PLAZA CENTERS

Annual Report 2006

Contents

Group history

1996
First invested in Hungary

1996-2004
Developed and managed a portfolio of 20 shopping and entertainment centers

2004
Sold 12 shopping and entertainment centers to Klépierre at a gross asset value of €278 million

2005
Sold four shopping and entertainment centers to Dawnay Day at a gross asset value of €54.4 million

Who we are

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

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

The Company is an indirect subsidiary of Elbit Medical Imaging Ltd. ("EMI"), 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. The Company is a member of the Europe Israel Group of companies, which is controlled by its founder, Mr Mordechay Zisser.

The Group has been present in real estate development in emerging markets for over ten years, initially pursuing shopping and entertainment center development projects in Hungary and subsequently expanding into Poland, the Czech Republic, Latvia, Greece and, more recently, India. To date, the Group has developed, let and sold 23 shopping and entertainment centers. Nineteen of these centers were acquired by Klépierre, the second largest shopping center owner/operator in Europe, which owns more than 230 shopping centers in ten countries. The remaining four shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors which has combined gross assets in excess of US$3 billion.

Starting November 1, 2006, Plaza Centers N.V.'s shares are traded in the main list on the London Stock Exchange. The Company raised approximately £166 million of gross proceeds and its shares are traded under the ticker "PLAZ".

2005

Sold four shopping and entertainment centers to Klépierre at a gross asset value of €204 million

2006

Sold one shopping and entertainment center (and four forward sold) to Klépierre at a gross asset value of €189.4 million

2006

Initial Public Offering on the London Stock Exchange with gross proceeds raised of approximately £166 million

Group at a glance

Financial highlights

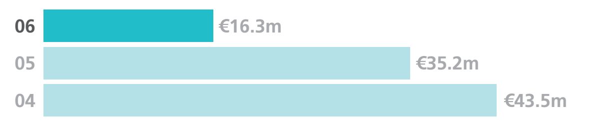
- Gross revenues and net gains from sale and operating of real estate of €74 million (2005: €55.7 million)
- Profit before tax of €16.3 million (2005: €35.2 million) owing to acquisitions of projects and funding of the Company's construction programme during the year
- Cash position of €219 million (2005: €50 million) and working capital of €324 million (2005: €84 million)
- A total of €105 million, representing 45% of the gross IPO proceeds has already been utilized; the Company expects to be fully invested within the next 12 months
- Increase in value to €160 million of real estate trading properties developed for future sale
- Total assets of €475 million (2005: €211 million)
- Basic and diluted EPS of €0.27

Operational highlights

- The opening of the Novo Plaza shopping center in Prague in March 2006 and its subsequent sale in June 2006 at an asset value of €50 million and net profit of €6.5 million
- Receipt of an additional overage payment of €13.7 million for the four Polish shopping centers previously sold in 2005
- Securing the landmark Casa Radio project in Bucharest in November 2006, with an estimated post development value of €1 billion
- Purchase of two additional developments in the Czech Republic in the cities of Liberec (for approximately 21,000m^2 GLA) and Opava (for approximately 14,200m^2 GLA)
- Two additional development projects acquired in Poland in the cities of Suwalki (for approximately 16,000–18,000m^2 GLA) and Zgorzelec (for approximately 16,000m^2 GLA)
- First transaction in India with a J.V. project in Koregaon Park, Pune (for approximately 107,500m^2 GBA)

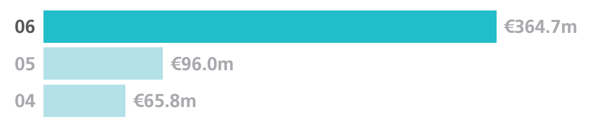
Gross revenue

Profit before tax



Total assets

Shareholder equity

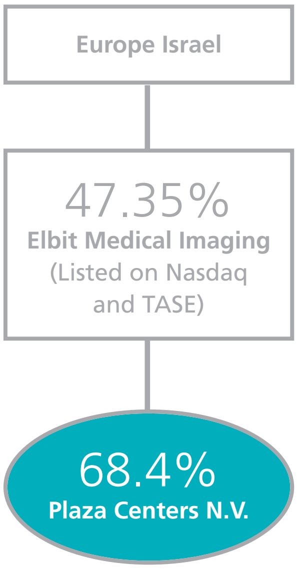


Key highlights since the year-end

- Acquisition of scheme for the development of a shopping center project in the city of Torun, Poland (for approximately 30,000m² GLA)
- Acquisition of additional project in Romania in Timisoara (for approximately 30,000m² GLA) and advanced negotiations for several other projects
- A second J.V. deal in India was agreed for the development of a mixed used development (shopping center, offices and serviced apartments) in the Kharadi district of Pune, totalling approximately 225,000m² GBA
- Successful opening of the Rybnik Plaza in Rybnik, Poland on March 15 and opening of Sosnowiec Plaza in Sosnowiec, Poland on March 29. Both centers have been pre-sold to Klépierre
- Successful ongoing deployment of the IPO proceeds, including €43 million spent on acquisitions of pipeline projects in Central and Eastern Europe (CEE) and €23 million committed to expanding the Company's presence in India
- Successful handover of Rybnik and Sosnowiec shopping centers to Klépierre in May 2007 for an asset value of c. €90.1 million (increase of €18.6 million compared with expectation at IPO) and estimated gain of c. €25 million

- Sale of Duna Plaza offices to Klépierre for €14.2 million
- Plaza Centers awarded by Maalot (an affiliate of Standard and Poor's rating services) A+/positive rating to raise up to $400 million of new debt

Ownership structure



Competitive strengths

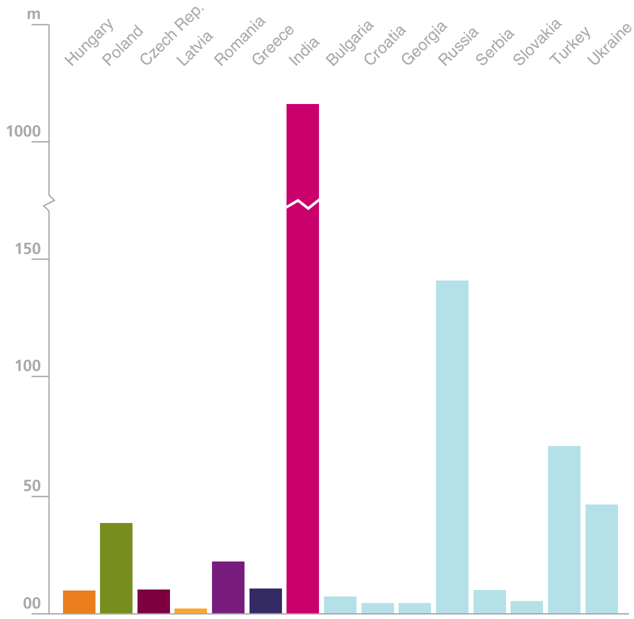
- Pioneer in introducing western-style shopping and entertainment centers to the CEE region
- Highly skilled management team
- Productive relationships with both leading international and local retailers
- Highly efficient construction process
- Strong relationship with premier property investors and operators and the ablilty to attract buyers early in the development process
- Strong brand name
- Clearly identified pipeline of new growth opportunities targeting attractive returns in fast growing emerging markets
- Flexible product mix tailored to local market demand

Our markets

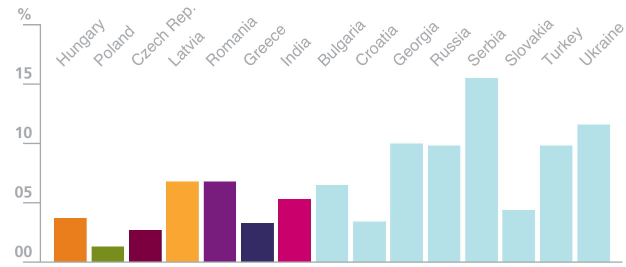
Where we do it

Current markets: Hungary, Poland, Czech Republic , Latvia, Romania, Greece, India
Future interest: Bulgaria, Croatia, Russia, Serbia, Slovakia, Georgia, Turkey, Ukraine

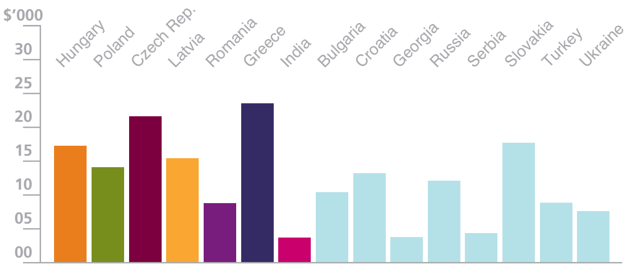
Population



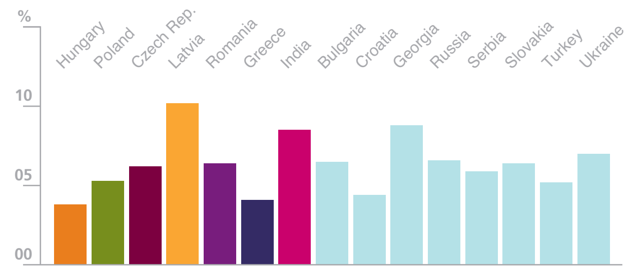
Inflation rate



GDP



GDP growth



Emerging markets

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

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

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

Development criteria

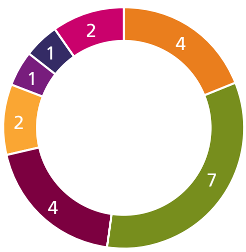
Selection of target countries – We focus upon countries in emerging markets, and are currently present in Eastern Europe and Asia. In order to determine a favorable investment climate, we take into account country risk, GDP per capita and economic growth, ratio of retail sales per capita, political stability,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

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

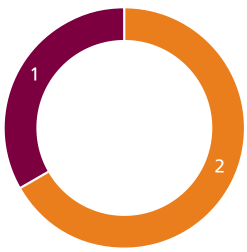
Project development – Once we have approved a site we manage its development from inception to completion, incorporating engineering, marketing, financial and legal stages, to encompass designs, architects, market forecasts and feasibility studies.

Assets by location

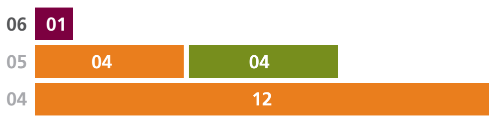
Under development



Offices



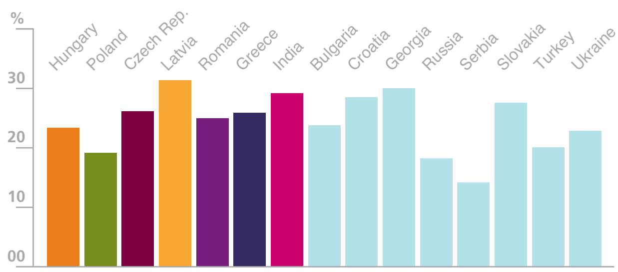
Projects sold



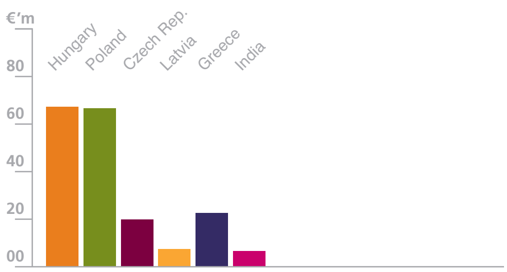
Key

- Hungary
- Poland
- Czech Republic
- Latvia
- Romania
- Greece
- India

Investment as % of GDP



Total investment by Plaza



Current developments

▲ Current development
● Project sold

Hungary

First development: 1996
Number of sold properties: 16
Number of current developments: 4

Highlighted sites

Arena Plaza

Town: Budapest
Type: Retail and entertainment scheme
Size: 66,000m² GLA
Number of shops: 220
Number of parking units: 2,600

Status: Under construction
Main anchors: IT cinema – 23 screens including, IMAX 3D theater; Tesco – 11,000m², four major anchor tenants – approximately 3,000m²/each
Plaza %: 100

Arena Plaza will be one of the largest shopping and entertainment centers in Central and Eastern Europe upon completion, and is located in one of the most densely populated districts of Budapest. It will also feature the first IMAX cinema in Hungary.

