



Plaza Centers

Annual report 2011

Kragujevac Plaza in Serbia, the Group's 33rd completed shopping and entertainment center, opened to the public on March 20, 2012

Kragujevac, the fourth largest city in Serbia and the capital of the Sumadija Region, is home to Plaza's first completed retail scheme in Serbia. Kragujevac Plaza, the first western style shopping and entertainment center completed outside the capital Belgrade, comprises 22,000 sqm of GLA spread over two floors, with over 95 shops let to major international and local brands and approximately 700 parking spaces.



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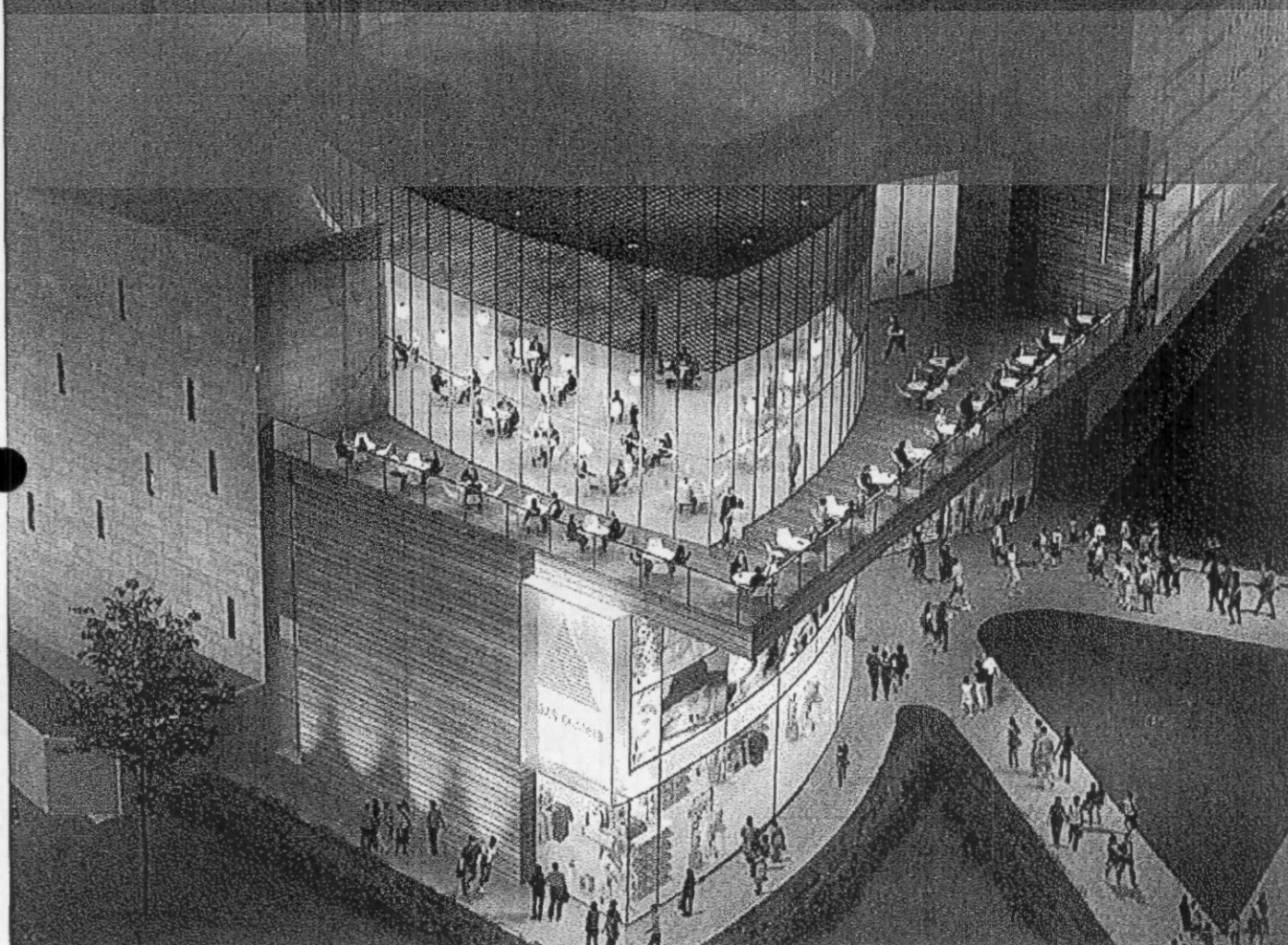
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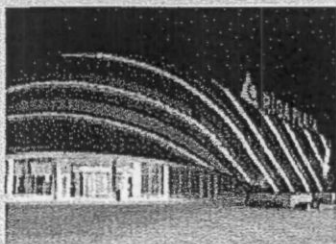
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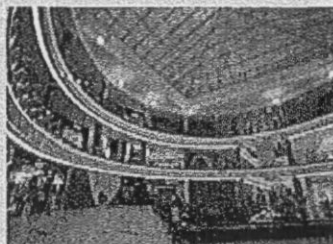


Who we are

We are a leading Central and Eastern European property developer focusing on western-style shopping and entertainment centers, with a growing platform of operations in India and the USA.



Europe



India



USA

The Plaza Centers Group is a leading emerging markets developer of shopping and entertainment centers, focusing on developing 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. Since 2006, the Group has extended its area of operations beyond the CEE into India and, since 2010, into the USA, and is considering development and investment opportunities in other countries. In 2010, Plaza took advantage of real estate opportunities in the USA and made, with its joint venture partners, its first acquisition of a strategic stake in EDT Retail Trust, which owns 48 retail properties located in 20 states, and will continue to source other acquisitions in the region.

The Company is an indirect subsidiary of Elbit Imaging Ltd. ("El"), 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. Elbit Imaging Ltd. is a subsidiary of Europe Israel (M.M.S) Ltd. El operates in the following principal fields of business: (i) Commercial and Entertainment Centers – initiation, construction and sale of shopping and entertainment centers and other mixed-use real property projects, predominantly in the retail sector, located in Central and Eastern Europe and in India; (ii) US Real Property – investment in commercial real property in the US; (iii) Hotels – hotel operation and management, primarily in major European cities; (iv) Medical Industries – (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment, and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine; (v) Residential Projects – initiation, construction and sale of residential projects

and other mixed-use real property projects, predominately residential, located primarily in India and in Eastern Europe; (vi) Fashion Apparel – distribution and marketing of fashion apparel and accessories in Israel; and (vii) Other Activities – venture capital investments.

The Group has been present in real estate development in emerging markets for more than 16 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 33 shopping and entertainment centers in the CEE region, of which 26 were sold with an aggregate gross value of circa €1.16 billion. Twenty-one of these centers were acquired by Klépierre, a player of the top rank in the continental European shopping center property market, which owns more than 270 shopping centers in 13 countries in continental Europe. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors at that time. 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 totalling approximately €387 million, representing circa 20% of all real estate transactions completed in Hungary in 2007.

In January 2012, the Group reached an agreement to sell to a joint venture between Blackstone Real Estate and DDR Corp. 47 out of its 49 US-based shopping centers in a deal valued at US\$1.428 billion. The transaction is expected to close in June 2012.

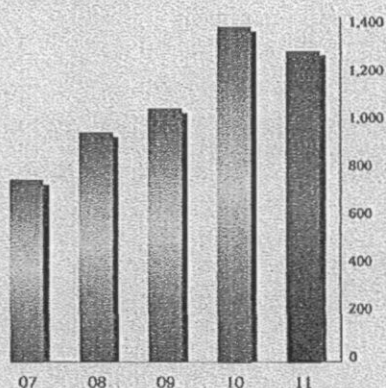
Since November 1, 2006, Plaza Centers N.V.'s shares have been traded on the main board of the London Stock Exchange under the ticker "PLAZ". From October 19, 2007, Plaza Centers N.V.'s shares are also traded on the main list of the Warsaw Stock Exchange under the ticker "PLZ", making it the first property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

2011 highlights

Plaza reports strong revenue growth and operational progress, including a successful realization of US investment in a deal valued at US\$1.4 billion.

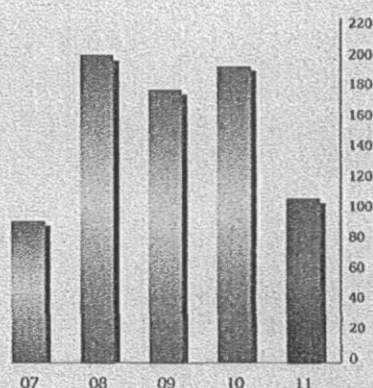
Total assets (€m)

2011: €1.3 billion
2010: €1.4 billion



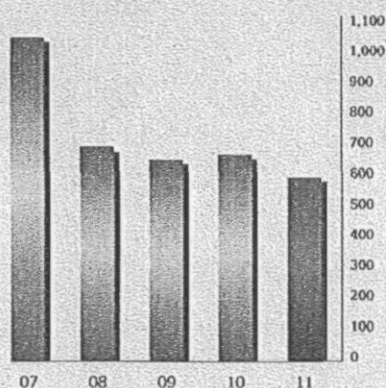
Cash position* (€m)

2011: €108 million
2010: €195 million



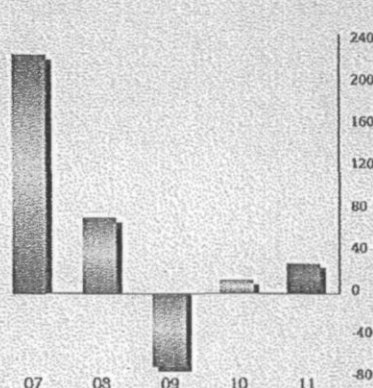
NAV (€m)

2011: €601 million
2010: €675 million



Profit before income tax (€m)

2011: €29 million
2010: €13 million



* Cash position, including restricted deposits, short-term deposits and available-for-sale financial assets.

Operational highlights

- Plaza delivered on its strategy to take advantage of weak market conditions and depressed values in the US, with the completion of the acquisition by the Company's joint US subsidiary of all of the outstanding units of EDT Retail Trust ("EDT") and thereby a US\$1.4 billion portfolio of retail assets. The total cost to Plaza of the acquisition was US\$82 million for the 22.7% stake. During the year, Plaza also received its US\$5.9 million share of a dividend payment from EDT. Subsequent to the year end the vast majority of the assets were sold to a joint venture between Blackstone Real Estate Advisors VII L.P. ("Blackstone Real Estate") and DDR Corp
- Toruń Plaza, Plaza's tenth retail scheme in Poland and its 31st shopping center in the CEE, was completed and opened in November 2011. The 40,000m² GLA center includes an eight-screen cinema complex, a Fantasy Park entertainment center and a Delima delicatessen, as well as over 120 shops, comprising international and local brands such as H&M, C&A, KappAhl, Zara, Bershka, Stradivarius, Pull & Bear, Massimo Dutti, Reserved, Cropp House, Mohito, Mango, New Yorker, Rossmann, Douglas and Sephora. Toruń Plaza is currently approximately 80% let, with ongoing interest from potential tenants
- The construction of Plaza's first retail scheme in Serbia, Kragujevac Plaza, was completed, with the center due to open to the public on March 20, 2012. The 22,000m² GLA center is already 90% pre-let, with a further 6% of space in advanced negotiations and strong interest in the remaining units. Kragujevac Plaza is the first shopping center to be completed outside the capital Belgrade, and will therefore enjoy a catchment area of approximately 590,000 inhabitants

Financial highlights

- Total assets of €1.3 billion (December 31, 2010: €1.4 billion)
- Revenues increased 52% to €57 million (December 31, 2010: €38 million) as a result of an increased number of active shopping centers operational for a full year in CEE, increased income derived from the US portfolio and improved occupancy rates across the portfolio
- Net Asset Value decreased by 11% to €601 million (December 31, 2010: €675 million) primarily through the impairment of assets in Romania and Latvia
- Net Asset Value per share of €1.69 (December 31, 2010: €1.96), a decline of 14%, attributable mainly to the above mentioned impairment
- Profit before income tax of €29 million (December 31, 2010: €13 million profit) arising from the increased income derived from operating shopping centers and an increase in net finance income

- Basic and diluted EPS of €0.03 (December 31, 2010: €0.03)
- Cash position at year end (including restricted bank deposits, short-term deposits and available-for-sale financial assets) of €108 million (December 31, 2010: €195 million) with working capital of €585 million (December 31, 2010: €713 million); current cash position of circa €100 million
- Conservative gearing position maintained, with debt comprising 59% of balance sheet (December 31, 2010: 56%)
- Over the year, the Board of Plaza approved two buyback programs of a total of up to NIS 300 million (approximately €60.5 million) of its Series A and Series B Notes, which are traded on the Tel-Aviv Stock Exchange
- On 14 September 2011, the Board of Directors approved the payment to shareholders of an interim cash dividend payment of €0.1010 per share amounting to total distribution of €30 million.

Key highlights since the period end

- After the balance sheet date, Plaza's US-based joint venture, EPN Group, entered into an agreement to sell 47 of its 49 US-based assets to BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate and DDR Corp. in a transaction valued at US\$1.428 billion. Once closed in June 2012, the transaction is likely to generate a cash inflow of US\$120 million (€93 million) to the Company before taxes and transaction costs
- Following the sale of the 47 properties, EPN Group will continue to hold two properties located in the US that are valued at approximately US\$43 million, with total non-recourse secured debt of approximately US\$14 million
- Phase one of the Kharadi Plaza project known as "Matrix One", a 50:50 joint venture with a local partner, was completed in February 2012. Located in Pune, India, "Matrix One", a 28,000m² GLA office, was 70% pre-sold upon opening. The construction of the second office building, out of a total of four offices planned for the development, is expected to start in Q2 2012
- Koregaon Park Plaza mall, also located in Pune, India, was completed and a successful soft public opening was held on March 2, 2012, with the grand opening scheduled for H2 2012. The 48,000m² total built area (excluding parking) shopping center is circa 85% let with signed lease agreements, with a further 5% committed under memoranda of understanding.

Identifying opportunity

Proceed selectively with our targeted development program in CEE and India, and hold and expertly manage completed assets as income-generating investments until sale yields are sufficient, whilst continuing to identify opportunities to expand our activities into new regions and acquire high-yielding properties that can be repositioned to enhance value.



Our strategy

Develop

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

Acquire

Acquire operating shopping centers that show significant redevelopment potential or potential value growth.

Flexibility

Depending on market yields, we either pre-sell or hold and manage our assets until the exit yields are sufficiently attractive.

Portfolio acquisitions

Form partnerships with Elbit Imaging and other entities for investing in commercial income-producing properties with appreciation potential in the US.

Maintain liquidity

Maintain high cash balances, conservative leverage levels and well-spread debt maturities. Reliance on material non-revalued shareholders' equity of €550 million.

Objectives

- 1 Target four or five new development projects per year with returns of at least 40-60% on equity invested.
- 2 Fund 65-75% of total project construction costs through competitively priced bank finance.
- 3 Dividend policy – In 2012 and 2013 – The total dividend to be capped at €30 million, payable only from net cash flows received from the realization of assets. Post 2013, 25% of realized development profits up to €30 million, and 20-25% of the excess thereafter, as decided by the directors. Payable annually.
- 4 Limited commencement of construction for projects meeting the two major criteria as follows:
 - Intensive demand from tenants
 - backed by external banks to ensure minimal equity investment.
- 5 Utilise expected proceeds from sale of 47 of 49 assets from the EDT portfolio to pay down debt and drive development program, while actively seeking to acquire additional high-yielding properties which, through our expertise in active asset management, can be repositioned to enhance value.

Development criteria

Selection of target countries

Our primary focus is on countries in emerging markets and we are currently present in CEE and India. 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 area 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 (economics, 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.

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 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 considerable 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 Company is currently focusing its development efforts on Poland, Serbia and India while continuing to invest in yielding assets in the US. Plaza will continue to advance remaining projects within its land bank which were acquired with equity only and without leverage, through obtaining planning consents and construction permits.

Feature developments

Since foundation, the Group has developed and let 33 shopping and entertainment centers in the CEE region and India of which 26 were sold with an aggregate gross value of €1.16 billion, resulting in a gain of €360 million.

We have averaged two new shopping centers per year in the last 16 years.

Liberec Plaza (Czech Republic) 17,000m² | Opened March 2009 | Plaza share 100%

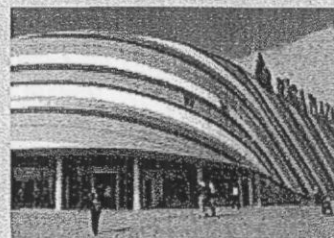


Liberec Plaza shopping and entertainment center was opened in March 2009. Plaza has agreed lettings totaling 78% of the center's GLA to tenants including Billa, Gate, Dracik, Schleker, Triumph, Sephora, Fantasy Park and Dino Park.

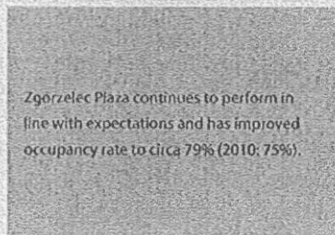
Riga Plaza (Latvia) 49,000m² | Opened March 2009 | Plaza share 50%



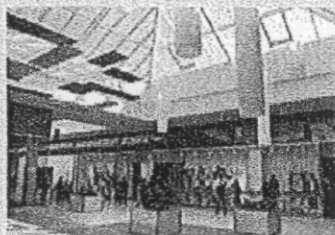
Riga Plaza shopping and entertainment center is located on the western bank of the Daugava river by the Sala Bridge. In July 2010, an eight-screen cinema multiplex was opened, bringing occupancy at the center to 84%, which has risen to 90% at the reporting date. Discussions are ongoing with potential occupiers for the remaining space at the center.



Zgorzelec Plaza (Poland) 13,000m² | Opened March 2010 | Plaza share 100%



Zgorzelec Plaza continues to perform in line with expectations and has improved occupancy rate to circa 79% (2010: 75%).



Suwałki Plaza (Poland)

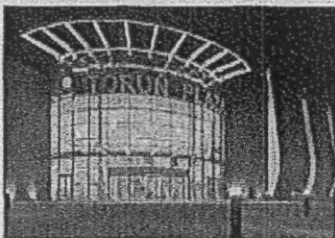
20,000m² | Opened May 2010 | Plaza share 100%

Suwałki Plaza has improved the occupancy rate to circa 89% (2010: 80%) with tenants such as H&M, KappAhl, Deichman, Douglas, Delima Delicatessen and Empik.



Toruń Plaza (Poland)

40,000m² | Opened November 2011 | Plaza share 100%



Toruń Plaza represents Plaza's tenth completed center in Poland. The center was approximately 80% let on opening including local and international brands such as Cinema City, H&M, C&A, KappAhl, Zara, Bershka, Stradivarius, Pull & Bear and Massimo Dutti.



Kragujevac Plaza (Serbia)

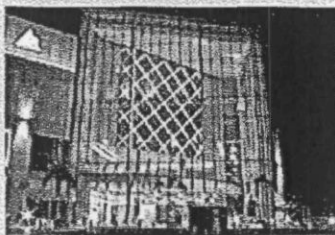
22,000m² | Opened March 2012 | Plaza share 100%



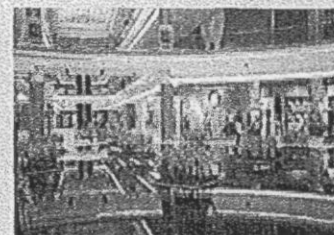
Plaza opened its first Serbian shopping and entertainment center in Kragujevac, a city of 180,000 inhabitants and is already over 90% let to tenants including Nike, Adidas, Aldo, New Yorker, Deichmann, TerraNova, Fashion and Friends, H&O, Oviessie, Fox, Chicco and Home Center.

Koregaon Park Plaza (India)

110,000m² | Opened March 2012 | Plaza share 100%



Koregaon Park Plaza mall, located in Pune, comprises 48,000m² of total built area (excluding parking) and is part of a wider 110,000m² development which includes 16,500m² of office development. The mall was 85% let upon opening, with memoranda of understanding signed for a further 5% of the space.

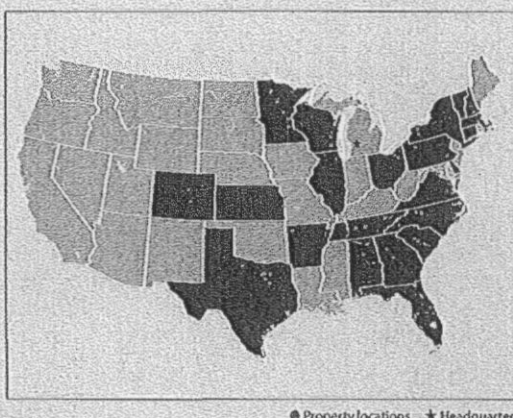
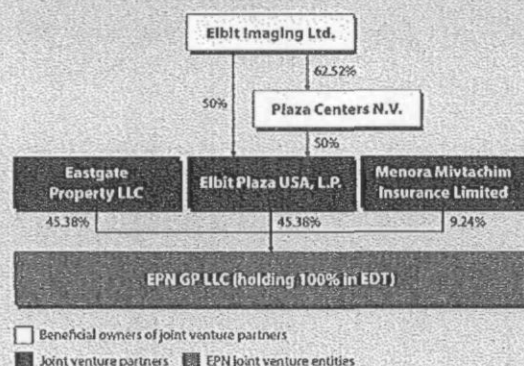


Real estate division in the US

Plaza identified a window of opportunity for investment in the US as result of the dislocation of the property market, specifically within the retail sector, created by recent economic conditions.

During the period from April to June 2010, EPN (a real estate investment venture jointly formed by Elbit Plaza USA, L.P. (a jointly controlled entity of Elbit Imaging Ltd. and Plaza) and Eastgate Property LLC ("Eastgate")), entered into a series of agreements to acquire a stake in EDT Retail Trust ("EDT" or "Trust"), an Australian investment trust which holds and manages two US REIT portfolios.

EPN, in which Plaza owns a circa 22.7% stake, became the major shareholder of EDT in June 2010 in a transaction valued at US\$116 million. The ownership process was completed in August 2011 by finalizing an off-market takeover bid for the remaining EDT units at a cost of circa US\$242 million and delisting EDT from the Australian Stock Exchange. The total cost of the acquisition to Plaza was US\$82 million for a 22.7% stake. Subsequently, in September 2011, EDT distributed an interim dividend payment of US\$26 million to EPN (Plaza's share - US\$5.9 million).



Key data

49 retail properties

20 states in the US

Over 420 tenants (with over 70% base rent generated from nationally recognized retailers)

89.1% shopping center portfolio occupancy

11.1 million ft² of gross leasable area (GLA) (1.03 million m²)

Over US\$100 million net operating income per annum

US\$1.47 billion assets value as of December 31, 2011 (EDT's share)

4.5 years weighted average lease expiry

US\$947 million secured non-recursed debt as of December 31, 2011

The EDT transaction was completed in six major phases:

Phase I

Acquisition of lending bank Note
 EPN acquired a US\$50 million note which was part of the Trust's unsecured debt from a commercial bank, at a 15% discount. Within 90 days of the note acquisition, the Trust paid off the face amount of the note.

Phase II

Acquisition of 17.6% of MDT – and 50% of Asset Manager
 Prior to the Entitlement Offering referenced below, EPN has acquired a unitholding representing 15% of the Trust's units through a private placement and all of Macquarie's interest in MDT as well as their 50% stake in the external manager. This investment gave EPN access to MDT as well as a foothold investment in the Trust. Phase II also included changing the name of the Trust from MDT to EDT.

Phase III

MDT Entitlement – Offering/Recapitalization
 In June 2010, with EPN acting as the sub-underwriter for the Entitlement Offering, new shares in MDT (which was later changed to EDT) were offered to all existing shareholders. With very few existing shareholders electing to purchase additional securities, EPN was able to achieve a 48% interest by investing US\$116 million. EPN became the majority shareholder of EDT and gained control over the Board of Directors.

Within two years EPN has invested over US\$360 million of equity, becoming the second largest acquirer of US retail real estate in 2011.

Since the acquisition EPN undertook the following actions to restructure, reposition and improve the EDT portfolio:

- Repaid the entire corporate company level debt of US\$108 million;
- Relocated management from Australia to the US in order to improve the Company's oversight of the assets;
- Refinanced or assumed circa US\$500 million of portfolio debt;
- Increased Net Operating Income by approximately 5%;
- Actively managed the assets to increase portfolio occupancy by nearly 3% since 2009 and improve tenancy maturities;
- Undertook redevelopment plans for underperforming assets which will generate substantial cash flow growth in 2013 and 2014.

Sale agreement

In January 2012, EPN reached an agreement, subject to the satisfaction of certain closing conditions, to sell 47 of its 49 US-based shopping centers in a deal totaling US\$1.428 billion.

The centers are to be acquired by BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Advisors VII L.P. ("Blackstone Real Estate") and DDR Corp. Of the transaction value of US\$1.428 billion, a total of US\$934 million (as of the agreement date) shall be paid by way of assumption of the property level debt. In addition, all excess cash within EDT, which currently amounts to US\$30 million, will be retained by Plaza and its joint venture partners. By the reporting date the purchasers had

satisfactorily completed the due diligence process associated with the transaction.

Transaction details:

Plaza Centers' share – 22.7%

Plaza Centers' expected proceeds – US\$120 million*

Plaza Centers' cash surplus – US\$44 million*

Return on Equity (ROE) – nearly 50%*

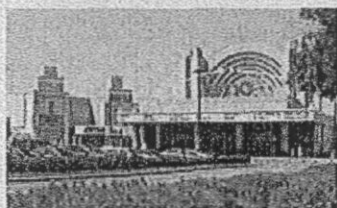
* Pre-tax and transaction costs.

Following the sale of the 47 properties, EPN Group will continue to hold two properties located in the US that are valued at approximately US\$43 million with total non-recourse secured debt of approximately US\$14 million. These assets are being marketed for sale individually.

The transaction is expected to close in June 2012 and EPN will receive the rental income upon the aforementioned 47 properties until such time.

The EDT transaction was successful, because it was (a) sourced on a direct basis in an "off-market" situation; (b) acquired at a favorable price, accretive to above-market returns; (c) effectively asset managed to increase occupancy and NOI; and (d) opportunistically disposed in a transaction that keyed on timing to market.

Following realization of its investment, EPN is gearing up for the next phase. It has identified and continues to source acquisition opportunities which provide access to quality real estate and can yield significant returns to investors.



Shoppers World, Boston MA



Steele Crossing, Fayetteville AK



Woodfield Village Green, Chicago IL

Phase IV

Investment by EPN – Tender Offer/ Company Acquisition

In March 2011, EPN launched a tender offer for the remaining shares of EDT. By September 2011, EPN had invested an additional US\$241.5 million and acquired 100% of the company by tender offer. Subsequently the shares of EDT were de-listed from trade and it became a private company.

Phase V

Robust Asset Management

Over the 18 months which EPN held the EDT portfolio, EPN undertook some major actions to restructure, reposition and improve the EDT portfolio (see above).

Phase VI

Disposition

In January 2012, EPN announced that a joint venture of Blackstone and DDR had executed a Purchase and Sale Agreement to acquire 47 of EPN's assets. EDT's remaining two assets are being marketed for sale individually.

Competitive strengths

Plaza is strongly positioned to capitalize on its unrivaled track record by selectively delivering projects and creating high levels of retailer interest and utilizing our expertise to reposition portfolios of high-yield properties. This position is strengthened further by our ability to continue to raise bank financing and debt on competitive terms despite the relatively illiquid markets.

As the CEE markets continue to recover from the financial turmoil of 2008, Plaza has positioned its development program to ensure that it can deliver shopping centers into markets with the highest retail demand. Plaza has delivered another year of excellent operational and strategic progress through a number of development milestones, most notably the completion of its 31st shopping center in the CEE region, Toruń Plaza, Poland. Toruń Plaza represents Plaza's tenth shopping center, and our third currently owned and managed asset in Poland, a country which, although not immune to the wider European economic context, has continued to demonstrate its resilience during the recent downturn. We also continued our geographical expansion, with the completion of two projects in Pune, India – Matrix One and the soft opening of Koregaon Park Plaza as well as the completion and opening of Kragujevac Plaza in Serbia. The other key event of the year and the beginning of 2012 was the realization of the majority of our investment in EDT, through which Plaza achieved its aim of utilizing its expertise to reposition a portfolio of high-yielding properties in the US. The subsequent agreement to sell these assets is anticipated to generate a pre-tax return on equity (ROE) of nearly 50%.

Proven track record

Plaza continues to benefit from its unrivaled track record across CEE, having been active in the region for more than 16 years. Whilst the economic situation in the region remains somewhat challenging, the long-term fundamentals of the market remain attractive. Our continued belief in the strength of this market was underlined this year by the achievement of a major milestone for Plaza, the completion of our 31st CEE shopping center. To date, 26 of the completed centers have been subsequently sold with an aggregate gross value of circa €1.16 billion. These disposals comprise 17 shopping centers in Hungary, seven in Poland and two in the Czech Republic, with the remaining seven shopping centers currently being held as operational assets, of which three are located in Poland, one in the Czech Republic, one in Latvia, one in Serbia and one in India.

Plaza focuses upon creating an attractive tenant 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

During the years 1996-2004, when exit yields were high, the Group retained and operated shopping centers on completion and earned rental income. Once property yields decreased, between 2004-2008, the Group sold 26 shopping centers in line with the Company's commercial decision to focus its business more on development and sale rather than operational management.

Whilst the conditions in the investment market in CEE remain uncertain, with the limited availability of debt suppressing transactional activity, Plaza continues to implement its focused development strategy. It will continue to attempt to sell completed developments but will hold them on its balance sheet and benefit from the rental income until sufficient sale prices are achieved.

Diversification

The Group is well diversified and active in eight countries in CEE and India, 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 attractive development prospects for at least 15 years. Plaza has maintained its long-term view of the strong potential demand for commercial Indian real estate, especially for well-located large-scale development projects. The sentiment towards the Indian real estate market remains extremely positive, underpinned by fundamentals which are driving the country's long-term economic growth. With five developments in India due to be delivered in the next five years, the Company's substantial local platform means Plaza is strategically placed to create shareholder value from this growth market.

Having monitored the US real estate market for a number of years, Plaza announced its first transaction in the region in 2010 through the acquisition of a strategic stake in EDT Retail Trust with its joint venture partners. During 2011, Plaza achieved its aim of repositioning the portfolio through reducing debt levels, improving occupancy rates as well as lengthening lease maturities. Consequently, in January 2012 an agreement was reached to sell 47 of 49 assets in a deal totaling US\$1.43 billion, resulting in a ROE for Plaza of nearly 50% in a period of little over 18 months.

Limited number of projects

In light of market conditions, Plaza took the strategic decision in the second half of 2008 to scale back on project starts and to focus on projects with availability of external financing or strong tenants demand. Currently, Plaza is focusing on the following projects: Łódź Plaza, Sport Star Plaza, Belgrade Plaza, Casa Radio and Timișoara Plaza.

Strong cash position

Plaza continues to have a strong cash position of approximately €108 million at the period end (and circa €100 million as current cash position). This ensures Plaza remains on a solid financial footing to continue its development program and make opportunistic investments or acquisitions where there is clear potential to create shareholder value.

Low and conservative leverage

The Group's debt position remains conservative, with gearing of 59% at the year end. Given the strength of Plaza's balance sheet, it has been successful in securing further financing during the year from a wide range of sources, including bank development finance totaling around €80 million and issuance of long-term debentures around €65 million. Plaza also took advantage of the opportunity presented by market conditions to repurchase €30 million of previously issued bonds during 2011. The vast majority of the debt is long term, maturing mainly between 2012 and 2017.

Clearly identified pipeline and acquisitions

Plaza is engaged in 27 development projects, and owns two office buildings and seven operational assets, located across the CEE region and in India. The Group has the ability to identify new growth opportunities, constantly targeting attractive returns in fast-growing emerging markets.

Timing for delivery

As the majority of the developments will mature from 2012 onwards, and due to its financial strength, Plaza is not required to execute forced sales of projects at current market conditions. Once the projects are completed, Plaza will therefore use its extensive operational and asset management experience to hold and manage, where needed, completed projects as income-generating investments in the portfolio until the investment market improves. Currently Plaza owns seven operating shopping and entertainment centers in Poland, Czech Republic, Serbia, Latvia and India.

Supportive financing banks

The Group maintains good relations with financing banks who remain supportive of companies such as Plaza with a strong track record.

During 2011 loan agreements were utilized for financing 70% (circa €33 million) of the development costs for the Kragujevac Plaza shopping center in Serbia and a development loan covering 70% (€52.5 million) of the development costs of the Toruń Plaza shopping center in Poland.

Capital markets

Ongoing support demonstrated by successful bond issuance during the reporting period:

- Additional issuances of Series A and B bonds in 2011 for cash consideration of NIS 300 million (circa €65 million)
- As of December 31, 2011 repurchase of NIS 168 million par value (with adjusted value of NIS 194 million) of bonds at NIS 152 million (circa €30 million) delivering a gain of NIS 41 million (€8 million)

Strong brand name

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

Highly skilled management team

Extensive local and business knowledge with a proven ability to source strategic development sites as well as purchasing yielding assets at an attractive price and design projects that meet the demands of the local market. A significant proportion of management team members have been with us for several years.

