity rights are held by EI's Vice Chairman of the Board, which were granted to him within the framework of an agreement executed in January 2008 (see note 35). The Company and EI each have the right to appoint 50% of the board members in EPI.

In addition, the Company paid EI an advance payment in the amount of €4 million ("Advance") which is equal to 50% of the shareholders loan granted by EI for its investment in the Cochin Island project (see note 9). EI will hold in trust 50% of the right in the Cochin Island in favour of the Company. The Company has been granted with EI's corporate guarantee, which shall be exercised in the event EI shall fail to transfer all its right in the Cochin Island to EPI (or alternatively to transfer 50% of the said rights to the Company) within a period of one year from the execution of the agreement.

The following information is in respect of trading property which is held by EPI:

Chennai

On December 16, 2007, EPI entered into a framework agreement, ("Framework Agreement"), with a third party to acquire, through a Joint Venture Company ("JV"), up to 135 acres of land in the Siruseri District of Chennai, India. Under the Framework Agreement, the JV will develop on the project land an integrated multi-use project.

Under the Framework Agreement, EPI is to hold 80% of the JV. Investments by EPI in the JV will be a combination of investment in shares and convertible debentures. The total investment that EPI is anticipated to pay under the Framework Agreement in consideration for its 80% holding (through the JV) in the project land is up to INR 4,276.8 million (€62 million), ("Purchase Price") assuming purchase of all 135 acres. The project land is to be acquired by the JV in batches subject to such land complying with certain regulatory requirements and the due diligence requirements of EPI. Through the balance sheet date the JV acquired approximately 52 acres of the project land and a total of INR 1,642 million (€24 million) of the Purchase Price was paid by EPI.

Bangalore

On March 13, 2008, EPI entered into an amended and restated share subscription and framework agreement, ("Framework Agreement"), with a third party, and a wholly owned Indian subsidiary of EPI ("Joint Venture Company"), to acquire, through the Joint Venture Company, up to 440 acres of land in Bangalore, India ("the Project Land"). Under the Framework Agreement, following the consummation of the closing of the final stage of the transaction, the Joint Venture Company will develop on the Project Land, an integrated multi-use project.

Under the Framework Agreement, the Joint Venture Company is to acquire ownership and development rights in respect of up to an approximate 230 acres of the entire Project Land for a fixed amount of cash consideration. In consideration of EPI's 50% share (through the Joint Venture Company) in such lands, EPI will pay an aggregate of up to INR10,500 million (€154 million).

Upon the closing of the first stage of the transaction, which occurred on March 24, 2008, the Joint Venture Company has secured rights over approximately 54 acres of such 230 acres and EPI has paid the aggregate sum of approximately INR 2,840 million (€42 million) in consideration of its 50% share (through the Joint Venture Company) in such land.

In addition, EPI has paid to the third party an interest bearing advance of approximately INR 1,861.5 (€41 million) on account of the future acquisition by the Joint Venture Company of a further 35.6 acres, which land is currently controlled by the third party. Such advance payment is presented in the balance sheet as of December 31, 2008, as prepayment and other assets (see note 9).

In respect of up to the other approximately 210 acres of the entire project land, the framework agreement provided that the Joint Venture Company will enter into joint development agreements under which the Joint Venture Company will be entitled to develop the entire area of such lands. In consideration, the Joint Venture Company will pay between 38% and 53% of the built up area of such lands and in some cases, refundable deposits on account of such future consideration will also be paid. EPI's 50% share (through the Joint Venture Company) in rights under the development agreements, will require it to invest INR 750 million (€11 million) in order to fund its proportional share in such deposits.

Under the Framework Agreement, between the closing of the first stage (March 31, 2009) and the closing of the final stage (June 30, 2009) of the transaction, additional portions of the Project Land will be acquired in stages through the third party's business partners on behalf of the Joint Venture Company and subject to certain conditions, EPI will make advances (in addition to sums already transferred in connection with the closing of the first stage) on account of such acquisitions. Through the balance sheet date EPI has advanced an amount of approximately INR 674 million (€9 million) in order to secure acquisitions of approximately 16 acres. Such advance payments are also presented as prepayments and other assets (see note 9).