Dream Island (Obuda)

Town: Budapest
Type: Major business and leisure resort
Size: 350,000m² GBA (for rent and sale)

Status: Planning and initial excavations
Plaza %: 30

Dream Island will be developed as a fully integrated leisure entertainment and business complex, featuring a Las Vegas style. It will include eight to ten five star hotels, four apartment hotels, a convention center, a casino, an opera house, a dinner theatre and a marina with anchorage for 300 vessels.

Duna Plaza extension

Town: Budapest
Type: Retail and entertainment scheme
Size: 15,000m² GLA

Status: Planning stage
Plaza %: Development rights

Other projects

Project name: Arena Plaza extension
Town: Budapest
Type: Mixed use of retail, residential and other
Size: 19,500 m² (for rent and sale) GLA
Status: Planning stage

▲ Current development
● Project sold

Poland

First development: 2000
Number of sold properties: 6
Number of current developments: 5

Highlighted sites

Lublin Plaza

Town: Lublin
Type: Retail and entertainment scheme
Size: 26,000m² GLA
Number of shops: 150
Number of parking units: 700

Status: Opened in June 2007
Main anchors: Cinema City, Fantasy Park, Stokrotka, H&M
Plaza %: 50

Rybnik Plaza

Town: Rybnik
Type: Retail and entertainment scheme
Size: 18,000m² GLA
Number of shops: 70

Number of parking units: 470
Status: Opened on March 15, 2007
Main anchors: Cinema City, Fantasy Park, Stokrotka, RTV EURO AGD, Sephora
Plaza %: 100

Other projects

Project name: Suwalki Plaza
Town: Suwalki
Type: Retail and entertainment scheme
Size: 16,000–18,000m² GLA
Number of shops: 100
Number of parking units: 500
Status: Planning stage, construction will commence in late 2007

Project name: Lodz Plaza
Town: Lodz
Type: Residential and entertainment or office/residential scheme
Size: 29,000m² GLA
Status: Planning stage

Project name: Sosnowiec Plaza
Town: Sosnowiec
Type: Retail and entertainment scheme
Size: 13,000m² GLA
Number of shops: 75
Number of parking units: 389
Status: Opened on March 29 2007

Project name: Torun Plaza
Town: Torun
Type: Retail and entertainment scheme
Size: 30,000m²
Number of shops: 120
Number of parking units: 800
Status: Planning and permit stage, construction will commence in late 2009

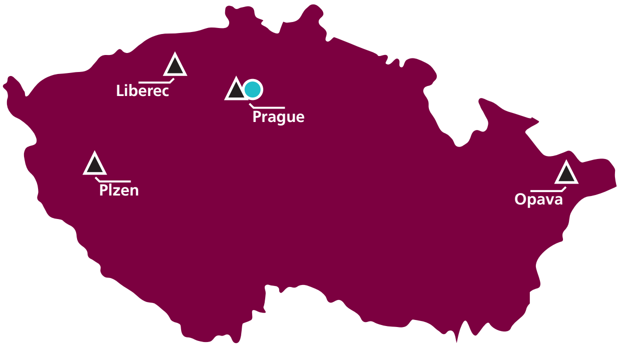
Project name: Zgorzelec Plaza
Town: Zgorzelec
Type: Retail and entertainment scheme
Size: 16,000m²
Number of shops: 100
Number of parking units: 450
Status: Planning stage, construction will commence in late 2007

Current developments continued

▲ Current development
● Project sold

Czech Republic

First development: 2005
Number of sold properties: 1
Number of current developments: 4



Highlighted sites

Plzen Plaza

Town: Plzen
Type: Retail and entertainment scheme
Size: 20,000m² GLA
Number of shops: 110
Number of parking units: 600

Status: Under construction
Main anchors: Cinema City (multiplex cinema), Fantasy Park (entertainment), supermarket, Hervis
Plaza %: 100

Opava Plaza

Town: Opava
Type: Retail and entertainment scheme
Size: 14,200m² GLA
Number of shops: 75

Number of parking units: 350
Status: Planning stage
Main anchors: Cinema City, Fantasy Park
Plaza %: 100

Liberec Plaza

Town: Liberec
Type: Retail and entertainment scheme
Size: 21,000m² GLA
Number of shops: 100
Number of parking units: 600

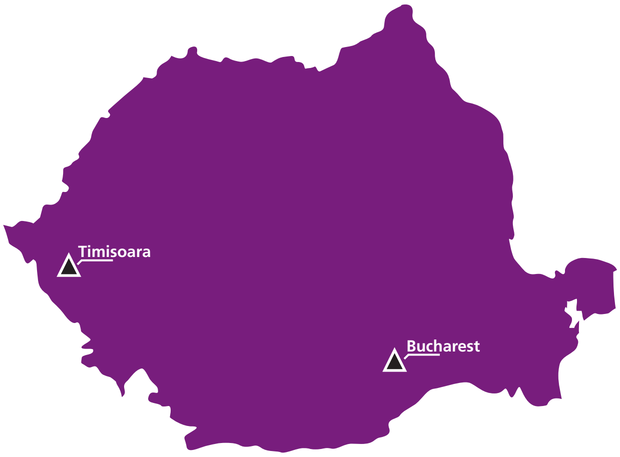
Status: Planning and initial construction
Main anchors: Supermarket, fashion oriented anchors
Plaza %: 100

Other projects

Project name: Prague 3
Town: Prague
Type: Office, for future use as residential
Size: 61,600 m² GLA (for sale)
Status: Offices and warehouse, for future use as residential (planning stage)

▲ Current development
● Project sold

Romania



First development: 2006
Number of sold properties: 0
Number of current developments: 2

Highlighted sites

Casa Radio

Town: Bucharest
Type: Mixed use retail and leisure plus residential/office/hotel scheme

Size: 360,000m² (GBA)
Status: Planning and initial construction
Plaza %: 75

Casa Radio is a project in partnership with the Romanian government, and will be located in the largest development plot available in Central Bucharest. The development comprises a 132,000m² shopping mall and leisure center (one of the largest in Europe), a residential area with a hypermarket, as well as a hotel, casino and convention and conference hall. Furthermore, two 135m tall towers of 53,000m² each, which once completed, will be among the tallest buildings in Bucharest.

Timisoara

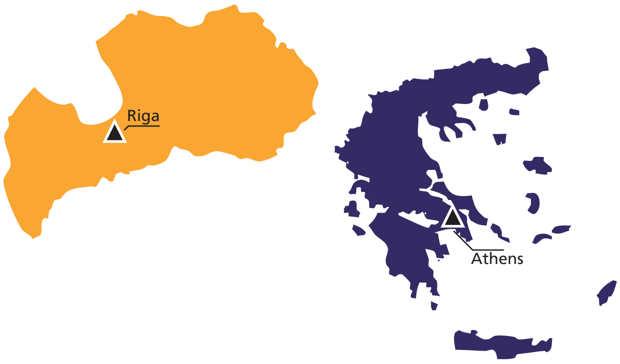
Town: Timisoara
Type: Retail and entertainment scheme (with an option to develop on the site approximately 20,000m² of new mixed retail, office and residential space adjacent to the shopping center)

Size: 30,000m² GLA
Status: Planning under application
Plaza %: 100

Current developments continued

▲ Current development
● Project sold

Latvia and Greece



Highlighted sites

Riga Plaza

Town: Riga
Type: Retail and entertainment scheme
Size: 47,000m² GLA
Number of shops: 169
Number of parking units: 1500

Status: Current
Main anchors: Hypermarket Prisma 8,500m²; cinema (eight screens) 4,000m²
Plaza %: 50

Helios Plaza

Town: Athens
Type: Retail and entertainment scheme or office scheme
Size: 35,000m² GLA

Number of shops: 120
Number of parking units: 1,000
Status: Planning and permits stage
Plaza %: 100

India

First development: 2006
Number of sold properties: 0
Number of current developments: 2

Highlighted sites

Koregaon Park

Town: Pune
Type: Retail, entertainment and office scheme

Size: 107,500m² (GBA)
Status: Under construction
Plaza %: 50

First transaction in India in a JV with a leading property developer in Pune, the development will include a shopping center with an estimated area of approximately 75,500m² and an office building estimated at approximately 32,000m².

Kharadi

Town: Pune
Type: Retail, entertainment, office and service apartments

Size: 225,000m² (GBA)
Status: Planning stage
Plaza %: 50

Second transaction in India in a JV with a leading property developer in Pune, the development will include a shopping center with a total area of approximately 120,000m², an office complex measuring approximately 81,000m² and a serviced apartment facility of approximately 24,000m².

Chairman's statement

Mordechay Zisser

I am delighted to be writing my first statement on behalf of the Board of Plaza Centers N.V. since the successful flotation of the Company on the London Stock Exchange in October 2006.

Plaza is a leading emerging markets developer of shopping and entertainment centers, focusing on constructing new centers and, where there is significant redevelopment potential, redeveloping existing centers, in both capital cities and important regional centers.

The Company has been active in emerging markets in the CEE since 1996, when it opened the first western-style shopping and entertainment center in Hungary and began to implement its vision of offering western-style retail and entertainment facilities to a growing middle class and an increasingly affluent consumer base. Over the past ten years, the Company has expanded its operations in central Europe and eastwards into Poland, the Czech Republic Romania, Latvia and Greece and, more recently, India and has proven its ability to anticipate market trends and deliver innovative large scale projects.

India is a unique sub-continent, where the initial operating conditions are very similar to those we experienced in the CEE ten years ago; high interest rates and heavy regulation and only a few international brands active in the retail market. With Plaza's ten years of experience of penetrating and operating in such markets, the Company can create significant competitive advantages. In India, there are approximately 250 million middle class people and it is our belief that this serves as a sound base for many years of Plaza operating profitably in that emerging market.

To date, the Company has developed, let and sold 21 shopping and entertainment centers. 17 of these centers were acquired by Klépierre, one of the largest shopping center owner/operators in Europe, which owns more than 230 shopping centers in ten countries. An additional four shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors. As well as the 21 centers we have sold, an additional four were forward sold to Klépierre and will be delivered to them during 2007/8.

Due to the Company's reputation for successful property development, "Plaza Centers" has become a widely recognised brand name. Following the acquisition of the shopping and entertainment centers by Klépierre and the Dawnay Day Group, the purchasers continue to use, under licence granted to them by the Company, the Plaza Centers Community and Hungarian trade marks.

The gross proceeds of the Company's IPO were approximately £166 million (including the exercise of an over-allotment option). We were delighted to have successfully completed the offer and to be able to welcome a varied international institutional investor base to the Company. As a result of the IPO, our Company has a strong financial base from which it can continue both its development of the assets in its existing portfolio and the ongoing acquisition of sites and pipeline projects and Mega projects.

With the offer now successfully behind us, we look forward to building upon our proven and successful business model to expand the Company's activities both within the CEE region and in new territories such as India and thereby driving income and capital growth on behalf of our new shareholders.

Strategic direction

We look forward to capitalizing on the skills of our experienced management team and our local presence to deliver our initial development portfolio and to further diversify and grow the Company's portfolio through the development of high-quality retail and entertainment property assets across multiple geographic regions.

As detailed in the Company's Admission Document, our strategy is to;

- develop four to five modern western-style shopping and entertainment centers per year in the capital and regional cities of selected countries, primarily in CEE (focusing on the medium term in Poland, Czech Republic, Romania, Slovakia, Ukraine, Russia and Greece) and mixed use developments in India for the medium and long term;
- acquire operating shopping centers that show significant redevelopment potential (either as individual assets or as portfolios) for refurbishment and subsequent re-sale;

- pre-sell, where prevailing market and economic conditions are favourable, the centers prior to, or after, commencement of construction or redevelopment; and

- where the opportunity exists in CEE and India, extend its developments beyond shopping and entertainment centers by leveraging its strengths and drawing upon the experience and skills of the Company's executive management team and the Europe Israel Group to participate in residential, hotel, offices and other development schemes where such developments form part of integrated large scale business and leisure developments. Examples include Dream Island, with 350,000m^2 GBA which will be developed as a major hotel, recreation, casino, business and leisure complex and is located on the southern end of Obuda Island in the Danube River in central Budapest. Another is the Casa Radio mixed use project which comprises a total of 360,000m^2 GBA in the city center of Bucharest and will include one of the largest and prestigious shopping centers in the CEE.