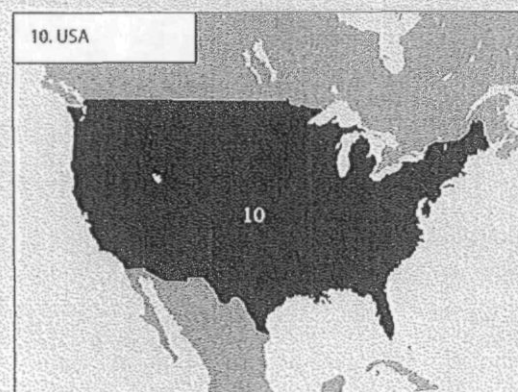
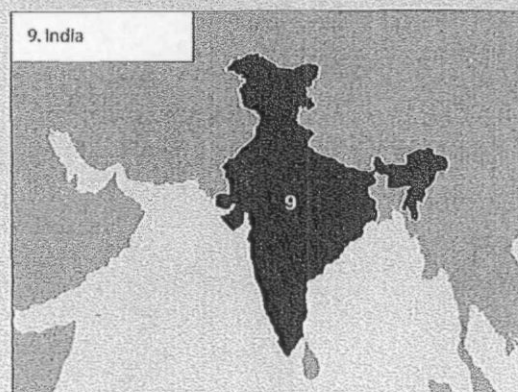
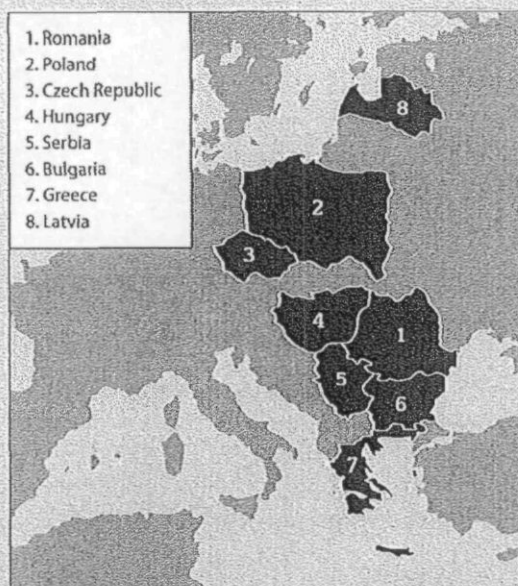
Extensive network

A vast and extremely well-established network of business connections with most anchors and large international tenants and extensive business relationships with large international funds and real estate market participants. This has been demonstrated by our proven ability to pre-sell projects (before or during the construction) and achieve high levels of pre-lets.

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).

Our markets



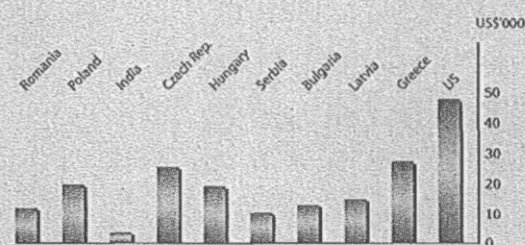
Market data

■ Current market

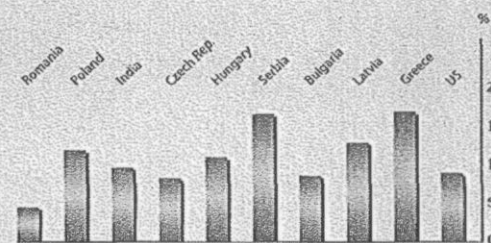
Population (m)

■ Romania	21.8	■ Serbia	7.3
■ Poland	38.4	■ Bulgaria	7
■ India	1,205	■ Latvia	2.2
■ Czech Republic	10	■ Greece	11
■ Hungary	10	■ United States	314

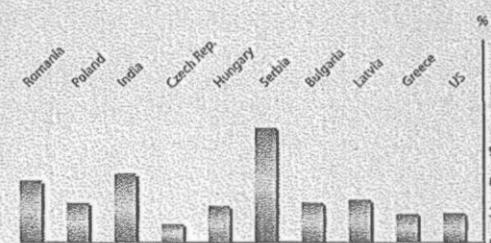
GDP per capita



Unemployment



CPI - Change in 2011

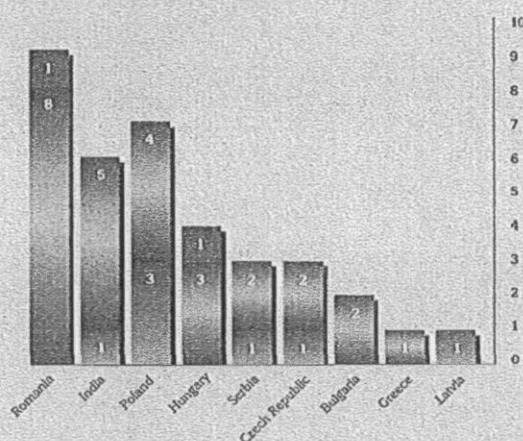


Our portfolio at a glance

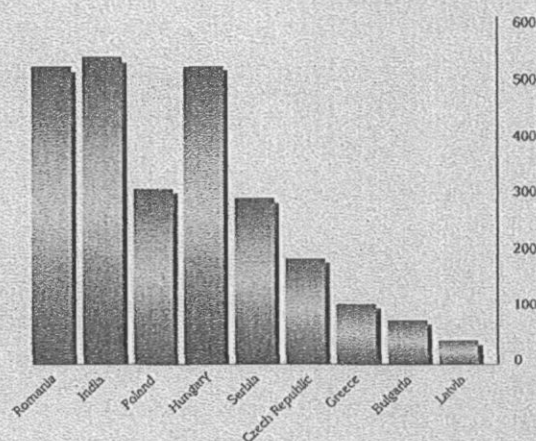
Total of 36 assets located across CEE region and in India.
Estimated value of €2,626.5 million on completion.

Portfolio composition – by country (excluding US)

■ Under development ■ Active ■ Offices



Estimated market value on completion €m (excluding US)



Project	Market value on completion (€m) ⁽¹⁾	Market value of the land and project (€m) ⁽¹⁾	Total GLA (m ²) ⁽²⁾
Shopping and entertainment center developments ⁽³⁾	472.9	110.1	326,000
Dream Island	452.7	51.3	350,000 (GBA)
Casa Radio ⁽⁴⁾	331.7	170.3	600,000 (GBA)
Indian mixed-use projects ⁽¹⁾	466.4	91.5	2,325,000
Mixed use projects	281.4	43.8	176,000
Other projects and developments ⁽¹⁾	232.9	43	198,300
Active shopping and entertainment centers	388.5	368	271,000
Total as at December 31, 2011	2,626.5	878	4,086,300

1 Value of Plaza Centers' stake by Jones Lang LaSalle.

2 All figures reflect 100%.

3 Some of the assets were valued with the comparative sales price method, no value at completion was estimated.

4 Value on completion reflects the value of phase 1 only since the rest of the project was evaluated by comparable method.

Group NAV at December 31, 2011

	€'000
Market value of land and projects by Jones Lang LaSalle ⁽¹⁾	864,080
Assets minus liabilities as at December 31, 2011 ⁽²⁾	(263,127)
Total	600,953
NAV per Issued share	£1.69

1 Value of Plaza Centers' stake by Jones Lang LaSalle.

2 Excluding book value of assets which were valued by Jones Lang LaSalle, but including Plaza's proportionate share of the US portfolio at market value which was based upon the purchase price offer presented to and accepted by EPN Group from a third-party post-year end. The two remaining US properties not purchased were valued by the management of EDT.

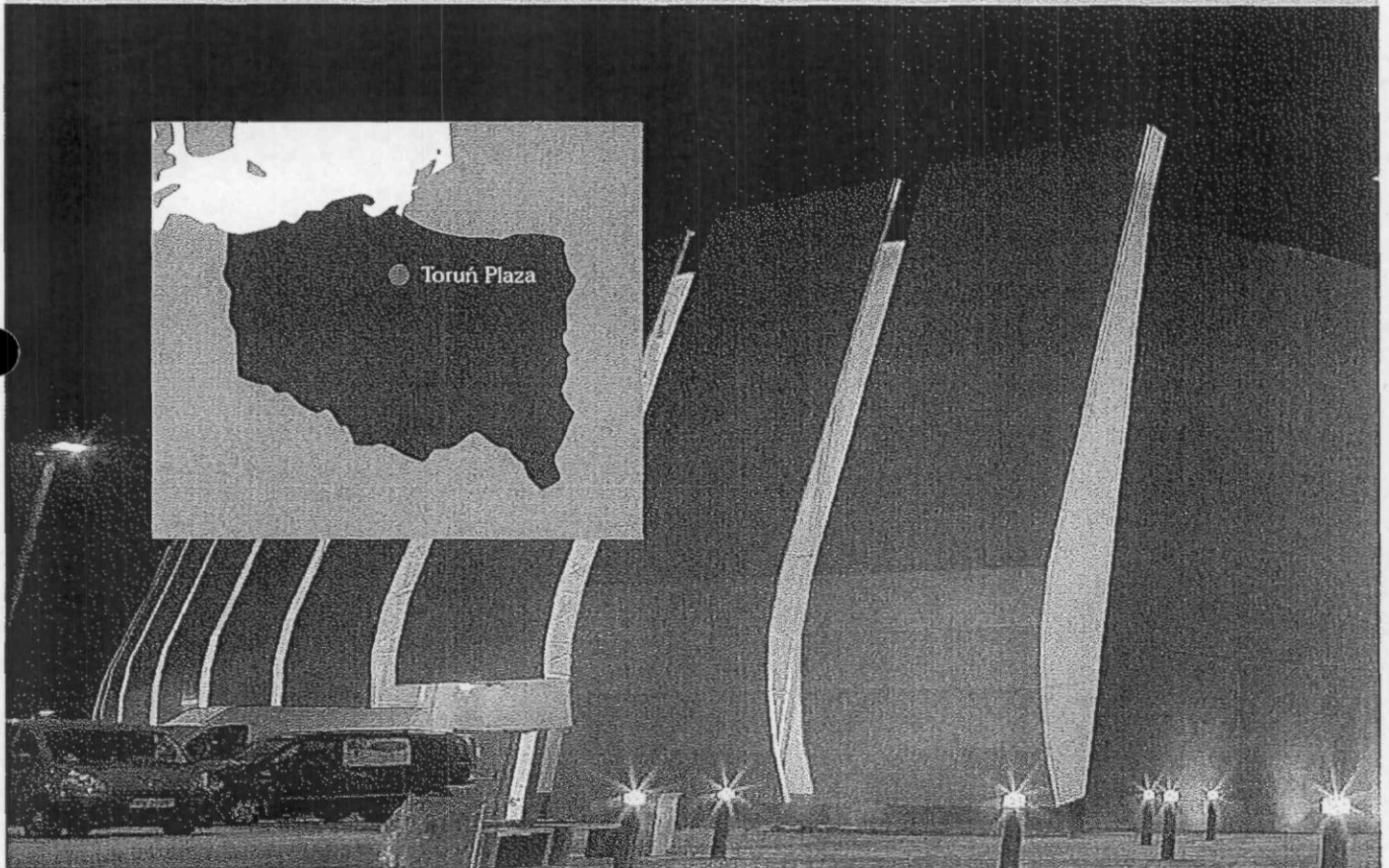
Development focus

Spotlight on – Toruń Plaza

During 2011, Plaza achieved the notable milestone of completing its tenth shopping center in Poland and 31st in the CEE region. Toruń Plaza is located in Toruń, a c. 800-year-old city located in the north-west of Poland with a catchment area of approximately 280,000 inhabitants within a 30 minute driving distance.

Completed in November 2011, Toruń Plaza comprises 40,000 sqm of GLA over two floors, with approximately 1,100 parking spaces. The center includes an eight screen cinema of Cinema City, a Fantasy Park entertainment center and a Delima delicatessen, as well as over 120 shops including major international brands such as H&M, C&A, Massimo Dutti, Mango and Zara.

Visitor numbers to Toruń Plaza since its opening have exceeded expectations, with over 500,000 visitors reported in the first month alone. The center is currently 80% let with strong levels of interest in the remaining space.



Toruń Plaza

Poland

40,000m²

100% ownership

€121.2m current value

Our tenth shopping and entertainment center in Poland was opened in November 2011 in Toruń, an almost 800-year-old city and UNESCO world heritage site. The 40,000m² GLA shopping and entertainment center comprises over 120 shops and approximately 1,100 car parking spaces.



Current developments

Poland

Project	City	Ownership	GLA (m ²)	Market value on completion December 31, 2011 (€m)	Market value of the land and project December 31, 2011 (€m)	Expected completion
Toruń Plaza	Toruń	100.0%	40,000	121,200,000	121,200,000	Operating
Suwałki Plaza	Suwałki	100.0%	20,000	48,600,000	48,600,000	Operating
Zgorzelec Plaza	Zgorzelec	100.0%	13,000	21,400,000	21,400,000	Operating
Łódź (Residential)	Łódź	100.0%	80,000**	n/a*	11,000,000	—
Łódź Plaza	Łódź	100.0%	45,000	105,200,000	8,700,000	2014
Kielce Plaza	Kielce	100.0%	33,000	15,200,000	4,800,000	2014-2015
Leszno Plaza	Leszno	100.0%	16,000	n/a*	1,800,000	2015-2016

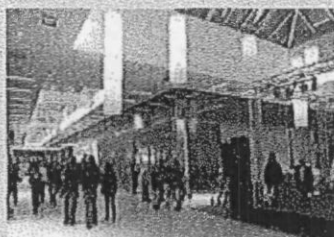
* Assets were valued with the comparative sales price method, no value at completion was estimated.

** GBA

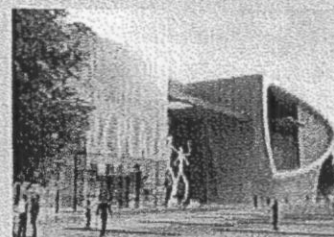
Plaza has already completed 10 shopping and entertainment centers in Poland of which seven have already been sold. In November, 2011 the Company opened to the public its tenth shopping and entertainment center in Poland, Toruń Plaza. Currently the Group operates three shopping and entertainment centers in Poland and has three sites for the development of shopping and entertainment centers and one additional site for residential development.



Suwałki Plaza



Zgorzelec Plaza



Łódź Plaza

Suwałki: completed, opened to the public

Suwałki Plaza is located in Suwałki, a city crossed by expressway E67(8), which links Augustów with the Lithuanian border. The expressway is to be a part of a larger road network called "via Baltica".

The creation of Suwałki Special economic zone offers new opportunities for trade and commerce. Suwałki is also becoming a tourist destination.

Suwałki Plaza is located in the main commercial and residential district of the city and is fronted by an important arterial route to

the east. It is also located on a 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 shopping and entertainment center.

Suwałki Plaza is a three floor shopping and entertainment center with approximately 20,000m² of GLA anchored by Delima delicatessen, H&M, KappAhl, Deichman, Douglas and Empik. The entertainment area comprises a three screen cinema and bowling and entertainment center.

Currently 89% of the Center leasable area is leased.

Zgorzelec: completed, opened to the public

Zgorzelec Plaza is located in Zgorzelec in south west Poland, near the German border.

Thanks to two roads border crossing (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 "gate" between Germany and Poland.

In the vicinity of Zgorzelec there is a expedition terminal, road and railway (freight) border crossing with the Czech Republic and a freight border crossing with Germany.

The shopping and entertainment center is situated less than five minutes walking distance from the railway station.

Zgorzelec Plaza comprises approximately 13,000m² of GLA and 300 parking spaces anchored by H&M, KappAhl and Douglas with a Fantasy Park entertainment area.

Currently 79% of the Center leasable area is leased.

Toruń Plaza: completed, opened to the public

Toruń Plaza is located in Toruń, an almost 800-year-old city of approximately 200,000 inhabitants.

Toruń is one of the most beautiful cities of Poland located at the intersection of ancient trade routes. Gothic buildings of Toruń's old town won the designation of the world heritage site from UNESCO in 1997.

Toruń Plaza which was open in November 2011 is Plaza's tenth completed development in Poland.

The 40,000m² of GLA two-floor shopping and entertainment center was approximately 80% let on opening including local and international brands such as Cinema City, H&M, C&A, KappAhl, Zara, Bershka, Stradivarius, Pull & Bear and Massimo Dutti as well as bowling and entertainment area.

Łódź Plaza: under planning

Łódź Plaza is located in Łódź, the second largest city in Poland with approximately 750,000 inhabitants.

Łódź is recognized as an important academic and cultural center in Poland, hosting cultural events such as Camerimage Festival and Dialogue of four cultures festival.

The site is located in a residential district of the city with a catchment area of 270,000 people.

Łódź Plaza will be a three-floor shopping and entertainment center with approximately 45,000m² of GLA anchored by a supermarket, a department store as well as a multi screen cinema and bowling and entertainment area.

Łódź (Residential): Under planning

The Group owns part of a development site and has a use right over the remaining part of the site, located in the city center of Łódź, which is suitable for use as a residential area.

The site is located in the central university district of Łódź, within 500 meters of a popular Piotrkowska pedestrian street, at the intersection of two of the main arteries into the city.

The planned development will comprise built area of approximately 80,000m².

Kielce Plaza: under planning

Kielce Plaza is located in Kielce, a city of approximately 200,000 inhabitants and catchment area of approximately 350,000 people.

The shopping and entertainment center will be located on a 30,000m² plot alongside a major road and 2km from the heart of Kielce.

Kielce Plaza will be a two floor shopping and entertainment center with 33,000m² of GLA and approximately 1,000 car parking spaces.

Leszno Plaza: under planning

Leszno Plaza is ideally located in the center of Leszno, a city with approximately 65,000 inhabitants.

Leszno is situated in western Poland between the two big economic centers of Poznań and Wrocław, and is close to central railway and bus stations.

The planned scheme will comprise approximately 16,000m² of GLA providing more than 70 units and 450 car parking spaces.

Current developments

continued

Serbia

Project	City	Ownership	GLA (m ²)	Market value on completion December 31, 2011 (€m)	Market value of the land and project December 31, 2011 (€m)	Expected completion
Kragujevac Plaza	Kragujevac	100.0%	22,000	44,700,000	35,000,000	Operating
Belgrade Plaza	Belgrade	100.0%	70,000*	142,700,000	21,700,000	2015
Sport Star Plaza	Belgrade	100.0%	40,000	107,200,000	20,300,000	2014-2015

* GBA

In March 2012, Plaza completed its first shopping and entertainment center in Serbia, Kragujevac Plaza. It is the first western style shopping and entertainment center to be opened outside of the capital Belgrade. Currently the Group has two additional sites for the development of mixed-used and shopping and entertainment projects in the capital Belgrade.



Kragujevac Plaza



Sport Star Plaza



Belgrade Plaza

Kragujevac Plaza: completed, opened to the public

The Group has purchased a 24,500m² plot of land in Kragujevac, the fourth largest city in Serbia with a population of 180,000 inhabitants.

Kragujevac is the largest city in the Sumadija region and the administrative center of the region.

Kragujevac Plaza comprises 22,000m² of GLA and is already over 90% let to tenants including Nike, Adidas, Aldo, New Yorker, Deichmann, TerraNova, Fashion and Friends, H&O, Oviesse, Fox, Chicco and Home Center.

Kragujevac Plaza is the first shopping center to have been completed outside the capital Belgrade, and therefore enjoys a catchment area of approximately 590,000 inhabitants.

Sport Star Plaza: under planning

The Group has purchased a 31,000m² plot of land in Belgrade, the capital city of Serbia.

Plaza plans to build a new shopping and entertainment center on the land, with a total GLA of 40,000m² which will comprise 100 units including a cinema, fashion retailer, a food court, restaurants and parking spaces for approximately 600 cars.

Belgrade Plaza: planning and permits stage

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.

The 70,000m² scheme will comprise an apartment hotel, business center and shopping gallery as well as 700 car parking spaces.

Belgrade Plaza

Serbia

70,000m² (GBA)

100% ownership

€142.7m estimated value on completion

The building is located in the center of Belgrade in a neighborhood of government offices and foreign embassies. On completion, Belgrade Plaza, will comprise a shopping gallery, an apartment hotel and business center. Construction is planned to commence in 2013 and completion is scheduled for 2015.



Current developments

continued

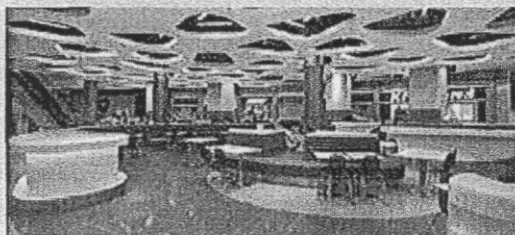
India

Project	City	Ownership	GBA (m ²)	Market value on completion December 31, 2011 (€m)	Market value of the land and project December 31, 2011 (€m)	Expected completion
Koregaon Park Plaza	Pune	100.0%	110,000	78,800,000	68,000,000	Operating (mall)
Chennai	Chennai	38.0%	1,060,000	169,145,000	21,069,000	2014-2018
Kochi Island	Kochi	23.75%	575,000	n/a*	4,876,000	–
Bangalore	Bangalore	23.75%	320,000	178,665,000	40,077,000	2013-2018
Kharadi Plaza	Pune	50.0%	250,000	70,870,000	18,100,000	2015
Trivandrum Plaza	Trivandrum	50.0%	120,000	47,707,000	7,618,000	–

* Asset was valued with the comparative sales price method, no value at completion was estimated.

In 2008, Plaza formed a joint venture with Elbit Imaging to develop three mega mixed-use projects in India located in the cities of Bangalore, Chennai and Kochi. In March 2012, Plaza completed its first shopping and entertainment center in India, Koregaon Park Plaza with the grand opening expected in June 2012. Also in the first quarter of 2012 Plaza completed its first office building in the Kharadi project which is part of a four office buildings development.

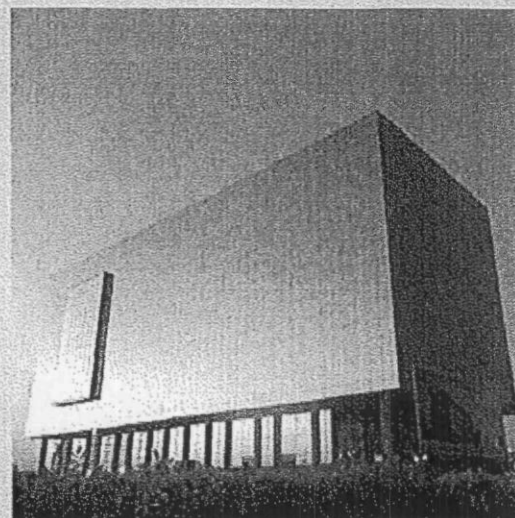
In addition, the Group has three sites for mega residential developments and another site for a smaller residential scheme. The four residential schemes will comprise, in total, over 2 million m² of built area.



Koregaon Park Plaza



Kharadi Plaza



Kharadi Plaza (Matrix One)

Koregaon Park Plaza

In 2007 Plaza purchased a plot of land of approximately six acres (24,000m²) in Koregaon Park, an up market area of Pune, Maharashtra State, India.

The planned scheme will comprise a 93,000m² built area of shopping and entertainment center and 17,000m² of office space inclusive of underground parking.

The first phase of the project, the shopping and entertainment center was completed and opened to the public on March 2, 2012 and currently 85% of the GLA is leased to local and international retailers and further 5% committed under memoranda of understanding.

The mall grand opening is scheduled for H2 2012.

Koregaon Park shopping and entertainment center is the company's first completed project in India.

Kharadi Plaza

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 of Pune, Southern India.

The planned scheme will include four office building with 250,000m² built area.

The construction of the first building (28,000m²) known as "Matrix One" was completed in February 2012 and 70% of the office space was already sold.

Construction of phase two is due to commence in Q2 2012.

Trivandrum Plaza

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 a residential project with 120,000m² built area.

Trivandrum which is a major city in South India, is the capital of state of Kerala 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 over three million people.

Bangalore

The JV has 50% stake in a company which holds a 165 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 plot into a mega residential project with a built area of 320,000m².

The project will comprise over 1,000 residential luxury villas.

Chennai

The JV has 80% stake in a company which holds 90 acre plot in Chennai.

Chennai is India's fourth largest city with a population of over 10 million people.

The site will be developed into an integrated mixed-use project consisting of high-rise residential units and high-quality villas with a built area of over 1,060,000m².

Kochi Island

The JV has 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 local population of more than three million people.

The planned mixed-use project will comprise over 575,000m² of high-end residential apartment buildings, office complexes, a hotel and serviced apartment complex, retail area and marina.

Current developments

continued

Casa Radio Romania

600,000m²

75% ownership

€331.7m estimated value on completion (Plaza share)*

Casa Radio (Dâmbovița Center) will include a 170,000m² GBA shopping mall and leisure center (one of the largest in Europe), offices, hotel, an apartment hotel, casino, hypermarket and a convention and conference hall. Completion of the first phase is scheduled for 2014.

* Represents only the value of phase one.



Romania

Project	City	Ownership	GLA (m ²)	Market value on completion December 31, 2011 (€m)	Market value of the land and project December 31, 2011 (€m)	Expected completion
Casa Radio Plaza	Bucharest	75.0%	600,000**	331,700,000	170,325,000	2014-2016
Iași Plaza	Iași	100.0%	62,000	97,252,000	14,700,000	2014-2015
Timișoara Plaza	Timișoara	100.0%	38,000	63,615,000	11,700,000	2014
Târgu Mureș Plaza	Târgu Mureș	100.0%	30,000	n/a*	6,400,000	2015
Constanța Plaza	Constanța	100.0%	18,000	14,427,000	10,500,000	2014
Slatina Plaza	Slatina	100.0%	17,000	n/a*	1,900,000	2015
Csiki Plaza	Miercurea Ciuc	100.0%	14,000	20,127,000	7,700,000	-
Hunedoara Plaza	Hunedoara	100.0%	13,000	n/a*	3,100,000	2015
Palazzo Ducale	Bucharest	100.0%	700	2,060,000	2,060,000	Operating

* Assets were valued with the comparative sales price method, no value at completion was estimated.

** GBA.

Plaza has a significant development pipeline in Romania, with eight sites for shopping and entertainment centers and mixed-use schemes in various stages of development. During 2011 the Group continued with the feasibility and planning phase and made good progress with obtaining permits.



Iași Plaza



Târgu Mureș Plaza



Hunedoara Plaza

Casa Radio: under planning

Plaza acquired a 75% interest in a company which has entered into a public-private partnership agreement with the Romanian government to develop the Casa Radio (Dâmbovița) 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 600,000m² of built area, including 160,000m² shopping mall and indoor leisure center (one of the largest in Europe), ferris wheel, offices, hotel complex with conference center apartment hotel, casino and approximately 4,500 underground car parking spaces.

Iași Plaza: under planning

The Group purchased a 46,500m² plot of land in Iași (population of 350,000 inhabitants and catchment area of approximately 820,000 people), 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 40,000m² of GLA with approximately 120 units and will include an anchor supermarket, a cinema, fashion retailers, a fantasy park, a food court and restaurants.

The scheme will also include an office space with GLA of 22,000m² and approximately 1,700 car parking spaces.

Current developments

continued

Romania continued

Timișoara Plaza: under planning

In Timișoara, the Group has a 32,000m² plot of land situated on a three-way junction with excellent visibility.

Timișoara Plaza is situated in the north-east of Timișoara, a city in western Romania, close to the Hungarian border with a population of 350,000 inhabitants and catchment area of approximately 700,000 people.

The planned shopping and entertainment center will have GLA of approximately 38,000m² with approximately 100 units and will comprise a supermarket, a cinema complex, fashion retailers, a fantasy park, a food court, restaurants and over 750 car parking spaces.

Târgu Mureș Plaza: under planning

The Group has acquired a 31,000m² site in Târgu Mureș, Romania, to develop a significant shopping and entertainment center.

The proposed development is ideally located in the city center, close to the main road that links to the neighboring towns of Cluj Napoca and Alba Iulia.

The modern, western style center will have GLA of approximately 30,000m² with over 120 units and will comprise fashion retailers, a fantasy park, a cinema, a food court and over 800 car parking spaces.

Constanța Plaza: under planning

In June 2008, Plaza Centers acquired a 26,000m² plot in Constanța. The plot is conveniently located on one of the two main entrance roads to the city and consists of an existing shopping center and an open parking lot of 8,500m².

Constanța is located on the Black Sea bank and is one of Romania's main industrial, commercial and tourist centers.

The Group is investigating the option of adapting the existing shopping center to create approximately 18,000m² of GLA which will be suitable for one big anchor such as leading supermarket, and/or DIY store together with some smaller retail units.

Slatina Plaza: under planning

Plaza Centers owns a 24,000m² plot in Slatina which will be developed into a new shopping and entertainment center. The plot conveniently located next to the main entrance roads to the city and across residential neighborhood.

Slatina is a city with approximately 80,000 inhabitants and is considered a major city in the county of Olt which has a population of over 500,000 people. It has strong industrial base, with companies such as Pirelli Tyres located there.

The 17,000m² GLA scheme will comprise approximately 80 units including a supermarket, fashion retailers, a fantasy park, a food court and more than 500 car parking spaces.

Csiki Plaza: construction commenced in late 2008, awaiting external financing for completion

The Group purchased a 33,000m² plot in Miercurea Ciuc, located less than 400 meters from the city hall, on which it intends to develop a shopping and entertainment center.

Miercurea Ciuc has a population of approximately 50,000 inhabitants and catchment area of approximately 300,000 people.

The planned shopping center will have GLA of approximately 14,000m² and will include a supermarket, fashion retailers, food court and restaurants.

Hunedoara Plaza: under planning

The Group purchased a 41,000m² plot in Hunedoara (70,000 inhabitants and catchment area of 200,000 people) on which it intends to develop a shopping and entertainment center. The site situated on the main entry to the city from Deva and nearby the city center.

The planned 13,000m² GLA shopping center will comprise approximately 70 units and will include a supermarket, fashion retailers, food court, restaurants and over 600 car parking spaces.

Palazzo Ducale: operating

Plaza Centers has acquired a prestigious French style villa converted into an office building in Bucharest. The building located in the city center and was completely renovated in 2005.

The building comprises approximately 700m² and became the headquarters of Plaza Centers in Romania.

Timișoara Plaza

Romania

38,000m² GLA

100% ownership

€63.6m estimated value on completion

The planned shopping and entertainment center will have GLA of approximately 38,000m² with approximately 100 units and will comprise a supermarket, a cinema complex, fashion retailers, a fantasy park, a food court, restaurants and over 750 car parking spaces.



Current developments

continued

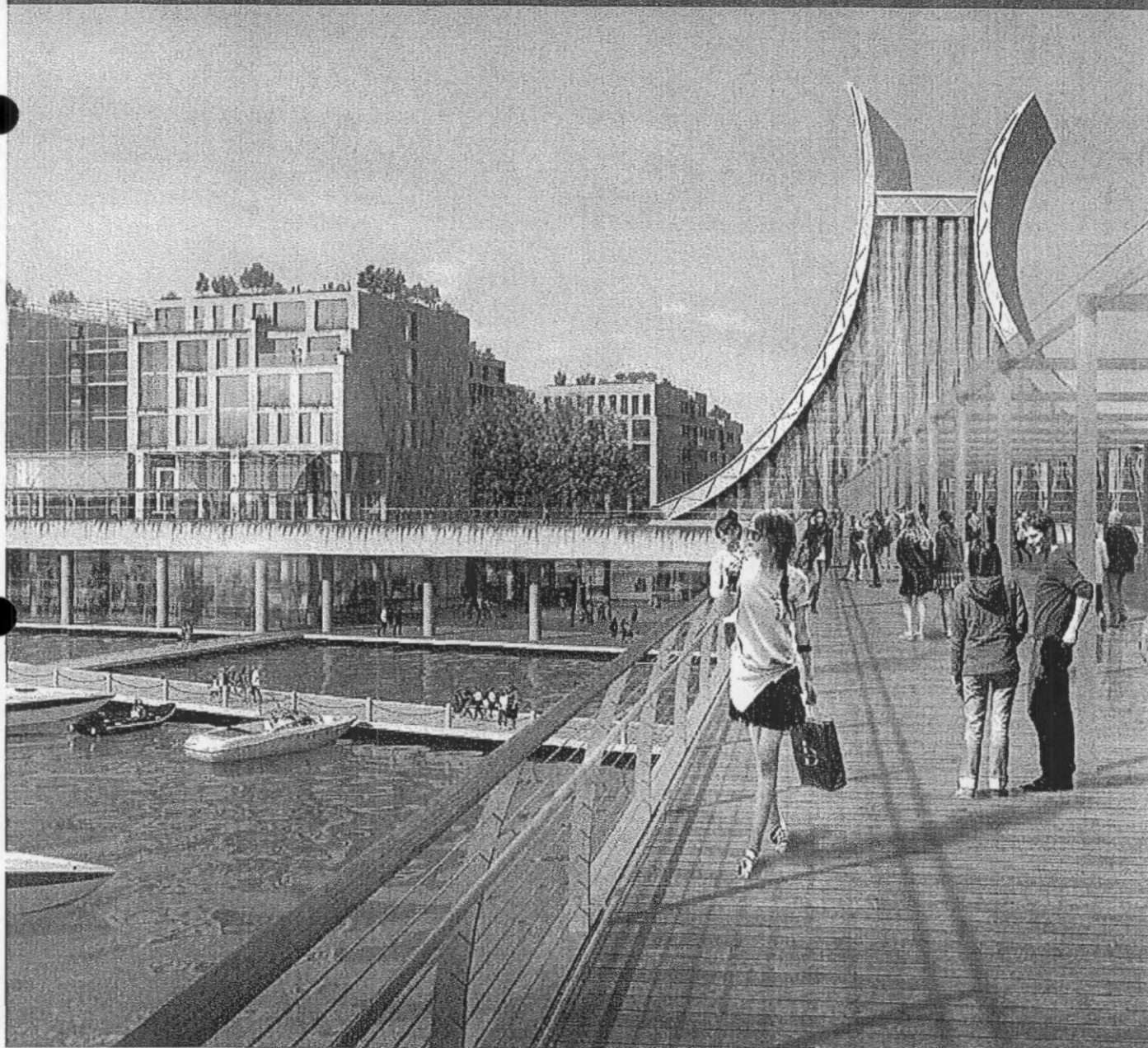
Dream Island Hungary

350,000m²

43.5% ownership

€452.6m estimated value on completion (Plaza share)

A major resort on the Óbuda Island in central Budapest. With a land area of 320,000m² the development will comprise hotels, casino and a business and leisure complex.