NOTE 36 – SIGNIFICANT ACQUISITIONS AND EVENTS CONTINUED

Joint venture agreement with the controlling indirect shareholder

Winning of tender – Dream Island project in Budapest (see also note 15)

On July 23, 2008, a related entity to Alom Sziget Kft., where the said related entity was formed under consortium agreement amongst the shareholders of Alom Sziget Kft. (in which the Company holds a 30% stake) signed a concession agreement with the ministry of finance in Hungary for a casino licence for its planned entertainment and mixed use Dream Island development in Budapest.

According to concession agreement, the casino licence, which will be formally issued towards the opening of the casino, will be granted to the related entity for a period of twenty years from the date of opening of the casino, with a ten year extension option which will be granted (subjected to the fulfillment of certain conditions).

Buy out of joint venture partner in India

On September 29, 2008, the Company acquired the 50% interest of its joint venture partner in its Koregaon Park project for a total consideration of approximately €14 million.

Arena Plaza – Purchase price adjustment

As part of the agreed purchased price adjustment mechanism agreed with UK based Active Asset Investment Management (“aAim”), the Company has recorded additional revenues of €22.3 million in the year 2008 out of which €8.2 million is due to a reversal of certain provisions made in 2007. The Company received €5.6 million consideration as part of the finalization of the Arena Plaza transaction.

Sale of Plzen Plaza Project – Czech Republic

Effective June 30, 2008, the Company sold Plzen Plaza s.r.o (the owner of the Plzen Plaza shopping center) to Klepierre. The Company recognized revenue in the amount of €61.4 million in these financial statements and recorded a gain of €19.2 million. Total cash consideration amounted to €54.6 million.

In addition, €0.5 million was provided due to uncertain amounts Plzen plaza may incur in respect of the development of the shopping center. Accordingly, the purchaser withholds these amounts until the uncertainty will be removed.

Changes in global markets

The last few months of 2008 have seen extraordinary turbulence in economic and financial markets worldwide which has impacted considerably on activity in real estate markets worldwide, with the lack of availability of financing being a key factor behind the dramatic slowdown in investment transactions. The Company will continue with the development of the six projects that are in construction stage (Casa Radio and Ciuc in Romania, Liberec in Czech Republic, Koregaon Park in India, Riga in Latvia, and Kragujevac in Serbia). The other projects are either in design phase, or wait permits. For all these schemes, once full permits are obtained, start of the construction will depend on availability of external financing.

Issuance of debt securities

For the issuance of debt refer to note 22.

Share repurchase program

For the share repurchase program and treasury shares held refer to note 24.

Changes in employee incentive plan

For the incentive plan amendment refer to note 24.

NOTE 37 – RELATED PARTY TRANSACTIONS

Related party transactions

The main shareholder of the Company holding, as of balance sheet date, 70.6% of all issued and paid share capital of the Company as of balance sheet date, is Elbit Ultrasound B.V. (“EUL”), incorporated in the Netherlands and the ultimate controlling party is Elbit Imaging (“EI”), which by itself owns 0.1% of the Company’s shares as of balance sheet date. Regarding purchase of shares by related parties after balance sheet date refer to note 39. EI’s indirect controlling shareholder is Mr Mordechay Zisser. The rest of the Company’s shares are held by the public, starting October 27, 2006.

Transactions between the Company and its subsidiaries, which are related parties of the Company, 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 also in note 36, in respect of the joint venture of the Company and EI in India.

The Company has six directors. The annual remuneration of the directors in 2008 amounted to €1.6 million (2007: €3.6 million) and the annual share based compensation expenses amounted to €4.5 million (2007: €7 million). There are no other benefits granted to directors.

Information about related party balances as of December 31, 2007 and 2008 is disclosed in note 19.

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, 2008 €'000	For the year ended December 31, 2007 €'000
Income		
Interest on shareholders loan to EI	**1,277**	1,084
Costs and expenses		
Charges – EI[1]	**1,429**	3,355
Chairman of Board and Executive Vice Chairman of EI[2]	**1,038**	961
Interest on shareholders loan from EUL	**547**	642
Aviation services – Jet Link[3]	**553**	741
Project management provision and charges – Control Centers group[3]	**14,608**	11,846

1 Charges to EI decreased mainly due to reimbursement of EI charges in connection with of purchase of projects in India by the Company (€1.6 million) in the course of 2007. For the agreement in respect of reimbursement of cost refer to note 35. 2008 charges are inclusive chiefly of management fees (approximately €0.4 million) as well as charges in respect of activities in India, as well as charges due to handling of the headquarters in the Netherlands.
2 For the option plan for the Executive Vice-Chairman of EI refer to note 35. Chairman of the Board of the Company, who is also the controlling shareholder of the ultimate parent company is receiving an annual salary of US$300 thousand.
3 Jet Link and Control Centers are companies owned by the ultimate shareholder of the Company.