Results

We ended 2006 with a net profit of €14.7 million, resulting mainly from the sale of our shopping center in Prague and additional adjustment for the four Polish shopping centers we sold in 2005.

Following our strategic decision to focus more on assets to be built for sale, 2006 was a year of investing in existing assets under construction as well as acquiring a future pipeline. Our total investment in real estate inventories under construction (trading properties) increased to €160 million and we expect to present significant revenues out of these inventories from 2007 onwards.

Our very successful IPO has provided a sound financial position which will enable us to expand our activities and investments for future growth and income. With a cash position of approximately €219 million at the year end, we have a strong foundation for fulfilling our potential, securing additional investment pipeline projects and thereby creating substantial value for our shareholders.

Portfolio progress

2006 was an exceptional year for the Company in which we made strong progress with our portfolio of existing assets and made a number of exciting acquisitions of pipeline projects. The Company currently owns 24 assets and projects under development located across the Central and Eastern European region and, more recently, in India. The current location of the assets under development, as well as office buildings, is summarised as follows:

	Number of assets	
Location	Under development	Offices
Hungary	4	2
Poland	7	–
Czech Republic	4	1
Romania	2	–
Latvia	1	–
Greece	1	–
India	2	–
Total	**21**	**3**

Operational highlights during the year included:

- the opening of the Novo Plaza shopping center in Prague in March 2006 and its subsequent sale in June 2006 at an asset value of €50 million and net profit of €6.5 million;

- receipt of an additional overage payment of €13.7 million for the four Polish shopping centers previously sold in 2005;

- acquisition of the landmark Casa Radio project in Bucharest in November 2006, with an estimated post development value of US$1 billion;

- purchase of two additional developments in the Czech Republic in the cities of Liberec (for approximately 21,000m^2 GLA) and Opava (for approximately 14,200m^2 GLA);

- two additional development projects acquired in Poland in the cities of Suwalki (for approximately 16,000-18,000m^2 GLA) and Zgorzelec (for approximately 16,000m^2 GLA); and

- first transaction in India with a JV project in Koregaon Park, Pune (for approximately 107,500m^2 GBA).

Chairman's statement continued

The momentum of 2006 has continued strongly into 2007, with €43 million of acquisitions already completed in the CEE, including retail development schemes in Torun, Poland (for approximately 30,000m^2 GLA) and Timisoara (for approximately 30,000m^2 GLA) in Romania. In addition, we were pleased to announce to shareholders on February 26, 2007 the agreement of a second joint venture project in India for the development of a mixed use development (shopping center, offices and serviced apartments) in the Kharadi district of Pune, totalling approximately 225,000m^2 GBA.

In addition, we also opened the Rybnik Plaza in Rybnik, Poland on March 15, which was 100% let to international and local tenants on opening. We also expect to complete and open the Sosnowiec Plaza in Sosnowiec on March 29, 2007 and the Lublin Plaza in Lublin in May. All three centers have been pre-sold to Klépierre. In late October we expect to open the Arena Plaza Mall in Budapest which will be one of the biggest in the CEE.

To date, we have utilized approximately 45% of the gross IPO proceeds as follows:

Use	EUR (m)
Finance of current developments	20
Acquisition of pipeline projects in the CEE	43
Replace existing loan facilities that are incompatible	19
Expand operations in India	23
Total	105

Dividend policy

As explained in the Company's Admission Document, the directors intend to adopt a dividend policy which will reflect the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Subject to all of these factors, and where it is otherwise appropriate to do so, the directors intend to make distributions out of the annual net profits of the Group starting with the 2007 financial year. Dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the directors, on any additional annual net profits which exceed €30 million. The dividends will be paid on or about March 31 following the publication of the financial results on the basis of the aggregate of the annual net profits accumulated during the preceding financial year. The first dividend will be paid in 2008 following the 2007 results.

Outlook

We continue to develop our existing assets, secure the acquisition of pipeline assets and work towards expanding our investment portfolio with additional high potential assets.

We continue to witness strong consumer and tenant demand for our high-quality retail and entertainment centers in Central and Eastern Europe ("CEE"), and we are ready to leverage our ten year track record and experience into other countries in this region as well as new markets such as India. During 2006 we continued to invest in our existing portfolio and to acquire future pipeline of assets, which we expect to bring to fruition in 2007 and onwards.

In line with our strategy for 2007, we expect to open four shopping centers to the public – three in Poland and one in Hungary. I am confident that the Company will achieve these goals and anticipate delivering on our stated aim to complete at least four to five developments each year in order to expand our portfolio and therefore provide our shareholders with a strong potential for income and capital growth.

In conclusion, Plaza has considerable opportunity and potential. With the backing of an expert management team with a proven track record and highly successful business model, sound financial foundations and an enviable portfolio of existing and pipeline assets, we look forward to the future with both confidence and excitement.

Mordechay Zisser
Chairman
March 26, 2007

Business overview

Ran Shtarkman

Since the Company's successful flotation in October 2006, we have made great progress in further developing our high quality and prestigious portfolio of shopping and entertainment centers throughout the CEE region and other emerging markets. We look forward to bringing to fruition our ongoing and pipeline projects for our investors and we remain committed to attracting leading purchasers for our assets.

During 2006, Plaza was involved in the development of 19 schemes, of which four are located in Hungary, six in Poland, five in the Czech Republic, one in Romania, one in Latvia, one in Greece and one in India.

The projects are at varied stages of the development cycle, from the purchase of land through to the planning and completion of construction. In addition, Plaza has negotiated to purchase sites for the development of several additional schemes throughout the CEE region and India (see updates in 2007 for additional information).

The assets and pipeline projects at year end 2006 are summarized in the table below:

Asset/project	Location	Nature of asset	Size m² (GLA)	Plaza ownership %	Status
Arena Plaza	Budapest, Hungary	Retail and entertainment scheme	66,000	100	Construction commenced in 2006; completion scheduled for Q4 2007
Arena Plaza extension	Budapest, Hungary	Mixed use of retail, residential and other	19,500 (for rent and sale)	100	Under planning
Dream Island (Obuda)	Budapest, Hungary	Major business and leisure resort	350,000 (GBA) (for rent and sale)	30	Under planning. Construction will commence in mid 2007; completion scheduled for 2012
David House	Budapest, Hungary	Headquarters/ office	2,000	100	Operational
Duna Plaza offices	Budapest, Hungary	Office	12,000	100	Operational
Duna Plaza extension	Budapest, Hungary	Retail and entertainment scheme	15,000	Development rights	Under planning
Rybnik Plaza	Rybnik, Poland	Retail and entertainment scheme	18,000	100	Opened on March 15, 2007
Sosnowiec Plaza	Sosnowiec, Poland	Retail and entertainment scheme	13,000	100	Opening on March 29, 2007
Lublin Plaza	Lublin, Poland	Retail and entertainment scheme	26,000	50	Opening in June 2007

Business overview continued

Asset/project	Location	Nature of asset	Size m² (GLA)	Plaza ownership %	Status
Suwalki Plaza	Suwalki, Poland	Retail and entertainment scheme	16,000-18,000	100	Construction will commence in 2007; completion scheduled for 2009
Lodz	Lodz, Poland	Retail and entertainment or office/residential scheme	29,000	100	Under planning. Construction scheduled to commence in late 2007
Zgorzelec Plaza	Zgorzelec, Poland	Retail and entertainment scheme	16,000	100	Construction will start in 2007; completion scheduled for 2009
Plzen Plaza	Plzen, Czech Rep.	Retail and entertainment scheme	20,000	100	Construction started in 2006; completion scheduled for late 2007
Prague 3	Prague, Czech Rep.	Office, for future use for residential	61,600 (for sale)	100	Currently operational as an office building, re-zoning for future use for residential is in progress
Opava Plaza	Opava, Czech Rep.	Retail and entertainment scheme	14,200	100	Construction will start in 2007; completion scheduled for 2009
Liberec Plaza	Liberec, Czech Rep.	Retail and entertainment scheme	21,000	100	Construction will start in 2007; completion scheduled for 2008
Casa Radio	Bucharest, Romania	Mixed use retail and leisure plus residential/office scheme	360,000 (GBA)	75	Construction will start in 2007; completion scheduled during 2009-2012
Riga Plaza	Riga, Latvia	Retail and entertainment scheme	47,000	50	Construction will start in 2007; completion scheduled for 2009
Helios Plaza	Athens, Greece	Retail and entertainment or office scheme	35,000	100	Under planning
Koregaon Park	Pune, India	Retail, entertainment and office scheme	107,500 (GBA)	50	Construction will start in 2007, expected completion in 2009

Details of these activities by country are as follows:

Hungary

During 1996-2005, Plaza built, managed and eventually sold 16 shopping centers throughout Hungary. During 2006, Plaza continued to develop the Arena Plaza, its landmark shopping center scheme in central Budapest, comprising approximately 66,000m² GLA which will make it one of the biggest in the CEE.

In addition, Plaza holds a 30% stake in Dream Island, an ambitious development on the Obuda Island in central Budapest, with land area of 320,000m² which is intended to be developed as a major resort area including hotels, recreation facilities, casino, business and leisure complex with a development budget of over €1 billion and 350,000m² GBA. Preliminary design and excavation works are already underway.

Two further projects are in feasibility and planning stages, namely the extension of the Duna Plaza and the Arena Plaza, both of which are located in central Budapest.

The Group continues to own its two office buildings in Budapest, the David House on Andrassy Street and the Duna Plaza offices.

Poland

Between 2000 and 2005, Plaza built, managed and, in 2005, sold four shopping centers located across Poland. During 2006, the Company continued the construction of three shopping centers in Rybnik (approximately 18,000m² GLA), Sosnowiec (approximately 13,000m² GLA) and Lublin (50% held, approximately 26,000m² GLA). All three were pre-sold to Klépierre.

In addition, Plaza continued the feasibility and planning of the development in Lodz (designated for shopping center or alternatively for residential/office use), as well as an acquisition of two additional plots of land for future shopping centers in Suwalki (for approximately 16,000–18,000m² GLA) and in Zgorzelec (for approximately 16,000m² GLA).

Czech Republic

In March 2006, Plaza opened the Novo Plaza in Prague (25,955m² GLA) and sold it in June for €50 million (inclusive of final price adjustment). During the year, Plaza also purchased two plots of land in the cities of Liberec and Opava with the aim to build shopping centers comprising approximately 21,000m² GLA and 14,200m² GLA, respectively. Construction of the Plzen Plaza mall (approximately 20,000m² GLA) commenced in February 2007 and is currently expected to be completed at the beginning of 2008. The Company continued to own an income yielding office building in Prague which is designated to be re-zoned for a scheme of 61,600m² of residential units.

Romania

In November 2006, Plaza acquired a 75% interest in a company which has entered into a public private partnership agreement with the Government of Romania to develop the approximately €1 billion Casa Radio (Dambovica) scheme in Bucharest, the largest development plot available in the city center. The Romanian Government will remain a 15% partner in the scheme. The development of Casa Radio comprises approximately 360,000m² GBA, including a 110,000m² GLA shopping mall and leisure center (one of the largest in Europe), residential units, offices, hotel, casino, hypermarket, convention and conference hall.

Latvia

Construction works started in March 2007 on the Riga Plaza project in Riga, Latvia (50% held, approximately 47,000m² GLA). The scheme is located on the western bank of the river Daugava by the Sala Bridge and Plaza expects this project to be completed at the beginning of 2009.

Greece

Plaza owns a 15,000m² plot of land centrally located in Piraeus Avenue, Athens. Plaza is currently working on securing building permits for the construction of a shopping center, or alternatively an office complex totaling approximately 35,000m² GLA.