Hungary

Project	City	Ownership	GLA (m ²)	Market value on completion December 31, 2011 (€m)	Market value of the land and project December 31, 2011 (€m)	Expected completion
Dream Island	Budapest	43.5%	350,000*	452,652,000	51,300,000	2014-2016
Arena Plaza extension	Budapest	100.0%	40,000	69,838,000	8,700,000	2015
Új Udvar	Budapest	35.0%	16,000	3,010,000	3,010,000	2014
David House	Budapest	100.0%	2,000	4,000,000	4,000,000	Operating

* GBA.

Plaza has already completed and sold 17 shopping and entertainment centers and one office building in Hungary. During 2007, The Arena Plaza shopping and entertainment center, which was developed by Plaza, was sold to aAim for a total consideration of circa €387 million, representing circa 20% of all real estate transactions in Hungary in 2007 and currently is one of the most successful shopping and entertainment centers in the Hungarian capital. Plaza currently owns one office building and three development 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.

Dream Island: initial excavation and archaeological works commenced, exclusive casino license obtained

Plaza holds a 43.5% indirect stake in Dream Island, a prestigious development on the Óbuda Island in central Budapest, with a land area of 250,000m², 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 obtained.

Arena Plaza extension: under planning

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 a central location in Budapest.

The Arena Plaza extension will occupy part of the former historic Kerepesi trotting track.

Project status: under planning.

Új Udvar: operating, currently working on refurbishment plans

In September 2007, the Company bought a stake in a company holding Új Udvar shopping center in Budapest. Subsequently, Plaza's interest in the asset is 35%.

Új 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.

Új Udvar shopping center shows significant redevelopment potential for refurbishment and subsequent sale.

Project status: operating, currently working on refurbishment plans.

David House: active office building, mainly serves as Plaza Centers' headquarters in Hungary

The Company owns an office building located on Andrásy 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 Andrásy 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 800m² plot and consists of four floors, an atrium and a basement, with a total constructed area of approximately 2,400m².

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

Current developments

continued

Czech Republic

Project	City	Ownership	GLA (m ²)	Market value on completion December 31, 2011 (€m)	Market value of the land and project December 31, 2011 (€m)	Expected completion
Prague 3	Prague	100.0%	61,600*	138,090,000	14,180,000	
Liberec Plaza	Liberec	100.0%	17,000	31,600,000	31,600,000	Operating
Roztoky	Prague	100.0%	14,000*	19,030,000	3,100,000	2014-2015

* GBA.

In March 2009, Plaza opened to the public its third shopping and entertainment center in Czech Republic, the Liberec Plaza (approximately 17,000m² GLA) in the city of Liberec. Plaza continues the feasibility and planning of its residential developments at Roztoky (14,000m²) and Prague 3 (61,600m²). In addition, Plaza owns an income-generating office and warehouse building in Prague which is designated to be re-zoned for a residential scheme.

Liberec Plaza: completed, opened to the public

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 approximately 100,000 inhabitants and a catchment area of approximately 350,000 people.

The shopping center is situated 20m from the main square of the city.

The 17,000m² GLA shopping and entertainment center, which was opened in March 2009, is approximately 78% let to tenants including Billa, Gate, Dracik, Schleker, Triumph, Sephora, Fantasy Park and Dino Park.

The center also includes approximately 1,000m² of residential apartments and 1,100m² of office space.

Prague 3: currently operating as an office building and warehouse short lease, future residential use is in progress

The Praha Plaza s.r.o., Company's wholly owned subsidiary, owns a logistic and commercial center in the third district of Prague.

The buildings are located on a site of approximately 46,500m² with current GLA of approximately 44,300m² and potentially 61,600m² built area for residential use.

The third district of Prague 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 the site into a shopping and entertainment center. Due to its strategic location and good public transport connections, the Group is currently examining the possibility of developing a residential complex on the site with a three-phase construction program comprising 61,000m² of built area.

Roztoky

The Group owns 39,000m² of land in Roztoky, a town located north-east of 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 150-200m² each.

The plot includes a valid building permit for 81 units of family houses.

Liberec Plaza

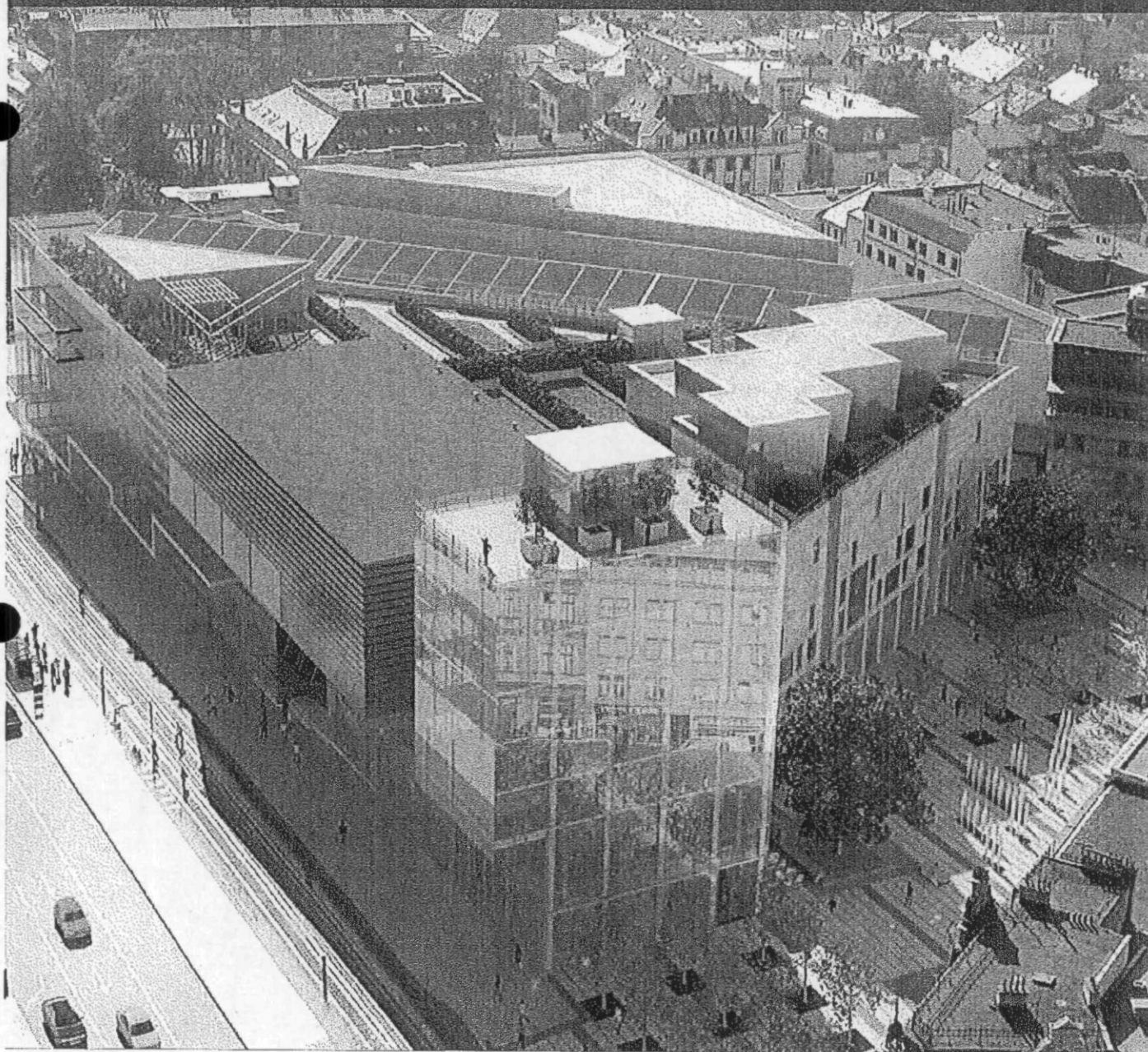
Czech Republic

17,000m²

100% ownership

€31.6m current value

Located in the center of Liberec near the city's main square, Liberec Plaza, our third shopping and entertainment center in the Czech Republic, was opened in March 2009. Comprising 17,000m² GLA, the center also includes approximately 1,000m² of residential apartments and 1,100m² of office space.



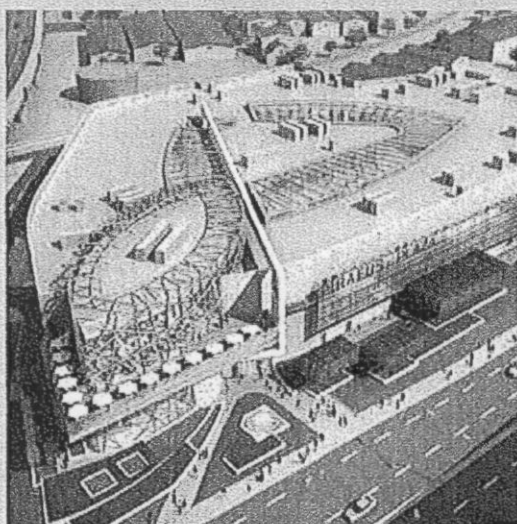
Current developments

continued

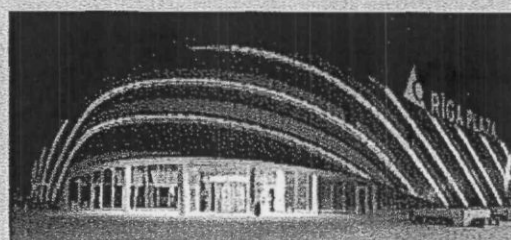
Latvia, Greece, Bulgaria

Project	City	Ownership	GLA (m ²)	Market value on completion December 31, 2011 (€m)	Market value of the land and project December 31, 2011 (€m)	Expected completion
Latvia						
Riga Plaza	Riga	50.0%	49,000	42,150,000	42,150,000	Operating
Greece						
Piraeus Plaza	Athens	100.0%	26,000	106,400,000	25,000,000	2014-2015
Bulgaria						
Sofia Plaza Business Center	Sofia	51.0%	44,000	41,433,000	7,395,000	–
Shumen Plaza	Shumen	100.0%	20,000	37,800,000	5,200,000	2014-2015

In March 2009, Plaza completed the development of Riga Plaza shopping and entertainment center, its first development in the Baltic states. Plaza currently has two development sites in Bulgaria, one for shopping and entertainment development and another for mixed-use development. During 2010 Plaza received a building permit for its planned development in Piraeus, Athens.



Piraeus Plaza



Riga Plaza



Shumen Plaza

Bulgaria

Sofia Plaza Business Center: under planning

In February 2009, the Group acquired a controlling stake in a 75,000m² project in Sofia, the capital of Bulgaria.

Plaza shall retain the right to acquire a further 24% stake in the project within six months following the start of construction.

The project will be situated on a 9,500m² site on a main junction at the south-west side of the city, 3km from the city center and very close to Lulin (the biggest neighborhood in Sofia). It will be easily accessible by foot, car and public transportation, serving an immediate catchment area of 350,000 people.

Sofia Plaza will be developed into a 44,000m² GLA of retail and business complex, served by 900 underground parking spaces.

The project has a valid planning permit for the office scheme and is currently being leased to a hypermarket operator.

Shumen Plaza: under planning

The Group has purchased a 26,000m² plot of land in Shumen, one of the largest cities in north-eastern Bulgaria, 80km from Varna.

The site is ideally situated at the crossroad of the two major traffic arteries in Shumen, within a short walking distance to the city center, railway station and university.

It will be the first western-style shopping center in the district and shall serve the city population of approximately 100,000 people and a larger catchment of 205,000 people.

Shumen Plaza will be a three-floor commercial and entertainment center with 20,000m² GLA and 650 parking spaces.

The shopping center will include supermarket, digital cinema, 70 retail shops, entertainment complex with bowling, billiards and games, food court, restaurants and cafes.

Latvia

Riga Plaza: completed and opened to the public

In March 2004, the Group entered into a 50:50 JV with an American capital fund with extensive experience in Latvia for the development of Riga Plaza.

Riga is the largest city in the Baltic states with a population of approximately 750,000 people.

Riga Plaza, which was opened in March 2009, is located on the west bank of the Daugava river, south west of Riga's city center with excellent transportation connection to the city center and primary catchment area of 350,000 inhabitants.

The three-floor shopping and entertainment center comprises approximately 49,000m² of GLA, anchored by a hypermarket PRISMA, Peek & Cloppenburg, Lindex, Mango, Zara, Mexx, Cubus, Sportland, Douglas an eight-screen multiplex cinema and a 2,000m² bowling and entertainment area.

Greece

Piraeus Plaza: under planning

The Group currently owns a plot of approximately 15,000m² in the city of Piraeus, a commercial-industrial center, only on 10km from the heart of Athens.

The site has an ideal highly visible and commercial position at the junction of two of the biggest arteries in Attica: National Highway, running from the north to the south of Greece and Piraeus Avenue, connecting the center of Athens with the port of Piraeus.

Conveniently located in front of the ISAP metro line, bus stations and in a walking distance from Europe's largest passenger port of Piraeus, the project will be easily accessed by a large catchment of more than one million people.

Piraeus Plaza will be a three-storey commercial and entertainment center with 26,000m² GLA and will be served by four underground parking levels for 775 cars.

President and Chief Executive Officer's statement



Ran Shtarkman, President and CEO

I am pleased to report that Plaza has delivered an excellent set of financial results for 2011. The Company has consolidated upon its return to profitability in 2010 and substantially grown its revenues, delivering a 52% increase during the year. This improved top line is the beginning of the realization of Plaza's decision to position its development program to ensure that it can deliver shopping centers into markets with the highest retail demand.

In addition to the strong financial performance, Plaza has continued to progress its targeted development program across the CEE region and India, achieving a number of development milestones, most notably the completion of its 31st shopping center in the CEE region, Toruń Plaza, Poland. Toruń Plaza represents Plaza's tenth shopping center and our third currently owned and managed asset in Poland, a country which, although not immune

to the wider European economic context, has continued to demonstrate its resilience during the recent downturn.

2011 was also an eventful year for our US portfolio. Alongside our joint venture partners, we completed the takeover of the EDT Retail Trust and embarked upon a program which repositioned the portfolio, reduced the level of debt, improved portfolio

\$1.428bn

A successful joint venture

In June 2010, Plaza identified a window of opportunity for investment in the USA as a result of the dislocation of the property market, specifically within the retail sector, created by recent economic conditions.

Consequently, EPN, a joint venture between Plaza, Elbit Imaging Ltd and Eastgate LLC, was formed to acquire EDT Retail Trust, an Australian investment trust which held and managed two US REIT portfolios.

Following the acquisition, EPN undertook the following actions to restructure, reposition and improve the portfolio:

- Repaid the entire corporate company level debt of US\$108 million;
- Relocated management from Australia to the US in order to improve the supervision and management of the assets;

- Refinanced or assumed circa US\$500 million of portfolio debt;
- Increased Net Operating Income by approximately 5%;
- Actively managed the assets to increase portfolio occupancy by nearly 3% since 2009 and improved tenancy maturities;
- Undertook redevelopment plans for underperforming assets which will generate substantial cash flow growth in 2013 and 2014.

Through these strategic actions, Plaza and its joint venture partners were able to turn around a high-yielding portfolio into an attractive opportunity for buyers and in January 2012, EPN, Plaza's US-based joint venture reached an agreement to sell 47 of its 49 US-based shopping centres in a deal totaling US\$1.428 billion. The transaction is expected to close in June 2012 and EPN will receive the rental income upon the properties until such time. Once completed, the transaction is expected to realize a cash inflow of US\$120 million before taxes and transaction costs for Plaza which corresponds to nearly 50% pre-tax ROE in a period of little over 18 months.

occupancy and transferred the Company's management from Australia to the US to ensure a more detailed oversight of the assets. In January 2012, our actions bore fruit and in spite of an uncertain market with few comparable transactions we received and accepted an offer from a joint venture between Blackstone Real Estate and DDR Corp. for 47 of the portfolio assets in a deal totalling US\$1.43 billion. This highly profitable investment and subsequent return will provide Plaza with further capital to drive our development program and pay down debt.

Despite a backdrop of prolonged economic uncertainty, Plaza has continued not only to advance its targeted development program but also to identify investment opportunities and generate substantial and timely returns from these. Our financial position remains robust, with the Company consolidating upon its return to profitability in 2010 with increased revenues and net profits; furthermore, our active balance sheet management has ensured that the Company remains conservatively geared with a healthy cash balance.

Key events

During the year, Plaza delivered on its strategy to generate shareholder value by taking advantage of weak market conditions and depressed values in the US, with the completion of the acquisition by the Company's joint US subsidiary of all of the outstanding units of EDT Retail Trust ("EDT") and thereby a US\$1.4 billion portfolio of retail assets. The total cost to Plaza of the acquisition was US\$82 million for a 22.7% stake. During the year, Plaza also received its US\$5.9 million share of a dividend payment from EDT. Subsequent to the year end, the majority of the assets were sold (subject to the fulfillment of certain conditions) to a joint venture between Blackstone Real Estate and DDR Corp.

The Company has invested a total of €115 million in cash across its entire portfolio of projects under development since January 2011 including its US portfolio (€44 million).

Plaza also completed and opened to the public its 40,000m² GLA shopping center in Toruń in Poland in November 2011.

Subsequent to the year end the Company completed its first shopping center in India. The Koregaon Park Plaza mall in Pune held a soft public opening on March 2, 2012, with the grand opening scheduled for H2 2012. Phase one of the Kharadi project, also in Pune, India, was also completed subsequent to the year end. The 28,000m² GLA office opened in February 2012, with construction of phase two due to commence in Q2 of 2012.

Results

Plaza ended the 2011 financial year with a net profit attributable to the owners of the Company of €9 million. This was mainly as a result of the higher income derived from operating assets in the Company's portfolio – partly offset by the impairment of trading properties – and the net finance income from the fair value change of debentures and derivatives for hedging purposes.

Plaza invested a total of €71 million during the year in new acquisitions and in real estate inventories under construction in CEE and India, primarily in Toruń, Poland, Kragujevac in Serbia and Koregaon Park Plaza, India.

The Company had a robust cash position (including restricted bank deposits, short-term deposits and available-for-sale financial assets) of approximately €108 million at the period end (and circa €100 million as at today's date). This ensures Plaza remains on a solid financial footing to continue its development program and make opportunistic investments or acquisitions where there is clear potential to create shareholder value.

The Company's debt position remains conservative, with gearing of 59% at the year end.

NAV

The Company's property portfolio (CEE and India) was valued by Jones Lang LaSalle as at December 31, 2011 and their summary valuation is shown below.

Net Asset Value per share has decreased by 14%, attributable primarily to the impairment of trading property amounting to €48 million. 73% of the impairment charge relates to assets in Romania and Latvia. The write down in value reflects the depressed rental levels in those countries as well as low transaction volumes from a constrained supply of debt. The majority of written down assets comprise land with associated planning consent, which management values at the lower of cost or net realisable value, and we will continue to evaluate the local economic context before any development program is commenced as well as looking at other alternatives to monetize the land bank if development is not economically viable. The decrease was partly offset by the completion of Toruń Plaza.

The Company's NAV was calculated as follows:

Use	€'000
Market value of land and projects by Jones Lang LaSalle ⁽¹⁾	864,080
Assets minus liabilities as at December 31, 2011 ⁽²⁾	(263,127)
Total	600,953

1 Per valuation attached below.

2 Excluding book value of assets which were valued by Jones Lang LaSalle, but including Plaza's proportionate share of the US portfolio at market value which was based upon the purchase price offer presented to and accepted by EPN Group from a third party post-year end. The two remaining US properties not purchased were valued by the management of EDT.

President and Chief Executive Officer's statement

continued

Portfolio progress

Currently the Company is engaged in 28 development projects and owns six operational assets, located across the CEE region and in India. The location of the projects and assets under development, as at March 15, 2012, is summarized as follows:

Location	Number of assets (CEE and India)		
	Active	Under development	Offices
Romania	–	8	1
India	1	5	–
Poland	3	4	–
Hungary	–	3	1
Serbia	–	3	–
Czech Republic	1	2	–
Bulgaria	–	2	–
Greece	–	1	–
Latvia	1	–	–
Total	6	28	2

During the year, the Company invested a total of €115 million in cash to acquire the EDT portfolio in the US, and into the projects under development in CEE and India. Out of the total investment €53 million was financed by bank loans.

Liquidity and financing

We ended 2011 with a strong liquidity position, with cash (including restricted bank deposits, short-term deposits and available-for-sale financial assets) of €108 million, compared to €195 million at the end of 2010. Working capital at December 31, 2011 totaled €585 million (December 31, 2010: €713 million). The Company's current cash position is circa €100 million.

The principal impacts on the decrease in the cash position were the investment in the EDT portfolio, bond buybacks and repayment of bonds and the interim dividend payment to the shareholders, partially offset by the new bonds issued at the beginning of the period. The Group continues to pursue a conservative financing policy, with the level of debt being only 59% of the balance sheet (2010: 56%). The increase in gearing was mainly a result of the drawing down of the funding Plaza obtained for its projects in Toruń, Poland and Kragujevac, Serbia and the bond raising. The raised development debt, totalling circa €85 million, represents 70% of the development costs for the projects and demonstrates that Plaza, through the combination of a strong balance sheet and exceptional track record, has the ability to secure development funding in what is largely a closed market for new finance.

Strategy and outlook

As we enter our 16th year of activity in the CEE region, Plaza has established an unrivaled track record in the region from which the Company will continue to leverage and benefit. 2011 has not delivered the levels of economic recovery that many had hoped for; however, the long-term fundamentals of this market remain

strong. Our continued belief in the strength of the region was underlined by the completion and opening during the year of Plaza's 31st CEE shopping center. To date, 26 of these centers have been subsequently sold with an aggregate gross value of circa €1.16 billion. These disposals comprise 17 shopping centers in Hungary, seven in Poland and two in the Czech Republic. Plaza now retains six shopping and entertainment centers in the region as operational assets, three of which are located in Poland, one in the Czech Republic, one in Latvia and one in India. This will increase to seven upon the opening of Kragujevac Plaza, Serbia, on March 20, 2012.

Whilst the retreat of banks from real estate finance continues to suppress transactional activity, Plaza will continue to implement its development strategy but will also hold completed developments on its balance sheet, enjoying the income these assets produce, until sales prices which appropriately reflect their current and existing potential are achieved. Plaza will continue to actively manage these assets to attract premium local and international brands in an effort to maximise the value derived for shareholders.

Beyond the CEE, the progress made with our Indian developments has been extremely encouraging, with phase one of the Kharadi project, the office development "Matrix One", and the Koregaon Park Plaza mall both completed post-year end, with encouraging occupancy levels. The sentiment towards the Indian real estate market remains extremely positive, underpinned by fundamentals which are driving the country's long-term economic growth. With five developments in India due to be delivered in the next five years, our substantial local platform means Plaza is strategically placed to create shareholder value from this growth market.

Plaza's highly successful investment in the US market is set to realize nearly 50% total pre-tax return on equity once completed. Through its US joint venture, Plaza still retains a stake in two US-based shopping centers. We continue to see opportunities within the US market to acquire high-yielding properties, which through our expertise in active asset management, can be repositioned to enhance value. The proceeds from our US divestment will be used to pay down debt to ensure that Plaza continues to be conservatively geared and to continue to drive our development program.

With two new developments already completed in 2012 and a third, Kragujevac Plaza, our first completed development in Serbia, expected in a week, 2012 has started on a positive note. We will aim to continue this momentum throughout the year and increase our volume of activity to ensure that Plaza continues to build upon the strong results reported today.

Ran Shtarkman
President and Chief Executive Officer
April 30, 2012

Operational review

Over the course of the reporting period and since the year end, Plaza has continued to make good progress against its operational and strategic objectives, whilst delivering improved profitability.

Highlights for the financial year included:

- **Openings:** Toruń Plaza in Poland, Koregaon Park Plaza and "Matrix One", Plaza's first completed developments in India, were all opened during 2011 or in 2012 to date
- **Acquisition of projects:** acquisition through a jointly controlled investment of the remaining 52% of a listed trust holding and operating 48 community shopping centers across the US, to which the trust added a further center during the year
- **Investments:** total gross investment in current projects and new pipeline activity in 2011 of €115 million (including the US portfolio)

- **Financial strength and flexibility:** Plaza's current cash position stands at circa €100 million.

As of the reporting date, Plaza has 36 assets in nine countries out of which 28 are under development across the CEE region and India. Of these, eight are located in Romania, five in India, four in Poland, three in Hungary, three in Serbia, two in the Czech Republic, two in Bulgaria and one in Greece. In addition to these developments, Plaza retains the ownership and operates six shopping and entertainment centers in Poland, Czech Republic, India and Latvia and two office buildings in Budapest and Bucharest.

The development projects are at various stages of the development cycle, from the purchase of land through to the planning and completion of construction, with Plaza's first shopping and entertainment center in Serbia, Kragujevac Plaza, due to open to the public on March 20, 2012.

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

Asset/Project	Location	Nature of asset	Size m ² (GLA)	Plaza's effective ownership %	Status*
Arena Plaza Extension	Budapest, Hungary	Office scheme	40,000	100	Under planning. Construction scheduled to commence in 2014; completion scheduled for 2015
Dream Island (Óbuda)	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 2014-2016. Exclusive casino license obtained
Új Udvar	Budapest, Hungary	Retail and entertainment scheme	16,000	35	Operating, currently working on refurbishment plans; building permit expected to be granted by 2013
David House	Budapest, Hungary	Office	2,000	100	Operational office
Suwałki Plaza	Suwałki, Poland	Retail and entertainment scheme	20,000	100	Operating, opened in May 2010
Łódź (Residential)	Łódź, Poland	Residential scheme	80,000 (GBA)	100	Under planning
Łódź Plaza	Łódź, Poland	Retail and entertainment scheme	45,000	100	Construction scheduled to commence in H1 2013; completion scheduled for 2014
Zgorzelec Plaza	Zgorzelec, Poland	Retail and entertainment scheme	13,000	100	Operating, opened in March 2010
Toruń Plaza	Toruń, Poland	Retail and entertainment scheme	40,000	100	Operating, opened in November 2011

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

Operational review

continued

Asset/Project	Location	Nature of asset	Size m ² (GLA)	Plaza's effective ownership %	Status*
Kielce Plaza	Kielce, Poland	Retail and entertainment scheme	33,000	100	Construction scheduled to commence in 2013; completion scheduled for 2014-2015
Leszno Plaza	Leszno, Poland	Retail and entertainment scheme	16,000	100	Construction scheduled to commence in 2014; completion scheduled for 2015-2016
Prague 3	Prague, Czech Republic	Office, for future residential use	61,600 (residential for sale)	100	Currently operational as an office building; rezoning for future residential use is in progress, expected to be obtained in 2012
Liberec Plaza	Liberec, Czech Republic	Retail and entertainment scheme	17,000	100	Operating, opened in March 2009
Roztoky	Prague, Czech Republic	Residential units	14,000 (GBA)	100	Zoning is in place; construction scheduled to commence in 2013; completion scheduled for 2014-2015
Casa Radio	Bucharest, Romania	Mixed-use retail and leisure plus office scheme	600,000 (GBA including parking)	75	Under planning; completion scheduled for 2014-2016; approval from the Urban Technical Commission has been obtained
Timișoara Plaza	Timișoara, Romania	Retail and entertainment scheme	38,000	100	Construction scheduled to commence in 2013; completion scheduled for 2014
Csiki Plaza	Miercurea Ciuc, Romania	Retail and entertainment scheme	14,000	100	Construction commenced in late 2008; awaiting external financing for completion
Iași Plaza	Iași, Romania	Retail, entertainment and office scheme	62,000	100	Construction scheduled to commence in 2013; completion scheduled for 2014-2015
Slatina Plaza	Slatina, Romania	Retail and entertainment scheme	17,000	100	Construction scheduled to commence in 2014; completion scheduled for 2015
Hunedoara Plaza	Hunedoara, Romania	Retail and entertainment scheme	13,000	100	Construction scheduled to commence in 2014; completion scheduled for 2015
Târgu Mureș Plaza	Târgu Mureș, Romania	Retail and entertainment scheme	30,000	100	Construction scheduled to commence in 2014; completion scheduled for 2015
Constanța Plaza	Constanța, Romania	Retail and entertainment scheme	18,000	100	Construction scheduled to commence in 2013; completion scheduled for 2014
Palazzo Ducale	Bucharest, Romania	Office	700	100	Operational

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

Asset/Project	Location	Nature of asset	Size m ² (GLA)	Plaza's effective ownership %	Status*
Belgrade Plaza	Belgrade, Serbia	Apart-hotel and business center with a shopping gallery	70,000 (GBA)	100	Construction scheduled to commence in 2013; completion scheduled for 2015
Sport Star Plaza	Belgrade, Serbia	Retail and entertainment scheme	40,000	100	Construction scheduled to commence in 2013; completion scheduled for 2014-2015
Kragujevac Plaza	Kragujevac, Serbia	Retail and entertainment scheme	22,000	100	Construction commenced in Q4 2010; completion scheduled for March 20, 2012
Shumen Plaza	Shumen, Bulgaria	Retail and entertainment scheme	20,000	100	Construction scheduled to commence in 2013; completion scheduled for 2014-2015
Sofia Plaza Business Center	Sofia, Bulgaria	Retail, entertainment and office scheme	44,000	51	Currently in negotiation with a hypermarket operator; under planning
Riga Plaza	Riga, Latvia	Retail and entertainment scheme	49,000	50	Operating; opened in March 2009
Piraeus Plaza	Athens, Greece	Retail and entertainment scheme	26,000	100	Construction scheduled to commence in 2013-2014; completion scheduled for 2014-2015
Koregaon Park Plaza	Pune, India	Retail, entertainment and office scheme	110,000 (GBA)	100	Operating; opened in March 2012
Kharadi	Pune, India	Office Scheme	250,000 (GBA)	50	Construction commenced in late 2010; phase one completed (28,000m ² GLA); expected overall completion in 2015
Trivandrum	Trivandrum, India	Residential scheme	120,000 (GBA)	50	Under planning
Bangalore	Bangalore, India	Mixed-use multi level residential units and villas	320,000 (GBA)	23.75	Under planning; construction scheduled to commence in late 2012; completion scheduled for 2013-2018
Chennai	Chennai, India	Mixed-use high-quality villas and high rise residential buildings with local retail facility	1,060,000 (GBA)	38	Under planning; construction scheduled to commence in 2013; completion scheduled for 2014-2018
Kochi Island	Kochi, India	High-end residential apartment buildings, office complexes, a hotel and serviced apartments complex, retail area and a marina	575,000 (GBA)	23.75	Under planning

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

Operational review

continued

Details of these activities by country are as follows:

Hungary

Plaza owns a plot of land which will serve as an office extension next to the previously built Arena Plaza shopping center. The extension will comprise an office complex with approximately 40,000m² of GLA. Arena Plaza, which the Company developed and sold in 2007, remains one of the most high profile and successful shopping centers in Budapest.

Plaza currently holds a stake of 43.5% in the Dream Island large-scale, mixed-use development in Budapest. The consortium now comprises an 87% holding interest of the 50:50 joint venture partnership between Plaza and MKB Bank (a leading Hungarian commercial bank which is a subsidiary of the German Bayerische Landesbank), a company controlled by the managing director of the consortium (10% interest) and a further 3% owned by other minority shareholders.

The Dream Island project is a prestigious development on the Óbuda Island in central Budapest, with a land area of 320,000m². It will be developed into a major resort including hotels, recreation facilities, a casino and a business and leisure complex with a development budget of circa €900 million and 350,000m² of GBA. Preliminary design, excavation and archaeological works are continuing at the site. In addition, a concession license was obtained in 2008 for the 20-year operation of a large-scale casino (the first in Budapest) with an option to extend for an additional 10 years. The project is intended to be completed in phases between 2014-2016.

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 Új Udvar shopping center in Budapest, Hungary. The shopping center is currently operational and Plaza's co-shareholders are working on a new design to be implemented. A new zoning permit was awarded for the project and the process for obtaining the building permit is at an advanced stage and is expected to be received by year end.