NOTE 38 – GEOGRAPHIC AND BUSINESS SEGMENTS

The Group comprises following main geographical segments, which are CEE and India. In presenting information on the basis of geographical segments, segment revenue is based on the revenue resulted from the selling of assets geographically located in the relevant segment, as well as the geographical location of the tenants.

Business segment comprised from commercial and entertainment, being the core activity of the Company, with increasing residential part, following the joint venture with EI (refer to note 36).

A Data regarding geographical segments

Year ended December 31, 2008	Central Eastern Europe	India	Total
Revenues[1]	98,613	–	98,613
Operating income (loss) by segment	32,503	(1,759)	30,744
Share in losses of associates, net	(941)	–	(941)
Less – unallocated general and administrative expenses			(12,605)
Financial income, net			58,088
Other expenses, net			(2,689)
Profit before income taxes			72,597
Income taxes			(4,913)
Profit for the year			67,684
Purchase cost of segment (tangible and intangible) assets	190,411	137,685	328,096
Depreciation and amortization of segment assets	5,736	897	6,633
December 31, 2008			
Total segment assets	518,226	131,776	650,002
Investment on the equity basis	188	–	188
Unallocated assets			308,366
			958,556
Segment liabilities	52,817	1,437	54,254
Unallocated liabilities			294,771
			349,025

1 Revenues are inclusive of revenues from selling of trading properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 38 – GEOGRAPHIC AND BUSINESS SEGMENTS CONTINUED

Year ended December 31, 2007	Central Eastern Europe	India	Total
Revenues[1]	509,914	–	509,914
Operating income (loss) by segment	233,344	(1,472)	231,872
Share in losses of associates, net	(19)	–	(19)
Less – unallocated general and administrative expenses			(13,805)
Financial income, net			9,347
Other expenses, net			(338)
Profit before income taxes			227,057
Income taxes			(90)
Profit for the year			226,967
Purchase cost of segment (tangible and intangible) assets	365,198	30,931	396,129
Depreciation and amortization of segment assets	4,513	37	4,550
December 31, 2007			
Total segment assets[2]	591,129	31,190	623,039
Investment on the equity basis	1,129	–	1,129
Unallocated assets			137,043
			761,211
Segment liabilities	70,786	1,737	72,523
Unallocated liabilities			85,217
			157,740

1 Revenues are inclusive of revenues from selling of trading properties.
2 Including trade receivables due to selling of trading properties in a total amount of €260.4 million.

B Data regarding business segments

	Revenues by business markets Year ended December 31, 2008 €'000	Revenues by business markets Year ended December 31, 2007 €'000
Commercial and entertainment	**98,455**	509,914
Residential	**158**	–
Others	**–**	–
	98,613	509,914

	Purchase cost of segment (tangible and intangible) assets December 31, 2008 €'000	Purchase cost of segment (tangible and intangible assets December 31, 2007 €'000
Commercial and entertainment	**179,631**	372,142
Residential	**97,173**	11,898
Others	**51,292**	12,089
	328,096	396,129

	Segment assets December 31, 2008 €'000	Segment assets December 31, 2007 €'000
Commercial and entertainment	**495,129**	592,956
Residential	**102,464**	17,994
Others	**52,409**	12,089
	650,002	623,039

NOTE 39 – SUBSEQUENT EVENTS

Bulgaria – transaction

On February 3, 2009, the Company acquired a controlling stake in a 75,000 m^2 project in Sofia, Bulgaria, for the development of a retail and office complex.

The Company acquired a 51% stake in the project from a local developer for a total consideration of €7.14 million. The consideration will consist of a cash payment of €2.78 million and the assumption of €4.36 million of debt, representing 51% of the project's debt liability. In addition the Company will retain the right to acquire a further 24% stake in the project for six months following the start of construction, based on the current value of the project. The local developer will retain the remaining stake as joint venture partners in the project, with the Company managing the construction.