India

As outlined in its Admission Document, Plaza has identified strong potential in emerging India and during the reporting period acquired a 50% stake in a joint venture with established local Indian developers to build a shopping center with a gross built up area of approximately 75,500m² GBA and additional office space of approximately 32,000m² GBA in Pune, India.

Business overview continued

Progress to date in 2007

A number of additional investments have already been made to broaden the Company's portfolio in 2007:

- plaza secured an additional plot of land for the development of a future shopping center in Torun, Poland (for approximately 30,000m^2 GLA). Advanced negotiations are underway for additional plots in Poland;
- acquisition of additional plots for future shopping centers in Romania in Timisoara (for approximately 30,000m^2 GLA) and advanced negotiations for several others, emphasizing the strong penetration of Plaza in Romania with the aim to achieve a substantial number of landholdings within the next year;
- a second J.V. deal was finalized in India for a project in Kharadi, Pune for a mixed used development comprising a shopping center (for approximately 120,000m^2 GBA), offices (for approximately 81,000m^2 GBA) and serviced apartments (for approximately 24,000m^2 GBA), totalling approximately 225,000m^2 GBA. Negotiations are already underway for securing additional sites in India;
- Rybnik Plaza in Rybnik, Poland was successfully opened to the public on March 15 2007, the expected opening of Sosnowiec Plaza in Sosnowiec, Poland is scheduled for March 29 and the Lublin Plaza in Lublin is expected to be opened in June. All three centers have been pre-sold to Klépierre and are currently 100% let; and
- Plaza is pleased to announce that it is experiencing strong demand from several international real estate funds to acquire the Arena shopping center in Budapest and negotiations are advanced. Arena is scheduled to open to the public in Q4 2007 and all construction works are on schedule and within budget.

The Group continues to examine additional developments to acquire in its target region as well as examining other future emerging market opportunities, which we consider to offer strong potential consumer demand for Plaza's development projects.

Mr Ran Shtarkman
President and Chief Executive Officer
March 26, 2007

Financial review

Results

In line with the Group's commercial decision to focus its business more on development and sale of shopping and entertainment centers, the Group has classified its current projects under development as trading properties rather than investment properties. In accordance, revenues from the sale of trading properties are presented at gross amounts.

Revenues for the year 2006 increased to €60.2 million (2005: €15 million), mainly due to the sale of the Novo Plaza shopping center in Prague for a gross asset value of €50 million.

Gains from the sale of investment property increased to €13.7 million (2005: €1 million), mainly due to the final price adjustment on account of the Poznan shopping center (€9 million) and additional price adjustment on account of the waiving of offset rights due to electricity licences for Polish shopping centers sold in 2005 (€5.4 million).

The rapid increase in the cost of operations is attributable to the cost of Novo Plaza (€44 million) mentioned above, which was classified as trading property (inventory).

Administrative expenses increased to €8.2 million (2005: €6.6 million), mainly due to non-cash share based payments (€1.2 million) and increase in volume of activities.

Operating profit before financing costs in 2006 was €16 million, well ahead of expectations although a decline compared with the €42.6 million of 2005. The decline reflects the exceptional level of gains in 2005 from the revaluation of investment properties and sale of four of Plaza's shopping centers in Poland and other price adjustment payments for previously sold centers, amounting to €40.8 million. Plaza expects to sell three to four shopping centers in 2007.

Net finance was positive in 2006 at €0.7 million (2005: expenses of €7.6 million) due to higher cash balances and more favourable lending terms achieved.

Tax expenses continue to remain low at €1.6 million (2005: €5.9 million), reflecting 10% (2005: 16.6%) of profits before tax and resulting from the Group's favourable tax structure.

Profit for the year amounted to €14.7 million in 2006, above market expectations, compared to €29.3 million in 2005 and again reflected the decrease in operating income in 2006 as explained above.

Basic earnings per share for 2006 were 0.27 per share.

Balance sheet and cash flow

The balance sheet as at December 31, 2006 showed net assets of €364.7 million compared to net assets of €96 million at the end of 2005. This rise primarily results from Plaza's net proceeds of €234.5 million from its share offering and listing on the London Stock Exchange in October 2006.

The cash position of cash and short-term deposits increased to €219 million (2005: €50 million) due to the share issuance mentioned above and to the sale of the Novo Plaza and other price adjustments (proceeds of €23.3 million), having deducted investments in trading properties (€92 million).

Other accounts receivables and prepayments increased to €29.2 million (2005: €4.8 million), mainly as a result of prepayment on account of the Casa Radio project acquired in Bucharest (€19.4 million).

Total bank borrowings (long and short term) decreased to €57.1 million (2005: €70.6 million) reflected by the repayment of the loan used to construct the Novo Plaza and its subsequent its sale.

Related party balances are presented gross (both in the assets and in the liabilities sections of the balance sheet) as the balances are with different Plaza Group subsidiaries and therefore netting was not possible under IFRS. However, the net balance of the Plaza Group with its controlling shareholders is approximately €6.8 million (liability), the majority of which was settled at the beginning of 2007.

In conclusion, to date, Plaza's balance sheet reflects significant strength. Our increasing balance of inventories under construction will result in successful yield in the near future and will generate substantial revenues in the upcoming years. Our high level of liquid balances along with anticipated additional cash due to upcoming realization of inventories will enable us to bring the current portfolio into successful fruition and to expand our portfolio with additional exciting developments in current and future additional markets which will generate substantive added value to our investors.

Roy Linden
Chief Financial Officer
March 26, 2007

Board of Directors

Mordechay Zisser

Ran Shtarkman

Shimon Yitzhaki

Edward Paap

Marius van Eibergen Santhagens

Marco Wichers

Executive directors

Mordechay Zisser, age 51, Chairman
Mordechay Zisser is the founder and Chairman of the Europe Israel Group of companies, of which Plaza Centers is a member. During more than 25 years' active involvement in some of the world's most prestigious real estate developments, he has led successful projects in Israel, Western Europe, Central and Eastern Europe (CEE), South Africa and India.

Ran Shtarkman CPA, MBA, age 39, President and CEO
Ran Shtarkman joined Plaza Centers in 2002, becoming Chief Financial Officer in 2004 and CEO in 2006. He was additionally appointed President in 2007. Previous roles include CFO of SPL Software Ltd, Finance and Administration Manager for Continental Airlines' Israeli operations and Controller of Natour Ltd.

Non-executive directors

Shimon Yitzhaki CPA, age 52
Shimon Yitzhaki, President of Elbit Medical Imaging Ltd since 1999, become a non-executive director of Plaza Centers in 2006 following six years as an executive director – one of several key roles he has held within the Europe Israel Group, which he joined in 1985.

Edward Paap, age 43
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 adviser in a medium-sized accountancy practice, he is now Managing Director of an Amsterdam-based Trust Office with many international clients.

Independent non-executive directors

Marius van Eibergen Santhagens, age 56
Marius van Eibergen Santhagens has over 25 years' at the forefront of corporate finance and change management, with a specialist focus on leisure since 2000. Today, he is General Manager and owner of Leisure Investments & Finance B.V., prior to which he was a consultant at Beauchamp Leasing and Metro B.V. and held a number of positions at Generale Bank Nederland B.V..

Marco Wichers, age 48
Marco Wichers is CEO and owner of AMGEA Holding BV and CEO of real estate consultancy AMGEA Vastgoed Adviseurs B.V.. Previously he was CEO of two New York-based manufacturing companies – Branco International Inc (1988 – 95) and Cravat Club Inc (1983 – 95), which he also owned.

Senior management

Roy Linden BBA, CPA (USA, Isr), age 30, Chief Financial Officer
Roy Linden joined Plaza Centers as CFO in 2007 following four years with KPMG in Hungary, where he specialised in auditing, business advisory and taxation for real estate businesses throughout Central and Eastern Europe. He previously spent three years in Israel with Ernst & Young as a senior audit specialist for hi-tech companies.

Avihu Shur BSc, MSc Technion, age 69, Chief Engineer
Avihu Shur joined the Group in 2004 as Chief Engineer and Head of Construction, responsible for building all our developments in Central and Eastern Europe. Before joining us, he was Chief Engineer at the Herzlia Marina project in Israel (1997 – 2004), developed by one of our affiliates. His experience includes senior international engineering positions in Israel, the US and Africa.

Uzi Eli, Attorney at Law (Isr.), MBA, age 31, General Counsel and Compliance Officer
Uzi Eli joined Plaza Centers as General Counsel and Compliance Officer in 2007. For the last five years he has 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 variety of licensing and technology transactions.

Luc Ronsmans MBA, age 57, Netherlands, Romania and Greece Country Director
Luc Ronsmans joined the Group in 1999 following a career in banking, holding managerial positions with Manufacturers Hanover Bank, Continental Bank (Chicago), AnHyp Bank and Bank Naggelmachers in Belgium. Based in Amsterdam, he manages European operations for the Group and affiliates.

Tal Ben Yehuda MSc, age 38, Czech Republic, Slovakia and Baltic States Country Director
Tal Ben Yehuda joined the Group in 2002 as Country Manager for Czech Republic and Slovakia. Qualified in Business Management and Accounting, he previously held a number of senior positions with businesses through Europe and Israel.

Eli Mazor, age 52, Poland Country Director
Eli Mazor joined Plaza Centers in 2005 as Regional Marketing Manager for Poland, becoming country director in 2007. A graduate in Business Administration, he was previously CEO of a shopping center in Israel.

Ze’ev Ben Zvi (Klein) BA, age 59, Regional Marketing Director
Ze’ev Ben Zvi (Klein) joined Plaza Centers as COO in 1996, and is an experienced shopping center manager and retired IDF Colonel. He established, as Managing Director, our development marketing subsidiary Plaza Centers Management B.V. in 1999, which also managed our operational shopping and entertainment centers until 2005.

Directors' report

Principal activities and review of business

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

Since then, it has expanded its CEE operations into Poland, Czech Republic, Slovakia, Latvia, Romania and Greece. It has recently also extended its activities into India, and is open to considering further opportunities in Asia.

Its main attention is on constructing new centers and redeveloping appropriate sites in capital cities and important regional centers. To date, the Company has developed, let and sold 23 shopping and entertainment centers, 19 of which have been purchased by Klépierre, Europe's second largest owner/operator of shopping centers. The remaining four centers were sold to the Dawnay Day Group, a leading UK property investment group.

The Company is currently developing 19 further shopping and entertainment centers as well as mixed use projects, and has entered a preliminary agreement with Klépierre that they will acquire two of them.

The Company is also negotiating to acquire further development sites in Poland, Czech Republic, Romania, Slovakia, Ukraine and Russia.

Current projects

Projects in which the Company was involved during 2006-07 include:

Hungary

- Arena Plaza, a 66,000m² development in Budapest, due to open in late 2007. A further extension to the scheme is currently at planning stage.
- Dream Island, a 350,000m² development under construction on Obuda island in the Danube River in central Budapest, in which the Company has an indirect 30% interest.
- Arena Plaza Extension, a 19,500m² expansion of the Arena Plaza development.
- Duna Plaza Extension, a 15,000m² expansion of the Duna Plaza development.

Poland

- Lublin Plaza, a 26,000m² development, pre-sold to Klépierre, which is under construction in Lublin.
- Rybnik Plaza, an 18,000m² development in Rybnik, pre-sold to Klépierre.
- Sosnowiec Plaza, a 13,000m² development in Sosnowiec, pre-sold to Klépierre.
- Lodz Plaza, a 29,000m² development currently at the planning stage.
- Suwalki Plaza, a 14,000m² development currently at the planning stage.
- Zgorzelec Plaza, a 16,000m² development currently at the planning stage.
- Torun Plaza, a 30,000m² development, currently at planning and permits stage.

Czech Republic

- Plzen Plaza, a 20,000m² development, pre-sold to Klépierre, which is under construction.
- Liberec Plaza, a 21,000m² development under construction.
- Opava Plaza, a 14,200m² development which is at the planning stage.
- Prague 3, a 61,600m² currently operative office and warehouse, for future use as a residential scheme.

Latvia

- Riga Plaza, a 47,000m² development, due to open in 2009, in which the Company has a 50% interest.