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

Poland

During the reporting period, Plaza completed and opened to the public a shopping and entertainment center in Toruń. Comprising approximately 40,000m² of GLA, it represents Plaza's tenth completed center in Poland. The center was approximately 80% let on opening including local and international brands such as Cinema City, H&M, C&A, KappAhl, Zara, Bershka, Stradivarius, Pull & Bear and Massimo Dutti.

Plaza's two other owned and operated Polish shopping and entertainment centers, Suwalki Plaza and Zgorzelec Plaza (comprising approximately 20,000m² and 13,000m² of GLA, respectively) continue to perform in line with expectations and have improved their occupancy rate to circa 89% (2010: 80%) and 79% (2010: 75%) respectively.

In addition, Plaza continued the feasibility and planning studies of four development schemes: in Kielce (comprising approximately 33,000m² of GLA); in Leszno (comprising approximately 16,000m² of GLA); and two schemes in Łódź, Łódź Residential (designated for residential use) and Łódź Plaza (comprising approximately 45,000m² of GLA).

Czech Republic

Plaza continues to hold Liberec Plaza shopping and entertainment center (approximately 17,000m² GLA), which was opened in March 2009. Plaza has agreed lettings totaling 78% of the center's GLA to tenants including Billa, Gate, Dracik, Schleker, Triumph, Sephora, Fantasy Park and Dino Park.

Dino Park is expected to be a considerable ongoing attraction to the asset and has already substantially increased footfall to the mall. Open 365 days a year, its technologically advanced features and portrayal of two prehistoric eras is viewed as a substantial draw to local and national visitors. During the reported period, Plaza continued the feasibility and planning studies for its residential developments at Roztoky (14,000m²) and Prague 3 (61,600m²). The latter is held as an income-generating office and warehouse building, and a re-zoning permission is expected to be received in 2012.

Location	Fountain Park Bucharest	Acacia Park Ploiesti	Primavera Tower Ploiesti	Green Land Ploiesti	Polana Brasov Brasov	Primavera Tower Brasov	Pinetree Glade Brasov	Total
Plaza-Bas Share	25%	50%	50%	50%	50%	50%	50%	-
Nature	Residential	Residential	Offices	Residential	Residential	Offices	Residential	-
Size (m ²)	16,600	32,000	10,500	25,800	138,000	10,800	40,000	273,700

Romania

Plaza holds a 75% interest in a company in partnership with the government of Romania to develop Casa Radio (Dâmbovița), the largest development plot in central Bucharest. It will comprise approximately 600,000m² of GBA, including a 170,000m² GBA shopping mall and leisure center (one of the largest in Europe), offices, hotel, an apartment hotel, casino, hypermarket and a convention and conference hall. The Company has obtained the approval of the Urban Technical Commission of Bucharest and completion of the first phase is scheduled for 2014.

In the second half of 2008, the Group commenced the construction of its development in Miercurea Ciuc (14,000m² GLA). However, as external finance is not currently available for this project, the Group will only resume development once such financing has been secured.

The Company continues the feasibility and planning phases of its development schemes in Timișoara, Iași, Slatina, Constanța, Hunedoara and Târgu Mureș.

In addition, Plaza has a 50.1% stake in the Plaza-BAS joint venture. Currently the joint venture holds seven projects in Bucharest, Brașov and Ploiești (see table above).

Latvia

In March 2009, Plaza completed and opened its Riga Plaza project, which comprises approximately 49,000m² of GLA, in which Plaza owns a 50% stake. The scheme is located on the western bank of the River Daugava by the Sala Bridge. In July 2010, an eight-screen cinema multiplex was opened, bringing occupancy at the center to 84%, which has risen to 90% at the reporting date. Discussions are ongoing with potential occupiers for the remaining space at the center and Plaza hopes to conclude further lettings shortly.

Serbia

On March 20, 2012 Plaza will open its first Serbian shopping and entertainment center to the public in Kragujevac, a city of 180,000 inhabitants. Kragujevac Plaza comprises 22,000m² of GLA and is already over 90% let to tenants including Nike, Adidas, Aldo, New Yorker, Delchmann, TerraNova, Fashion and Friends, H&O, Ovisse, Fox, Chicco and Home Center. Kragujevac Plaza is the first shopping center to be completed outside the capital Belgrade, and will therefore enjoy a catchment area of approximately 590,000 inhabitants.

Plaza initially 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 neighborhood of government offices and foreign embassies. On completion, the scheme, Belgrade Plaza, will comprise a shopping gallery, an apartment-hotel and business center totaling circa 70,000m² of GBA. Construction is planned to commence in 2013 and completion is scheduled for 2015. The project is now in the local planning and permitting 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 in Belgrade called Sport Star Plaza with a proposed total GLA of approximately 40,000m². Concept design has been submitted. Construction is planned to commence in 2013 and completion is scheduled for 2014-2015.

Greece

Plaza owns a 15,000m² plot of land centrally located in Piraeus Avenue, Athens. During 2010 Plaza obtained updated building permits for the construction of a shopping center totaling approximately 26,000m² of GLA. Construction is planned to start in 2013-2014 (subject to securing external financing) and completion is scheduled for 2014-2015.

Bulgaria

The Group owns a 25,000m² 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 20,000m². Construction is expected to commence in 2013, subject to securing financing.

In 2009, Plaza acquired an additional plot in Sofia by purchasing a 51% stake (with an option to increase to up 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 44,000m² GLA of retail, entertainment and offices. The project has a valid planning permit for the office scheme and is currently being leased to a hypermarket operator.

Operational review

continued

India

Plaza has begun to deliver on some of the strong long-term potential it has identified in India and completed its first shopping center in the country, Koregaon Park Plaza. A successful soft opening was held on March 2, 2012, with a grand opening scheduled for H2 2012. Koregaon Park Plaza mall, located in Pune, comprises 48,000m² of total built area (excluding parking) and is part of a wider 110,000m² development which includes 16,500m² of office development. The mall was 85% let upon opening, with memoranda of understanding signed for a further 5% of the space.

During 2007, Plaza acquired two additional development projects in a 50:50 joint venture. The first is located in the Kharadi district of Pune, opposite to the EON Park project (the best quality IT park in the region), and totals approximately 250,000m² of total built area (including parking). The second is in Trivandrum, the capital city of the state of Kerala, and totals approximately 120,000m² GBA. The entire Kharadi development consists of four office buildings and a small retail area, and the Trivandrum development is designed for a large residential development.

Plaza has completed the construction of the first phase of Kharadi, a 28,000m² GLA office building known as "Matrix One". To date, Plaza has pre-sold 70% of the saleable area and handover started in March 2012. This first office building has a total expected development cost of US\$21.5 million and, based on accumulated sales of office space to date inclusive of underground parking revenues, will have an end development value of approximately US\$32.5 million. Plaza therefore anticipates this will deliver a development pre-tax profit of approximately US\$11.0 million.

During 2008, Plaza formed a joint venture with Elbit Imaging ("JV") to develop three mega mixed-use projects in India 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 are split 50:50 between Elbit and Plaza.

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 eight million inhabitants. With a total built-up area of over 320,000m² excluding parking, it will comprise over 1,000 luxury residential villas.

In 2010, the JV signed a new framework agreement which entitles the JV to receive 70% of the net proceeds from the project until a target 20% IRR is received. Once the JV has received this 20% IRR on its investment, the JV will exit the project.

Chennai – a mixed-use development, which is 80% owned by the JV and 20% owned by a prominent local developer, will be developed into an integrated mixed-use project consisting of high rise residential units, high-quality villas and a local retail facility, with a total built up area of 1,060,000m². Chennai is India's fourth largest city with a population of more than eight million inhabitants.

Kochi Island – a 50:50 partnership with a prominent local developer, this mixed-use project will comprise more than 575,000m² 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 two million inhabitants.

The construction of the JV's first project in Bangalore is planned to commence in late 2012. In Chennai the construction is scheduled to commence in 2013 and the Kochi Island development is in the design phase.

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.

USA

Plaza identified a window of opportunity for investment in the USA as result of the dislocation of the property market, specifically within the retail sector, created by recent economic conditions.

During the period from April to June 2010, EPN (a real estate investment venture jointly formed by Elbit Plaza USA, L.P. (a subsidiary of Elbit Imaging Ltd. and Plaza) and Eastgate Property LLC ("Eastgate"), entered into a series of agreements to acquire a stake in EDT Retail Trust ("EDT"), an Australian investment trust which holds and manages two US REIT portfolios.

EPN, in which Plaza owns a circa 22.7% stake, became the major shareholder of EDT in June 2010 in a transaction valued at US\$116 million. The ownership process was completed in August 2011 by finalizing an off-market takeover bid for the remaining EDT units at a cost of circa US\$242 million and delisting the EDT Retail Trust from the Australian Stock Exchange. Subsequently, in September 2011, EDT distributed an interim dividend payment of US\$26 million to EPN.

Since the acquisition EPN undertook the following actions to restructure, reposition and improve the EDT portfolio:

- Repaid the entire corporate company level debt of US\$108 million;
- Relocated management from Australia to the US in order to improve the Company's oversight of the assets;
- Refinanced or assumed circa US\$500 million of portfolio debt;
- Increased Net Operating Income by approximately 5%;
- Actively managed the assets to increase portfolio occupancy by nearly 3% since 2009 and improve tenancy maturities;
- Undertook redevelopment plans for underperforming assets which will generate substantial cash flow growth in 2013 and 2014.

EPN holds interests in 49 operating retail properties covering approximately 11.1 million sq ft of leasable area across 20 states in the US. The portfolio provides access to over 420 existing tenants operating in the stores, with over 70% of base rent generated from nationally recognized retailers and generates over US\$100 million Net Operating Income per annum.

The portfolio's occupancy rate is approximately 89% with a weighted average lease term of 4.5 years. The value of the portfolio was approximately US\$1.47 billion and the secured non-recourse debt related to it amounted to circa US\$947 million as of December 31, 2011.

In January 2012, EPN reached an agreement, subject to the satisfaction of certain closing conditions, to sell 47 of the 49 US-based shopping centers in a deal totaling US\$1.428 billion. The centers are to be acquired by BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate and DDR Corp. Of the transaction value of US\$1.428 billion, a total of US\$934 million (as of the agreement date) shall be paid by way of assumption of the property level debt. In addition, all excess cash within EDT, which upon signing the agreement amounted to US\$30 million, will be retained by Plaza and its joint venture partners. By the reporting date the purchasers had satisfactorily completed the due diligence process associated with the transaction.

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

The transaction is expected to close in June 2012 and EPN will receive the rental income upon the aforementioned 47 properties until such time.

Once completed, the transaction is expected to realize a cash inflow of US\$120 million before taxes and transaction costs for Plaza which corresponds to nearly 50% pre-tax ROE.

Financial review



Roy Linden, Chief Financial Officer

Results

During 2011, Plaza strengthened its first investment in the US real estate market by becoming the 22.7% owner of the shopping mall portfolio of EDT, with 47 out of 49 of the malls disposed of subsequent to the year end. The Company also successfully opened its 31st shopping mall in CEE.

As Plaza focuses its business on the development and sale of shopping and entertainment centers, the Group classifies its current projects under development or self-developed projects as trading properties rather than investment properties. Accordingly, revenues from the sale of trading properties are presented at gross amounts. The Group does not revalue its trading properties, and profits from these assets therefore represent actual cash-based profits due to realizations. On the other hand an impairment of value is booked in the consolidated income statement where applicable.

Revenue for 2011 largely comprised rental income, management fees from operating malls and income derived from the Group's subsidiary, Fantasy Park, which provides gaming and entertainment services in active shopping centers, accounting for €7.1 million (2010: €7.4 million) during the year.

Revenue increased to €57 million (2010: €38 million) due to the higher number of owned and managed shopping centers operating over the entire course of the year and the additional income derived as a result of the Company's consolidated full year US acquisition activity. In addition, the portfolio experienced an increase in overall occupancy rates and a €8.1 million (2010: €4.6 million) uplift in the fair value of the Group's US investment properties also contributed to the increase.

The total cost of operation amounted to €74 million (2010: €28 million). The increase is largely attributable to the €48 million impairment charge recorded in connection with the value of trading properties, as compared to a charge of €6.7 million in the prior year. 73% of the write down was in respect of assets in Romania (€26.5 million), and in Latvia (€8.5 million). Cost of property operation and maintenance has also increased in line with growing rental activity from €14 million in 2010 to €19 million in 2011, which also takes into account the operation over a full year of the US portfolio. Other items have remained at the same level compared to the previous year.

Administrative expenses amounted to €19.5 million (2010: €18 million). The cost of non-cash share-based payments increased to €3.7 million (2010: €2.5 million) being the principal factor behind the total increase. The cost of professional services has slightly increased to €4.3 million from €3.7 million in 2010. The other components have remained at the same level as 2010.

Other income decreased to €1.7 million from €42.6 million, with the prior year comparator reflecting that the vast majority of the accounting gain resulting from the EDT transaction was recognized in 2010.

Other expenses consist of the impairment of fixed assets.

Net finance income has increased to €65 million compared to a net finance loss of €21 million in 2010. The change is caused by a number of factors including €79 million (2010: €60 million loss) of income attributed to the decrease in fair value debentures and related foreign exchange gains measured through the profit and loss account. This was partially offset by the loss upon the fair value of derivatives (mainly hedging instruments for the bonds issued in ILS and linked to the Israeli CPI).

Tax expenses represent a deferred tax liability recorded in connection with the fair value changes of the debentures measured through the profit and loss, and deferred taxes associated with the anticipated completion of the sale of 47 out of 49 of the US portfolio of assets.

As a result of the above, the net profit for the year amounted to circa €13.9 million in 2011, compared to €14.2 million net profit in 2010. Net profit attributed to owners of the Company amounted to circa €9 million in 2011, compared to €10 million in 2010.

Basic and diluted earnings per share for 2011 and 2010 were both €0.03.

Balance sheet and cash flow

The balance sheet as at December 31, 2011 showed current assets of €1.01 billion compared to current assets of €1.06 billion at the end of 2010. This decrease was largely driven by the cash effect of bond repayments and buybacks and partially offset by an overall increase in the value of trading property as a result of the investment in our pipeline of development projects.

The Company's cash position deriving from cash, short-term deposits, restricted cash deposits and available-for-sale financial assets decreased to €108 million (2010: €195 million), with the decrease reflecting the above mentioned bond repayments and buybacks. The gearing position remained conservative with debt comprising only 59% of balance sheet (December 31, 2010: 56%).

Trade receivables have increased from €4 million to €5 million as a result of receivables from tenants in the US, as well as in the new operating shopping mall in Toruń, Poland, in addition to the other centers already operational in 2010.

Derivatives assets recorded in 2010 (€53 million) as current and non-current assets (swap transactions to hedge interest rates and foreign exchange risks associated with NIS and PLN denominated bonds), were mostly settled during the course of 2011, they are measured at a liability of €3.6 million, and are presented as a non-current liability as at the year end.

The value of the investment property increased in 2011 due to the completion of the EDT acquisition, fair value increases and exchange rate gains.

Long-term deposits and balances have remained at a similar level (2011: €51 million, 2010: €53 million) consisting mainly of investment in long-term financial instruments.

Total bank borrowings (long and short term) amounted to €449 million (2010: €366 million). This increase is primarily the result of loans drawn down in respect of the shopping malls under construction or completed during the course of 2011 (Koregaon Plaza in India, Toruń Plaza in Poland and Kragujevac Plaza in Serbia).

Apart from bank financing, Plaza has on its balance sheet a liability of €252 million (with an adjusted par value of circa €310 million) from issuing debentures on the Tel-Aviv Stock Exchange and to Polish institutional investors. These debentures are presented at their fair value with the exception of the debentures issued from August 2009 onward, which are presented at amortized cost. Plaza has substantially hedged the future expected payments in Polish Zloty to correlate with the euro and the Euribor interest rate, using cross-currency interest rate swaps, and, in the case of its currency risk exposure of its NIS denominated bonds, by selling call options to correlate with changes in the EUR/NIS rate. At December 31, 2011 the aggregate liability associated with these hedging transactions amounted to circa €2.2 million. In 2011, the Company initiated a bond buyback program, which, in addition to the bond of principal repayments and fair value changes, amounted to a €127 million decrease in liabilities from 2010.

Trade payables increased to €27 million (2010: €11 million), due to the completion of Toruń Plaza in Poland in the latter part of 2011.

Non-controlling interest decreased to €8 million at December 31, 2011, as the Company's joint venture completed the takeover of EDT in the course of 2011.

At the 2011 year end, the net balance of the Plaza Group with its controlling shareholders is a liability of approximately €2.2 million, of which €0.4 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 of €1.8 million includes a liability regarding charges from Elbit Imaging group companies to the Company.

Other current liabilities have increased in line with the higher number of malls that the Company owns and operates upon which payments in advance are collected.

In summary, Plaza's balance sheet reflects a strong level of liquidity, conservative gearing and substantial total equity of approximately €550 million. Liquidity will further improve with the expected proceeds to be received in respect of the sale of US portfolio. In addition, gross assets of over €1.3 billion and a debt to balance sheet ratio of circa 59%, provides the Company with a robust platform to strengthen its market position, develop its current portfolio and make opportunistic purchases of new projects in the best-performing markets. During the coming year, Plaza will add further active shopping and entertainment centers, including Kragujevac and the full opening of Koregaon Park Plaza, resulting in an active portfolio of seven shopping and entertainment centers in the CEE region and India. The additional material income expected to be received from these new centers will further enhance Plaza's ability to produce strong levels of income and deliver future value enhancement.

Roy Linden
Chief Financial Officer
April 30, 2012

Valuation summary by Jones Lang LaSalle

as at December 31, 2011

Country	Project name	Market value upon completion December 31, 2010 €	Market value upon completion December 31, 2011 €	Market value of the land and project December 31, 2010 €	Market value of the land and project December 31, 2011 €
Hungary	Arena Plaza extension	64,270,000	69,838,000	9,100,000	8,700,000
	Dream Island	467,225,000	452,652,000	62,865,000	51,300,000
	David House	4,180,000	4,000,000	4,180,000	4,000,000
	Új Udvar	3,045,000	3,010,000	3,045,000	3,010,000
Poland	Kielce Plaza	89,300,000	15,200,000	6,500,000	4,800,000
	Toruń Plaza	100,000,000	121,200,000	25,000,000	121,200,000
	Suwałki Plaza	48,000,000	48,600,000	48,000,000	48,600,000
	Łódź (Residential)	252,600,000	n/a*	12,600,000	11,000,000
	Łódź Plaza	114,500,000	105,200,000	8,500,000	8,700,000
	Zgorzelec Plaza	24,000,000	21,400,000	24,000,000	21,400,000
	Leszno Plaza	5,800,000	n/a*	2,000,000	1,800,000
Czech Republic	Prague 3	156,700,000	138,090,000	16,180,000	14,180,000
	Liberec Plaza	33,710,000	31,600,000	33,710,000	31,600,000
	Roztoky	19,260,000	19,030,000	3,100,000	3,100,000
Romania	Csiki Plaza	26,800,000	20,127,000	14,580,000	7,700,000
	Timișoara Plaza	95,100,000	63,615,000	16,400,000	11,700,000
	Casa Radio Plaza	772,535,000	331,700,000	182,400,000	170,325,000
	Iași Plaza	113,800,000	97,252,000	17,500,000	14,700,000
	Slatina Plaza	32,500,000	n/a*	2,020,000	1,900,000
	Palazzo Ducale	1,900,000	2,060,000	1,900,000	2,060,000
	Țargu Mureș Plaza	55,900,000	n/a*	6,070,000	6,400,000
	Constanța Plaza	19,900,000	14,427,000	11,250,000	10,500,000
	Hunedoara Plaza	26,000,000	n/a*	2,990,000	3,100,000
Latvia	Riga Plaza	50,500,000	42,150,000	50,500,000	42,150,000
Greece	Piraeus Plaza	125,900,000	106,400,000	34,300,000	25,000,000
India	Koregaon Park Plaza	89,990,000	78,800,000	59,425,000	68,000,000
	Kharadi Plaza	66,675,000	70,870,000	19,000,000	18,100,000
	Trivandrum Plaza	50,010,000	47,707,000	10,100,000	7,618,000
	Bangalore	153,200,000	178,665,000	49,090,000	40,077,000
	Chennai	219,145,000	169,145,000	20,965,000	21,069,000
	Kochi Island	155,013,000	n/a*	3,335,000	4,876,000
Bulgaria	Shumen Plaza	37,568,000	37,800,000	6,070,000	5,200,000
	Sofia Plaza	44,480,000	41,433,000	7,466,000	7,395,000
	Business center				
Serbia	Belgrade Plaza	162,400,000	142,700,000	24,800,000	21,700,000
	Sport Star Plaza	117,000,000	107,200,000	20,400,000	20,300,000
	Kragujevac Plaza	54,300,000	44,700,000	21,400,000	35,000,000
Total		3,853,206,000	2,626,571,000	840,741,000	878,000,000

Notes

* Assets were valued with the comparative sales price method, no value at completion was estimated

All figures reflect Plaza's share

The value on completion of Casa Radio in 2011 reflects only the value of the first phase of the projects since the rest of the project was evaluated in comparable method

Plaza Centers has a 50% interest in the Riga Plaza shopping and entertainment center

Plaza Centers has a 35% interest in the Új Udvar shopping and entertainment center

Plaza Centers has a 59% interest in the Kharadi Plaza and Trivandrum Plaza developments

Plaza Centers has a 43.5% interest in the Dream Island development

Plaza Centers has a 75% interest in the Casa Radio development

Plaza Centers has a 23.75% interest in the Bangalore development

Plaza Centers has a 38% interest in the Chennai development

Plaza Centers has a 23.75% interest in the Kochi Island development

Plaza Centers has a 51% interest in the Sofia Plaza Business center development

Plaza Centers has a 35% interest in the Riga Plaza shopping and entertainment center development

Management structure

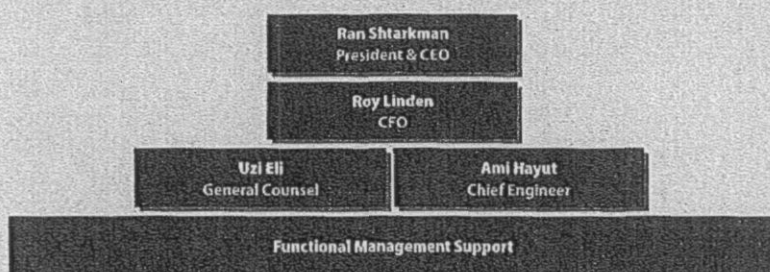
Plaza Centers' Board



Executive directors

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

Senior management



- 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



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

Board of Directors and Senior Management

Executive Directors

Mordechay Zisser, Founder and Executive Director (male, 56, Israeli)

Mordechay Zisser is the founder and Executive Director 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 of the Board of Directors of the Company on August 17, 2006 and reappointed in 2008 for an additional three years. Mr Zisser also served as the Chairman of the Board of Directors of the Company from August 17, 2006 until November 22, 2011.

Ran Shtarkman, President and CEO (male, 44, 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 reappointed in 2011 for an additional three years), as President in 2007 and as Co-CEO of Elbit Imaging Ltd. In January 2010, previous roles include CFO of SPL Software Ltd., Finance and Administration Manager for Continental Airlines' Israeli operations and Controller of Natour Ltd.

Independent Non-executive Directors

Marco Wichers, Chairman (male, 52, Dutch)

Marco Wichers is the CEO and owner of AMGEA Holding BV 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 and reappointed in 2009 for an additional three years. Mr Wichers was appointed as Chairman of the Board of Directors of the Company on November 22, 2011.

Marius van Elbergen Santhagens, Senior Independent Director (male, 60, Dutch)

Marius van Elbergen Santhagens has over 20 years' corporate finance experience. From 1985 to 1996 he held various director positions with Generale Bank Nederland N.V., part of the Fortis Group. From 1996 to 2003 Mr van Elbergen Santhagens was a registered interim manager consulting at various middle sized international operating companies. From 1999 to 2008 he was managing director of Leisure Investments & Finance B.V., a corporate finance company focused on the leisure industry, active in the EU and the Caribbean. Since 2005 he has been non-executive director with Engel East Europe N.V., a developer of real estate in Eastern Europe. Presently he is managing director of Stichting Amazon Teak Foundation, handling a €200 million investment in teak wood in Brazil. Mr van Elbergen Santhagens was appointed as Non-executive Director of Plaza Centers on November 1, 2006 and reappointed in 2009 for an additional three years.

Non-executive Directors

Shimon Yitzhaki (male, 56, Israeli)

Shimon Yitzhaki (CPA), Chairman of Elbit Imaging Ltd. (the Company's indirect controlling shareholder) since January 2010 (prior to that he was the President of Elbit Imaging Ltd. 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, thereafter he was appointed as Non-executive Director of Plaza Centers for a period of three years and reappointed in 2010 for an additional three years.

Edward Paap (male, 48, Dutch)

Edward Paap is an expert in international tax, having gained a master's degree as a tax lawyer from the University of Leiden. Following seven years as a tax advisor 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, thereafter he was appointed as Non-executive Director of Plaza Centers for a period of three years and reappointed in 2010 for an additional three years.

Senior Management

Roy Linden (35) BBA, CPA (USA, Isr), 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 high-tech companies.

Ami Hayut (46) 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).

Uzi Eli (36), LLB, Attorney at Law (Isr), 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 to 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 (61), MBA, Netherlands and Romania 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.

Eli Mazor (57), Regional Marketing Director and Poland and Latvia Country Director

Eli Mazor, who acted as a Regional Marketing Manager in Poland since joining the Group in 2005, was appointed Poland Country Director and Regional Marketing Director in 2007 and Latvia Country Director in 2009. Prior thereto, he acted as the CEO of a shopping center in Israel.

Yossi Ofir (55), 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 Head of the Commercial Department in Pelephone Communication Ltd. (a leading company in the Israeli telecommunications sector). Prior to this position he acted as Head of the National Marketing Department in an Israeli credit card company.

Sagiv Meger (34), Republic of Serbia and Czech Republic Country Director

Sagiv Meger joined the Company in late 2007 as the Country Director of Plaza Centers Serbia and was appointed as Country Director of the Czech Republic in 2009. 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 (42), LLB in Law and BA in Economics and Business Administration, Republic of Bulgaria and Greece Country Director and Head of Shopping Centers Management

Daniel Belhassen joined the Plaza team in the beginning of 2008, as the Country Director for Plaza Centers Bulgaria and since the beginning of 2009 for Greece as well. 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 CEE region. At the end of 2010 he was appointed as the head of shopping centers management.

Alexander L. Berman (52), CPA, MBA, United States Country Director

Alexander Berman joined the Group in 2009 as a Country Director for the United States. Alexander has over 25 years of management, investment, finance and business development experience in the United States and internationally. Prior to joining the Group, he was an executive with General Growth Properties, Inc. ("GGP"), one of the most prominent US mall developers, owners and operators, where he was a Corporate Officer. Most recently, he was the Founder and Head of GGP International and previously held the position of GGP's Senior Vice President of Capital Markets and Finance. He is a member of the International Council of Shopping Centers.

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 became 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, the Czech Republic, Latvia, Romania, Bulgaria, Greece and Serbia. In addition, the Group has extended its area of operations beyond the CEE into India and the US. The Group has been present in real estate development in emerging markets for over 16 years. To date, the Group has developed, let and opened 32 shopping and entertainment centers and one office building. Twenty-one of these centers were acquired by Klépierre, one of the largest shopping center owners/operators in Europe. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors at that time and one shopping center (Arena Plaza in Budapest, Hungary) was sold to Active Asset Investment Management ("aAIM"), a UK commercial property investment group. The remaining six centers which were completed during 2009, 2010, 2011 and at the beginning of this year are being held and managed by the Company, while utilizing the Company's extensive experience in managing retail assets.

For a more detailed status of current activities and projects, the directors refer to the President and Chief Executive Officer's statement on pages 32 to 34, as well as to the following chapters: Overview, Business Review and Management and Governance.

For an overview of subsequent events refer to note 38 to the consolidated financial statements.

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 2012 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.

However, on September 14, 2011, the Board of Directors approved an interim cash dividend payment of €30 million. The interim cash dividend payment was made on September 23, 2011 to all shareholders on the Company's register on September 23, 2011.

Directors' interests

The directors have no interests in the shares of the Company, other than the directors' share options as given on pages 64 and 65 of this report.

Directors and appointments

The following served as directors of the Company at December 31, 2011:

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

The general meeting of shareholders is the corporate body authorized to appoint and dismiss the directors. All directors in function, unless they are retiring, submit themselves for re-election every three years, pursuant to the rotation scheme for directors as laid down in article 15.3 of the Articles of Association. The general meeting of shareholders is entitled to suspend and dismiss directors by a simple majority vote.

* Chapters 1 (Overview), 2 (Business review) and 3 (Management and governance) are part of the directors' report

Substantial shareholdings

As of the balance sheet date, ING Open Pension Fund, Poland held approximately 9.82% of the entire issued share capital of the Company, BZWK AIB Asset Management S.A. of Poland held approximately 5.94% of the entire issued share capital of the Company and Aviva PTE, Poland held approximately 5.07% of the entire issued share capital of the Company. Other than that and except as disclosed under "directors' interests" above, the Company is not aware of any additional interests amounting to 5% or more in the Company's shares besides that of its parent company, Elbit Imaging Ltd.

Issue of shares

Pursuant to the Articles of Association, the general meeting of shareholders is the corporate body authorized to issue shares and to disapply pre-emption rights. In each Annual General Meeting, the general meeting of shareholders is requested to delegate these powers to the Board. The scope of this power of the Board shall be determined by the resolution of the general meeting of shareholders to give the authorization. Typically, the Company requests at each Annual General Meeting of shareholders the authorization for the Board to issue shares up to an aggregate nominal value of 33% of the then issued share capital and an authorization for the Board to disapply pre-emption rights which is limited to the allotment of shares up to a maximum aggregate nominal amount of 10% of the then issued share capital. The authorization is valid for a period ending on the date of the next Annual General Meeting.

Employee involvement

The Company has 185 employees and other persons providing similar services. In 2010 the Company had 163 employees and other persons providing similar services. The management does not expect significant changes in the development of the number of employees. 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. Employee share option schemes were adopted on October 26, 2006 (as amended in October 2008 and November 2011) and on November 22, 2011 which enables employees to share directly in the success of the Company.

Annual General Meeting (AGM)

The AGM of shareholders is held every year within six months from the end of the financial year in order to discuss and approve the annual report and adopt (vaststellen) the Dutch statutory annual accounts, discharge the directors from their liability for the conduct of business in the preceding year and any other issues mentioned below.

The main powers of the general meeting of shareholders relate to the appointment of members of the Board, the adoption of the annual financial statements, declaration of dividend, release the Board's members from liability and amendments to the Articles of Association.

The AGM of shareholders was held at Park Plaza Victoria Hotel Amsterdam, Damrak 1-5, 1012 LG Amsterdam, The Netherlands on June 30, 2011 at 11am (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, 2010; (iii) to adopt the Company's Dutch statutory annual accounts for the year ended December 31, 2010; (iv) to discharge the directors of the Company from their liability for the conduct of business for the year ended December 31, 2010; (v) to resolve to pay no dividend to the holders of ordinary shares in respect of the year ended December 31, 2011; (vi) to authorise the Board generally and unconditionally to exercise all powers of the Company to allot equity securities in the Company up to an aggregate nominal value of €979,602, being 33% of the Company's issued ordinary share capital (as of May 2011), provided that such authority shall expire on the conclusion of the AGM to be held in 2012 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 authorizing 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 AGM to be held in 2012, and the Board

Directors' report

continued

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 €296,849; (viii) 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; (ix) to authorize Mr Ran Shtarkman, as special authority of the general meeting of shareholders, to represent the Company, also in matters where a conflict of interest exists, which authority shall expire on the conclusion of the AGM of the Company to be held in 2012 (unless such authority is revoked or renewed prior to such time); (x) to approve and to the extent necessary ratify the issue and offering to the public in Israel by the Company of unsecured Series A Notes of the Company (Series A Notes) in the aggregate nominal amount of NIS 86,429,000 and the subsequent admission of those Series A Notes to listing on the Tel-Aviv Stock Exchange; (xi) 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 181,020,000 and the subsequent admission of those Series B Notes to listing on the Tel-Aviv Stock Exchange; (xii) to re-elect as a director, Mr Mordechai Zisser; and (xiii) to re-elect as a director, Mr Ran Shtarkman.

Extraordinary General Meeting (EGM)

An Extraordinary General Meeting of shareholders was held at Park Plaza Victoria Hotel Amsterdam, Damrak 1-5, 1012 LG Amsterdam, The Netherlands on November 22, 2011 at 10am (CET).

In this EGM, *inter alia*, the following resolutions were taken by the shareholders: (i) to approve and to the extent necessary, to ratify, the entering into by the Company of an agreement between the Company and the holders of the Company's Series A and B Bonds, with regard to the Company's dividend distributions in the years 2012-2013; (ii) to amend the Company's Articles of Association in order to be in line with mandatory corporate law from Book Two of the Dutch Civil Code that came into force since the last amendment to the articles of association, as well as legislation that will come into force on January 1, 2012; (iii) to approve the amendments of the Company Incentive Plan; and (iv) to adopt the Company Second Incentive Plan.