Completion of share buyback program

In the Course of January 2009, both the Company and EI continued with the share buy back program (see also note 24). In the course of January 2009 the Company purchased 5.3 million shares in an average price of 0.6 pound per share, while EI purchase 4.6 million shares in an average price of 0.62 pound per share.

Following the above-mentioned purchase and the conclusion of the share buyback program, the effective holding percentage of EI in the Company is 73.69%.

Changes in ratings of Company debentures

In March 2009, Midroog Ltd., ("Midroog"), an affiliate of Moody's Investors Services, and S&P Maalot ("Maalot"), have recently conducted wide-ranging reviews of a number of real estate companies whose debentures are listed on the Tel Aviv Stock Exchange ("TASE"), including the Company's and EI's.

As a result of this review, Midroog has informed the Company that it has decreased the "Aa3/Negative" rating, for the Company's Series A and Series B Debentures, which are traded on the TASE, to "A2/Stable".

Maalot has decreased its rating of the Company's series A debentures from an "A+/Negative" rating, to "A/Stable" on a local scale.

Settlement of cross currency transaction Series A debentures

In January 2009 the Company settled the Cross Currency transaction in respect of its series A debentures ("swap transaction"), for a total proceeds of €13.1 million. In addition, the Company released a long-term restricted deposit in the amount of €5.3 million, which served as a security for the swap transaction.

Refinance of airplane

In March 2009 the Company received a total amount of US$4.7 million (€3.7 million) as a refinance loan in respect of its wholly owned airplane. The loan was granted for a period of five years and bears an interest of USD LIBOR +4.

Purchase of additional stake in Dream Island project, Budapest

In March 2009, the Company, through its jointly controlled subsidiary (Ercorner) has acquired a additional 27% stake in Alom Sziget (see also note 15) for a total consideration of €21.4 million .The consideration will consist of a cash payment of €12 million and the assumption of €9.4 million of debt, representing 27% of the project's net debt liability. Following the transaction, Ercorner holds 87% of the equity and voting rights in Alom Sziget.

NOTE 40 – CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

A Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

B Potential penalties, guarantees issued

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 40 – CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

C Expired building permits

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

D Fair value measurement of debentures

The Company measures the fair value of the debentures using a valuation technique done by external experts. The valuation is sensitive to changes in market conditions and is based on assumptions that are reasonable but can not be virtually guaranteed. The Company is using external experts only in rare cases where it regards the quoted market prices as not the best estimate of the fair value due to the inactivity of the market. In all other cases the Company is using the quoted market prices as best estimate for the fair value of the debentures.

E Fair value measurement of derivative

The Company measures the fair value of its derivatives using a valuation technique done by external experts. The valuation is sensitive to changes in market conditions and is based on assumptions that are reasonable but can not be virtually guaranteed.

F Revenue recognition

Revenues from sale of real estate assets are recognized when all the criteria mentioned in note 3(k) are met. 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 weather, as of the balance sheet date, the Group has transferred to the buyer the significant risks and rewards associated to the real estate assets sold. Such determination is based on an analysis of the terms included in the sale agreement executed with the buyer as well as an analysis of other commercial understandings with the buyer in respect of the real estate sold. Generally, the sale agreement with the buyer is signed during the construction period and the consummation of the transaction is subject to certain conditions precedents which have to be fulfilled prior to delivery. Revenues are, therefore, recognized when all the significant conditions precedent included in the agreement have been fulfilled by the Group and/or waived by the buyer prior to the balance sheet date.

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 guaranty from the buyer for the total estimated proceeds in order to secure the payment by the buyer at delivery. Therefore, the Group does not inherent any significant risks in respect of payment of the proceeds by the buyer.