Romania

- Casa Radio, a major scheme on a 92,000m² site in Bucharest city center, in which the Company has a 75% interest.
- Timisoara Plaza, a 30,000m² development which is at the planning stage.

Greece

- Helios Plaza, a 35,000m² development currently at the planning and permits stage.

India

- Koregaon Park, a 107,500m² development, currently under construction, in which the Company has a 50% interest.

- Kharadi, a 225,000m² development, currently at the planning stage, in which the Company has a 50% interest.

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 including Poland, Czech Republic, Georgia, Romania and India.

It is also analysing further countries that meet its development parameters and investment criteria, including Russia, Ukraine, Bulgaria, Turkey, Croatia, Georgia and Serbia.

Going concern

The directors' review of the 2007 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

As explained in the Company's Admission Document, the directors intend to adopt a dividend policy which will reflect the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Subject to all of these factors, and where it is otherwise appropriate to do so, the directors intend to make distributions out of the annual net profits of the Group starting with the 2007 financial year. Dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the directors, on any additional annual net profits which exceed €30 million. The dividends will be paid on or about March 31 following the publication of the financial results on the basis of the aggregate of the annual net profits accumulated during the preceding financial year. The first dividend will be paid in 2008 following the 2007 results.

Directors' interests

The directors have no interests in the shares of the Company.

Details of the directors' share options are given on page 31 of this report.

Directors and appointments

The following served as directors at December 31, 2006.

Mordechay Zisser, Chairman
Ran Shtarkman, CEO (appointed President during the year)
Shimon Yitzhaki, non-executive director
Edward Paap, non-executive director
Marius van Eibergen Santhagens, independent non-executive director
Marco Wichers, independent non-executive director

During the year, Ran Shtarkman was appointed President of the Company to coincide with his duties as CEO. The sole addition to the senior management team was Roy Linden as Chief Financial Officer, taking over from Mr Shtarkman in his role as Acting Chief Financial Officer.

Financial risk management

The Company's financial risk management and policies and exposures to risks are detailed in note 30 to the financial statements on page 70 of this report.

Substantial shareholdings

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

Employee involvement

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

Annual General Meeting (AGM)

The Annual General Meeting of Shareholders will be held at Park Plaza Victoria Hotel Amsterdam, Damrak 1-5, 1012 LG Amsterdam, The Netherlands on (June 29, 2007) at Noon (CET). A presentation will be made at the meeting to outline significant recent developments in the business and the results of proxy voting will be conveyed.

Shareholders are invited to submit written questions in advance of the meeting, which should be sent to: Plaza Centers N.V., Keizersgracht 241, 1016 EA, Amsterdam, The Netherlands.

Details of resolutions to be proposed at the meeting are set out in the Notice of AGM which will be sent to all shareholders with a proxy card.

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. It complies with the Combined Code and the Dutch Corporate Governance Code, with the exception of a limited number of best practice provisions from the Dutch Corporate Governance Code which it does not consider to be in the interests of the Company and its stakeholders.
These exceptions are listed below.

The Best Practice Provisions not applied by the Company in the year 2006 are:

Best Practice Provision II.1.3. The Company has an internal risk management and control system, which is adequate and effective. The substantiation of this risk management and control system is to be found on page 28 of this Annual report. The Code of Conduct as meant within Best Practice Provision II.1.3. has not been placed on the Company's website yet but will be published in 2007.

Best Practice Provision II.2.1. The Company has granted unconditional options to its Board members and employees. This system is in line with the system of option granting currently maintained within the whole Europe-Israel Group and for reasons of practicality and uniformity, the Company follows this system.

Best Practice Provision II.2.2. This Best Practice Provision states that if, notwithstanding Best Practice Provision II.2.1. a company grants unconditional options, it shall apply performance criteria when doing so and the options should in any event not be exercised in the first three years after they have been granted. The Company deviates from both the performance criteria and the vesting criteria. Under the Company's incentive plan, unconditional options may be granted to directors without prior establishing performance criteria. The Company considers this to be appropriate given the extensive experience of the directors. Furthermore, all options granted under the Company's incentive plan, will vest annually in three parts, whereby one third of the options granted vest upon the lapse of one year from the date of grant, another third of the options granted vest the lapse of two years from the date of grant and the last third vest upon the lapse of three years of the date of grant.

Best Practice Provision II.2.5. This Best Practice Provision stipulates that neither the exercise price nor the other conditions regarding granted options shall be modified during the option term, except insofar as is necessary because of structural changes relating to the Company or its shares, in accordance with established market practice. Pursuant to the current incentive plan of the Company, material conditions regarding the granted options may not be amended except insofar as prompted by structural changes relating to the ordinary shares in accordance with established market practice. The Company believes that this is in its best interests and in the interests of its board members and employees who were or are to be granted options. The administration and management should be kept as flexible as possible, taking into consideration thereby the limited possibilities to amend an incentive plan for a company whose shares are listed on a regulated market.

Best Practice Provision II.3.2. This Best Practice Provision stipulates that a Board member shall immediately report any conflict of interest that is of material significance to the Company and/or to him, to the Chairman of the Board and to the other Board members, and shall provide all relevant information, including those of his affiliated persons (e.g. family members). The current Articles of Association of the Company state that a director shall inform the Board immediately of any possible direct and/or indirect conflicting interest as soon as practically possible after becoming aware of such possible conflict. It is however envisaged that Board members shall comply with the contents of this Best Practice Provision.

Best Practice Provision II.3.3. This provision stipulates that a director shall not 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. Such Board member shall, pursuant to the Articles of Association, neither be counted in the quorum nor vote upon a resolution approving a transaction with the Company in which he has a material personal interest. Thereby, the Company does not apply this Best Practice Provision to the extent it relates to non-material personal interests or material non-personal interests.

Best Practice Provision II.3.4. This provision (inter alia) stipulates that decisions to enter into transactions in which there are conflicts of interest with management Board members that are of material significance to the Company and/or to the relevant Board members, require the approval of the non-executive directors. Such provision has not been inserted into the articles. The Company believes that, notwithstanding the lack of such provision, the treatment of conflicts of interests from Board members is done with the utmost duty of care.

Best Practice Provision III.1.1. Best Practice Provision III.1.1. states that the division of duties among the non-executive directors must be laid down in a set of regulations which regulations should be posted on the Company's website. These regulations are available now and will be posted on the website shortly.

Best Practice Provision III.3.1. This Best Practice Provision prescribes that there shall be a profile of size and composition of the supervisory board, which is to be posted on the Company's website. Such profile has been prepared and will be posted on the Company's website shortly.

Best Practice Provision III.3.5. This Best Practice Provision states that a non-executive director (commissaris) may be appointed for a maximum of three four-year terms. The Company's articles of association provides for a retirement schedule whereby directors who have been in office for not less than three consecutive annual general meetings shall retire from office. Such director may be re-appointed which could result in a term of office, longer than four years.

Best Practice Provision II.5.6. This Best Practice Provision states that the Audit Committee shall not be chaired by the Chairman of the Board or any former director of the Company. The Company's Audit Committee is chaired by Mr Yitzchaki, who has been an executive director of the Company. The Company however is convinces that Mr Yitzchaki's extensive financial experience makes him the most appropriate person for chairmanship of the Audit Committee.

Best Practice Provision III.5.1. This Best Practice Provision provides inter alia that the committee rules of a company shall stipulate that a maximum of one committee member need not to be independent within the meaning of Best Practice Provision III.2.2. the Company's Nomination Committee currently comprises three members two of whom, Messrs Yitzchaki and Paap, are considered to be non-independent. The Company however believes that the composition of the Nomination Committee is, given the skills and experience of its members, appropriate and in the best interests of the Company.

Best Practice Provision III.5.11. This Best Practice Provision stipulates 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. Mr Yitzchaki, who is a former executive director and serves as President of Elbit Medical Imaging Ltd., is Chairman of the Remuneration Committee. However the Company believes that the experience of Mr Yitzchaki in this respect is more important than the fact that he is a board member in another listed company.

Best Practice Provision III.7.1. Best Practice Provision III.7.1. states that non-executive directors should not receive shares or option rights by way of remuneration. Under the Company's current incentive scheme, options were granted to Mr Yitzchaki. The incentive scheme does not exclude the possibility of granting options to non-executive directors. The Company however believes that granting options to non-executive directors appropriate, in case of Mr Yitzchaki since his extensive experience and value to the Company, in other cases to offer a competitive remuneration package.

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

Best Practice Provision III.8.4. Pursuant to this Best Practice Provision, the majority of Board members shall be independent non-executives. The Company now has two executive directors and four non-executive directors out of whom two non-executive directors are considered to be non-independent. Those non-executive directors are Mr Yitzchaki and Mr Paap. This makes two out of six directors to be independent. Despite this fact, the Company believes that the composition of its Board of Directors is appropriate, given the experience of all directors, including the non-independent directors.

Role of the Board

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

Board practices

Dutch statutory law does not provide for a one-tier governance structure, in which a Board is made up of executive and non-executive directors. Instead, it provides for a two-tier structure comprising separate management and supervisory boards.

It is, however, well-established practice to have a structure for the management board that resembles a one-tier structure. Under this organization, all members are formally managing directors with the Articles of Association allocating to certain members tasks and obligations similar to those of executive directors, and to others tasks and obligations that are similar to those of non-executive directors.

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

All responsibilities are subject to the overall responsibility of the management board.

The Board is accountable to the General Meeting of Shareholders.

Composition and operation of the Board

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

The Board meets regularly throughout the year, when each director has full access to all relevant information. Non-executive directors may if necessary take independent professional advice at the Company's expense.

The Company has established three committees, in line with the Combined Code and the Dutch Corporate Governance Code. These are the Audit Committee, the Remuneration Committee and the Nomination Committee, and a brief description of each may be found below.

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

Audit Committee

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

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

Remuneration Committee

The Remuneration Committee, comprising three non-executive directors, meets at least twice each financial year to prepare the Board's decisions on the remuneration of directors and the Company's share incentive plans. (Under Dutch law and the Articles, the principal guidelines for directors' remuneration and approval for directors' options and share incentive schemes must be determined by a General Meeting of Shareholders). The Committee also prepares an Annual report on the Company's remuneration policy. The remuneration report may be found on pages 30 and 31 of this document.

Composition: Mr Yitzchaki, Mr Wichers, Mr 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.

Composition: Mr Yitzchaki, Mr Wichers, Mr Santhagens, Mr Paap. Chairman: Mr Paap.

Internal control/risk management

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

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

Share dealing code

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

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

Controlling shareholder and conflicts of interest

The Company has a Controlling Shareholder who owns approximately 68.4% of the Enlarged Share Capital and therefore has effective control of the Company. The Board is satisfied that the Company is capable of carrying on its business independently of the Controlling Shareholder, with whom it has a relationship agreement to ensure that all transactions and relationships he has with the Group are conducted at arm's length and on a normal commercial basis.

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

Shareholder communication

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

Details of this year's AGM can be found on page 24.

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

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

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

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

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

Corporate, social and ethical policies

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

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

Environment

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

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

Health and safety

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

Remuneration report

Remuneration Committee

As stated in the Corporate Governance report on pages 25 to 29 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 recognise 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* €'000	Total non-performance related remuneration €'000	**Total remuneration for the year ended December 31 2006 €'000**	Total remuneration for the year ended December 31 2005 €'000
Chairman and executive directors					
Non-performance related remuneration					
Mr Mordechay Zisser	–	313	313	**313**	–
Mr Ran Shtarkman	78	813	891	**891**	–
Total	78	1,126	1,204	**1,204**	–
Non-executive directors					
Non-performance related remuneration					
Mr Shimon Yitzchaki	–	90	90	**90**	–
Mr Marius van Eibergen Santhagens	9	–	9	**9**	–
Mr Edward Paap	9	–	9	**9**	–
Mr Marco Wichers	9	–	9	**9**	–
Total	27	90	117	**117**	–
Total – all directors 2006	105	1,216	1,321	**1,321**	–

* Accounting non-cash expenses recorded in the Company's income statement in accordance with the share option plan.

Total shareholder return performance

Service arrangements

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

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

Bonuses

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

Share options

The Company adopted its Share Option Scheme on October 26, 2006. 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. Options will vest in three equal annual portions and have contractual life of five years following grant.