Article 10 of Directive 2004/25

With regard to the information referred to in the resolution of article 10 of the EC Directive pertaining to a takeover bid which is required to be provided according to Dutch law, the following can be reported:

- There are no special restrictions on the transfer of the shares of the Company.
- There are no special statutory rights related to the shares of the Company.
- There are no restrictions on the voting rights on the Company's shares.
- Information on significant shareholding can be found above.
- There are no agreements between the shareholders which are known to the Company and may result in restrictions on the transfer of securities and/or voting rights.
- The applicable provisions regarding the appointment and dismissal of members of the Board and amendments to the Articles of Association are set forth above.
- The power of the Board regarding the issue of shares and the exclusion of pre-emption rights and the repurchase of shares in the Company can be found above.
- There are no significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid.
- There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.
- Other information can be found in the notes to the financial statements (please see note 24 Equity).

Corporate governance

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 2 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. The Company has a one-tier Board whereas the Dutch Corporate Governance Code is based on a separate management Board and supervisory Board. Where possible, taking the aforesaid into consideration, the Company complies with the Dutch Corporate Governance Code and the UK Corporate Governance Code, with the exception of a limited number of best practice provisions which it does not consider to be in the interests of the Company and its stakeholders or which are not practically feasible to implement.

These exceptions are listed below.

The Best Practice Provisions of the Dutch Corporate Governance Code not applied by the Company in the year 2011 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.1.4 (b) stipulates that the management Board shall provide a description of the design and effectiveness of the internal risk management and control system for the main risks. Since the Company has no such code, it cannot refer its design and effectiveness.
- Best Practice Provision II.1.6 stipulates that the management Board shall describe the sensitivity of the results of the Company to external factors and variables. Since the Company has no streaming/fixed annual revenue from operation of properties, it does not perform such analysis.
- Best Practice Provision II.2.4 stipulates that granted options shall not be exercised in the first three years after the date of granting. The current share incentive schemes of the Company do not restrict the exercise of options to a lockup period of three years. The reason therefore is that the Company and the Elbit group share the same remuneration policy and the

Company's Share Option Schemes were drafted in accordance with Elbit's Share Option Scheme, in order to maintain the incentive for all employees of the Elbit group based upon the same principles.

- Best Practice Provision II.2.7 stipulates that neither the exercise price nor the other conditions regarding the granted options shall be modified during the term of the options, except insofar as prompted by structural changes relating to the shares of the Company in accordance with established market practice. The Company had on November 25, 2008 adjusted the exercise price of the granted options. This has been done since the Board was of the view that the 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, resulting in practically all options being out of the money without a favorable outlook 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 GBP 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.2.12 and Best Practice Provision II.2.13 stipulate *inter alia* that the remuneration report of the supervisory Board shall include account of the manner in which the remuneration policy has been implemented in the past financial year as well as an overview of the remuneration policy planned by the supervisory Board for the next financial year and subsequent years and should contain the information specified in these provisions. The current remuneration policy of the Company has remained unchanged from 2006 at the moment the Company's shares were admitted to listing and is fairly straight forward, as such that "implementation" is not an issue. Furthermore, pursuant to the Articles of Association, the general meeting of shareholders determines the remuneration policy, and not the non-executive directors. When the remuneration policy needs changing, this will be addressed in a general meeting of shareholders.

Corporate governance

continued

- 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 may take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a conflict of interest with the Company, provided that any resolution in such respect shall be adopted unanimously in a meeting in which all members of the Board are present or represented. Since Mr Ran Shtarkman is, as of January 1, 2010, both Executive Director of the Company and Co-Chief Executive Officer with Elbit Imaging, the Company's parent company, there may be conflicts of interest in respect of Mr Shtarkman representing the Company. In order to enable Mr Shtarkman to, in his capacity of CEO represent the Company in all matters, the Articles of Association include this possibility, provided, as stated above, that in such matter the underlying Board resolution has been adopted anonymously.
- 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. Though, pursuant to the Articles, each Board member is obliged to notify all direct and indirect conflicts of interest, the Articles contain no specific approval clause.
- 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 2011, the non-executive directors have not specifically discussed the items that appear in this Best Practice Provision on separate occasions. The Board, however, feels it important to notify the shareholders that as a rule, every Board meeting includes an 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 business and the results of assessment by the management Board of the structure and operation of the internal risks management and control systems, as well as any significant changes thereto. In 2011, there have not been separate meetings of the non-executive directors to discuss the items mentioned in this Best Practice Provision. The reason therefore is that risk management at the Company is, pursuant to the internally applicable corporate governance regulations, a matter specifically reserved for decision by the full Board. Board meetings in 2011 have included discussions 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 Provisions III.2.1 and III.8.4 stipulate that 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-independent) 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 46 – 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 Board believes that the experience of the non-independent directors is of great importance to the Company.
- Best Practice Provision III.3.3 and Best Practice Provision III.4.1 (a) stipulate that all supervisory Board members shall follow an induction program. Since 2006, no new non-executive directors have started working in the Company and it is not envisaged that in the foreseeable future, there will be new non-executive directors; there is currently no induction program in place.
- 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 AGMs 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.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 Board 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.5.6 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 Board, however, believes that given Mr Yitzhaki's extensive financial experience, chairmanship of the Audit Committee is appropriate.
- 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 Board 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 Schemes do not exclude the possibility of making further grants of options to non-executive directors. In particular, the Board 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 present and future non-executive directors a competitive remuneration package.
- Best Practice Provision V.3 stipulates *inter alia* that the Company should have an internal auditor. Though in fact the Company does not have an internal auditor itself, as part of the Europe Israel Group, the Company has a Quality Control Regulator, which practically functions as an internal auditor.

The Best Practice Provisions of the UK Corporate Governance Code not applied by the Company in the year 2011 are:

- Best Practice Provision A.2.1 stipulates *inter alia* that the division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board. Such document is not available at the date of publication of this document, however, the division of responsibilities between the Chairman and Chief Executive in the Company is clear.
- Best Practice Provision A.4.2, Best Practice Provision B.6.1 and Best Practice Provision B.6.3 stipulate that the Chairman should hold a meeting with the non-executive directors without the executive present and the non-executive directors should meet without the Chairman present at least annually to appraise the Chairman's performance and that the Board should state in the annual report how performance evaluation of the Board, its committees and its individual directors has been conducted. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors. In 2011, the Chairman and the non-executive directors have not met separately as mentioned in this Best Practice Provisions. The Board, however, feels it important to notify the shareholders that as a rule, every Board meeting includes an assessment by all Board members of their own functioning and that of their fellow Board members. The Board is of the view that this course of action appropriately meets the requirements as laid down in this Best Practice Provision.
- Best Practice Provision B.2.1 stipulates *inter alia* that a majority of members of the Nomination Committee should be independent non-executive directors. The Chairman or an independent non-executive director should chair the committee. Since the Nomination Committee is chaired by Mr Shimon Yitzhaki, who is a non-independent non-executive director, the Company deviates from this requirement. The Board is convinced that the experience of Mr Yitzhaki in this respect should be considered more important than the fact that Mr Yitzhaki is a non-independent director.
- Best Practice provision C.2.1 stipulates that the Board should conduct a review of the effectiveness of the Company's risk management and internal control systems and report to the shareholders that they have done so. The Board did not conduct a review of the effectiveness of the Company's risk management and internal control systems this year. However, the Board has established a continuous process for identifying and managing the risks faced by the Company and the Audit Committee and the Executive Directors consider the effectiveness of the Company's internal controls, risk management procedures, with the on-going management of the Company. The Board confirms that any appropriate actions have been or are being taken to address any weaknesses.

Corporate governance

continued

- Best Practice Provision C.3.5 stipulates, *inter alia*, that where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the Board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report. Though in fact the Company does not have an internal auditor itself, as part of the Europe Israel Group, the Company has a Quality Control Regulator, which practically functions as an internal auditor.
- Best Practice Provision E.2.3 stipulates that the Chairman should arrange for the Chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend. This year Mr. Shimon Yitzhaki did not attend the AGM.

The Code of Best Practice for WSE-Listed Companies (the "WSE Corporate Governance Rules") applies to companies listed on the WSE, irrespective of whether such companies are incorporated outside of Poland. The WSE Corporate Governance Rules consist of general recommendations related 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). 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 present possible ways of eliminating the potential consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in the future. The Company intends, to the extent practicable, to comply with all the 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 of directors 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.

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 Board apply in principle to all members of this (one-tier) Board.

All responsibilities are subject to the overall responsibility of the 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 (one is the 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 UK Combined Code and the Dutch Corporate Governance Code. These are the Audit Committee, the Remuneration Committee and the Nomination Committee; a brief description of each may be found below.

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, auditors' reports and the terms of appointment and remuneration of the auditor.

Composition: Mr Yitzhaki, Mr Wichers,
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 other senior employees 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 64 and 65 of this document.

Composition: Mr Yitzchaki, Mr Wichers,
Mr van Eibergen Santhagens.
Chairman: Mr Yitzchaki.

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 met only once in 2011.

Composition: Mr Paap, Mr Yitzchaki,
Mr van Eibergen Santhagens.
Chairman: Mr Paap.

Internal control/risk management

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, risk management procedures, and risks associated with individual development projects.

Share dealing code

The Company operates a share dealing code, which limits the freedom of directors and certain employees of the Company to deal in the Company's shares. The share dealing code imposes restrictions beyond those that are imposed by law. The Company takes all reasonable steps to ensure compliance by those parties affected. 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 Netherlands Act on the financial supervision.

Controlling Shareholder and conflicts of interest

The Company has a Controlling Shareholder who owns approximately 62.52% of the 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 Board's decisions on the matter should be adopted unanimously in a meeting in which all members of the Board are present or represented.

Shareholder communication

The Company's management meets with shareholders each year at the AGM to discuss matters relating to the business.

Details of this year's AGM can be found on pages 49 and 50.

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 senior Independent director, Chairman, CEO, CFO and our financial PR advisors, 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.

Corporate governance

continued

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 times 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 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.

Corporate Governance declaration

This declaration is included pursuant to Article 2a of the Decree; further stipulations regarding the content of annual reports (Vaststellingsbesluit nadere voorschriften inhoud jaarverslag) of December 23, 2004 (as amended) (hereafter the "Decree").

For the statements in this declaration as understood in Articles 3, 3a and 3b of the Decree, please see the relevant sections of this annual report. The following should be understood to be inserts to and repetitions of these statements:

- Compliance with the provisions and best practice principles of the Code (pages 51 to 53);
- The functioning of the shareholders' meeting and its primary authorities and the rights of shareholders and how they can be exercised (pages 49 and 55);
- The composition and functioning of the Board and its committees (starting on pages 46, 54 and 55);
- The regulations regarding the appointment and replacement of members of the Board (page 48);
- The regulations related to amendment of the Company's Articles of Association (page 49); and
- The authorizations of the members of the Board in respect of the possibility to issue or purchase shares (page 49).

Risk management

Plaza mainly operates its business in emerging markets and therefore it is exposed to a relatively high degree of inherent risk in such activities. The Management Board is responsible for setting financial, operational and strategic objectives as well as for implementing risk management according to these objectives.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies 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.

Business strategy

Plaza is focused on further expanding its businesses in CEE region, India (emerging markets) and United States. By nature, various aspects of the emerging markets are relatively underdeveloped and unstable and therefore often exposed to risks arising from unforeseen changes, such as legal, political, regulatory, and economic changes. Plaza's investments in emerging markets expose the Company to a relatively high degree of inherent risk.

The Company is flexible on decision making regarding the holding and management of centers as opposed to selling them:

- From 1996-2004, the Company developed and operated some 20 commercial centers
- From 2004-2008, upon the decline in returns and increases in prices, the Company realized the entire property portfolio and used its equity for new projects
- As market conditions changed following the financial crises, the Company operates today seven commercial centers, the construction of which was completed and enjoys operating cash flow
- Upon the return to desired price level and yields, the Company will act to realize its commercial centers.

Due to the global crisis starting late 2008, the Company adjusted its activity to the markets' condition and limited the commencement of construction for projects, meeting the two major criteria as follows:

- 1 Projects enjoying intensive demand from tenants.
- 2 Projects that are based on external bank financing which require minimal equity investment.

The fact that Plaza has – to a certain degree – diversified its business over different markets (geographic segments) and sectors also results in some risk mitigation. The Group is well diversified and active in eight countries in EEE and India.

The Group has entered the US market by acquiring yielding assets at compelling prices in 2010. It has launched a real estate investment venture jointly formed by Plaza and its parent Elbit Imaging. Co-investment agreement signed with Eastgate Property to invest a combined US\$200 million, to take advantage of opportunities in the US retail and commercial real estate sectors.

In addition, to ensure knowledge and understanding of its business environments, Plaza employs local employees and consultants, and in some cases entering into local partnerships.

During 2011, alongside our joint venture partners, we completed the takeover of the Australian listed EDT Retail Trust and embarked upon a program which repositioned the portfolio, reduced the level of debt, improved portfolio occupancy and transferred the company's management from Australia to the US to ensure a more detailed oversight of the assets. In January 2012, our actions bore fruit and in spite of an uncertain market with few comparable transactions we received and accepted an offer for 47 of 49 portfolio assets in a deal totalling \$1.43 billion. This highly profitable investment and subsequent return will provide Plaza with further capital to drive our development program and pay down debt.

The main characteristics of Plaza's risk appetite can be described as follows:

- To fulfill its strategic intent, Plaza is prepared to accept the considerable risks involved, for instance in acquisition and disposal plans; exchange rate risk and interest rate risk; and
- Plaza takes a conservative approach to managing financial risks.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. 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, whilst at the same time maintaining an appropriate level of dividend cover.

Risk management

continued

According to the Company's dividend policy, dividends are expected to be paid at the rate of 25% on the first EUR 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 EUR 30 million. As published on September 23, 2011, the dividend for 2012-2013 will be subject to certain caps and conditions.

On May 27, 2008, we declared a dividend of EUR 0.1949 per share. The Company did not distribute a dividend for the two years ended December 31, 2010 due to the market conditions and the ongoing global financial crisis. On September 14, 2011, the Board of Directors approved the payment to shareholders of an interim cash dividend payment of EUR 0.1010 per share (total EUR 30 million). 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 or payments from the Company's general reserves.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

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

Financing risk management

The current economic downturn has restricted Plaza's access to debt and equity capital markets although Plaza's existing financial strength and established track record has enabled it to raise both development finance and issue further bonds in the public markets in Israel.

A prolonged restriction on accessing the capital markets and additional financing may negatively affect Plaza's ability to fund existing and future development projects.

As Plaza depends on external financing and has high exposure to emerging markets, Plaza bears the risks that due to fluctuations in interest rates, exchange rates, selling yields and other indices, its financial assets and debt value, cash flow, covenants and cost of capital will be affected, thereby affecting its ability to raise capital.

As a basis for and contribution to effective risk management and to ensure that Plaza will be able to pursue its strategy even during periods of economic downturn, Plaza retains a strong balance sheet and limits its financial risks by hedging these risks if and when expedient.

Plaza continues to pursue a conservative financing policy to decrease its exposure to the liquidity crisis, with the level of debt being only 59% of the balance sheet (2010: 56%).

External factors influencing the results

The Company's streaming/fixed revenues are sensitive to various external factors, which influence the financial results. Such variables are:

- Market yield determining the valuation of the investment property, and in certain circumstances the need for impairment of trading property. The higher the market yields are the less the value of the investment property is, and the probability for impairment is increasing; and
- occupancy rate of the operating malls together with the rental fee level defines the rental income derived from the shopping center, and the other component of the valuation of the investment property. Higher occupancy rates and higher rental levels result in better operating results, and also in higher revaluation gain from investment property.

Interest rate risks

The Group incurs certain floating rate indebtedness and changes in interest rates may increase its cost of borrowing, impacting on its profitability. On a project by project basis, the Group considers hedging against interest rate fluctuations.

Foreign currency exchange rates

As Plaza's functional currency is EUR, it is exposed to risks deriving from changes in foreign currency exchange rates as some of its purchases of services and construction agreements are conducted in local currencies, or are affected by them. Its rental revenues may also be denominated in local currencies.

The Group seeks to minimize these risks by ensuring that its principal liabilities (financing and construction) and its principal sources of revenue (sale proceeds and rentals) are all denominated in the same currency (namely the EUR), or are linked to the rate of exchange of the local currency and the EUR. In order to limit the foreign currency exchange risk in connection with the Debentures, the Company has hedged the future payments to correlate with the EUR under certain cross currency swap arrangements, forward transactions and call options in respect of the Series A and Series B Debentures previously issued, and may enter into similar hedging arrangements (as necessary) in respect of each of the Series of Debentures, subject to market conditions.

During 2011 the Company decided to use covered call strategy as a main instrument to hedge against FX fluctuations.

If the Company is not successful in fully hedging its foreign exchange rate exposure, changes in currency exchange rates relative to the EUR may adversely affect the Group's profits and cash flows. A devaluation of the local currencies in relation to the EUR, or vice versa, may adversely affect the Group's profitability.

Furthermore, Plaza is monitoring its currency exposure on a continuous basis and acts accordingly by investing in foreign currencies in certain cases for which it expects that future development projects will be purchased in foreign currency or when cash flows denominated in foreign currency are needed according to project construction budget. As a policy, the Group does not invest in foreign currencies for speculative purposes.

The financial statements include additional information about and disclosure on Plaza's use of financial instruments.

The Company's top risks

The following risks and related mitigation actions, where applicable, are reported below:

- **Global financial and economic developments**

Risk description: Plaza's financial performance reflects the financial turmoil of 2008 continued, albeit at a slower pace, throughout 2010 and in 2011 as well. The global economy is still fragile and a "double dip recession" or a very slow pace of recovery cannot be excluded. This could jeopardize Plaza's development project, profitability and cash flows as demand and rents for shopping and entertainment centers may decline and adversely affect the Group's financial condition, results and prospects. Furthermore, economic recession may detrimentally affect the ability of the Group (where it has retained a development) to collect rent from tenants, which could negatively impact cash flow and debt service reserve covenants under its financing facilities.

Risk mitigation: In reaction to the economic downturn, Plaza has successfully initiated measures to reduce costs and focus on cash-generating activities, maintain its conservative gearing position and restrict its commencement of construction projects to only the very best opportunities focusing on projects with tenant demand and availability of external bank financing which require minimal equity investment. These measures have been and will be pursued with vigor. Market development will be closely watched and additional measures will be taken if necessary.

- **The Group's financial performance is dependent on local real estate prices and rental levels**

Risk description: There can be no guarantee that the real estate markets in CEE region and India will continue to develop, or develop at the rate anticipated by the Group, or that the market trends anticipated by the Group will materialize. In case the yields will be high, such as some of the current market yields, the Group will not be able to achieve substantial capital gains by selling the commercial centers.

Risk mitigation: Once assets are developed, and given the Company's financial strength, Plaza is able to hold developments on its balance sheet as yielding assets. Sales of assets will not be undertaken if offered yields are high and 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 its portfolio, until sufficient offered yields are in place.

- **Real estate valuation is inherently subjective and uncertain**

Risk description: The valuation of real estate and real estate related assets is inherently subjective. As a result, valuations are subject to uncertainty. Moreover, all real estate valuations are made on the basis of assumptions which may not prove to reflect the accurate fair market value of the portfolio. Accordingly, there is no assurance that the valuations of the Group's sites will reflect actual sale prices even where any such sales occur shortly after the relevant valuation date. Also, while the level of pre-letting is assured, this level may not be achieved in practice.

Risk mitigation: Plaza will rely on its extensive experience and knowledge of managing retail assets and strong relationships with local and international retailers while using estimates and associated assumptions. These estimates and underlying assumptions are closely reviewed on an ongoing basis.

- **The Group has significant capital needs and additional financing may not be available**

Risk description: The sector in which the Group competes is capital intensive. The Group requires substantial up-front expenditures for land acquisition, development and construction costs as well as certain investments in research and development. In addition, following construction, capital expenditures are necessary to maintain the centers in good condition. Accordingly, the Group requires substantial amounts of cash and construction financing from banks and other capital resources (such as institutional investors and/or the public) for its operations. The Group cannot be certain that such external financing would be available on favorable terms or on a timely basis or at all. The world markets have undergone a global financial crisis, which resulted in lower liquidity in the capital

Risk management

continued

markets. Lower liquidity may result in difficulties to raise additional debt or in the raising of such debt on less favorable interests. In addition, construction loan agreements generally permit the drawdown of the loan funds against the achievement of predetermined construction and space leasing milestones. If the Group fails to achieve these milestones, the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule. In addition, a change in credit ratings of notes issued by the Company could adversely affect its financing costs and its ability to raise funds in the future. If the Group is not successful in obtaining financing to fund its planned projects and other expenditures, its ability to undertake additional development projects may be limited and its future profits and results of operations could be materially adversely affected.

Risk mitigation: Plaza is making big efforts to raise external financing for capital needs and continues to investigate different forms of financing. Plaza succeeded in raising additional debenture issued to Israeli institutional investors in 2011. This was an exceptional achievement, given debt market conditions, with significant support shown by debenture investors for the highly rated bonds at interest rates which were favorable to the Company.

In addition, the Group maintain good relations with the financing banks who remain supportive of companies with strong track records. During the crises Plaza has signed and secured bank loan agreements for the construction of three development projects in India, Serbia and Poland.

• **Limitations by the Indian government to invest in India may adversely affect the Group's business and results of operations**

Risk description: Under the Indian government's policy on Foreign Direct Investment ("FDI Policy"), an acquisition or investment by the Group, in an Indian sector or activity in particular in the shopping and entertainment centers business, which does not comply with certain limitations, is subject to a governmental approval. With respect to the real estate sector, these limitations include, among other things, a minimum investment and minimum size of build-up land. In addition, under the FDI Policy it is not permitted for foreign investors to acquire agricultural land for real estate development purposes. There is no assurance that the Group will comply with the limitations prescribed in the FDI Policy in order to not be required to receive governmental approvals. Failure to comply with the requirements of the FDI Policy will require the Group to receive governmental approvals which it may not be able to obtain or which may include limitations or conditions that will make the investment unviable or impossible, and non-compliance with investment restrictions may result in the imposition of penalties. This would have an adverse effect on the Group's business and results of operations.

Risk mitigation: The Company conducts a thorough due diligence procedure and acquires local legal advice prior to concluding any transaction.

Legal and regulatory risk

Like all companies, the Company is exposed to the changing regulatory environment in the countries and regions where it conducts business. The most notable risks are related to changes in environmental policy, changes in tax laws or their interpretation and expropriation of lands.

In respect of the environmental policy, there is an increasing awareness of environmental issues in Central and Eastern Europe. This may be of critical importance in areas previously occupied by the Soviet Army, where soil pollution may be prevalent. The changes are coming in the form of environmental policy. New environmental regulations or a change in regulatory bodies that have jurisdiction over Plaza projects could result in new restrictions. The Group generally insists upon receiving an environmental report as a condition for purchase, or alternatively, conducts environmental tests during its due diligence investigations. Also, some countries such as Poland and the Czech Republic require that a developer carries out an environmental report on the land before building permit applications are considered. Nevertheless, the Group cannot be certain that all sites acquired will be free of environmental pollution. If a property that the Group acquires turns out to be polluted, such a finding will adversely affect the Group's ability to construct, develop and operate a shopping and entertainment center on such property, and may cause the Group to suffer expenses incurred in cleaning up the polluted site which may be significant.

Changes to the tax laws or practice in the countries in which the Company operates or any other tax jurisdiction affecting the Group could be relevant. Such changes could affect the value of the investments held by the Company or affect the Company's ability to achieve its investment objective or alter the post-tax returns to shareholders. The tax positions taken by the Group, including the tax effect of transfer pricing and the availability of tax relief provisions, are also subject to review by various tax authorities. Under the Dutch 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 Dutch corporate income tax provided the conditions as set under these rules have been satisfied. The participation exemption rules and more particularly the statutory conditions thereunder have been amended with effect of January 1, 2007. Such amended conditions require, among others, a minimum percentage of 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. Should the Company not be in compliance with all participation exemption requirements or

should the participation exemption rules be amended, this could affect its tax relief which will have an adverse effect on its cash flow position and net profits. In addition, if the Company were to be treated as having a permanent establishment, or as otherwise being engaged in a trade or business, in any country in which it develops shopping and entertainment centers or in which its centers are managed, income attributable to or effectively connected with such permanent establishment for trade or business may be subject to tax.

While the Group makes every effort to conduct thorough and reliable due diligence investigations, in some countries where former communist regimes carried out extensive land expropriations in the past, the Group may be faced with restitution claims by former land owners in respect of project sites acquired by it. If upheld, these claims would jeopardize the integrity of its title to the land and its ability to develop the land.

Internal control and risk management procedures

1) Definition and objectives

Internal control is the structure within which resources, behavior, procedures and actions are implemented by the Executive Board and throughout the Company to ensure that activities and risks are fully controlled and to obtain the reasonable assurance that the Company's strategic objectives have been met.

Plaza's internal control procedures aim to ensure:

- the optimization of operations and the smooth functioning of the Groups internal processes;
- compliance with current laws and regulations;
- the application of instructions and directions given by the Executive Board; and
- the reliability of financial information.

The system is based on the following three key principles:

- the involvement of and taking responsibility by all personnel: all Group employees contribute to internal control procedures; each employee, at his or her level, should exercise effective control over the activities for which he or she is responsible;
- the full extent of the scope covered by the procedures: the procedures should apply to all entities (operational and legal); and
- separation of tasks: control functions should be independent of operating functions.

The internal control procedures designed to address the objectives described above cannot, however, ensure with certainty that these objectives will be achieved, since all procedures have inherent limitations. However, they aim to make a very significant contribution in this direction.

II) Four components of internal control procedures

a) Organization and environment

Plaza's internal control procedures distinguish permanent control from periodic control, which are independent but complementary. Permanent control is the responsibility of all Group employees. It is linked directly to the business sectors, functions and subsidiaries.

Managers of the business functions, country directors, aim to ensure compliance with the Group's internal control procedures, whose tasks are:

- to ensure the methods chosen at Group level are coordinated and implemented by their teams;
- to design and adapt the reporting procedures on a regular basis, giving the most appropriate indicators to obtain clear visibility of their permanent control; and
- to regularly transmit this reporting to their superiors and indicate problems and incoherences in order to enable appropriate decisions to be taken regarding changes to the controls.

The powers of the Group companies' legal representatives are limited and subject to controls. Functional departments provide expertise to operational departments. Permanent control procedures require several participants. The involvement of many players necessitates tight coordination of actions and methods. At Group level, the coordination of permanent control is carried out under the authority of the Head of Accounting and CFO, whose tasks are:

- to ensure the design and implementation of actions to improve permanent control in the Group's business functions;
- to coordinate the choice of methodologies and tools; and
- to monitor the development of the procedures in the business functions and subsidiaries.

Risk management

continued

b) Risk management

The Group is careful to anticipate and manage major risks likely to affect the achievement of its goals and to compromise its compliance with current laws and regulations. These risks are identified above in this section. The identification and evaluation of risks is used as a reference to determine procedures and controls which, in their turn, influence the level of residual risk. The procedures provide a framework for the activity, in a more precise way where risks have been identified, and their application provides a control mechanism.

c) Control activities to meet these risks

The internal control and risk management system is based on two levels of control as follows:

First level – First degree – Permanent control

The first level and first degree of control is exercised by every employee as part of his or her job-related tasks with reference to the applicable procedures. Control is ensured on an ongoing basis by the initiation of a task by operating employees themselves or by automatic systems for carrying out operations.

First level – Second degree – Permanent control

The second level is exercised by the management of the business function. Controls are carried out in the framework of operating procedures.

Second level – Permanent control

The second level of control is intended to ensure that the first level controls have been carried out and respected correctly. It is undertaken by separate functions, specially dedicated to permanent control.

Internal accounting control

A dedicated function within the Accounting Department is charged with checking the smooth functioning of first level accounting controls. See section below "Internal control procedures relating to the preparation and processing of the accounting and financial information".

d) Management and supervision of internal control systems

Under the direction of the Executive Board, the activities and functions managers carry out the supervision of the internal control system with the support of the permanent control coordination function. The Audit Committee meets at least twice per year. Its work and conclusions are reported to the Executive Board. The supervision is also supported by the comments and recommendations of the statutory auditors and by any regulatory supervision which may take place.

III) Risk management and internal control bodies

The main bodies involved in managing the internal control system are:

a) Executive Board

The Executive Board has overall responsibility for the Group's internal control systems. The Executive Board is tasked with defining the general principles of the internal control system, creating and implementing an appropriate internal control system and associated roles and responsibilities, and monitoring its smooth functioning in order to make any necessary improvements.

b) Audit Committee

The Audit Committee is informed at least once a year of the status of the Group's entire internal control system, changes made to the system and the findings of the work carried out by the various participants working in the system.

c) Functional management

Functional management departments define the orientation and procedures of their respective sectors, which they communicate to the countries.

d) Group employees

Operating supervisors and line managers are responsible for controlling risks and are the principal actors in permanent control. They exercise first level controls.

Internal control procedures relating to the preparation and processing of the accounting and financial information

1) Definition and objectives

The aim of accounting controls is to ensure adequate coverage of the main accounting risks. They rely on understanding operational processes and the way they are translated into the Company accounts, and on defining the responsibilities of the individuals responsible for accounting scopes and information system security. Internal accounting controls aim to ensure:

- that published accounting and financial information complies with accounting regulations;
- that the accounting principles and instructions issued by the Group are applied by all its subsidiary companies; and
- that the information distributed and used internally is sufficiently reliable to contribute to processing accounting information.

II) Management process for accounting and financial organization

a) Accounting organization

The production of accounting information and the application of the controls implemented to ensure the reliability of said information are primarily the responsibility of the Company Financial & Accounting Department that submit information to the Group, and which certify its compliance with the internal certification procedure. The corporate and consolidated financial statements are prepared by the Financial & Accounting Department, which reports directly to the Executive Board. The department is charged with:

- updating accounting rules in view of changes in accounting regulations;
- defining the various levels of accounting control to be applied to the financial statement preparation process;
- ensuring correct operation of the internal accounting control environment within the Group, with particular reference to the internal certification procedure described below;
- preparing and updating the procedures, validation rules and authorization rules applying to the department; and
- monitoring the implementation of recommendations made by external auditors.

b) Financial risk management

The management of financial risks, and in particular the financial structure of the Group, its financing needs and interest rate risk management procedures, is provided by the Financial & Accounting Department, which reports directly to the Executive Board. At the end of each year, the Board validates the provisional financing plan for the following year, which sets out the broad outlines in terms of the balance and choice of resources, as well as interest rate hedges. During the year, key financial transaction decisions are submitted individually for approval by the Board and Audit Committee, which also receives a summary of these transactions once they have been completed. The Financial & Accounting Department also develops internal procedures that define the distribution of intra-Group responsibilities for cash management and the implementation of Plaza shares and bonds buyback programs. The processing and centralization of cash flows, together with interest rate and exchange rate hedging, are the responsibility of the Financial & Accounting Department, which keeps a record of commitments and ensures that they are reflected in the accounting system.

c) The Audit Committee

The clarity of financial information and the relevance of the accounting principles used are monitored by the Audit Committee (whose role has already been specified), working in collaboration with the statutory auditors.

III) Processes contributing to the preparation of accounting and financial information

a) Operational processes used to generate accounting information

The financial statements of Plaza are prepared centrally at Plaza's corporate headquarters. The country departments are responsible for collecting information from the local bookkeepers and applying a series of appropriate controls to their job functions, as defined in the corresponding procedures. The Accounting Department has set up a system of internal collection and verification of country data and controls carried out. This system of control covers all Group entities.

b) Processes used to prepare the corporate and consolidated financial statements

The financial statements for the entire scope of consolidation are consolidated by the Accounting Department. At the end of each year, the Executive Board validates the provisional financing plan for the following year, which sets out the broad outlines in terms of the balance and choice of resources, as well as interest rate hedges. During the year, key financial transaction decisions are submitted individually for approval. The processing and centralization of cash flows, together with interest rate and exchange rate hedging, are the responsibility of the Investment Committee, which keeps a record of commitments and ensures that they are reflected in the accounting system.

c) The Audit Committee

The clarity of financial information and the relevance of the accounting principles used are monitored by the Audit Committee (whose role has already been specified), working in collaboration with the statutory auditors.

Remuneration report

Remuneration Committee

As stated in the Corporate Governance report on pages 51 to 56 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.

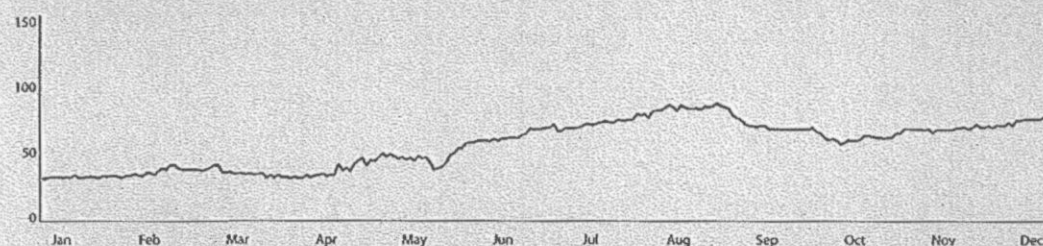
The Remuneration Committee reviews base salaries annually. Increases for all employees are recommended by reference to cost of living, responsibilities and market rates, and are performed at the same time of year.

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.