G Valuation of share-based payments arrangements

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

NOTE 41 – LIST OF SUBSIDIARIES AND AFFILIATES OF THE COMPANY

During the period starting January 1, 2007, the Company has owned the following companies (all subsidiaries were 100% owned by the Group at each balance sheet date presented unless otherwise indicated):

Hungary	Activity	Remarks
Directly wholly owned		
Kerepesi 2 Hypermarket Ingatlanfejlesztő Kft.	Shopping center	Sold to aAim in 2007
Kerepesi 3 Áruház Ingatlanfejlesztő Kft.	Shopping center	Sold to aAim in 2007
Kerepesi 4 Szálloda Ingatlanfejlesztő Kft.	Holder of land usage rights	Merged into Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft. in July 2008
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	Holder of land usage rights	Arena extension project
HOM Ingatlanfejlesztési és Vezetési Kft. (“HOM”)	Management company	
Plaza House Ingatlanfejlesztési Kft.	Office building	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Inactive	
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelö Kft.	Inactive	
Szeged 2002 Ingatlanhasznosító és Vagyonkezelö Kft.	Inactive	
Indirectly owned (or jointly owned)		
Ercorner Kft.	Holding company	Jointly controlled (50:50 with commercial bank and holding company of Álom Sziget 2004 Kft. The Dream Island project – see note 15
Alom Sziget 2004 Ingatlanfejlesztő Kft.	A convention, casino, hotel and entertainment center	Held 60% by Ercorner Kft.
Plasi Invest 2007 Ingatlanforgalmazo Kft.	Holding company	Held 70% by Plaza Centers N.V.
SBI Hungary Ingatlanforgalmazo es Epito kft.	Shopping center	Jointly controlled (50:50) by Plasi Investment Kft. and SBI Real Estate Development B.V.
Alom Sziget Entertainment Zrt	Holding company	Held 49.99% by DI Gaming Holding Ltd.
Alom sziget Hungary Kaszinojatek Kft.	Holding company	Held 100% by Alom sziget Entertainment Zrt
Pro-One Ingatlanfejlesztő Kft.	Holding company	Held 50% by Alom Sziget 2004 Ingatlanfejlesztő Kft.
Zymhod Kft.	Plot of land	Held by Pro-One Ingatlanfejlesztő Kft.
Buszesz IMMO Zrt	Plot of land	Held by Pro-One Ingatlanfejlesztő Kft.
Fantasy Park Magyarorszag Kft.	Inactive	Held 100% by Mulan B.V.

Poland	Activity	Remarks
Directly wholly owned (or jointly owned)		
EDP Sp.z.o.o.	Inactive	Jointly controlled (50:50) with Classic Or B.V.
Bielsko-Biala Plaza Sp.z.o.o.	Inactive	
Bytom Plaza Sp.z.o.o.	Inactive	
Bydgoszcz Plaza Sp.z.o.o.	Inactive	
Rzeszów Plaza Sp.z.o.o.	Inactive	
Chorzow Plaza Sp.z.o.o.	Inactive	
Zgorzelec Plaza Sp.z.o.o.	Shopping center under construction	Zgorzelec project
Gdansk Centrum Plaza Sp.z.o.o.	Inactive	
Lublin Or Sp.z.o.o.	Stage B – Lublin	Held 50% together with Israeli-based partner
Gliwice Plaza Sp.z.o.o.	Inactive	
Gorzów Wielkopolski Plaza Sp.z.o.o.	Inactive	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 41 – LIST OF SUBSIDIARIES AND AFFILIATES OF THE COMPANY CONTINUED

Grudziadz Plaza Sp.z.o.o.	Inactive	
Jelenia Gora Plaza Sp.z.o.o.	Inactive	
Katowice Plaza Sp.z.o.o.	Inactive	
Suwałki Plaza Sp.z.o.o.	Shopping center under construction	Suwalki project
Koszalin Plaza Sp.z.o.o.	Inactive	
Legnica Plaza Sp.z.o.o.	Inactive	
Lodz Centrum Plaza Sp.z.o.o.	Own plot of land	Lodz project
Plaza Centers (Poland) Sp.z.o.o.	Management company	
Kielce Plaza Sp.z.o.o.	Shopping center	Kielce project
Olsztyn Plaza Sp.z.o.o.	Inactive	
Opole Plaza Sp.z.o.o.	Inactive	
Plock Plaza Sp.z.o.o.	Inactive	
Radom Plaza Sp.z.o.o.	Inactive	
Rybnik Plaza Sp.z.o.o.	Shopping center	Sold to Klepierre 2007
Hokus Pokus Rozrywka Sp.z.o.o.	Inactive	Hold 50%
Sosnowiec Plaza Sp.z.o.o.	Shopping center	Sold to Klepierre 2007
Szczecín Plaza Sp.z.o.o.	Inactive	
Tarnow Plaza Sp.z.o.o.	Inactive	
Torun Plaza Sp.z.o.o.	Shopping center – planning stage	Torun project
Tychy Plaza Sp.z.o.o.	Inactive	
Wloclawek Plaza Sp.z.o.o.	Inactive	
Zabrze Plaza Sp.z.o.o.	Inactive	
Leszno Plaza Sp.z.o.o.	Shopping center – planning stage	Leszno project
Indirectly owned (or joint controlled)		
Fantasy Park Investments Sp.z.o.o.	Inactive	Wholly owned by Fantasy Park Enterprises B.V.
Fantasy Park Sp.z.o.o.	Entertainment	Wholly owned by Fantasy Park Enterprises B.V.
Hokus Pokus Rozrywka Sp.z.o.o.	Inactive	Held 50% by P.L.A.Z.A B.V. and 50% Held by Plaza Centers N.V.
Movement Poland S.A	Shopping center	Sold to Klepierre in 2007