	Number of options	Number vested as at December 31 2006	Exercise price of options £
Mr Mordechay Zisser	3,907,895	–	1.80
Mr Ran Shtarkman	10,150,376	–	1.80
Mr Shimon Yitzchaki	1,116,541	–	1.80
Mr Marius van Eibergen Santhagens	–	–	N/A
Mr Edward Paap	–	–	N/A
Mr Marco Wichers	–	–	N/A

	Number of options as at December 31 2006
Total pool	33,834,586
Granted	26,108,602
Exercised	–
Forfeited	–
Left for future grant	7,725,984

Statement of directors' responsibilities

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, remuneration report and financial statements in accordance with applicable law and regulations.

International company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company, and of its profit and loss for that period.

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

They 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 they make must be both reasonable and prudent. They 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 Company information on the website, where a failure to update or amend information may cause inappropriate decision-making.

By order of the Board

Mordechay Zisser
Chairman
June 14, 2007

Independent auditor's report

To the shareholders of Plaza Centers N.V. (formerly: Plaza Centers (Europe) B.V.)

We have audited the accompanying consolidated financial statements of Plaza Centers N.V. (hereinafter referred to as the "Company") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS as adopted by the EU.

March 23, 2007

KPMG Hungária Kft

KPMG Hungária Kft.

Consolidated balance sheets

For the year ended December 31, 2006

	Note	December 31 2006 €'000	December 31 2005 €'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**212,683**	46,699
Restricted bank deposits	4	**616**	6,164
Short-term deposits	5	**6,154**	2,977
Trade accounts receivables, net	6	**1,059**	638
Other accounts receivable and prepayments	7	**29,222**	4,802
Other debtors and related parties	10	**4,283**	2,033
Trading properties	8	**159,961**	104,717
		413,978	168,030
Non-current assets			
Investment in associate	15	**1,148**	1,298
Long-term balances and deposits	9	**2,257**	2,938
Other debtors and related parties	10	**22,027**	3,512
Property, plant and equipment	11	**7,550**	8,210
Investment property	12	**26,654**	26,354
Restricted bank deposits	4	**350**	349
Other non-current assets	13	**933**	413
		60,919	43,074
Total assets		**474,897**	211,104
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Interest bearing loans from banks	16	**51,201**	53,403
Trade payables		**15,703**	6,532
Other liabilities	18	**3,088**	7,099
Amounts due to related parties	17	**17,771**	15,693
Creditor due to selling of investment property	17	**2,418**	1,648
		90,181	84,375
Non-current liabilities			
Interest bearing loans from banks	16	**5,875**	17,244
Amounts due to related parties	17	**8,474**	9,133
Other long term liabilities	18	**1,551**	1,214
Deferred tax liabilities	19	**4,139**	3,131
		20,039	30,722
Share capital	20	**2,923**	18
Translation reserve	20	**(1,895)**	(2,059)
Other reserves	20	**1,840**	(181)
Share premium	20	**248,860**	–
Retained earnings		**112,949**	98,229
Shareholders' equity		**364,677**	96,007
Total shareholders' equity and liabilities		**474,897**	211,104

Date of approval of the financial statements: March 21, 2007

Ran Shtarkman
Director, President and Chief Executive Officer

Shimon Yitzchaki
Director and Chairman of the Audit Committee

The notes set out on pages 39 to 87 form part of these consolidated financial statements

Consolidated income statements

For the year ended December 31, 2006

	Note	December 31 2006 €'000	December 31 2005 €'000
Revenues	23	60,219	14,955
Gain from the sale of investment property, net	34	13,715	1,089
Changes in fair value of investment property	12	257	39,726
		74,191	55,770
Cost of operations	24	50,034	6,613
Gross profit		24,157	49,157
Administrative expenses	25	8,173	6,572
Operating profit		15,984	42,585
Finance income	26	4,000	972
Finance expenses	26	(3,336)	(8,557)
Finance income (expenses), net		664	(7,585)
Other income	27	287	394
Other expenses	27	(457)	(233)
Share in profit (loss) of associate	15	(150)	40
Profit before tax		16,328	35,201
Income tax expenses	28	1,608	5,859
Profit for the year		14,720	29,342
Basic and diluted earnings per share (in euro)	21	0.27	16.17

The notes set out on pages 39 to 87 form part of these consolidated financial statements

Consolidated statement of changes in shareholders' equity

For the year ended December 31, 2006

	Note	Share capital €'000	Share premium €'000	Other capital reserves €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
Balance at January 1, 2005		18	–	(181)	(2,883)	68,887	65,841
Transfer to income statement due to selling of investment property		–	–	–	824	–	824
Profit for the year		–	–	–	–	29,342	29,342
Balance at December 31, 2005		18	–	(181)	(2,059)	98,229	96,007
Transfer to income statement due to selling of trading property		–	–	–	164	–	164
Share-based payment	22	–	–	2,021	–	–	2,021
Private issuance of ordinary shares to Elbit Ultrasound B.V – parent Company (in consideration of loan conversion)		1,982	15,282	–	–	–	17,264
Issuance of ordinary shares, net*		923	233,578	–	–	–	234,501
Profit for the year		–	–	–	–	14,720	14,720
Balance at December 31, 2006		2,923	248,860	1,840	(1,895)	112,949	364,677

* Net of costs of issuance of ordinary shares in the amount of €12.7 million.

The notes set out on pages 39 to 87 form part of these consolidated financial statements

Consolidated cash flow statements

For the year ended December 31, 2006

	December 31 2006 €'000	December 31 2005 €'000
Cash flows from operating activities		
Profit for the year	14,720	29,342
Adjustments necessary to reflect cash flows used in operating activities:		
Depreciation	773	868
Change in fair value of investment property	(257)	(39,726)
Finance expenses (income), net	(510)	6,954
Loss (Gain) on sale of property plant and equipment	18	(69)
Company's share in loss (profit) of associate	150	(40)
Gain on sale of investment property subsidiaries	(13,715)	(1,089)
Gain on sale of trading property subsidiaries	(7,008)	–
Income tax expenses	1,009	5,793
Increase in trade accounts receivable	(786)	(2,055)
Increase in other accounts receivable	(6,087)	(1,950)
Payments on account for projects to be acquired	(19,401)	–
Increase in trading properties	(92,201)	(22,163)
Purchase of trading property companies (see appendix A)	1	(2,341)
Increase (decrease) in trade accounts payable	14,241	(291)
Increase in other liabilities	3,187	490
Net proceeds from selling of trading property subsidiaries (see appendix B)	6,016	–
Share-based payment	1,186	–
Net cash used in operating activities	(98,664)	(26,277)
Cash from investing activities		
Purchase and development of investment property (2006 – other assets)	(1,422)	(24,131)
Proceeds from sale of plant, property and equipment	167	204
Investment in associate	(115)	(153)
Acquisition of subsidiaries (2005 – see appendix A)	–	(15,408)
Short-term deposits, net	2,393	1,887
Decrease in long-term deposits	1,047	13,271
Increase in long-term deposits	(2,374)	(7,907)
Net proceeds from disposal of other subsidiaries (see appendix B)	17,297	77,427
Long-term loans granted to partners in jointly controlled company	(21)	(2,663)
Net cash provided by investing activities	16,972	42,528
Cash from financing activities		
Short-term loans from banks, net	21,001	1,164
Issuance of ordinary shares, net	234,501	–
Long-term loans received from banks	–	61,117
Long-term loans repaid to banks	(8,604)	(3,922)
Loans granted from (repaid to) related parties	778	(37,747)
Net cash provided by financing activities	247,676	20,612
Increase in cash and cash equivalents during the year	165,984	36,863
Cash and cash equivalents at the beginning of the year	46,699	9,836
Cash and cash equivalents at the end of the year	212,683	46,699

The notes set out on pages 39 to 87 form part of these consolidated financial statements

Consolidated cash flow statements continued

For the year ended December 31, 2006

	December 31 2006 €'000	December 31 2005 €'000
Appendix A – Acquisition of subsidiaries*		
Cash and cash equivalents of subsidiaries acquired	–	342
Working capital (excluding cash and cash equivalents)	6,787	(85)
Investment property	–	(15,401)
Trading property	(6,786)	(22,726)
Long-term loans and liabilities	–	20,463
Less – Cash and cash equivalents of subsidiaries acquired	–	(342)
Acquisitions of subsidiaries, net of cash held	1	(17,749)
Appendix B – Disposal of subsidiaries		
Cash and cash equivalents of subsidiaries disposed	463	2,655
Working capital (excluding cash and cash equivalents)	37,414	3,065
Long-term deposits	1,047	3,588
Investment property and other assets	–	247,072
Long-term loans and liabilities	(42,600)	(178,212)
Net identifiable assets and liabilities disposed	(3,676)	78,168
Cash from sale of subsidiaries	23,776	80,082
Less – Cash and cash equivalents of subsidiaries disposed	(463)	(2,655)
	23,313	77,427
Non cash movements		
Forgiveness of loans in consideration for issuance of Ordinary Shares (See Note 20)	17,264	–
Share option plan capitalized (See Note 22)	835	
Interest paid	2,867	3,265
Interest received	1,857	788
Income taxes paid	13	19

* In 2006 – trading properties company acquired.

The notes set out on pages 39 to 87 form part of these consolidated financial statements

Notes to the consolidated financial statements

For the year ended December 31, 2006

Note 1 – Principal activities and ownership

Plaza Centers N.V. (formerly: Plaza Centers (Europe) B.V.) (the "Company") was incorporated and registered in the Netherlands in May 1993 as a private company by the name of Shaka B.V. In 1998, the name was changed to Bea Real Estate B.V. ("BeaRE") and in May 1999, to Plaza Centers (Europe) B.V. In September 2006 the Company changed its name to its present name, as part of the IPO reorganization (see note 32). 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 commercial and entertainment centers in Central and Eastern Europe, and, starting 2006, India. The consolidated financial statements for each of the periods comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

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

On October 27, 2006 the Company announced its initial public offering ("IPO") of Ordinary Shares on the Official List of the London Stock Exchange ("LSE"). For more details on the IPO refer to note 32 of these financial statements.

The Company's immediate parent company is Elbit Ultrasound B.V. ("EUL"), which holds 68.4% of the Company's shares. The ultimate parent company is Elbit Medical Imaging Limited ("EMI"), which is indirectly controlled by Mr Mordechay Zisser. For the list of the Company's subsidiaries and affiliates, refer to note 37.

Note 2 – Summary of significant accounting policies

a. Statement of compliance

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

These consolidated financial statements are not intended for statutory filing purposes. The Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. The Company has not yet prepared consolidated financial statements for the year ended December 31, 2006 in accordance with The Netherlands Civil Code.

The financial statements were approved by the Board of Directors on March 21, 2007.

b. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investment property which is stated at fair value and liabilities for cash-settled share-based payment arrangements which are measured at fair value.

c. Functional and presentation currency

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

Note 2 – Summary of significant accounting policies continued

d. Use of estimates and judgments

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

The 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.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 36.

e. 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.

All business combinations are accounted for by applying the purchase method. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the net identifiable assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the net identifiable assets acquired (i.e. discount on acquisition) is recognized directly in profit and loss in the period of acquisition.

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.

The consolidated financial statements include the Group's share of the total recognized gains and losses of associates using the equity method of accounting, from the date that significant influence commences until the date that significant influence ceases. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associate in excess of the Group's interest in those associates are reduced until the investment is brought to nil, and then further losses are only recognized if the Group has incurred a legal/constructive obligation to fund such losses.

Note 2 – Summary of significant accounting policies continued

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. Joint ventures

Entities which are jointly controlled with another party or parties through the establishment of a contractual agreement ("joint ventures"), are accounted for using the proportional consolidation method of accounting.

The financial statements of joint ventures are included in the consolidated financial statements from the date that joint control commences until the date that joint control ceases.

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

4. Transactions eliminated on consolidation

All intra-group transactions, balances, income and expenses are eliminated on consolidation. 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.

5. Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group's controlling shareholder's consolidated financial statements.