	Salary and fees €'000	Share incentive plan ⁽¹⁾ €'000	Total non- performance related remuneration €'000	Total performance related remuneration €'000
2011				
Executive directors				
Mr Mordechai Zisser	238	290	528	–
Mr Ran Shtarkman	463	790	1,253	100
Total	701	1,080	1,781	–
Non-executive directors				
Mr Shimon Yitzhaki	–	388	388	–
Mr Marius van Eibergen Santhagens	53	–	53	–
Mr Edward Paap	–	–	–	–
Mr Marco Wichers (Chairman)	53	–	53	–
Total	106	388	494	–
Total – all directors	807	1,468	2,275	100

1 Accounting non-cash expenses recorded in the Company's income statement in connection with the share option plans in the Company and its subsidiaries.

Total shareholder returns performance 2011



Service arrangements

The executive directors have rolling service contracts with the Company, which may be terminated on 12 months' and three months' notice.

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 Schemes on October 26, 2006 which was amended on November 25, 2008 and on November 22, 2011 (refer to note 27 to the consolidated financial statements), the terms and conditions of which (except for the exercise price) are regulated by the Share Option Schemes.

Options will vest in three equal annual portions and have a contractual life of seven years following grant. In the course of 2011, 2,789,000 options were granted. For the exercise and forfeit of options refer to the table below.

	Number of options granted	Number vested as at December 31, 2011	Exercise price of options €
Mr Mordechai Zisser	3,907,895	3,907,895	0.43
Mr Ran Shtarkman*	10,150,376	7,089,151	0.43
Mr Shimon Yitzhaki	2,116,541	794,361	0.43
Mr Marius van Eibergen Santhagens	-	-	n/a
Mr Edward Paap	-	-	n/a
Mr Marco Wichers	-	-	n/a

* In addition to the above, Mr Shtarkman has 100,000 non-vested US share base plan options.

	Number of options as at December 31, 2011
Total pool	47,834,586
Granted	44,120,174
Exercised	8,312,263
Forfeited	(8,902,779)
Left for future grant	12,617,191

Amsterdam, April 30, 2012

The Board of Directors

Mordechai 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 an 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, 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 2011 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 Founder

Ran Shtarkman
Executive Director and CEO

Marco Habib Wichers
Independent Non-executive Director and Chairman

Shimon Yitzchaki
Non-executive Director

Edward Paap
Non-executive Director

Marius Willem van Eibergen Santhagens
Independent Non-executive Director

April 30, 2012

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Consolidated statement of financial position

	Note	December 31, 2011 €'000	December 31, 2010 €'000
ASSETS			
Cash and cash equivalents	5	58,261	137,801
Restricted bank deposits	6	21,428	29,954
Short-term deposits		3,102	–
Available-for-sale financial assets	7	25,568	27,098
Trade receivables	8	5,432	4,064
Other receivables and prepayments	9	46,030	47,828
Derivatives	15	–	10,535
Trading properties	10	850,229	807,887
Total current assets		1,010,050	1,065,167
Long-term deposits and other investments	11	51,330	52,559
Deferred tax assets	23	316	282
Derivatives	15	–	42,110
Property and equipment	12	9,026	11,361
Investment property	13	272,348	238,702
Restricted bank deposits	6	4,961	15,751
Other non-current assets		495	364
Total non-current assets		338,476	361,129
Total assets		1,348,526	1,426,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing loans from banks	16	296,235	232,902
Debentures at fair value through profit or loss	21	32,930	48,318
Debentures at amortized cost	22	22,831	20,762
Trade payables	17	27,329	11,260
Related parties	18	2,228	3,758
Provisions	19	15,597	15,597
Other liabilities	20	27,464	19,474
Total current liabilities		424,614	352,071
Interest-bearing loans from banks	16	152,387	133,514
Debentures at fair value through profit or loss	21	110,320	211,997
Debentures at amortized cost	22	86,052	97,979
Other liabilities	20	5,757	5,330
Derivatives	15	3,561	–
Deferred tax liabilities	23	15,673	956
Total non-current liabilities		373,750	449,776
Share capital	24	2,972	2,967
Translation reserve	24	(10,672)	8,074
Capital reserve due to transaction with non-controlling interests	35	(19,342)	–
Other reserves	24	31,954	31,272
Share premium		261,773	261,773
Retained earnings		275,437	296,109
Total equity attributable to equity holders of the Company		542,122	600,195
Non-controlling interests		8,040	24,254
Total equity		550,162	624,449
Total equity and liabilities		1,348,526	1,426,296

Date of approval of the financial statements: April 30, 2012
The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

Ran Shtarkman
Director, President and
Chief Executive Officer

Shlomo Yitzchaki
Director and Chairman
of the Audit Committee

Consolidated income statement

	Note	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Revenues	27	57,074	37,641
Impairment losses – Trading properties	10	(47,987)	(6,710)
Cost of operations	28	(25,798)	(20,853)
Gross profit (loss)		(16,711)	10,078
Administrative expenses*	29	(19,536)	(17,923)
Other income	30	1,692	42,603
Other expenses	30	(1,588)	(260)
Results from operating activities		(36,143)	34,498
Finance income	31	103,018	49,596
Finance costs	31	(37,672)	(70,773)
Net finance income (costs)		65,346	(21,177)
Share in loss of equity-accounted investee		(153)	(381)
Profit before income tax		29,050	12,940
Tax benefit (expense)	32	(15,186)	1,308
Profit for the year		13,864	14,248
Profit attributable to:			
Owners of the Company		9,346	10,273
Non-controlling interests		4,518	3,975
		13,864	14,248
Basic and diluted earnings per share (in EURO)	25	0.03	0.03

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

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Profit for the year	13,864	14,248
Other comprehensive income		
Net change in FV of AFS assets transferred to income statement	(326)	(724)
Change in fair value of available-for-sale financial assets	(1,879)	545
Foreign currency translation differences for foreign operations	(22,187)	12,221
Tax on other comprehensive income due to change in fair value of available-for-sale financial assets	446	-
Other comprehensive income (loss) for the year, net of income tax	(23,946)	12,042
Total comprehensive income (loss) for the year	(10,082)	26,290
Total comprehensive income (loss) attributable to:		
Owners of the Company:	(11,159)	27,808
Non-controlling interests	1,077	(1,518)
Total comprehensive income (loss) for the year	(10,082)	26,290

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Attributable to the equity holders of the Company										
	Share capital €'000	Share premium €'000	Other capital reserves €'000	Translation reserve €'000	Capital reserve from acquisition of non-controlling interest without a change in control €'000	Financial assets available-for-sale reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total €'000
Balance at										
December 31, 2009	2,942	261,773	28,286	(9,640)	—	602	285,836	569,799	4,910	574,709
Effect of acquisition of subsidiaries	—	—	—	—	—	—	—	—	20,862	20,862
Share-based payment	—	—	2,588	—	—	—	—	2,588	—	2,588
Share option exercised	25	—	(25)	—	—	—	—	—	—	—
Comprehensive Income for the year										
Profit	—	—	—	—	—	—	10,273	10,273	3,975	14,248
Foreign currency translation differences	—	—	—	17,714	—	—	—	17,714	(5,493)	12,221
Available-for-sale reserve, net	—	—	—	—	—	(179)	—	(179)	—	(179)
Total comprehensive income (loss) for the year	—	—	—	17,714	—	(179)	10,273	27,808	(1,518)	26,290
Balance at										
December 31, 2010	2,967	261,773	30,849	8,074	—	423	296,109	600,195	24,254	624,449
Change in non-controlling interest	—	—	—	—	(19,342)	—	—	(19,342)	(18,680)	(38,022)
Dividend distributed	—	—	—	—	—	—	(30,018)	(30,018)	—	(30,018)
Share-based payment	—	—	2,446	—	—	—	—	2,446	1,389	3,835
Share option exercised	5	—	(5)	—	—	—	—	—	—	—
Comprehensive Income for the year										
Net profit for the year	—	—	—	—	—	—	9,346	9,346	4,518	13,864
Foreign currency translation differences	—	—	—	(18,746)	—	—	—	(18,746)	(3,441)	(22,187)
Available-for-sale reserve, net	—	—	—	—	—	(1,759)	—	(1,759)	—	(1,759)
Total comprehensive income (loss) for the year	—	—	—	(18,746)	—	(1,759)	9,346	(11,159)	1,077	(10,082)
Balance at										
December 31, 2011	2,972	261,773	33,290	(10,672)	(19,342)	(1,336)	275,437	542,122	8,040	550,162

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Cash flows from operating activities			
Profit for the year		13,864	14,248
Adjustments necessary to reflect cash flows used in operating activities:			
Depreciation and impairment of equipment and other assets	12	2,517	2,243
Write-down of trading properties	10	47,987	6,710
Change in fair value of investment property	13	(8,084)	(4,647)
Net finance costs (income)	31	(65,346)	21,177
Interest received		9,356	8,631
Interest paid		(45,233)	(28,234)
Equity-settled share-based payment transaction		3,658	2,540
Gain from a bargain purchase	35	(1,523)	(42,039)
Loss (gain) on sale of property and equipment		(4)	212
Share of loss in equity-accounted investees		153	381
Proceeds from disposal of trading property, net of cash disposed (2010 – see appendix A)		712	965
Loss on sale of trading property		–	133
Tax expense (tax benefit)	32	15,186	(1,308)
		(26,757)	(18,988)
Changes in:			
Trade receivables		(1,298)	390
Other accounts receivables		(2,300)	9,881
Restricted cash		–	(9,030)
Advance payments on account of trading properties		–	(4,035)
Trading properties	10	(70,629)	(62,693)
Trade payables		543	(6,343)
Other liabilities, related parties and provisions		5,093	3,904
		(68,591)	(67,926)
Taxes paid		(58)	(121)
Net cash used in operating activities		(95,406)	(87,035)
Cash flows from investing activities			
Purchases of property, equipment and other assets		(380)	(466)
Purchase of investment property		(1,204)	–
Proceeds from sale of property and equipment	12	30	3,135
Capital expenditure on investment properties		(2,438)	(1,168)
Acquisition of subsidiaries, net of cash acquired	35	–	(14,354)
Purchase of available-for-sale financial assets	7	(9,307)	(21,935)
Proceeds from sale of available-for-sale financial assets	7	9,051	10,195
Short- and long-term deposits, net		(3,213)	(33)
Net cash used in investing activities		(7,461)	(24,626)

	Note	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Cash from financing activities			
Proceeds from bank loans and financial institutions	16	80,098	53,274
Proceeds from loans from partners	20	–	5,130
Proceeds from utilization and settlement of derivatives	15	39,331	9,259
Proceeds from selling options strategy		5,212	–
Acquisition of non-controlling interest		(40,370)	–
Repurchase of debentures at amortized cost		(29,966)	–
Dividends paid		(30,018)	–
Changes in restricted cash		17,694	–
Proceeds from issuance of long-term debentures	22	62,895	77,968
Long-term bank loans and debentures repaid		(80,742)	(18,694)
Net cash from financing activities		24,134	126,937
Effect of exchange rate fluctuations on cash held		(807)	(71)
Increase (decrease) in cash and cash equivalents during the year		(79,540)	15,205
Cash and cash equivalents at January 1		137,801	122,596
Cash and cash equivalents at December 31		58,261	137,801
Appendix A – Disposal of subsidiary			
Other receivables		–	41
Trading properties		–	1,057
Net identifiable assets and liabilities disposed		–	1,098
Cash from sale of subsidiaries		–	965
Less – cash and cash equivalents of subsidiaries disposed		–	–
		–	965

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Note 1 – Principal activities and ownership

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

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

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

Note 2 – Basis of preparation

a. Statement of compliance

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

The Company income statement has been prepared in accordance with the provisions of section 402, Book 2, of The Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2012.

b. Basis of measurement

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

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

c. Functional and presentation currency

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

d. Use of estimates and judgments

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

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

Functional currency

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

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

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

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

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

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

e. Changes in accounting policies

(i) Accounting for business combinations

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

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

Notes to the consolidated financial statements

continued

Note 2 – Basis of preparation continued

Acquisitions on or after January 1, 2010.

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

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

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

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

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

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

Acquisitions prior to January 1, 2010

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

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

(i) Accounting for acquisitions of non-controlling interests

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

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

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

(ii) Accounting for results of non-controlling interests

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

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

Note 3 – Summary of significant accounting policies

a. Basis of consolidation

1. Subsidiaries

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

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

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

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

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

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

3. Jointly controlled entities

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

The financial statements of JVs 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 JVs to bring the accounting policies used into line with those used by the Group in the consolidated financial statements.

4. Transactions eliminated on consolidation

Intra-group balances and transactions, and any 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.

Notes to the consolidated financial statements

continued

Note 3 – Summary of significant accounting policies continued

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 in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

2. Financial statements of foreign operations

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

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

3. Net investment in foreign operations

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

c. Financial instruments

1. Non-derivative financial assets

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

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

Cash and cash equivalents, restricted deposits and cash in escrow

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

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

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.

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 (refer to note 11) and unsecured non-convertible Debentures Series A and partially Series B (refer to notes 21, 22).

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

Held-to-maturity financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

2. Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Group has the following non-derivative financial liabilities: loans and borrowings, debentures and trade and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method, except for debentures that are classified as fair value through profit or loss.

Notes to the consolidated financial statements

continued

Note 3 – Summary of significant accounting policies continued

c. Financial instruments continued

3. Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures; however the Group has not elected to apply hedge accounting to any derivative financial instruments held during the reporting period. Derivatives are 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 recognized immediately in profit or loss.

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

d. Share capital

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

Repurchase of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, 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 capital reserve.

e. Trading properties

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

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 borrowings of the Group that are outstanding during the period, other than borrowing made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the period does not exceed the amount of borrowing costs incurred during that period.

f. Investment property

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

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

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

g. Property and equipment

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are 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
Office buildings	2 – 4
Mechanical systems in the buildings	7 – 10
Aircrafts	5
Other*	6 – 33

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

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

h. Impairment

1. Financial assets

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

An impairment loss in respect of a financial asset measured at 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.

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

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

2. Non-financial assets

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

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

Notes to the consolidated financial statements

continued

Note 3 – Summary of significant accounting policies continued

h. Impairment continued

3. Reversal of impairment

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

i. Provisions

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

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

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

Warranties

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

j. Revenue recognition

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

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

(i) Rental income

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

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

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

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

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

- a. the Group has transferred to the buyer the significant risks and rewards of ownership;
- b. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c. the amount of revenue can be measured reliably;

- d. it is probable that the economic benefits associated with the transaction will flow to the Group (including the fact that the buyer's initial and continuing investment is adequate to demonstrate commitment to pay);
- e. the costs incurred or to be incurred in respect of the transaction can be measured reliably; and
- f. there are no significant acts that the Group is obliged to complete according to the sale agreement.

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

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

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

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

k. Operational lease payments

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

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

l. Finance income and expenses

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

Finance expenses which are not capitalized comprise interest expense on borrowings, changes in the fair value of financial instruments at fair value through profit or loss, impairment losses recognized on financial assets, net foreign exchange losses and losses on derivative 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. For the Company's policy regarding capitalization of borrowing costs refer to note 3 (e).

m. Taxation

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

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not 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

Notes to the consolidated financial statements

continued

Note 3 – Summary of significant accounting policies continued

m. Taxation continued

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

n. Segment reporting

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

o. Employee benefits

1. Bonuses

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

2. Share-based payment transactions

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

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

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

p. Earnings per share

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

q. New standard not yet adopted

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

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

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

Note 4 – Determination of fair values

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

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

Investment properties in the US

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

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Note 4 – Determination of fair values continued

Investment properties in the US continued

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

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

Available-for-sale financial assets

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

Non-derivative financial liabilities

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

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

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

Swap transactions

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

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

Long-term debentures at fair value through profit or loss

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

Share-based payments transactions

The fair value of employee share options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information and the tendency of volatility to revert to its mean and other factors indicating that expected future volatility might defer from past volatility), weighted average expected life of the instruments (based on historical experience and general option holder 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

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

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

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

Note 6 – Restricted bank deposits

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

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

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

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

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

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

Notes to the consolidated financial statements

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Note 7 – Available-for-sale financial assets

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

	December 31, 2011 €'000	December 31, 2010 €'000
Interest income from AFS	1,691	1,379
Gain from selling AFS	326	724
	2,017	2,103
Balance as at January 1	27,098	23,485
Purchase of AFS	9,307	13,491
Sale/redemption of AFS	(9,051)	(10,196)
Premium amortization	93	(5)
Changes in market value of AFS	(1,879)	323
Balance as at December 31	25,568	27,098

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

Note 8 – Trade receivables

	December 31, 2011 €'000	December 31, 2010 €'000
Trade receivables ¹	7,984	6,247
Less – Allowance for doubtful debts ²	(2,552)	(2,183)
	5,432	4,064

¹ As of December 31, 2011 trade receivables includes an amount of EUR 2.3 million (2010: EUR 2.4 million) relating to US operations. Main increase in 2011 is due to increase of operations in Poland, following the opening of the Toruń Shopping Centre.

² Increase in allowances created during 2011 an amount of EUR 0.4 million, mainly due to operations in Czech Republic and Poland.

Note 9 – Other receivables and prepayments

	December 31, 2011 €'000	December 31, 2010 €'000
Advances for plot purchases ¹	29,828	33,090
VAT receivables ²	6,125	3,323
Loans to partners in jointly controlled entities	2,930	3,379
Prepaid expenses	2,009	711
Accrued interest receivable	1,685	2,027
Advances to suppliers	1,252	3,028
Related parties	1,227	1,185
Others	974	1,085
	46,030	47,828

¹ As of December 31, 2011 and 2010, including mainly advance payments in the amount of EUR 28.3 million and EUR 31.8 million, respectively. For the purchase of plots in India, as part of the joint venture with EI (refer also to notes 35 (e)). Out of this amount, an amount of EUR 5 million (2010: EUR 4.8 million) is guaranteed by EI.

² As of December 31, 2011, VAT receivable is mainly due to projects in Poland (EUR 4 million) and Serbia (EUR 1 million).

Note 10 – Trading properties

	December 31, 2011 €'000	December 31, 2010 €'000
Balance as at January 1	807,887	707,287
Acquisition and construction costs	84,827	74,111
Capitalized borrowing costs ¹	29,154	19,742
Write-down of trading properties ²	(47,987)	(6,710)
Effect of movements in exchange rates	(23,652)	14,514
Trading properties disposed	–	(1,057)
Balance as at December 31 ¹	850,229	807,887
Completed trading properties	202,769	146,626
Trading properties under construction	117,526	107,825
Trading properties under planning and design stage ^{4, 5}	529,934	553,436
Total	850,229	807,887

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

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Note 10 – Trading properties continued

Below is a summary table for project status.

Project	Location	December 31, 2011		Nature of rights	General information		Planned GLA (m ²)
		Purchase/ transaction year	Share holding Rate (%)		Status of registration of land	Permit status	
Suwałki Plaza	Poland	2006	100	Ownership	Completed	Operational shopping center (starting Q2 2010)	20,000
Zgorzelec Plaza	Poland	2006	100	Ownership	Completed	Operational shopping center (starting Q1 2010)	13,000
Toruń Plaza	Poland	2007	100	Ownership	Completed	Operational shopping center (starting Q4 2011)	40,000
Łódź residential	Poland	2001	100	Ownership/ Perpetual usufruct	Completed	Planning permit valid	80,000*
Łódź Plaza	Poland	2009	100	Perpetual usufruct	Completed	Planning permit pending	45,000
Kielce Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit pending	33,000
Leszno Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit pending	16,000
Liberec Plaza	Czech Republic	2006	100	Ownership	Completed	Operational shopping center (starting Q1 2009)	17,000
Roztoky	Czech Republic	2007	100	Ownership	Completed	Planning permit valid	14,000*
Rīga Plaza	Latvia	2004	50	Ownership	Completed	Operational shopping center (starting Q1 2009)	49,000
Bangalore	India	2008	23.75	Ownership	In process	Under negotiations	320,000*
Chennai	India	2008	38	Ownership	In process	Under negotiations	1,060,000*
Koregaon Park	India	2006	100	Ownership	Completed	Building permit valid	110,000*
Kharadi	India	2007	50	Ownership	Completed	Partial building permit valid	250,000*
Trivandrum	India	2007	50	Ownership	Completed	Under negotiations	120,000*
Casa Radio	Romania	2007	75	Leased for 49 years	Completed	Zoning and planning permit valid	600,000*
Timișoara Plaza	Romania	2007	100	Ownership	Completed	Zoning and planning permit valid	38,000
Miercurea							
Cluc Plaza	Romania	2007	100	Ownership	Completed	Building permit valid	14,000
Iasi Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	62,000
Slatina Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	17,000
Târgu Mureș Plaza	Romania	2008	100	Ownership	Completed	Planning permit valid	30,000
Hunedoara Plaza	Romania	2008	100	Ownership	Completed	Planning permit valid	13,000
Constanța Plaza	Romania	2009	100	Ownership	Completed	Existing building	18,000
Belgrade Plaza	Serbia	2007	100	Ownership	Completed	Under negotiations	70,000*
Kragujevac Plaza	Serbia	2007	100	Currently construction lease period (99 years) with subsequent ownership	Completed	Building permit valid	22,000
Sport Star Plaza	Serbia	2007	100	Land use rights	Completed	Under negotiations	40,000
Shumen Plaza	Bulgaria	2007	100	Ownership	Completed	Planning permit valid	20,000
Sofia Plaza	Bulgaria	2009	51	Ownership	Completed	Planning permit valid	44,000
Business Centre							
Dream Island (Budapest)	Hungary	2003	43.5	Ownership	Completed	Under negotiations	350,000*
Arena Plaza Extension	Hungary	2005	100	Land use rights	Completed	Building permit valid	40,000
Új Udvar	Hungary	2007	35	Ownership	Completed	Building permit pending	16,000
Piraeus Plaza	Greece	2002	100	Ownership	Completed	Building permit valid	26,000

* GBA (sqm)

Note 11 – Long-term deposits and other investments

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

* Structure A – The EUR 38 million principal is capital protected and payable at maturity (February 2023). Structure A bears interest of 11.5% per annum, payable quarterly to the extent that the spread between the 30 years Euro CMS (Constant Maturity Swap) and the 10 years Euro CMS (measured on a daily basis) is higher than the accrual barrier which was set at 0.05%. For days in which the spread is lower than the barrier no interest is paid. Structure A is presented in the financial statements as held to maturity financial instrument at amortized cost. Although Structure A is callable by the issuer on a quarterly basis at par value, the Company has the ability and a positive intent to hold Structure A until it is called or until maturity, and the Company would recover substantially all of Structure A carrying amount.

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

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

For both structures financial results refer to note 31.

Note 12 – Property and equipment

	Land and buildings €'000	Equipment €'000	Fixtures and fittings €'000	Airplanes ¹ €'000	Total €'000
Cost					
Balance at December 31, 2009	7,057	4,669	1,376	9,174	22,276
Additions	–	490	21	–	511
Disposals	–	(29)	–	(5,226)	(5,255)
Reclassification	–	400	–	–	400
Exchange rate effect	–	62	–	789	851
Balance at December 31, 2010	7,057	5,592	1,397	4,737	18,783
Additions	–	123	–	–	123
Disposals	–	(50)	–	–	(50)
Exchange rate effect	–	(111)	–	–	(111)
Balance at December 31, 2011	7,057	5,554	1,397	4,737	18,745
Accumulated depreciation					
Balance at December 31, 2009	2,381	2,415	953	1,537	7,286
Depreciation expenses	182	887	33	819	1,921
Reclassification	–	(187)	–	–	(187)
Disposals	–	(41)	–	(1,652)	(1,693)
Exchange rate effect	–	30	–	65	95
Balance at December 31, 2010	2,563	3,104	986	769	7,422
Depreciation and impairment expenses ²	43	518	34	1,798	2,393
Disposals	–	(23)	–	–	(23)
Exchange rate effect	–	(73)	–	–	(73)
Balance at December 31, 2011	2,606	3,526	1,020	2,567	9,719
Carrying amounts					
At December 31, 2011	4,451	2,028	377	2,170	9,026
At December 31, 2010	4,494	2,488	411	3,968	11,361

Major additions/disposals/impairment in the period

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

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

Notes to the consolidated financial statements

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Note 13 – Investment property

	December 31, 2011 €'000	December 31, 2010 €'000
Balance at January 1	238,702	13,399
Capital expenditures on investment properties	2,438	1,168
Effect of movements in exchange rate	8,923	(24,776)
Acquisitions (refer to note 35 (c) and (f))	14,201	256,477
Exclusion of MV LLC (refer to note 35 (d))	–	(12,213)
Fair value revaluation	8,084	4,647
Balance at December 31	272,348	238,702

Investment property in the United States

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

(i) Valuation basis

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

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

(ii) Non-current assets pledged as security

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

(iii) Leasing arrangements

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

	December 31, 2011 €'000	December 31, 2010 €'000
Minimum lease payments under non-cancellable operating lease of investment properties not recognized in the financial statements are receivable as follows:		
Within one year	19,728	17,066
More than one year up to five years	51,266	48,154
More than five years	24,206	22,026
Balance at December 31	95,200	87,246

Investment property in the Czech Republic

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

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

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

Note 14 – Proportionate consolidation

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

	2011 €'000	2010 €'000
Current assets	243,874	271,937
Non-current assets	260,781	228,132
Current liabilities	118,439	100,464
Non-current liabilities	144,735	131,618
Non-controlling interests	7,289	24,254
	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Revenues and other income	41,154	63,283
Expenses and tax	(51,268)	(23,027)
Profit (loss) after tax	(10,114)	40,256

Note 15 – Derivatives

Selling options strategy

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

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

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

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

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

Cross currency interest rate swap ("SWAP")

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

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

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

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

Notes to the consolidated financial statements

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Note 15 – Derivatives continued

Cross currency interest rate swap ("SWAP") continued

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

SWAP settlement and utilization in 2011

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

Interest rate swap ("IRS")

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

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

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

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

Note 16 – Interest bearing loans from banks

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

	December 31, 2011 €'000	December 31, 2010 €'000
Non-current loans		
Investment property secured bank loans	140,335	130,601
Other secured bank loans	12,052	2,913
	152,387	133,514
Current loans (including current maturities of long-term loans)		
Trading properties secured bank loans	227,624	170,546
Investment property secured bank loans	22,402	17,904
Other secured bank loans	46,209	44,452
	296,235	232,902

Note 16 – Interest bearing loans from banks continued

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

1 Refer to note 34 (d) for details on breach of certain covenants regarding these loans.

2 IRS on bank loans – refer to note 15.

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

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

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Note 17 – Trade payables

	Currency	December 31, 2011 €'000	December 31, 2010 €'000
Construction related	Mainly in EUR, PLN	25,610	10,812
Other trade payables		1,719	448
		27,329	11,260

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

Note 18 – Related parties

	Currency	December 31, 2011 €'000	December 31, 2010 €'000
EI Group – ultimate parent company – expenses recharged	EUR, US\$	1,389	1,803
Other related parties*	EUR	452	404
Former vice chairman of EI	INR	–	1,164
EUL (parent company)	EUR, US\$	387	387
		2,228	3,758

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

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

Note 19 – Provisions

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

Note 20 – Other liabilities

Short-term	Currency	December 31, 2011 €'000	December 31, 2010 €'000
Advance payment received ¹	EUR	11,032	6,716
Loan from partners in subsidiaries ²	EUR	7,807	5,279
Government Institutions and fees ³	Mainly US\$	3,139	2,915
Accrued expenses and commissions	EUR	1,941	815
Obligation in respect of plot purchase	Mainly EUR	1,448	1,699
Accrued bank interest	Mainly EUR	1,130	991
Salaries and related expenses	EUR, HUF, PLN, CZK, US\$	633	539
Other	HUF, PLN, CZK	334	520
Total		27,464	19,474

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

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

³ Include mainly US real estate taxes liability.

Other long-term liabilities 2011

	Currency	December 31, 2011 €'000	December 31, 2010 €'000
Loan from US partner*	US\$	5,560	5,130
Derivative			-
Others	EUR	197	200
		5,757	5,330

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

Note 21 – Long-term debentures at fair value through profit or loss

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

	Series A debentures			Series B debentures		
	Fair value	CPI adjusted	Par value	Fair value	CPI adjusted	Par value
January 1, 2011 (NIS)	310,514	303,760	266,994	922,834	880,381	797,957
Repayment 2011 (NIS)*			(38,142)			(159,591)
December 31, 2011 (NIS)	170,839	266,986	228,852	536,547	722,212	638,366
January 1, 2011 (EUR)	65,538	64,113	56,353	194,777	185,817	168,420
December 31, 2011 (EUR)	34,596	54,067	46,344	108,654	146,253	129,274

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

Both debentures series are rated (effective March 2012) iIBBB+ by S&P Maalot Ltd. on a local scale and IIA3/Negative by Midroog Ltd., the Israeli Credit Rating Agency and an affiliate of Moody's Investors Service ("Midroog"). Debentures Series A bears an annual interest rate of 4.5% (paid semi-annually) with eight annual equal principal instalments between December 2010 and 2017. Debentures Series B bears an annual interest rate of 5.4% (paid semi-annually) with five annual equal principal instalments between July 2011 and 2015.

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Note 22 – Long-term debentures at amortized cost

Bonds issued in Israel

	Series A debentures Par value NIS '000	Series B debentures Par value NIS '000	Total NIS '000	CPI adjusted NIS '000	CPI adjusted € '000
January 1, 2011 (NIS) ¹	–	452,217	452,217	498,909	105,302
Issued in 2011 ²	86,429	181,020	267,449		
Repayment ³	(9,042)	(125,227)	(134,269)		
Buyback program ⁴	(25,235)	(142,854)	(168,089)		
December 31, 2011	52,152	365,156	417,308	473,959	95,980 ⁵

1 Issued in the course of 2009 through 2010.

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

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

4 Regarding the buyback program of long-term debentures at amortized costs refer to note 35 (m).

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

Bonds issued in Poland

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

Note 23 – Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

Assets/(liabilities) 2011	December 31, 2010 €'000	Recognized in profit or loss/ comprehensive income €'000	December 31, 2011 €'000
Investment property	(789)	(3,666)	(4,455)
Property, equipment and other assets	(304)	(5)	(309)
Fair value adjustment of interest bearing loan from banks – US business combination	282	34	316
Debentures and structures at fair value through profit or loss	–	(14,496)	(14,496)
Derivatives	–	(1,391)	(1,391)
Available for sale financial assets*	–	446	446
Tax value of loss carry-forwards recognized	137	4,395	4,532
Deferred tax liability, net	(674)	(14,683)	(15,357)

* Change included in comprehensive income

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

Assets/(liabilities) 2010	December 31, 2009 €'000	Acquired purchase of/ subsidiary €'000	Recognized in profit or loss €'000	December 31, 2010 €'000
Investment property	(732)	(10)	(47)	(789)
Property and equipment and other assets	(478)	-	174	(304)
Deferred tax asset – US transaction	-	512	(230)	282
Debentures and structures at fair value through profit or loss	3,113	-	(3,113)	-
Derivatives	(6,260)	-	6,260	-
Impaired receivables and others, net	(53)	-	53	-
Tax value of losses carry-forwards recognized, net	1,973	-	(1,836)	137
Deferred tax liability, net	(2,437)	502	1,261	(674)

Unrecognized deferred tax assets

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

	December 31, 2011 €'000	December 31, 2010 €'000
Deductible temporary differences	-	2,185
Tax losses	79,656	50,346
	79,656	52,531

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

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

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

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

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Note 24 – Equity

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

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

Other capital reserve due to share option plans

Other capital reserve is in respect of Employee Share Option Plans (ESOP) in the total amount of EUR 33,470 as of December 31, 2011 (2010: EUR 31,029). Regarding the amendment of ESOP and ESOP No. 2 and its effect on other capital reserves refer to note 26.

Translation reserve

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

Dividend policy

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

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

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

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

Note 25 – Earnings per share

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

Weighted average number of ordinary shares

	December 31, 2011 €'000	December 31, 2010 €'000
In thousands of shares with a EUR 0.01 par value		
Issued ordinary shares at January 1	296,722	294,196
Share based payment – exercise of options	273	2,258
Weighted average number of ordinary shares at December 31	296,995	296,454

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

Weighted average number of ordinary shares (diluted)

	December 31, 2011 €'000	December 31, 2010 €'000
In thousands of shares with a EUR 0.01 par value		
Weighted average number of ordinary shares (basic)	296,995	296,454
Effect of share options on issue	4,527	15,287
Weighted average number of ordinary shares (diluted) at December 31	301,522	311,741

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

Note 26 – Employee share option plan

On October 26, 2006 the Company's Board of Directors approved the grant of up to 33,834,586 non-negotiable options by the Company's ordinary shares to the Company's Board members, employees in the Company and other persons who provide services to the Company including employees of the Group ("offerees"). The options were granted to the offerees for no consideration. On November 25, 2008 the Company's general shareholders meeting and the Board of Directors approved modification of ESOP. The amendment plan determined that all options that were not vested on October 25, 2008 ("record date") shall vest over a new three-year period commencing on the record date, in such way that each year following that date one third of such options shall be vested. The number of options which were modified under the amendment was 28,182,589. The incremental fair value granted (i.e.: the increase in fair value of the share options measured immediately before and after the modifications) as a result of the above-mentioned modifications was EUR 6.4 million which is recognized over the vesting period or immediately for vested options.

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

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

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

¹ Following the modification of ESOP, the contractual life for stock options granted changed from seven years to ten years.