Czech Republic	Activity	Remarks
Directly owned		
Praha Plaza S.R.O.	Logistic center	
B1 Plaza S.R.O.	Shopping center	Opava project
Plaza Centers Czech Republic S.R.O.	Management company	
Plzen Plaza S.R.O.	Shopping center	sold to Klepierre in 2008
P4 Plaza S.R.O.	Shopping center	Liberec project
NG Plaza S.R.O	Inactive	
BYTY SN Plaza S.R.O	Inactive	
Hradec Plaza S.R.O	Inactive	
Plaza Housing S.R.O	Plot of land	Roztoky project
Plaza Station S.R.O	Inactive	
Indirectly owned		
Fantasy Park Czech Republic S.R.O	Entertainment	Wholly owned by Fantasy Park Enterprises B.V.

Greece	Activity	Remarks
Helios Plaza S.A.	Shopping center under construction	Helios Plaza project

Latvia	Activity	Remarks
Fantasy Park Riga SIA	Entertainment	Held 100% by Mulan B.V.
Diksna SIA	Shopping center under construction	Jointly controlled with an American based partner. Riga Plaza Project

The Ukraine	Activity	Remarks
Plaza Centers Ukraine Limited	Management company	Held 100% by PC Ukraine Holdings Ltd.

Cyprus – Ukraine	Activity	Remarks
PC Ukraine Holdings Limited	Holding company	
Nourolet Enterprises Limited	Inactive	
Tanoli Enterprises Limited	Inactive	

Romania	Activity	Remarks
Directly owned		
S.C. CENTRAL PLAZA S.R.L.	Inactive	
S.C. GREEN PLAZA S.R.L.	Shopping center – planning stage	Iasi project
S.C. ELITE PLAZA S.R.L.	Shopping center – planning stage	Timisuara project
S.C. PLAZA CENTERS MANAGEMENT ROMANIA S.R.L.	Management company	
S.C. NORTH GATE PLAZA S.R.L.	Shopping center – under construction	Miercurea Ciuc project
S.C. SOUTH GATE PLAZA S.R.L.	Shopping center – planning stage	Slatina project
S.C. WEST GATE PLAZA S.R.L.	Inactive	
S.C. EASTERN GATE PLAZA S.R.L.	Inactive	
S.C. NORTH WEST PLAZA S.R.L.	Shopping center – planning stage	Hunedoara project
S.C. NORTH EASTERN PLAZA S.R.L.	Shopping center – planning stage	Constanza project
S.C. SOUTH WEST PLAZA S.R.L.	Inactive	
S.C. SOUTH EASTERN PLAZA S.R.L.	Inactive	
S.C. WHITE PLAZA S.R.L.	Inactive	
S.C. GOLDEN PLAZA S.R.L.	Inactive	
S.C. BLUE PLAZA S.R.L.	Inactive	
S.C. RED PLAZA S.R.L.	Inactive	
S.C. PALAZZO DUCALE S.R.L.	Office building and Company's Romanian headquarters	
S.C. MOUNTAIN GATE S.R.L.	Shopping center – planning stage	Targu Mures project
Indirectly owned (or joint controlled)		
S.C. DAMBOVITA CENTER S.R.L.	Shopping center – under construction	Casa Radio project, 75% held by Dambovita Center Holdings B.V.
Bas Development S.R.L.	Residential project	Held 50% by Plaza Bas B.V.
Spring Invest S.R.L.	Residential project	Held 50% by Plaza Bas B.V.
Sunny Invest S.R.L.	Residential project	Held 50% by Plaza Bas B.V.
Colorado Invest S.R.L.	Residential project	Held 50% by Plaza Bas B.V.
Malibu Invest S.R.L.	Residential project	Held 25% by Plaza Bas B.V.
Adams Invest S.R.L.	Residential project	Held 50% by Plaza Bas B.V.
Primavera Tower S.R.L.	Residential project	Held 50% by Plaza Bas B.V.
Fantasy Park Romania S.R.L.	Inactive	Held 100% by Mulan B.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 41 – LIST OF SUBSIDIARIES AND AFFILIATES OF THE COMPANY CONTINUED