The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of share premium. Any cash paid for the acquisition is recognized directly in equity.

f. Foreign currency

1. Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates prevailing at the dates the fair value was determined.

2. Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euros at foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of foreign operations are translated to euros at rates approximating to the foreign exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on retranslation are recognized directly in a separate component of equity.

Note 2 – Summary of significant accounting policies continued

The euro is the functional currency for Group companies (with the exception of Indian companies – in which the functional currency is the Indian Rupee – INR) since it best reflects the business and results of operations of the Group companies. This is based upon the fact that the euro is the currency in which management is determining its budgets, transactions with tenants and suppliers, and its financing activities and assesses its currency exposures.

3. Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. These are released into the income statement upon disposal.

g. Cash and cash equivalents

Cash and cash equivalents consist of deposits in banks and short-term investments (primarily time deposits and certificates of deposit) with original maturities of three months or less.

h. Restricted bank deposits

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

i. Trade receivables

Trade receivables do not carry interest and are recognized initially at fair value, subsequent to which they are stated at amortized cost less impairment losses. The impairment loss is based on a periodic review of all outstanding amounts, which includes an analysis of historical bad debts and customer concentrations. Bad debts are written off when identified as being no longer collectible.

j. Trading properties

Properties that are being constructed or developed for future use as trading properties (inventory) are classified as trading properties and stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to complete construction and the estimated costs necessary to make the sale.

All costs directly associated with the purchase of trading properties and all subsequent expenditures for the development of such properties are capitalized. Cost of trading properties is determined on the basis of specific identification of their individual costs.

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. 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. The capitalization rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate.

Operating cycle

The Group is involved in long-term construction projects. Accordingly, the assets and liabilities relating to trading properties (already constructed and still under construction) that are expected to be completed during a period of up to five years from the balance sheet date, are presented as current assets and liabilities.

Note 2 – Summary of significant accounting policies continued

k. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value at the balance sheet date. Generally, an external, independent valuation company, having an appropriate recognized professional qualification and recent experience in the location and category of property being valued, values the portfolio every 12 months. In the absence of an external valuation, the Company's management makes its own estimate. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. A table showing the range of yields applied for each type of property is included below:

Yields	2006	2005	2004
Hungary	8.5%	8.5%	9.3%–10.5%
Poland	N/A*	8.6%–12%	9.6%–12%
Czech Republic	8.8%	8.2%	8.7%

* No investment property held in Poland in 2006.

Valuations reflect, where appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognized in the income statement in the period in which it arises. Rental income from investment property is accounted for as described in accounting policy 2(s).

l. Investment property under construction

Property that is being constructed or developed for future use as investment property is classified as investment property under construction and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property. At the date of transfer, the difference between fair value and cost is recorded as income in the consolidated income statement.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditures for the development qualifying as acquisition costs are capitalized.

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. 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. If the resulting carrying amount exceeds its recoverable amount, an impairment loss is recognized.

Note 2 – Summary of significant accounting policies continued

The capitalization rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate.

m. Property, plant and equipment

1. Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy o.). The cost of self-constructed assets includes the cost of land, materials, direct labor and, where relevant, the initial estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

Depreciation of items of property, plant 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
Commercial centers – building	2 – 4
Mechanical systems in the buildings	7–10
Aircraft	3.7
Other *	6–33

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Depreciation methods, useful lives and residual values, are reassessed annually.

n. Other non-current assets

1. Initiation costs of commercial centers

Expenditure on assessment and research activities, undertaken with the prospect of developing new shopping centers, are recognized in the income statement as an expense as incurred.

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

Note 2 – Summary of significant accounting policies continued

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

3. Other assets
Other assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy o.).

4. Subsequent expenditure
Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

5. Amortization
Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of assets from the date they are available for use. The estimated useful lives are as follows:

- Initiation costs of commercial centers – 50 years
- Cost of obtaining long-term lease contracts – five to 15 years

o. Impairment
The carrying amounts of the Group's assets, other than investment property, trading properties and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

1. Calculation of recoverable amount
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. The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. 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.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Note 2 – Summary of significant accounting policies continued

2. Reversal of impairment

An impairment loss in respect of a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

p. Trade payables

Trade payables are not interest bearing and are recognized initially at fair value, subsequent to which they are stated at amortized cost.

q. Interest-bearing borrowings

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

r. Provisions

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

The fair value of the amount payable to employees in respect of share-based payments, which may be settled in cash, is recognized as an expense, with a corresponding increase in equity (as a capital fund), 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 capital fund are recognized as an additional cost in personnel expenses in the income statement.

s. Revenue recognition

Revenue from the sale of trading properties and investment property is recognized when the risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts to complete under the contract.

For sales transactions with continuing involvement by the Group in the form of a guarantee of a return on the buyer's investment for limited period or in a limited amount no revenue is recognized if the guarantee represents a significant risk to the Group or the Group cannot make a reliable estimate of likelihood and/or the future cash flows related to the guarantee.

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

Note 2 – Summary of significant accounting policies continued

Other revenues, including management fee income, are recognized in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided, and are measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes.

No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or continuing management involvement with the assets.

t. Expenses

1. Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

2. Net financing costs

Finance costs comprises interest payable on borrowings calculated using the effective interest rate method and foreign exchange losses.

Finance income comprises interest receivable on funds invested, dividend income and foreign exchange gains.

Financing costs, excluding foreign exchange differences, which do not adjust to interest rate, are capitalized to the cost of qualifying assets.

Interest income and expense are recognized in the income statement as they accrue, using the effective interest method. Dividend income is recognized in the income statement on the date the entity's right to receive payment is established.

u. Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Note 2 – Summary of significant accounting policies continued

Deferred tax is calculated at the enacted or substantially enacted tax rates at the balance sheet date that are expected to apply in the period when the liability is settled or the asset is realized.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognized within equity.

v. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Group conducts its activities in the field of establishing, operating and selling of commercial and entertainment centers mainly in Central and Eastern Europe and, starting 2006, also in India.

The Group considers that it has only one business segment because its activities are subject to similar characteristics of risks and returns. Furthermore, the Group also considers the Central and Eastern European region as one economic environment and countries therein to have similar characteristics and relatively common features of risks and returns.

When substantive operations are in place in India, the Group will report these as a separate geographical segment.

The majority of the Group's profits are generated at the Company, rather than the subsidiaries, as profits arise when subsidiaries, most of which own properties, are sold.

w. Share capital – Ordinary Shares

Incremental costs directly attributable to issue of Ordinary Shares and share options are recognized as a deduction from equity. Costs attributable to listing existing shares are expensed as incurred.

x. Employee benefits

1. Bonuses

The Group recognizes a liability and an expense for bonuses, which are based on agreements with employees or according to management decisions based on Group performance goals and on individual employee performance. The Group recognizes a liability where contractually obliged or where past practice has created a constructive obligation.

2. Share-based payment transactions

The fair value of options granted to employees to acquire shares of the Company is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Note 2 – Summary of significant accounting policies continued

y. Earning per share

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

z. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2006, and have not been applied in preparing these consolidated financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

- IFRS 8 Segment Reporting describes how an entity reports segment activities in its annual financial statements and relates to selected details regarding segments in interim statements. Also the standard relates to disclosure requirements regarding products and services, geographical areas and major customers. The standard leaves determination of the segments to the entity as the segment reporting is based on elements which are under supervision of management for purpose of operating decision making. The standard will become mandatory for the Group's 2009 financial statements. Early adoption is permitted and comparative figures are required to be restated.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively.

- IFRIC 11 Group and Treasury Share Transactions addresses how to apply IFRS 2 Share-based Payment to share-based payment arrangements involving an entity's own equity Instruments or equity instruments of another entity in the same group (e.g. equity instruments of its Parent). IFRIC 11 is effective for annual periods beginning on or after March 1, 2007. Earlier application is permitted. The Group believes that the adoption of IFRIC 11 is not expected to have any impact on the consolidated financial statements.

Note 2 – Summary of significant accounting policies continued

- IFRIC 12 Service Concession Arrangements addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services to private sector operators. IFRIC 12 draws a distinction between two types of service concession arrangements: In one, the operator receives a financial asset, specifically an unconditional contractual right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset. In the other, the operator receives an intangible asset – a right to charge for use of the public sector asset that it constructs or upgrades. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. The Interpretation is effective for annual periods beginning on or after January 1, 2008, with early adoption permitted. The Group believes that the adoption of IFRIC 12 is not expected to have any impact on the consolidated financial statements.

The Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Note 3 – Cash and cash equivalents

	Interest rate as of December 31 2006	**December 31 2006 €'000**	December 31 2005 €'000
Bank deposits – in euros	2.5%–3.71%	**209,292**	43,402
Bank deposits – in Hungarian forints	6%	**2,782**	2,899
Bank deposits – in Polish zlotys	3.5%	**416**	186
Bank deposits – in Czech crowns	1.5%	**64**	54
Bank current accounts – in US dollars	Mainly 0%	**129**	48
Bank deposits – in other currencies	–	**110**	–
Total		**212,683**	46,699

Note 4 – Restricted bank deposits

	Interest rate as of December 31 2006	**December 31 2006 €'000**	December 31 2005 €'000
In euros		**–**	5,552
In Polish zloty	3.70%	**616**	612
Total short term		**616**	6,164
In euros	0%	**350**	349
Total long term		**350**	349

The Group pledged the bank deposits to secure banking facilities received, or to secure construction activities to be performed by the Group.

Note 5 – Short-term deposits

	Interest rate as of December 31 2006	December 31 2006 €'000	December 31 2005 €'000
Bank deposits – in euros	2.5%–3.0%	3,670	1,160
Bank deposits – in Hungarian forints	6%	101	–
Bank deposits – in Polish zlotys	3.5%	1,520	178
Bank deposits – in Czech crowns	1.5%	789	1,393
Bank deposits – in US dollars	Mainly 0%	74	246
		6,154	2,977

Note 6 – Trade accounts receivable, net

The balances represent amounts receivable from leases of space in commercial centers and offices less any impairment for doubtful debts.

Note 7 – Other accounts receivable and prepayments

	December 31 2006 €'000	December 31 2005 €'000
Advance in respect of plot purchase[1]	19,401	–
Prepaid expenses	1,314	1,307
VAT authorities	7,561	2,694
Partners in companies under joint venture	199	377
Companies in the EMI Group and other related parties	168	284
Others	579	140
	29,222	4,802

1 Advance payment for a purchase of plot of land in Bucharest in the amount of €19.4 million (see note 32).

Note 8 – Trading properties

	December 31 2006 €'000	December 31 2005 €'000
Balance at January 1	104,717	–
Additions during the period	98,819	44,889
Transfer from property under construction	–	59,828
Trading property sold (see note 34)	(43,574)	–
Balance at December 31	159,962	104,717

Note 8 – Trading properties continued

As of December 31, 2006, The Company has trading properties in Hungary, Poland, Czech Republic, Latvia, Greece and India. The following describes the main issues in respect of some of the trading properties:

Helios Plaza trading property

In May 2000 a Greek subsidiary ("Helios") obtained a building permit for the construction of a commercial and entertainment center on land which it owns. The book value of the investment in the land (including development and other costs) totaled, on December 31, 2006, €22.6 million. Excavation works commenced in 2001, but shortly thereafter the works were suspended due to archaeological findings at the site. Final clearance issued by the competent archaeological authorities was obtained on February 2002.

However, in terms of the archaeological clearance, and in order to comply with the provisions of an environmental and traffic impact plan, Helios was required to carry out certain modifications to the architectural plans of the commercial and entertainment center. Upon completion of the new requirements, Helios submitted an application for a revised building permit. In December 2003, the local governmental authorities placed a one year suspension (moratorium) on the issuance of all building permits and constructions along the Piraeus side of the National Highway (which includes the land owned by Helios).

In November 2004, a Ministerial Decision was issued, which changed the land uses along the National Highway (Piraeus Avenue), restricting the use of the Helios site only to office buildings and/or residential buildings and/or small size retail activities. Under the new land uses Helios may no longer build a shopping center. During the term of such suspension Helios's building permit expired (building permits in Greece have an initial four-year term). In April 2005 Helios submitted an application to the competent authorities requesting the renewal of its building license, which was refused. Consequently, Helios filed a petition with the constitutional court for an order declaring that the refusal to reissue the building license was unconstitutional and directing the competent authorities to reissue the building license.