² Share options granted to key management: 2007: 200,000 share options; 2008: 626,667 share options; 2009: 73,334 share options; 2010: 100,000 share options; 2011: 2,414,000 share options.

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

On exercise date the Company shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of the Company's shares on the LSE (or WSE under certain conditions) on the exercise date, provided that if the opening price exceeds GBP 3.24, the exercise price the opening price shall be set at GBP 3.24 (except the second ESOP as stated above) of the exercise price; less (B) the exercise price of the options; and such difference (A minus B) will be divided by the opening price of the Company's Shares on the LSE (or WSE under certain conditions) on the exercise date. The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

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

* The options outstanding at December 31, 2011 have an exercise price in the range of GBP 0.43 to GBP 1.32 (app. EUR 0.51 to EUR 1.58) following an interim dividend payment of GBP 0.09 and a weighted average remaining contractual life of 6.31 years. The weighted average share price at the date of exercise for share options exercised in 2011 was GBP 0.68 (2010: GBP 1.41).

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Note 26 – Employee share option plan continued

Following the modifications of the option plan, the maximum number of shares issuable upon exercise of all outstanding options as of the end of the reporting period is 29,305,718. The estimated fair value of the services received is measured based on a binomial lattice model using the following assumptions:

	Key management personnel 2011* EUR	Key management personnel 2010 EUR	Employees 2011* EUR	Employees 2010 EUR
Fair value of share options and assumptions				
Fair value at measurement date (in EUR)*	812,885	859,861	470,406	652,132
Weighted average exercise price	0.46	1.14	0.46	1.35
Expected volatility	33.09%-51.67%	46.3%-57.93%	33.09%-51.67%	40.3%-57.93%
Weighted average share price (GBP)	0.43	0.92	0.47	1.01
Suboptimal exercise multiple	2	2	1.5	1.5
Expected dividends	–	–	–	–
Risk-free interest rate (based on the yield rates of the non-indexed linked UK treasury bonds)	0.46%-5.49%	0.55%-4.37%	0.46%-5.49%	0.65%-5.65%

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

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

Since Plaza has been a publicly traded company starting November 2006, there is not enough information concerning Plaza share price. Therefore, in order to derive the expected stock price volatility, analysis was performed based on the data of Plaza and of three other companies operating in a similar segment that have similar market capital and are traded at the Warsaw Stock Exchange. In an attempt to estimate the expected volatility, the first calculation of the short-term standard deviation (standard deviation of Company's share during one year as of the options' grant date) has been done. In the next stage, calculation of the long-term standard deviation (standard deviation for the period starting one year prior to the grant date for the remaining period of the plan) has been done, where the weight of the standard deviation for the Company was ranging between 45%-65% and the weight of the average of standard deviations of comparative companies was 35%-55% (2010: 50%-65%). The working assumption is that the standard deviation of the underlying asset yield converges in the long term with the multi-year average.

Elbit Plaza US share-based plan

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

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

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

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

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

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

PCI and EPI Share Option plans

On March 14, 2011 ("date of grant") the Company's direct subsidiaries PCI and EPI ("Companies") granted non-negotiable options, exercisable into the Companies' ordinary shares, to employees, directors and officers of the Companies and/or Affiliates of the Companies. The options were granted for no consideration and have three years of vesting with contractual life of seven years following the Date of Grant of such options. PCI had granted 14,212 share options with an exercise price of EUR 227 per option. EPI had granted 51,053 share options with an exercise price of EUR 0.01 per option. PCI and EPI common shares valuation methodology was based on NAV model. The expected stock price volatility was based on five Indian publicly traded real estate companies and set to range 43.31%-54.4%. The annual risk-free interest rate range was: 1.25%-4.03%. The suboptimal exercise multiple for key management personnel were set to two and for employees 1.5.

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

The option plans include, among others, a cashless exercise mechanism prior to/following IPO and conversion upon the listing of a subsidiary.

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

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

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

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

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Note 27 – Revenues

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

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

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

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

Note 28 – Cost of operations

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

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

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

Note 29 – Administrative expenses

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

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

Note 30 – Other income and other expenses

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

¹ Gain from bargain purchase – refer to note 35 (b).

² Recognized goodwill – refer to note 35 (c).

³ Refer to note 12.

Notes to the consolidated financial statements

continued

Note 31 – Net finance income (costs)

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

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

Note 32 – Tax expense

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

Deferred tax expense (tax benefit)

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

Reconciliation of effective tax rate:

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

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

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

The Netherlands

- a. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 25% (25.5% prior to the year 2011). The first EUR 200,000 of profits is taxed at a rate of 20%. Tax losses may be carried back for one year and carried forward for nine years. As part of the measures to combat the consequences of the economic crisis, taxpayers can elect for an extension of the loss carry back period to three years (instead of one year). The election is only available for losses suffered in the taxable years 2009, 2010 and 2011. If a taxpayer makes use of the election, two additional limitations apply: (i) the loss carry forward period for the taxable years 2009, 2010 and/or 2011 will be limited to a maximum of six years (instead of nine years); and (ii) the maximum amount of loss that can be carried back to the second and third year preceding the taxable year will be limited to EUR 10 million per year. The amount of loss that can be carried back to the year directly preceding the taxable year for which the election is made will remain unrestricted.
- b. Under the participation exemption rules, income (including dividends and capital gains) derived by Netherlands companies in respect of qualifying investments in the nominal paid up share capital of resident or non-resident investee companies, is exempt from Netherlands corporate income tax provided the conditions as set under these rules have been satisfied. Such conditions require, among others, a minimum percentage ownership interest in the investee company and require the investee company to satisfy at least one of the following tests:
 - Motive Test, the investee company is not held as passive investment;
 - Tax Test, the investee company is taxed locally at an effective rate of at least 10% (calculated based on Dutch tax accounting standards);
 - Asset Test, the investee company owns (directly and indirectly) less than 50% low taxed passive assets.

Notes to the consolidated financial statements

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Note 32 – Tax expense continued

USA

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

India

The corporate income tax rate applicable to the taxable income of an Indian Company is 33.22% (including surcharge of 7.5% and rate of 3%). Surcharge is applicable only if the gross total income exceeds INR 10 million). Minimum alternate tax (MAT) of 19.93% (of the taxable income of a company) is applicable only if a company books profits which exceed INR 10 million. Book profits are computed in accordance with relevant provisions of the Indian Income Tax Act. The final tax payable is the higher of the MAT liability or corporate income tax payable. If taxes are paid under MAT, then credit to the extent of MAT paid over corporate income tax is available (MAT credit). MAT Credit can be availed, if the company has future taxable profits in the following ten years. Capital gains on transfer of capital assets (on which tax depreciation has not been claimed) are taxed at the rate of 22.145% (including surcharge of 7.5% and rate of 3%). Surcharge is applicable only if the gross total income exceeds INR 10 million) provided that the capital assets were held for more than 36 months immediately preceding the date of the transfer or 33.2175% (including surcharge of 7.5% and rate of 3%). Surcharge is applicable only if the gross total income exceeds INR 10 million) if they were held for less than 36 months. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.61% (including surcharge of 7.5% and rate of 3%). Surcharge is applicable only if the gross total income exceeds INR 10 million). There is no withholding tax on dividends distributed by an Indian company and no additional taxes need to be paid by the shareholder. Business losses can be offset against profits and gains on any business or profession for a period of eight years from the incurrence year's end. There is no limit for carry forward unabsorbed depreciation.

Cyprus

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

Note 33 – Financial instruments

Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

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

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

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

a. Credit risk

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

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

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

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

b. Liquidity risk

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

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

c. Market risk

Currency and inflation risk

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

The Group is exposed to currency risk mainly on borrowings (debentures issued in Israel and in Poland) that are denominated in a currency other than the functional currency of the respective Group companies. The currencies in which these transactions primarily are denominated are the NIS or PLN. Regarding currency and risk hedging of the debentures refer also to note 15. As the Israeli inflation risk is diminishing, the Company moves gradually to selling options strategy, rather than using SWAP.

Interest rate risk

The group's interest rate risk arises mainly from short- and long-term borrowing (as well as debentures). Borrowings issued at variable interest rate expose the Group to variability in cash flows (mainly borrowings in US\$). Borrowings issued at fixed interest rate (but are presented at their fair value) expose the Group to changes in fair value, if the interest is changing. In certain case, the Group performs IRS to minimize the exposure to interest risk. Regarding interest rate risk hedging of the debentures and bank facilities, refer to note 15.

Shareholders' equity ("Equity") management

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

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

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

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

Notes to the consolidated financial statements

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Note 33 – Financial instruments continued

Credit risk

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

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

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

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

Liquidity risk

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

December 31, 2011	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans*	448,622	(531,082)	(102,101)	(22,716)	(70,124)	(209,431)	(126,710)
Unsecured debentures Issued	252,133	(348,841)	–	(83,451)	(94,989)	(158,838)	(11,563)
Trade and other payables	68,676	(71,722)	(278)	(44,039)	(556)	(20,826)	(6,023)
Related parties	2,228	(2,228)	–	(2,228)	–	–	–
	771,659	(953,873)	(102,379)	(152,434)	(165,669)	(389,095)	(144,296)
December 31, 2010							
Non-derivative financial liabilities							
Secured bank loans	366,416	(418,946)	(35,285)	(89,318)	(85,442)	(128,601)	(80,300)
Unsecured debentures Issued	379,056	(424,342)	(68,047)	(17,418)	(81,907)	(237,416)	(19,554)
Trade and other payables	51,661	(54,781)	(257)	(31,065)	(580)	(17,293)	(5,586)
Related parties	3,758	(3,758)	–	(3,758)	–	–	–
	800,891	(901,827)	(103,589)	(141,559)	(167,929)	(383,310)	(105,440)

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

Currency risk

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

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

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

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

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

Interest rate risk**Profile**

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

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

Cash flow sensitivity analysis for variable rate Instruments

A change of 30 basis points in EURIBOR Interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

Variable Interest rate effect (excluding debentures)

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

Notes to the consolidated financial statements

continued

Note 33 – Financial instruments continued

Fair value sensitivity analysis for structure B

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

Sensitivity analysis – changes in interest on structure

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

NIS Debentures

Sensitivity analysis – Changes in Israeli CPI

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

Sensitivity analysis – changes in NIS basic interest on debentures

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

Fair values

Fair values versus carrying amounts

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

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

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

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

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

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

Note 34 – Contingent liabilities and commitments

a. Contingent liabilities and commitments to related parties:

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

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

2. On October 27, 2006 the Company signed an agreement with Jet Link Ltd (a company owned by the ultimate shareholder of the Company and which owns an airplane) under which the Group and/or its affiliates may use the airplane for their operational activities up to 275 flight hours per year. The Company will pay Jet Link Ltd. in accordance with its price list, reduced by a 5% discount. The agreement expired on October 27, 2011 and was extended for an additional four-year term.
3. On October 27, 2006 the Company and Mr Mordechai Zisser, an Executive Director of the Company, entered into a service agreement, pursuant to which he will be entitled to a monthly salary of US\$25,000 (EUR 19,000) which includes pension, retirement and similar benefits for his services as the Company's Executive Director.
4. In October 2006, the Company and EI entered into an agreement, pursuant to which with effect from January 1, 2006 the Company will pay commissions to EI in respect of all and any outstanding corporate and first demand guarantees which have been issued by EI in favour of the Company up to 0.5% of the amount or value of the guarantee, per annum. As of the end of the reporting period the Group has no outstanding guarantees from EI and no consideration was paid in this respect.
5. On October 13, 2006, EI entered into an agreement (the "Agreement") with the Company, under which EI is obliged to offer to the Company potential real estate development sites sourced by it in India. Under the agreement, EI is obliged to offer the Company the exclusive right to develop all of the shopping center projects which EI acquires during the 15-year term of the Agreement. The Agreement was terminated upon the signing of the joint venture in India (refer to note 35), but both EI and the Company agreed that upon the termination of the JV agreement they will re-execute the Agreement.

Notes to the consolidated financial statements

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Note 34 – Contingent liabilities and commitments continued

a. Contingent liabilities and commitments to related parties: continued

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

b. Contingent liabilities and commitments to others

1. Tesco

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

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

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

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

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

3. Aggregate amount of the Group's commitments in respect of construction services totaled, as of December 31, 2011, approximately EUR 146 million.
4. In relation to the investment property segment: DDR (refer to note 35 (b)) or the US REITs may exercise its pre-emptive right to acquire the properties held by the jointly controlled entities held by EDT and DDR (as at December 31, 2011: 7 assets) at fair market value if the responsible entity is removed, or there is a change in control of DDR or the US REITs or other defined events occur.
5. The Company is retaining a 100% holding in all its projects in Serbia after it was decided to discontinue the negotiations with a Serbian developer. The Company has an obligation to pay the developer in any case there is major progress in the projects. The total remaining obligation is EUR 0.9 million.

c. Contingent liabilities due to legal proceedings

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

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

The Company is involved in other litigation arising in the ordinary course of its business. Although the final outcome of each of these cases cannot be estimated at this time, the Company's management believes, based on legal advice, that it is not probable that these litigations will cause any outflow of resources to settle them, and therefore no provision was recorded.

d. Securitized, guarantees and liens under bank finance agreements

1. Certain companies within the Group which are engaged in the purchase, construction or operation of shopping centers ("Project Companies") have secured their respective credit facilities (with withdrawn facility amounts totalling EUR 390 million) awarded by financing banks (for projects in the US, Hungary, Latvia, Czech Republic, India, Serbia and Bulgaria), by providing first or second ranking (fixed or floating) charges on property owned thereby, including right in and to real estate property as well as the financed projects, on rights pertaining to certain contracts (including lease, operation and management agreements), on rights arising from insurance policies, and the like. Shares of certain Project Companies were also pledged in favour of the financing banks. The Company also guarantees fulfillment of one of its subsidiaries obligations under loan agreements in an aggregate amount of EUR 29 million. Shareholders loans as well as any other rights and/or interests of shareholders in and to the Project Companies were subordinated to the respective credit facilities. Payment is permitted to the shareholders (including the distribution of dividends but excluding management fees) subject to fulfilling certain preconditions.

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

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

The Project Companies undertook not to make any disposition in and to the secured assets, not to sell, transfer or lease any substantial part of their assets without the prior consent of the financing bank. In certain events the Project Companies undertook not to allow, without the prior consent of the financing bank: (i) any changes in and to the holding structure of the Project Companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, related party transactions and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the Project Companies in favour of third parties; (v) receipt of loans by the Project Companies and/or the provision thereby of a guarantee to third parties; and the like.

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

2. Commitment in respect of derivative transaction

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

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

3. Commitment in respect of structured deposits

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

Notes to the consolidated financial statements

continued

Note 34 – Contingent liabilities and commitments continued

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

4. Commitment in respect of bonds raised in Poland

Under the offering memorandum for the Issuance of Polish bonds, certain circumstances shall be deemed events of default giving the bondholders the right to demand early redemption, which includes among others the following covenants:

- a) Breach of the cash position as a result of the payment of dividend or the buyback program – If at any time during a period of 90 days from the payment of dividend, or the acquisition of its own shares, the cash position falls below EUR 50 million;
- b) Breach of financial ratios – occurs if the Net Capitalization Ratio exceeds 70%; net capitalization ratio ("the Ratio") is the net debt divided by the equity plus the net debt, as calculated by the Group's auditor; "net debt" mean the Group's total debt under: loans and borrowings, lease agreements, bonds, other debt securities and other interest bearing or discounted financial instruments in issue, less related hedge derivatives, cash and cash equivalents, short- and long-term interest bearing deposits with banks or other financial institutions, available-for-sale marketable securities and restricted cash, calculated based on the consolidated financial statements. As at the statement of financial position date the ratio was 50%.
- c) Failure to repay material debt – the Company fails to repay any matured and undisputable debt in the amount of at least EUR 100 million within 30 days of its maturity.

Note 35 – Significant acquisitions and events

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

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

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

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

b. Transaction during 2010 in the United States

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

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

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

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

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

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

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

c. Transaction during 2011 in the United States

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

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

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

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

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

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

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

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

d. Loss of control of certain assets in EDT

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

Notes to the consolidated financial statements

continued

Note 35 – Significant acquisitions and events continued

e. Restructuring of partnership agreement in Bangalore, India

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

In addition, the SPV has paid the partner advances of approximately INR 2,536 million (EUR 21 million) on account of future acquisitions by the SPV of a further 51.6 acres. Such amount is presented in the statement of financial position as of December 31, 2011 and 2010 as advances for plot purchases within other receivables and prepayments (refer to note 9).

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

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

In accordance with the New Framework Agreement, *inter alia*, the following commercial terms have been agreed between the parties:

- EPI will remain the holder of 100% of the shareholdings and the voting rights in the SPV.
- The scope of the new project will be decreased to approximately 165 acres instead of 440 acres (the "New Project").
- The partner undertakes to complete the acquisitions of the additional land in order to obtain the rights over the said 165 acres.
- The SPV and/or EPI will not be required to pay any additional amounts in respect of such acquisitions or with respect to the project.

The project will be executed jointly by the partner and the SPV. The partner (or any of its affiliates) will also serve as the general contractor of the project, as well as the marketing manager of the project. Under the New Framework Agreement the partner is committed to a maximum construction costs, minimum sale prices and a detailed timeline and budget with respect to the development of the project.

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

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

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

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

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

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

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

f. Additional investment property transaction in the US

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

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

g. Bonds issuance program in Poland

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

h. Changes in global markets

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

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

i. Appointment of the Company's Chief Executive Officer

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

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

For the abovementioned hedging and settlement refer to note 15.

k. Issuance of debt securities in Israel

For the Issuance of debt refer to note 22.

l. 2011 impairments

For the abovementioned impairments refer to note 10.

m. Bond buyback program

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

Notes to the consolidated financial statements

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Note 35 – Significant acquisitions and events continued

m. Bond buyback program continued

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

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

n. Dividend paid to shareholders

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

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

o. Bondholders' agreement

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

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

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

p. Dividend distribution by EDT

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

q. Opening of the Toruń shopping center

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

r. Allotment of shares in EPI to VC

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

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

Note 36 – Related party transactions

Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below and in note 35.

The Company has six directors. The annual remuneration of the directors in 2011 amounted to EUR 1.1 million (2010: EUR 1.1 million) and the annual share-based compensation expenses amounted to EUR 1.5 million (2010: EUR 0.8 million). There was no change in the number of Company options granted to key personnel in 2011. In respect of the share-based plan in the US, refer to note 26. There are no other benefits granted to directors. For the nomination of the Company's CEO as a joint CEO in EI refer to note 35 (i). Information about related party balances as of December 31, 2011 and 2010 is disclosed in note 18.

Trading transactions

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

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Income		
Interest on balances with EI	215	136
Costs and expenses		
Recharges – EI and EUL	494	919
Executive director ¹	238	244
Former executive Vice Chairman of EI ²	–	710
Aviation services – Jet Link ³	522	496
Project management provision and charges – Control Centers group ³	3,521	5,039

¹ The Executive director, who is also the controlling shareholder of the ultimate parent company, is receiving an annual salary of US\$300,000.

² 2010: including option plan expenses of EUR 0.5 million. For the option plan for the former executive Vice Chairman of EI refer to note 26. Starting 2011, the former executive Vice Chairman of EI is not considered a related party.

³ Jet Link Ltd. and Control Centers (refer to note 34 (a1)) are companies owned by the ultimate shareholder of the Company. Control Centers group costs are capitalized to the relevant trading property.

Notes to the consolidated financial statements

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Note 37 – Operating segments

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

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

1 US – Including investment property revaluation of EUR 8.3 million. Central Eastern Europe – Including investment property devaluation of EUR 0.2 million.

2 Central Eastern Europe – Including EUR 48 million impairment of trading properties.

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

1 US – Including investment property revaluation of EUR 4.4 million. Central Eastern Europe – Including investment property revaluation of EUR 0.3 million.

2 Central Eastern Europe – Including EUR 6.7 million impairment of trading properties.

Note 38 – Events after the reporting period

Transaction during 2012 in the United States

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

The centers, located across 20 US states, are to be acquired by BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Advisors VII L.P. ("Blackstone Real Estate") and DDR. Of the transaction value of US\$1.43 billion, a total of US\$934 million (EUR 722 million) shall be paid by the way of assumption of the property level debt unless repaid by EPN Group.

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

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

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

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

SWAP settlements in 2012

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

Bond buyback program progress in 2012

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

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

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

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

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

Notes to the consolidated financial statements

continued

Note 39 – Critical accounting judgments and key sources of estimation uncertainty

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

a. Impairment of Trading Properties analysis

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

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

Determining net realizable value is inherently subjective as it requires estimates of future events and takes into account special assumptions in the valuations, many of which are difficult to predict. Actual results could be significantly different than our estimates and could have a material effect on our financial results. This evaluation becomes increasingly difficult as it relates to estimates and assumptions for projects in the preliminary stage of development in addition to current economic uncertainty and the lack of transactions in the real estate market in CEE and India for same or similar properties.

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

Significant estimates

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

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

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

b. Potential penalties, guarantees issued

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

c. Expired building permits

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

d. Valuation of share-based payment arrangements

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

e. Classification of investment property

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

f. IFRS 5 judgment

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

Notes to the consolidated financial statements

continued

Note 40 – List of Group entities

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

Hungary	Activity	Remarks
Directly wholly owned		
Plaza Centers Establishment B.V.		
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	Holder of land usage rights	100% held by Plaza Centers Establishment B.V. Arena Plaza Extension project
Plaza House Ingatlanfejlesztési Kft.	Office building	David House project
HOM Ingatlanfejlesztési és Vezetési Kft.	Management company	
Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	
Amanati Ltd.	Inactive	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Inactive	
Indirectly or jointly owned		
Plasi Invest 2007 Ingatlanforgalmazó Kft.	Holding company	70% held by Plaza Centers N.V.
SBI Hungary Ingatlanforgalmazó és Építő Kft.	Shopping center	50% held by Plasi Invest 2007 Ingatlanforgalmazó Kft. 50% held by Israeli based partner Új Udvar project
Fantasy Park Magyarország Kft.	Inactive	100% held by Mulan B.V.
Ercorner Gazdasági Szolgáltató Kft.	Holding company	50% held by Plaza Centers N.V. 50% held by Hungarian commercial bank
Álom Sziget 2004 Ingatlanfejlesztő Kft.	Mixed-used project	87% held by Ercorner Gazdasági Szolgáltató Kft. Dream Island project
Pro-One Ingatlanfejlesztő Kft.	Holding company	50% held by Álom Sziget 2004 Ingatlanfejlesztő Kft. 50% held by Hungarian partner
Buszesz IMMO Zrt.	Owns plot of land	100% held by Pro-One Ingatlanfejlesztő Kft.
Water Front City Kft.	Owns plot of land	100% held by Pro-One Ingatlanfejlesztő Kft.
DI Gaming Holding Ltd.	Holding company	87% held by Ercorner Gazdasági Szolgáltató Kft.
Álom Sziget Entertainment Zrt.	Holding company	49.99% held by DI Gaming Holding Ltd.
Álom Sziget Hungary Kaszinójáték Kft.	Holding company	100% held by Álom Sziget Entertainment Zrt.
Slovakia		
	Activity	Remarks
Directly wholly owned		
Plaza Centers Slovak Republic S.R.O.	Inactive	
Poland		
	Activity	Remarks
Directly wholly owned		
Kielce Plaza Sp.z.o.o.	Shopping center project	Kielce Plaza project
Leszno Plaza Sp.z.o.o.	Owns plot of land	Leszno Plaza project
Łódź Centrum Plaza Sp.z.o.o.	Owns plot of land	Łódź (Residential) project
Ólsztyn Plaza Sp.z.o.o.	Owns plot of land	Białystok Plaza project
O2 Fitness Club Sp.z.o.o.	Entertainment	
Plock Plaza Sp.z.o.o.	Owns plot of land	Radom Plaza project
Suwałki Plaza Sp.z.o.o.	Active shopping center	Suwałki Plaza project
Toruń Plaza Sp.z.o.o.	Active shopping center	Toruń Plaza project
Wrocław Plaza Sp.z.o.o.	Mixed-used project	Łódź Plaza project
Zgorzelec Plaza Sp.z.o.o.	Active shopping center	Zgorzelec Plaza project
EDMC Sp.z.o.o.	Management company	
Plaza Centers (Poland) Sp.z.o.o.	Management company	
Plaza Centers (Poland) Sp.z.o.o. Hungary Branch		100% held by Plaza Centers (Poland) Sp.z.o.o.
Hokus Pokus Rozrywka Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. 50% held by P.L.A.Z.A B.V.

Poland (continued)	Activity	Remarks
Bytom Plaza Sp.z.o.o.	Inactive	
Bielsko-Biala Plaza Sp.z.o.o.	Inactive	
Bydgoszcz Plaza Sp.z.o.o.	Inactive	
Chorzów Plaza Sp.z.o.o.	Inactive	
Gdańsk Centrum Plaza Sp.z.o.o.	Inactive	
Głiwice Plaza Sp.z.o.o.	Inactive	
Gorzów Wielkopolski Plaza Sp.z.o.o.	Inactive	
Gruźdź Plaza Sp.z.o.o.	Inactive	
Jelenia Góra Plaza Sp.z.o.o.	Inactive	
Katowice Plaza Sp.z.o.o.	Inactive	
Legnica Plaza Sp.z.o.o.	Inactive	
Opole Plaza Sp.z.o.o.	Inactive	
Radom Plaza Sp.z.o.o.	Inactive	
Rzeszów Plaza Sp.z.o.o.	Inactive	
Szczecin Plaza Sp.z.o.o.	Inactive	
Tarnów Plaza Sp.z.o.o.	Inactive	
Tychy Plaza Sp.z.o.o.	Inactive	
Indirectly or jointly owned		
Fantasy Park Poland Sp.z.o.o.	Entertainment	100% held by Mulan B.V.
Lublin Or Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. 50% held by Israeli-based partner
EDP Plaza Sp.z.o.o.	Inactive	50% held by Plaza Centers N.V. 50% held by Israeli-based partner
Latvia	Activity	Remarks
Indirectly or jointly owned		
Diksna SIA	Active shopping center	50% held by Plaza Centers N.V. 50% held by American-based partner Riga Plaza project
Fantasy Park Latvia SIA	Entertainment	100% held by Mulan B.V.
Romania	Activity	Remarks
Directly wholly owned		
S.C. Elite Plaza S.R.L.	Shopping center project	Timișoara Plaza project
S.C. Green Plaza S.R.L.	Shopping center project	Iași Plaza project
S.C. North Eastern Plaza S.R.L.	Shopping center project	Constanța Plaza project
S.C. North West Plaza S.R.L.	Shopping center project	Hunedoara Plaza project
S.C. North Gate Plaza S.R.L.	Shopping center project	Csiki Plaza (Miercurea Ciuc) project
S.C. Eastern Gate Plaza S.R.L.	Real estate project	Cina project
S.C. South Gate Plaza S.R.L.	Shopping center project	Slatina Plaza project
S.C. Mountain Gate Plaza S.R.L.	Shopping center project	Târgu Mureș Plaza project
S.C. Palazzo Ducale S.R.L.	Office building and headquarters of Romanian offices	
S.C. Plaza Centers Management Romania S.R.L.	Management company	
S.C. Central Plaza S.R.L.	Inactive	Bacău project
S.C. White Plaza S.R.L.	Inactive	
S.C. Blue Plaza S.R.L.	Inactive	
S.C. Golden Plaza S.R.L.	Inactive	
S.C. West Gate Plaza S.R.L.	Inactive	
S.C. South Eastern Plaza S.R.L.	Inactive	
S.C. South West Plaza S.R.L.	Inactive	
S.C. Plaza Operating Management S.R.L.	Inactive	

Notes to the consolidated financial statements

continued

Note 40 – List of Group entities continued

Romania (continued)	Activity	Remarks
Indirectly or jointly owned		
Dâmbovița Centers Holding B.V.	Holding company	75% held by Plaza Centers N.V.
S.C. Dâmbovița Center S.R.L.	Mixed-used project	100% held by Dâmbovița Centers Holding B.V. Casa Radio project
Plaza Bas B.V.	Holding company	50.1% held by Plaza Centers N.V. 49.9% held by Israeli-based group
Adams Invest S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Vally View project
Colorado Invest S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Pine Tree project
Malibu Invest S.R.L.	Residential project	25% held by Plaza Bas B.V. 75% held by Israeli-based company Fountain Park project
Spring Invest S.R.L.	Office project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Primavera Tower Braşov project
Sunny Invest S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Green Land project
Primavera Invest S.R.L.	Office project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Primavera Tower Ploieşti project
Bas Developement S.R.L.	Residential project	50% held by Plaza Bas B.V. 50% held by Israeli-based company Acacia Park project
Indirectly or jointly owned		
Fantasy Park Romania S.R.L.	Inactive	100% held by Mulan B.V.
Moldova	Activity	Remarks
Directly wholly owned		
I.C.S. Plaza Centers Prodev S.R.L.	Inactive	
Serbia	Activity	Remarks
Directly wholly owned		
Plaza Centers Holding B.V.	Holding company	
Plaza Centers (Estates) B.V.	Holding company	
Plaza Centers (Ventures) B.V.	Holding company	
Plaza Centers Logistic B.V.	Holding company	
S.S.S. Project Management B.V.	Holding company	
Plaza Centers Management D.O.O.	Management company	
Indirectly or jointly owned		
Sek D.O.O.	Shopping center project	100% held by Plaza Centers Holding B.V. Kragujevac Plaza project
Leisure Group D.O.O.	Shopping center project	100% held by Plaza Centers (Estate) B.V. Sport Star Plaza and Kragujevac Plaza projects
Orchid Group D.O.O.	Shopping center project	100% held by Plaza Centers (Ventures) B.V. Belgrade Plaza project
Accent D.O.O.	Inactive	100% held by Plaza Centers Logistic B.V.
Telehold D.O.O.	Inactive	100% held by S.S.S. Project Management B.V.
Fantasy Park Serbia D.O.O.	Inactive	100% held by Mulan B.V.

Czech Republic	Activity	Remarks
Directly wholly owned		
Praha Plaza S.R.O.	Logistic center	Prague III project
Plaza Housing S.R.O.	Owns plot of land	Roztoky project
P4 Plaza S.R.O.	Active shopping center	Liberec Plaza project
Plaza Centers Czech Republic S.R.O.	Management company	
Indirectly or jointly owned		
Fantasy Park Czech Republic S.R.O.	Entertainment	100% held by Muland B.V.
Bulgaria	Activity	Remarks
Directly wholly owned		
Shumen Plaza EOOD	Shopping center project	Shumen Plaza project
Plaza Centers Management Bulgaria EOOD	Management company	
Plaza Centers Development EOOD	Inactive	
Indirectly or jointly owned		
Plaza-ON Holding B.V.	Holding company	51% held by Plaza Centers N.V. 49% held by Israeli-based company
ON International EOOD	Office project	100% held by Plaza-ON Holding B.V. Sofia Plaza Business Center project
Greece	Activity	Remarks
Directly wholly owned		
Piraeus Plaza S.A.	Shopping center project	Piraeus Plaza project
Cyprus – Ukraine	Activity	Remarks
Directly wholly owned		
Tanoli Enterprises Ltd.	Finance activity	
PC Ukraine Holdings Ltd.	Inactive	
Plaza Centers Ukraine Ltd.	Management company/ Inactive	100% held by PC Ukraine Holdings Ltd.
Nourolet Enterprises Ltd.	Inactive	100% held by PC Ukraine Holdings Ltd.
Cyprus – Russia	Activity	Remarks
Indirectly or jointly owned		
Plaza & Snegiri Ltd.	Inactive	50% held by Plaza Centers N.V.
The Netherlands	Activity	Remarks
Directly wholly owned		
P.L.A.Z.A. B.V.	Holding company – Poland	100% held by Mulan B.V. Holds Hokus Pokus Rozrywka Sp.z.o.o. jointly with Plaza Centers N.V. (50%-50%)
Plaza Dâmbovița Complex B.V.	Holding company	
Plaza Centers Enterprises B.V.	Finance company	100% held by Plaza Dâmbovița Complex B.V.
Mulan B.V. (Fantasy Park Enterprises B.V.)	Holding company	Holds Fantasy Park subsidiaries in CEE
Plaza Centers Administrations B.V.	Inactive	
Plaza Centers Connections B.V.	Inactive	
Óbuda B.V.	Inactive	
Plaza Centers Corporation B.V.	Inactive	
Plaza Centers Engagements B.V.	Inactive	
Plaza Centers Foundation B.V.	Inactive	
Plaza Centers Management B.V.	Inactive	

Notes to the consolidated financial statements

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Note 40 – List of Group entities continued

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

Cyprus – India (continued)	Activity	Remarks
Avyaja Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Avyang Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Avyaya Developers Pvt. Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam Developers Pvt. Ltd.
Spiralco Holdings Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
P-One Infrastructure Pvt. Ltd.	Real estate	50% held by Spiralco Holdings Ltd. 50% held by Indian-based company Kharadi Plaza and Trivandrum Plaza projects
Rebeldora Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
HOM India Management Services Pvt. Ltd.	Management company	99.9% held by PC India Holdings Public Company Ltd.
Rosesmart Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Xifius Services Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Dezimark Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Elbit Plaza India Real Estate Holdings Ltd.	Holding company	47.5% held by Plaza Centers N.V.
Polyvendo Ltd.	Holding company	100% held by Elbit Plaza India Real Estate Holdings Ltd.
Elbit Plaza India Management Services Pvt. Ltd.	Management company	99.999% held by Polyvendo Ltd.
Kadavanthra Builders Pvt. Ltd.	Mixed-used project	80% held by Elbit Plaza India Real Estate Holdings Ltd. Chennai (SlpCot) project
Aayas Trade Services Pvt. Ltd.	Mixed-used project	100% held by Elbit Plaza India Real Estate Holdings Ltd. Bangalore project
Elbit India Architectural Services Ltd.	Inactive	100% held by Elbit Plaza India Real Estate Holdings Ltd.