Russia	Activity	Remarks
Indirectly owned		
Plaza Centers Management O.O.O.	Management company	100% Held by Obuda B.V.
Plaza Centers Project 1 O.O.O.	Inactive	100% Held by Obuda B.V.
Plaza Centers Project 2 O.O.O.	Inactive	100% Held by Obuda B.V.

Cyprus – Russia	Activity	Remarks
Indirectly owned (or joint controlled)		
Plaza & Snegiri Ltd.	Inactive	50% Held by Plaza Centers N.V.

Bulgaria	Activity	Remarks
Directly owned		
Shumen Plaza E.O.O.D.	Shopping center – under construction	Shumen Plaza project
Plaza Centers Development E.O.O.D.	Inactive	
Plaza Centers Management Bulgaria E.O.O.D.	Management company	

The Netherlands	Activity	Remarks
Directly owned		
Plaza Centers Management B.V.	Inactive	
Plaza Centers (Ventures) B.V.	Holding company – Serbia	Holds 100% of Orchid Group D.O.O.
Plaza Centers (Estates) B.V.	Holding company – Serbia	Holds 100% of Sevac D.O.O.
Plaza Centers Holding B.V.	Holding company – Serbia	Holds 100% of Sek D.O.O.
Plaza Centers Foundations B.V.	Holding company – Serbia	Holds 100% of SBD D.O.O.
Plaza Centers Establishment B.V.	Holding company – Serbia	Holds 100% of ZSE D.O.O.
S.S.S Project Management B.V.	Holding company – Serbia	Holds 100% of Telehold D.O.O.
Plaza Centers Logistics B.V.	Holding company – Serbia	Holds 100% of Accent D.O.O.
Obuda B.V.	Holding company – Russia	Holds 100% of all Russian subsidiaries
Plaza-BAS B.V.	Holding company – Romania	Held 51% by Plaza Centers N.V., holds project companies in Romania.
Plaza Centers (Enterprises) B.V.	Finance company	
Plaza Dambovita Complex B.V.	Holding company	Holds 100% of Plaza Centers Enterprises B.V.
Plaza Centers Engagements B.V.	Inactive	
Plaza Centers Administrations B.V.	Inactive	
Plaza Centers Connection B.V.	Inactive	
Plaza-On Holding B.V.	Holding company – Bulgaira	Intended for project in Bulgaria
Plaza Centers Corporation B.V.	Inactive	
Dambovita Center Holdings B.V.	Holding company – Romania	Holds 75% of S.C. Dambovita Center S.R.L
Mulan B.V. (Fantasy Park Enterprises B.V.)	Holding company	Holding company of Fantasy Park subsidiaries in CEE and India
P.L.A.Z.A. B.V.	Holding company – Poland	Held 100% by Mulan B.V, Holds 50% of Hokus Pokus Rozrywka Sp.z.o.o
Centers Classic B.V.	Holding company	Sold in 2008 to Israeli partner in Stage B Lublin

The Dutch Antilles	Activity	Remarks
Dreamland N.V.	Inactive	

Cyprus – India	Activity	Remarks
Directly owned		
Elbit Plaza India Real Estate Holdings Limited	Holding company	Held 47.5% by Plaza Centers N.V.
PC India Holdings Public Company limited	Holding company	Held 100% by Plaza Centers N.V.
Indirectly owned		
Spiralco Holdings Limited	Holding company	Holds 50% of P – one Infrastructure Private Limited. Held 100% by PC India Ltd.
Permindo Limited	Holding company	Holds 100% of Anuttam Developers Private Ltd. Held 100% by PC India Ltd.
Dezimark limited	Inactive	Held 100% by PC India Ltd.
Floricil limited	Inactive	Held 100% by PC India Ltd.
Xifius limited	Inactive	Holds 98% of Ximanco Developers India Private Limited. Held 100% by PC India Ltd.
Stenzo Limited	Inactive	Holds 98% of Cymsten Developers India Private Limited. Held 100% by PC India Ltd.
Mercero Limited	Inactive	Holds 98% of Meranco Developers India Private Limited. Held 100% by PC India Ltd.
Ruvencio Limited	Inactive	Holds 98% of Ruvenco India Developers Private Limited. Held 100% by PC India Ltd.
Sortera Limited	Inactive	Holds 98% of Sorcym Developers India Private Limited. Held 100% by PC India Ltd.
Rebeldora Limited	Holding company	Holds 98% of Rebelenco India Developers Private Limited. Held 100% by PC India Ltd.
Polyvendo Limited	Holding company	Held 100% by Elbit India Real Estate Holdings Limited
Elbit India Architectural Services Limited	Holding company	Held 100% by Elbit India Real Estate Holdings Limited
Rafalmendo Limited	Holding company	Held 100% by Elbit India Real Estate Holdings Limited
Demiracos Limited	Holding company	Held 100% by Elbit India Real Estate Holdings Limited

India	Activity	Remarks
Indirectly owned through PC India Holdings Public Company limited		
Hom India Infrastructure Private Limited	Management company	Held 100% by PC India Holdings
P – one Infrastructure Private Limited	Real Estate	Kharadi and Trivandrum Projects – Held 50% by Spiralco Ltd.
Anuttam developers private Ltd.	Holding company of 23 subsidiaries, all held in connection with the Company's project in Pune India	Held 100% by (Koregaon Park Project)
Atrushya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Ajanu developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Agmesh developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Animish developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Anahat developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Apratirath developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Athang developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Avyang developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 41 – LIST OF SUBSIDIARIES AND AFFILIATES OF THE COMPANY CONTINUED

Asankhya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Apramad developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Abhyang developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Amartya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Atmavan developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Amrutansh developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Achal developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Akhula developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Antarmukh developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Aprameya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Amraprabhu developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Ajakshya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Avyaya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Avyaja developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Anantshree developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Indirectly owned through Elbit Plaza India Real Estate Holdings Limited		
Cymsten Developers India Private Limited	Inactive	
Sorcym Developers India Private Limited	Inactive	
Meranco Developers India Private Limited	Inactive	
Rebelenco India Private Limited	Inactive	
Ruvenco India Developers Private Limited	Inactive	
Elbit India Real Estate Private Limited	Bangalore offices	Held 100% by Polyvendo Limited
Elbit India Architecture and Design Private Limited		Held 100% by Elbit India Architectural Services Limited
Aayas Trade Services Private Limited	Holding company	Held 50% by Elbit India Real Estate Holdings Limited Bangalore Project
Kadvanthra Builders Private Limited	Holding company	Held 80% by Elbit India Real Estate Holdings Limited Chennai SipCot
Rafalenco India Developers Private Limited	Holding company	Chennai TNRDC
Elbit India Builders & Developers Private Limited	Inactive	
Fantasy Park India Entertainment Limited	Inactive	Held 99.9% by Mulan B.V. Held 0.1% by P.L.A.Z.A B.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Serbia	Activity	Remarks
Indirectly owned		
Orchid Group D.O.O.	Shopping center under construction	100% Held by Plaza Centers (Ventures) B.V. Belgrade Plaza Project
Sevac D.O.O.	Plot of land	100% Held by Plaza Centers (Estates) B.V.
Leisure Group D.O.O.	Shopping center under construction	Sport Star Plaza Project
Sek D.O.O.	Shopping center under construction	100% Held by Plaza Centers Holding B.V. Kragujevac Project
Accent D.O.O.	Inactive	
Telehold D.O.O.	Inactive	
ZSE D.O.O.	Inactive	100% Held by Plaza Centers Establishment B.V.
SBD D.O.O.	Inactive	100% Held by Plaza Centers Foundations B.V.
Linkage D.O.O.	Inactive	
Plaza Centers Management D.O.O.	Inactive	
Fantasy Park SRB D.O.O.	Inactive	Held 100% by Mulan B.V.

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

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

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