Notes to the consolidated financial statements

continued

Note 40 – List of Group entities continued

United States of America	Activity	Remarks
Indirectly or jointly owned		
Elbit Plaza USA LP	Holding company	50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
Plaza USA LLC	Holding company	100% held by Elbit Plaza USA LP
EPN GP LLC	Holding company	21.64% held by Plaza USA LLC The remainder of shares are held by US and Israeli partners
EPN EDT Holdings II LLC	Holding company	23.64% held by Plaza USA LLC The remainder of shares are held by US and Israeli partners
EDT Retail Trust Management LLC (US MGR)	Holding company	50% held by EPN GP LLC 50% held by US-based partner
EDT Australian Services Ltd. (Aus)	Management company	100% held by EDT Retail Trust Management LLC (US MGR)
EDT US Services LLC (US)	Management company	100% held by EDT Retail Trust Management LLC (US MGR)
EDT Retail Management Ltd. (ERML)	Management company	100% held by EDT Retail Trust Management LLC (US MGR)
EDT Retail Trust	Inactive	52.18% held by EPN EDT Holdings II LLC 47.82% held by EPN GP LLC
EDT U.S. Trust INC. (US REIT I)	Holding company	52.18% held by EPN EDT Holdings II LLC 47.82% held by EPN GP LLC
EDT Fund LLC (US LLC)	Holding company	100% held by EDT US Trust INC. (US REIT I)
EDT U.S. Trust II INC. (US REIT II)	Holding company	52.18% held by EPN EDT Holdings II LLC 47.82% held by EPN GP LLC
DDR MDT PS LLC (MV LLC)		50% held by EDT US Trust II INC. (US REIT II) 50% held by US-based partner
DDR MDT MV LLC (PS LLC)		90.3362% held by EDT US Trust II INC. (US REIT II) 9.663% held by US-based partner
EPN Investment Management LLC	Management company	50% held by Elbit Plaza USA LP 50% held by US-based partner
EPN Fund GP LLC	Holding company	50% held by Elbit Plaza USA LP 50% held by US-based partner
EPN Real Estate Fund LP (Fund)	Holding company	99.8% held by Israeli-based partner 0.2% held by EPN Fund GP LLC
EPN Real Estate Fund Holdings LLC		100% held by EPN Real Estate Fund LP (Fund)

COMPANY BALANCE SHEET

As at December 31, 2011

After appropriation of result

	Notes	€ thousands	2011 € thousands	2010 € thousands
ASSETS				
Non-current assets				
Tangible fixed assets	1		2,171	3,969
Other non-current assets				
Participations	2	809,471		787,993
Charges participations	3	24,550		11,872
Other assets	4	69,607		124,619
			903,628	924,484
Total non-current assets			905,799	928,453
CURRENT ASSETS				
Other receivables and prepayments	5		33,368	45,625
Short-term deposits and cash at bank	6		44,839	115,225
Total current assets			78,207	160,850
Total			984,006	1,089,303

EQUITY AND LIABILITIES

For the year ended December 31, 2011

	Notes	€ thousands	2011 € thousands	2010 € thousands
SHAREHOLDERS' EQUITY				
Issued share capital	7	2,972		2,967
Share premium	8	261,773		261,773
Foreign currency translation reserve	9	(10,672)		8,074
Revaluation reserve	10	16,152		55,587
Other capital reserves	11	12,612		31,272
Retained earnings	12	259,285		240,522
			542,122	600,195
PROVISIONS				
Provisions participations	13	96,115		58,323
LIABILITIES				
Long-term liabilities	14	224,244		312,888
Deferred taxes	14	12,197		-
			332,556	371,211
CURRENT LIABILITIES				
Other liabilities and accruals	15		109,328	117,897
Total			984,006	1,089,303

COMPANY PROFIT AND LOSS ACCOUNT
For the year ended December 31, 2011

	Notes	2011 € thousands	2010 € thousands
Other operating income	16	(1,163)	468
Gross operating result		(1,163)	468
General expenses	17	7,637	6,929
Total operating costs		7,637	6,929
Operating result		(8,800)	(6,461)
Financial income and expenses	18	80,817	(12,369)
RESULT FROM ORDINARY ACTIVITIES			
Before taxation		72,017	(18,830)
Results participations	19	(50,029)	27,502
Income taxes	20	(12,642)	1,601
Result after taxation		9,346	10,273

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2011

GENERAL

ACTIVITIES AND OWNERSHIP

Plaza Centers N.V. (the "Company") is a company domiciled in the The Netherlands. The Company is a subsidiary of Elbit Ultrasound B.V. which holds 62.5% of the Company's shares, as of balance sheet date. The ultimate shareholder of the Company is Elbit Imaging Limited which is indirectly controlled by Mr. Mordechai Zisser, a director of the Company. The Company is listed on the main stock exchange market ("LSE") in London, United Kingdom commencing October 27, 2006 and starting October 19, 2007, the Company's shares are also listed in the Warsaw Stock Exchange ("WSE"). The Company owns subsidiary companies in Central and Eastern Europe, India and in the US which purchase, develop, hold and sale real estate assets.

ACCOUNTING POLICIES IN RESPECT OF THE VALUATION OF ASSETS AND LIABILITIES

The Company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands, applying the accounting principles of the consolidated financial statements as set out in Article 362, Sub 8 of Part 9, Book 2, of the Netherlands Civil Code. The valuation of assets and liabilities and the calculation of the net result conform with the accounting principles applied in the consolidated annual accounts, except for participations which are valued at net asset value rather than at cost. This means that Plaza Centers N.V.'s shareholders' equity and net result are the same as in the consolidated accounts.

The Company financial statements are denominated in thousands of euros.

The company income statement has been prepared in accordance with the provisions of Section 402, Book 2, of the Netherlands Civil Code.

We refer to the notes of the consolidated financial statements, unless indicated otherwise.

FINANCIAL NON-CURRENT ASSETS

The participating interest in which the Company is able to exert a significant influence on policy are included at the amount of the Group's share in the net asset value of the interests concerned. The net asset value is calculated according to the same policies as have been applied to these annual accounts. The other participating interests are stated at cost.

Provisions have been formed for negative net asset values of the interests concerned.

Note 1 – Tangible fixed assets

NON-CURRENT ASSETS

Movements in tangible fixed assets are broken down as follows:

	Other fixed assets €thousands
Balance as at January 1, 2011	
Actual cost airplanes	4,737
Accumulated depreciation	(768)
Actual net cost airplanes	3,969
Depreciation and impairment airplane 2011	(1,798)
Balance as at December 31, 2011	
Actual cost airplane	4,737
Accumulated depreciation	(2,566)
Book value	2,171
Depreciation rate	2.7%

The depreciation rate is based on the estimated economic useful lives of the tangible fixed assets concerned. The depreciation applicable for 2011 was 2.7%.

Note 2 – Participations

Movements in participations are broken down as follows:

	2011 €thousands	2010 € thousands
Balance as at January 1	787,993	647,054
New investments, net of redemptions	(2,092)	43,063
Finance capitalized to investments	4,344	8,477
Reclassified	59,078	15,529
Translation reserve effect	(18,449)	17,714
Transaction with minority effect	(19,342)	-
Investment disposed	-	1,178
Result for the year	(2,061)	54,978
Balance as at December 31	809,471	787,993

Included under this heading are the following participating interests:

Name	Registered office	Share in issued capital as percentage
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	Budapest, Hungary	100%
HOM Ingatlanfejlesztési és Vezetési Kft. ("HOM")	Budapest, Hungary	100%
Plaza House Ingatlanfejlesztési Kft.	Budapest, Hungary	100%
Tatabánya Plaza Ingatlanfejlesztési Kft.	Budapest, Hungary	100%
Szombathely 2002 Ingatlanhasznosító és Vagyongazdálkodó Kft.	Budapest, Hungary	100%
Szeged 2002 Ingatlanhasznosító és Vagyongazdálkodó Kft.	Budapest, Hungary	100%
Ercorner Kft.	Budapest, Hungary	50%
Plasi Invest 2007 Ingatlanforgalmazó kft	Budapest, Hungary	70%
EDP Sp. z o o	Warsaw, Poland	50%
Bytom Plaza Sp. z o o	Warsaw, Poland	100%
Bydgoszcz Plaza Sp. z o o	Warsaw, Poland	100%
Zgorzelec Plaza Sp. z o o	Warsaw, Poland	100%
Gdansk Centrum Plaza Sp. z o o	Warsaw, Poland	100%
Lublin Or Sp. z o o	Warsaw, Poland	50%
Gliwice Plaza Sp. z o o	Warsaw, Poland	100%
Gorzów Wielkopolski Plaza Sp. z o o	Warsaw, Poland	100%
Jelenia Góra Plaza Sp. z o o	Warsaw, Poland	100%
Katowice Plaza Sp. z o o	Warsaw, Poland	100%
Suwałki Plaza Sp. z o o	Warsaw, Poland	100%
EDMC Sp. z o o	Warsaw, Poland	100%
Legnica Plaza Sp. z o o	Warsaw, Poland	100%
Lódź Centrum Plaza Sp. z o o	Warsaw, Poland	100%
Plaza Centers (Poland) Sp. z o o	Warsaw, Poland	100%
Kielce Plaza Sp. z o o	Warsaw, Poland	100%
Olsztyn Plaza Sp. z o o	Warsaw, Poland	100%
Opole Plaza Sp. z o o	Warsaw, Poland	100%
Płock Plaza Sp. z o o	Warsaw, Poland	100%
Radom Plaza Sp. z o o	Warsaw, Poland	100%
Hokus Pokus Rozrywka Sp. z o o	Warsaw, Poland	50%
Byalistok Plaza Sp. z o o	Warsaw, Poland	100%
Gdźnia Plaza Sp. z o o	Warsaw, Poland	100%
Torun Plaza Sp. z o o	Warsaw, Poland	100%
Tychy Plaza Sp. z o o	Warsaw, Poland	100%
Wrocław Plaza Sp. z o o	Warsaw, Poland	100%
Zabrze Plaza Sp. z o o	Warsaw, Poland	100%
Leszno Plaza Sp. z o o	Warsaw, Poland	100%

Name	Registered office	Share in issued capital as percentage
Praha Plaza S.R.O.	Prague, Czech Republic	100%
Plaza Centers Czech Republic S.R.O.	Prague, Czech Republic	100%
P4 Plaza S.R.O.	Prague, Czech Republic	100%
Plaza Housing S.R.O	Prague, Czech Republic	100%
S.C. CENTRAL PLAZA SRL	Bucharest, Romania	100%
S.C. GREEN PLAZA S.R.L.	Bucharest, Romania	100%
S.C. ELITE PLAZA SRL.	Bucharest, Romania	100%
S.C. PLAZA CENTERS MANAGEMENT ROMANIA SRL	Bucharest, Romania	100%
S.C. NORTH GATE PLAZA SRL	Bucharest, Romania	100%
S.C. SOUTH GATE PLAZA SRL	Bucharest, Romania	100%
S.C. WEST GATE PLAZA SRL	Bucharest, Romania	100%
S.C. EASTERN GATE PLAZA SRL	Bucharest, Romania	100%
S.C. NORTH WEST PLAZA SRL	Bucharest, Romania	100%
S.C. NORTH EASTERN PLAZA SRL	Bucharest, Romania	100%
S.C.SOUTHWESTPLAZA SRL	Bucharest, Romania	100%
S.C. SOUTH EASTERN PLAZA SRL	Bucharest, Romania	100%
S.C. WHITE PLAZA SRL	Bucharest, Romania	100%
S.C. GOLDEN PLAZA SRL	Bucharest, Romania	100%
S.C. BLUE PLAZA SRL	Bucharest, Romania	100%
S.C. RED PLAZA SRL	Bucharest, Romania	100%
S.C. PALAZZO DUCALE SRL	Bucharest, Romania	100%
S.C.MOUNTAIN GATE SRL	Bucharest, Romania	100%
Plaza & Snegiri Ltd.	Nicosia, Cyprus	50%
ShumenPlaza E.O.O.D	Sofia, Bulgaria	100%
Plaza Centers Development E.O.OD	Sofia, Bulgaria	100%
Plaza Centers Management Bulgaria E.O.OD	Sofia, Bulgaria	100%
Elbit Plaza India Real Estate Holding Limited	Nicosia, Cyprus	47.5%
PC India Holdings Public Company limited	Nicosia, Cyprus	100%
Helios Plaza S.A.	Athens, Greece	100%
Elbit Plaza USA L.P	Delaware, USA	50%
SIA Diksna	Riga, Latvia	50%
PC Ukraine Holdings Limited	Nicosia, Cyprus	100%

Name	Registered office	Share in issued capital as percentage
Plaza Centers Management B.V.	Amsterdam, the Netherlands	100%
Plaza Centers (Ventures) B.V.	Amsterdam, the Netherlands	100%
Plaza Centers (Estates) B.V.	Amsterdam, the Netherlands	100%
Plaza Centers Foundations B.V.	Amsterdam, the Netherlands	100%
Plaza Centers Establishment B.V.	Amsterdam, the Netherlands	100%
S.S.S Project Management B.V.	Amsterdam, the Netherlands	100%
Plaza Centers Logistics B.V.	Amsterdam, the Netherlands	100%
Obuda B.V.	Amsterdam, the Netherlands	100%
Plaza-BAS B.V.	Amsterdam, the Netherlands	51%
Plaza Dambovita Complex B.V.	Amsterdam, the Netherlands	100%
Plaza Centers Engagements B.V.	Amsterdam, the Netherlands	100%
Plaza Centers Administrations B.V.	Amsterdam, the Netherlands	100%
Plaza Centers Connection B.V.	Amsterdam, the Netherlands	100%
Plaza-On Holding B.V.	Amsterdam, the Netherlands	100%
Plaza Centers Corporation B.V.	Amsterdam, the Netherlands	100%
Dambovita Center Holdings B.V.	Amsterdam, the Netherlands	100%
Mulan B.V.	Amsterdam, the Netherlands	100%
(FantasyPark Enterprises B.V.)		
Dreamland N.V.	Curacao, the Dutch Antilles	100%

Linkage D.O.O	Belgrade, Serbia	100%
Plaza Centers Management D.O.O	Belgrade, Serbia	100%
I.C.S Plaza Centers Prodev SRL	Chishinau, Moldova	100%
Plaza Centers Slovak Republic s.r.o	Bratislava, Slovakia	100%

Note 3 – Charges to associates

Name	2011 € thousands	2010 € thousands
Green Plaza S.R.L.	132	132
Dambovita S.R.L.	445	445
Elite Plaza S.R.L.	68	68
North gate Plaza S.R.L.	116	116
South gate Plaza S.R.L.	55	55
North west Plaza S.R.L.	38	38
Mountain gate S.R.L.	43	43
Dambovita Centers Holding B.V	90	90
Ercorner Kft.	1,316	1,174
Helios Plaza S.A.	3,992	3,928
Elbit Plaza India real estate holdings Ltd.	12,663	594
Suwalki Plaza Sp.zo.o	446	375
Zgorzelec Plaza Sp.zo.o.	331	267
Olsztyn Plaza Sp.zo.o	107	118
Fantasy Park B.V	2,018	1,934
Plaza Housing S.R.O.	6	6
B1 Plaza S.R.O	21	21
P4 Plaza S.R.O.	496	325
SIA Diksna	53	29
PC India Holdings Ltd.	2,095	2,095
Other	19	19
Total	24,550	11,872

The charges to participations bear an interest varying between 0% and one year EURIBOR + 5%.

Note 4 – Other assets

	2011 € thousands	2010 € thousands
Uncharged costs – Romania	3,919	3,779
Uncharged costs – Greece	2,461	2,461
Uncharged costs – Serbia	2,296	1,722
Uncharged costs – India	4,090	2,715
Uncharged costs – other projects	3,379	3,479
Long term investments - structures	50,697	52,017
Security deposit for SWAP and long term structures	2,765	16,336
Derivative	-	42,110
Total	69,607	96,233

CURRENT ASSETS

Note 5 – Other receivables and prepayments

	2011 € thousands	2011 € thousands	2010 € thousands	2010 € thousands
CDPM Poland Sp.z.o.o	406		402	
Andrassy 25 Kft	(62)		53	
CCB N.V	825		825	
Jet Link Ltd.	15		15	
Astrid Plaza N.V	6		6	
Total related parties		1,190		1,301
Derivative		-		10,535
Interest receivable from banks		1,653		1,950
Investment in bonds		25,568		27,098
Advance payment in respect of property purchase		4,957		4,741
Total		33,368		45,625

Note 6 – Short-term deposits and cash at bank

Name	2011 € thousands	2010 € thousands
InvestKredit bank AG	784	9,489
Mizrachi Bank	10,934	-
FIBI UK	39	13,855
Investec Bank Ltd.	6,095	13,110
ING Bank	-	3,018
MKB Bank	319	14,080
BAWAG	27	27
ABN-AMRO	540	20,454
OTP Bank	2,031	10,210
ERSTE Bank	2,006	10,073
FHB Bank	2,017	5,090
Merrill Lynch	11,854	9,123
Swedbank(Latvia)	11	11
UBS Bank	817	101
Union bank Ltd. (Israel)	20	113
Bank Leumi Ltd. (Israel)	7,328	2,070
Bank Hapoalim Ltd.	17	4,401
Total	44,839	115,225

As of December 31, 2011, an amount of EUR 13 million (December 31, 2010 – EUR 13.1 million) is restricted primarily due to financial instruments investment activity.

SHAREHOLDERS' EQUITY**Note 7 – Issued share capital**

	2011 € thousands	2010 € thousands
The issued share capital can be specified as follows:		
Balance as at January 1	2,967	2,942
Exercise – share-based plan	5	25
Balance as at December 31	2,972	2,967

a. The number of shares authorized as of December 31, 2011 was 1 billion with a EUR 0.01 par value.

b. In the course of the 2 years ended December 31, 2011, the following share capital increases occurred:

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

Note 8 – Share premium

	2011 € thousands	2010 € thousands
Balance as at January 1 and December 31	261,773	261,773

Note 9 – Foreign currency translation reserve

	2011 € thousands	2010 € thousands
The table below presents the movements in the translation reserve:		
Balance as at January 1	8,074	(9,640)
Movement	(18,746)	17,714
Balance as at December 31	(10,672)	8,074

The movement concern the translation reserve resulted from the operation in India and in the US. The reserve is considered a legal reserve which is not distributable (if more than nil).

Note 10 – Revaluation reserve

	2011 € thousands	2010 € thousands
Balance as at January 1	55,587	23,034
Realized revaluations	(15,305)	32,465
Movement	(24,130)	88
Balance as at December 31	16,152	55,587

As of December 31, 2011 and 2010, the Company had a direct holding in one investment property (Prague 3 logistic center) which was fair valued at €13.6 million and €13.6 million, respectively. The book value recorded in December 31, 2011 and 2010 was €9.4 million and €9.5 million, respectively. In addition, the Company has 49 indirectly held investment property in the US, which generated in 2011 revaluation of EUR 8.3 million (2010 -EUR 4.4 million).

The reserve is considered a legal reserve which is not distributable (if more than nil).

Note 11 – Other capital reserves

	2011 € thousands	2010 € thousands
The table below presents the movements in other capital reserve:		
Balance as at January 1	31,272	28,888
Movement due to available for sale securities	(1,759)	(179)
Movement due to transaction with Non-controlling interest	(19,342)	-
Movement due to share option plan	2,441	2,563
Balance as at December 31	12,612	31,272

The movement concern share-based payment as a result of the Employee Share Option Plan which was adopted by the Company on October 26, 2006. On the same date, 26,108,602 non-negotiable options ("Options") over Ordinary Shares have been granted, the terms and conditions of which (except for the exercise price) will be regulated by the Share Option Scheme. No Options vested at that date. Options will vest annually in three equal parts. One-third of Options granted to an Eligible Grantee (see below) will vest one year after the date of grant, another third of granted Options will vest two years after the date of grant and the last third will vest three years after the date of grant. Options expire, unless otherwise determined by the Board, on the fifth anniversary of the date of grant. The total amount of options in the Share Option Plan is 33,834,586 options. For grants, exercise and forfeiture of options in 2011, refer to other information below.

Capital reserve in respect of available for sale securities relates to debt and equity securities purchased by the company as an investment starting the second half of 2008.

Capital reserve in respect of transaction with Non-controlling interest relates to acquisition of Non-controlling interest in one of the Company's US indirectly held subsidiary.

Note 12 – Retained earnings

	2011 € thousands	2010 € thousands
The table below presents the movements in the retained earnings:		
Balance as at January 1	240,522	262,802
Profit in the period	24,651	(22,192)
Dividend distributed in the period	(30,018)	-
Transfer to revaluation reserve	24,130	(88)
Balance as at December 31	259,285	240,522

The movement is reflecting the 2011 and 2010 results, dividend distributed, as well as the movements in revaluation reserve due to investment properties.

NON-CURRENT LIABILITIES

Note 13 – Provisions to associates

Movements in Provisions participations are broken down as follows:

	2011 €thousands	2010 € thousands
Balance as at January 1	58,323	27,463
New investments, net of redemptions	(56,229)	(1,948)
Finance capitalized to investments	(12,690)	(9,751)
Reclassified	59,078	15,529
Charges participations reclassification	(335)	(446)
Result for the year	47,968	27,476
Balance as at December 31	96,115	58,323

Note 14 – Long term liabilities

Name	2011 €thousands	2010 € thousands
Long-term debentures at fair value	110,320	211,998
Long-term debentures at amortized cost	108,850	97,978
Derivatives	2,242	-
Long term loans – GeFa	2,832	2,912
Total	224,244	312,888

For more details on the debentures (and in specific to the buyback programme) refer to note 21 and 22 of the consolidation financial statements.

CURRENT LIABILITIES

Note 15 – Other liabilities and accruals

	December 31, 2011 € thousands	December 31, 2011 € thousands	December 31, 2010 € thousands	December 31, 2010 € thousands
CDPM Hungary Kft.	241		241	
C/A Elbit Imaging Ltd.	1,210		1,393	
C/A Elbit Ultrasound B.V.	387		387	
C/A Elbit Plaza India real estate holdings Ltd.	280		703	
Other small charges participations	188		646	
Total related parties		2,306		3,370
Bank loan FIBI		6,866		8,046
Interest to pay – banks and investors		371		344
Bank loan – Merrill Lynch		36,225		36,225
Current portion of debentures and long term loans		63,197		69,261
Suppliers		363		261
Accruals and other creditors		-		390
Total		109,328		117,897

PROFIT AND LOSS

Note 16 – Other operating income

	December 31, 2011 € thousands	December 31, 2011 € thousands	December 31, 2010 € thousands	December 31, 2010 € thousands
Gain from selling subsidiaries				
Opava transaction	-		(197)	
Total from selling of subsidiaries		-		(197)
Release of old debtor to P&L		-		(102)
Release of old supplier to P&L		-		462
Impairment airplane		(1,588)		-
Profit from subsidiaries –				
Management fees on invoices		6		14
Profit from subsidiaries –				
late payment interest		419		291
Total		(1,163)		468

The number of employees in the Group (in the Company) was 185 (2) as of December 31, 2011.
As of December 31, 2010 the number of the employees was 163 (2).

Note 17 – General expenses

	2011 € thousands	2010 € thousands
Salary and salary related expenses	4,124	4,122
Travelling expenses	525	369
Audit, legal and consultancy expenses	2,285	2,098
Other expenses	703	340
Total	7,637	6,929

Note 18 – Financial income and expenses

	2011 € thousands	2010 € thousands
Interest income from bank deposits	2,822	1,743
Gain from bonds repurchase	2,005	-
Profit from call options strategy	5,212	-
Derivative	(15,305)	37,307
Costs of raising bonds	4	(133)
Foreign exchange difference	16,196	(42,691)
Change in fair value of bonds	59,891	(17,729)
Income from structures and AFS financial instruments	7,253	7,469
Change in fair value of small structure	(1,320)	1,065
Preference shares accrued dividend	5,107	539
Gain from loan redemption in respect of US transaction	-	821
Interest expenses on bank loans - structures,		
Available for Sale financial instruments	(876)	(710)
Other bank expenses and charges	(172)	(50)
Total	80,817	(12,369)

Note 19 – Results participations

	2011 € thousands	2010 € thousands
Tatabánya Plaza Ingatlanfejlesztési Kft.	6	(14)
HOM Ingatlanfejlesztési és Vezetési Kft.	(867)	(75)
Plaza House Ingatlanfejlesztési Kft.	(49)	(102)
Szeged 2002 Ingatlanhasznosító és Vagyongazdálkodó Kft.	(1)	(2)
Szombathely 2002 Ingatlanhasznosító és Vagyongazdálkodó Kft.	(1)	(1)
Elbit Plaza US L.P.	4,818	44,921
Helios Plaza S.A.	(1,035)	(655)
Katowice Plaza Sp.z.o.o.	(41)	(30)
Lodz Centrum Plaza Sp.z.o.o.	(273)	(242)
Torun Plaza Sp.z.o.o.	97	(305)
Suwalki Plaza Sp.z.o.o.	202	96
Zgorzelec Plaza Sp.z.o.o.	(3,744)	(1,147)
Radom Plaza Sp.z.o.o.	(25)	(41)
Olsztyn Plaza Sp.z.o.o.	(94)	(74)
Kielce Plaza Sp.z.o.o.	(74)	(27)
Leszno Plaza Sp.z.o.o.	(1,759)	668
Bytom Plaza Sp.z.o.o.	(2)	(4)
Wrocław Plaza Sp.z.o.o.	(169)	(290)
Plaza Centers (Poland) Sp.z.o.o.	1,047	(55)
Hokus Pokus Rozrywka Sp.z.o.o.	(77)	(137)
Praha Plaza S.R.O.	(131)	677
Plaza Centers S.R.O.	(113)	(272)
B1 Plaza S.R.O.	-	(216)
P4 Plaza S.R.O.	(3,607)	(6,968)

Plaza housing S.R.O.	(5)	(1)
Tanoli Enterprises Ltd.	5,973	-
Ercorner Kft.	(665)	(462)
Dreamland N.V.	(980)	(394)
PCM E.O.O.D	(116)	113
SIA Diksna	(8,596)	(2,100)
Green Plaza S.R.L.	(3,101)	(1,156)
Mountain gate S.R.L.	(7,330)	(697)
Plaza On Holdings B.V	(1,087)	(766)
North Eastern Plaza S.R.L	18	(94)
North West Plaza S.R.L	(3,161)	(28)
Plasi investKft.	(625)	(1,114)
Kerepesi 5 Kft.	194	101
Shumen Ltd.	(2,851)	(26)
Obuda B.V.	(58)	(113)
PC India Holdings Ltd.	(1,971)	(1,768)
Plaza Centers venture B.V.	(1,140)	(1,213)
Plaza Centers estates B.V.	(655)	(859)
EDP Sp.z.o.o.	(2,969)	(123)
Plaza Dambovita Complex (FinCo)	26,969	36,102
Plaza Bas B.V.	(6,023)	(2,805)
PCM d.o.o	(303)	(290)
PC Ukraine holdings Ltd.	-	(129)
Dombovita Center Holding B.V.	(21,459)	(21,338)
Plaza Centers holdings B.V	(1,059)	(351)
Elbit Plaza India real estate holdings Ltd.	(5,933)	(7,900)
PCM s.r.l.	(370)	(478)
Elite residence esplanada S.R.L.	121	(68)
North gate s.r.l.	(2,623)	(97)
South gate s.r.l.	(4,344)	(23)
Palazzo du Calle s.r.l.	12	(126)
	(50,029)	27,502

Note 20 – Income taxes

	2011 € thousands	2010 € thousands
Deferred tax asset – structure B devaluation	(77)	12
Deferred tax asset – debentures devaluation	14,573	3,965
Deferred tax asset – Derivative	1,390	(7,112)
Deferred tax asset – Losses carry forward	(3,244)	1,534
Total	12,642	(1,601)

The applicable tax rate is 25%. The Company is currently not subjected to corporate tax payments as it is enjoying participation exemption.

The tax loss carry-forward for the Company's one tax unit is approximately €13 million as of December 31, 2011.

The last filing of corporate tax return relates to the fiscal year 2009.

AUDIT FEES

The total audit fees charged by the statutory auditor amount to EUR 48,800 (2010: 48,400). These relate only to the audit of the statutory financial statements.

Note 21 – Remuneration

2011	Salary and fees €'000	Share incentive plan ¹ €'000	Total non- performance related remuneration €'000	Total performance related remuneration €'000
Executive directors				
Non-performance related remuneration				
Mr. Mordechai Zisser	238	290	528	–
Mr Ran Shtarkman	463	790	1,253	100
Total	701	1,080	1,781	100
Non-executive directors				
Non-performance related remuneration				
Mr Shimon Yitzchaki	–	388	388	–
Mr Marius van Eibergen Santhagens	53	–	53	–
Mr Edward Paap	–	–	–	–
Mr Marco Wichers	53	–	53	–
Total	106	388	494	–
Total – all directors	807	1,468	2,275	100

(1) Accounting non-cash expenses recorded in the Company's income statement in connection with the share option plan.

SERVICE ARRANGEMENTS

The executive directors have rolling service contracts with the Company, which may be terminated on 12 months' and three month notice in the cases of Mr. Zisser 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.

Note 21 – Remuneration (cont.)

SHARE OPTIONS

The Company adopted its Share Option Scheme on October 26, 2006. At the same time, 26,108,602 non-negotiable options over Ordinary Shares were granted, the terms and conditions of which (except for the exercise price) are regulated by the Share Option Scheme. Regarding the modification of Share Option Scheme refer to note 26 of the consolidated report. For the exercise and forfeiture of options refer to the table below.

	Number of options	Number vested as at December 31, 2011	Exercise price of options £
Mr. Mordechay Zisser	3,907,895	3,907,895	0.43
Mr. Ran Shtarkman	10,150,376	7,089,151	0.43
Mr. Shimon Yitzchaki	2,116,541	794,361	0.43
Mr. Marius van Eibergen Santhagens	–	–	N/A
Mr. Edward Paap	–	–	N/A
Mr. Marco Wichers	–	–	N/A
			Number of options as at December 31, 2011
Total pool			47,834,586
Granted			44,120,174
Exercised			8,312,263
Forfeited			(8,902,779)
Left for future grant			12,617,191

Amsterdam, April 30, 2012
The Board of Directors

Mordechay Zisser

Ran Shtarkman

Shimon Yitzchaki

Marius Willem van Eibergen Santhagens

Marco Habib Wichers

Edward Paap

OTHER INFORMATION

PROVISION IN THE ARTICLES OF ASSOCIATION CONCERNING THE APPROPRIATION OF PROFITS

In accordance with the Company's Articles of Association the result for the year is at the disposal of the Annual General Meeting of shareholders.

APPROPRIATION OF RESULT

It is proposed that the 2011 profit of €9.3 million will be added to the other reserves. The annual accounts have been prepared on the assumption that this profit appropriation will be adopted by the Annual General Meeting of shareholders.

REMUNERATION POLICY

Plaza Centers' remuneration policy is designed to attract, motivate and retain the high-caliber 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.

SUBSEQUENT EVENTS

We refer to the notes to the consolidated financial statements on page 123

INDEPENDENT AUDITOR'S REPORT

To: the shareholders of Plaza Centers N.V.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2011 of Plaza Centers N.V., Amsterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2011, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Directors' report, in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers 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 policies used and the reasonableness of account-

ing 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 WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Plaza Centers N.V. as at 31 December 2011, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of Plaza Centers N.V. as at 31 December 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 30 April 2012

MAZARS PAARDEKOOPEL HOFFMAN ACCOUNTANTS N.V.

Was signed drs. R.C.H.M. Horsmans RA RV

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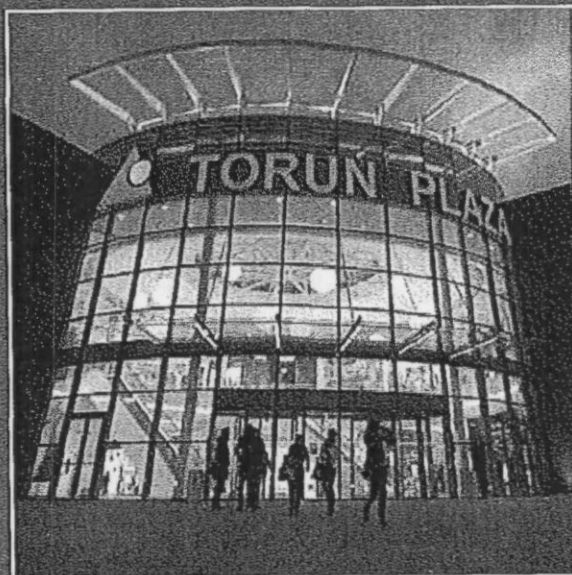
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Torun Plaza in Poland, the Group's 31st completed shopping and entertainment center, opened to the public on November 14, 2011

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