In the meantime a series of unrelated judgments by the constitutional court have been handed down which reverse the regulatory civil planning framework in Greece, namely that the civil planning powers granted to the government by a law of 2002, were declared void by reason of the fact that the law which conferred such powers on the government was declared to be unconstitutional. Given that Helios's project was affected by a ministerial decision issued by virtue of a law which has now been held to be void, it appears that such ministerial decision is unconstitutional and accordingly invalid. However, Helios has no direct means to create a practical result out of this event, since the period during which Helios is permitted to challenge the ministerial decision has expired, and there appears to be no direct way to compel the Civil Planning Agency to issue a new building permit on the basis of the previous permit (already expired) or an amendment that would allow Helios to construct a shopping center. The Company is presently seeking legal advice how to proceed and to protect its interests in the circumstances which have arisen. The Company intends to again apply for the reissuance of the building permit and/or to petition the constitutional court on additional grounds.

Considering the unclear nature of the status of the initial building permit, the application for the amended building permit and the recent legislative changes which affect the project, management is currently considering the alternative possible solutions available to the Company, in order to finalize the project as originally planned. The Company's management is also examining the possibility that substantial changes may be required to be made to the extent and nature of the project, the viability of such changes and commercial and financial implications of such changes.

Notwithstanding the aforestated, the Company's management estimates, based on external valuations obtained, that the accumulated project cost does not exceed the recoverable amount.

Note 8 – Trading properties continued

Lodz Plaza trading property

In August 2001, a subsidiary, located in Lodz, Poland, received a construction permit for the construction of a commercial and entertainment center, which expired prior to December 31, 2006. Construction works in respect of this project have not commenced as at the approval date of these financial statements. The cost of investment in the land (including demolition and other development costs) amounts to €5.0 million. No zoning plans exist in respect of the area surrounding the respective land. The Group is considering applying for a change of zoning to residential or office use. Once construction plans are determined, new requests will be filed for a revised building permit. The Company's management estimates that no significant additional costs will be incurred, in relation to obtaining the revised building permit, and that (based on external valuations obtained) the book value of the asset, as recorded in the financial statements, does not exceed its recoverable amount.

Note 9 – Long-term balances and deposits

	Interest rate as of December 31 2006	December 31 2006 €'000	December 31 2005 €'000
Prepaid expenses – mediation fees[1]	0%	–	1,073
Long-term loan to and balances with associated Company (Ercorner)[2]	6.76%	1,849	1,735
Long-term deposits[3]			
In Czech crowns	1.75%	95	130
In Polish zlotys	3.20%	313	–
		2,257	2,938

1 2005 – As part of the Klepierre 2 transaction (see note 32), the Company paid mediation fees. Part of these mediation fees, as they relate to stage B transaction, were deferred until the shopping centers under construction pre-sold to Klepierre are finally sold. In 2006 these prepaid expenses are presented as short-term prepaid expenses.

2 The loan to the associated company bears a fixed interest rate of 6.76% per annum as at December 31, 2006, and the previous balance sheet date. The interest is fixed, and was predetermined by both parties to the joint venture. No maturity date was determined.

3 Long-term deposits relate either to deposits deposited in connection with bank loan requirements, or deposits of tenants, reflecting amounts paid by tenants in advance, and serving as security deposits.

Note 10 – Other debtors and related parties

	December 31 2006 €'000	December 31 2005 €'000
Short-term debtor balances with:		
Klepierre group – due to selling of shopping centers	4,283	2,033
	4,283	2,033
Long-term loan and debtor balances with:		
Related party – EMI	18,226	–
Partners in companies under joint venture	3,801	3,512
	22,027	3,512

The abovementioned balances bear no interest (with the exception of the loan granted to EMI, linked to the euro and bearing interest at three-month Libor plus a margin of 1.8%), and has no scheduled repayment date. In respect of the long-term receivable from partners in companies under joint ventures the Group estimates that repayment will be received in 2007 or 2008. For borrowings from EMI, refer to note 17.

Note 11 – Property, plant and equipment

	Land and buildings	Plant and equipment	Fixtures and fittings	Airplane	Total
Cost					
Balance at January 1, 2005	3,327	2,739	414	720	7,200
Additions	29	297	286	3,201	3,813
Disposals	–	(389)	(6)	–	(395)
Balance at December 31, 2005	3,356	2,647	694	3,921	10,618
Balance at January 1, 2006	3,356	2,647	694	3,921	10,618
Additions	–	139	–	–	139
Disposals	–	(44)	–	–	(44)
Balance at December 31, 2006	3,356	2,742	694	3,921	10,713
Accumulated depreciation and impairment losses					
Balance at January 1, 2005	216	1,414	414	–	2,044
Depreciation charge for the year	56	332	–	196	584
Disposal of subsidiaries	–	(220)	–	–	(220)
Balance at December 31, 2005	272	1,526	414	196	2,408
Balance at January 1, 2006	272	1,526	414	196	2,408
Depreciation charge for the year	62	371	–	330	763
Disposals	–	(8)	–	–	(8)
Balance at December 31, 2006	334	1,889	414	526	3,163
Carrying amounts					
At December 31, 2005	3,084	1,121	280	3,725	8,210
At December 31, 2006	3,022	853	280	3,395	7,550

Note 12 – Investment property

	December 31 2006 €'000	December 31 2005 €'000
Balance at January 1	26,354	175,884
Additions	43	34
Acquisitions in respect of business combination	–	18,209
Disposals	–	(886)
Disposals of subsidiaries	–	(249,539)
Transfer from property under construction	–	42,926
Fair value adjustments	257	39,726
Balance at December 31	26,654	26,354

Investment property at December 31, 2005 and 2006 relates to two office buildings that are leased to third parties. Generally, leases contain an initial period of five to ten years. Subsequent renewals are negotiated with the lessee. The contracts are denominated in, or linked, to the euro.

Tenants are required to make rental deposits generally equal to three months rent at the inception of any lease contracts, and pay in advance for a three month period. In addition to rental fees, the Company charges the tenants management fees, as well as utilities fees, to reimburse costs the Company incurs with the operation of the shopping center. Some tenants are referred to as anchor tenants, as they take the majority rental areas in the shopping centers. These anchor tenants usually enjoy lower rental rates.

To determine the fair value of the investment property see note 2(k).

Duna Plaza offices – included in investment property

Within the first Klepierre transaction in 2004, Klepierre acquired from the Company the entire equity rights in Duna Plaza Rt. Duna Plaza Rt is the registered and legal owner of the entire right, title and interest in and to the Duna Plaza Complex, which is comprised of Duna Plaza shopping center (the "Sold Center" or "Duna Plaza") and the Duna Plaza Offices ("DPO"). Since DPO was specifically excluded from the framework of the 2004 transaction , Klepierre and the Company have agreed to implement certain procedures to cause: (i) the registration of the DPO as a separate title unit in a condominium the rights of which shall initially be held by Duna Plaza; (ii) thereafter to implement a demerger of Duna Plaza in such manner that DPO will be recorded in the name of a new company to be incorporated under the demerger ("DPO Owner"); and (iii) to cause the sale and transfer to the Company of the entire equity and voting rights of DPO Owner holding ownership of DPO (the "demerger procedures"). The assets of Duna Plaza shall be divided in such manner that Duna Plaza shall retain the right, title and interest to the Sold Center, while DPO Owner shall be recorded as the owner and holder of the right, title and interest in and to the DPO. The liabilities of Duna Plaza shall be divided in such a manner that Duna Plaza shall retain the liabilities associated with the Sold Center, while DPO Owner shall assume the liabilities associated with the DPO. The Company shall indemnify Duna Plaza for the liabilities assumed by DPO Owner.

All costs, liabilities and expenses incurred or to be incurred in respect of and/or in connection with and/or pertaining to the demerger procedures or the implementation of the provisions of the agreement thereof, shall be at the sole cost of the Company. The carrying value of DPO is €13.8 million, as of December 31, 2006.

Note 12 – Investment property continued

During the period until the consummation of the demerger procedures ("interim period") the Company shall be entitled to all rental and other revenues (excluding from the sale of utilities) which shall be received by Duna Plaza from the DPO tenants, net after deducting the aggregate amount of: (i) all those direct costs and expenses and taxes which shall be incurred and/or disbursed by Duna Plaza which directly relate to and/or connected with the ownership, operation and management of the DPO; and (ii) that proportion of the general costs and expenses taxes of the Duna Plaza Complex, which may reasonably be attributed and apportioned to the DPO. During the interim period, the Company shall be responsible for and shall manage and operate the DPO. Duna Plaza shall have a lien over DPO's funds, as security for payment of the DPO costs. The Company shall warrant and indemnify Klepierre for and against any cost, debt, actions, suits and liability that may arise as a result of or in connection with the ownership, possession, operation and transfer of the DPO. Following the completion of the demerger procedures the Company shall be the owner (100%) of the DPO equity rights. The demerger procedure was finalized on December 31, 2006, and transfer of the quota of DPO is expected in the second quarter of 2007.

Note 13 – Other non-current assets

	December 31 2006 €'000	December 31 2005 €'000
Cost of raising loans, net	–	156
Project deferred costs	933	257
Balance at December 31	933	413

The cost of raising loans is offset against the long-term bank loans. Where no loan proceeds have been drawn down, the amount of costs incurred is included in other non-current assets.

Project deferred costs reflects costs the Group incurs prior to the purchase of new plots, such as tender fees, etc. The figure as of December 31, 2006 reflects mainly costs in connection with the Group's future Romanian activities.

Note 14 – Proportionate consolidation

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

	December 31 2006 €'000	December 31 2005 €'000
Current assets	26,916	11,011
Current liabilities	16,041	1,118
Long-term liabilities	11,734	10,328

	December 31 2006 €'000	December 31 2005 €'000
Income	–	3,152
Expenses	399	4,276
Loss after tax	(399)	(1,124)

Note 15 – Investment in associate

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

	December 31 2006 €'000	December 31 2005 €'000
Composition:		
Cost of investment	740	740
Accumulative share of gains	408	558
Total	1,148	1,298
Other information on Ercorner (100%):		
Total assets	19,161	18,071
Liabilities	17,335	16,773
Revenues	69	606
Profit (loss)	(300)	80

The bank loan which financed the purchase of Alom Sziget, was included in Ercorner books until June 2006, when the bank loan was transferred to Alom Sziget. For details on the investment refer to note 32.

Note 16 – Interest bearing loans from banks

	Maturity date	December 31 2006	December 31 2005	Interest rate December 31 2006 (%)
Current maturities of long-term loans				
In Polish zlotys		3,361	–	WIBOR +1.4%
In euros		47,840	53,188	EURIBOR +1.65%–2.0%
In US dollars		–	215	N/A
Total		51,201	53,403	
Long-term credit				
In euros	2015	5,875	14,380	EURIBOR +1.75%
In US dollars		–	2,864	N/A
		5,875	17,244	
Total loans from banks		57,076	70,647	

All loans outstanding are floating. Repricing is done on a quarterly basis. The average effective interest rate as at December 31, 2006 and as at December 31, 2005 is 5.9%, and 5.2% per annum respectively.

Note 16 – Interest bearing loans from banks continued

Below is the repayment schedule of outstanding bank loans for each period:

	December 31 2006 €'000	December 31 2005 €'000
First year – current maturity	51,201	53,403
Second year	459	2,683
Third year	459	1,245
Fourth year	459	1,260
Fifth year	459	1,277
Sixth year and thereafter	4,039	10,779
Total long term	5,875	17,244
Total	57,076	70,647

Note 17 – Loans and amounts due to related parties and others

	Currency	December 31 2006 €'000	December 31 2005 €'000
Short term			
EMI Group – ultimate parent company	Euros	7,655	1,563
Other related parties [2]	Mainly Indian rupees	1,202	–
EUL – parent company [1]	Euros	8,914	14,130
		17,771	15,693
Other	Euros	2,418	1,648
Total		20,189	17,341
Long term			
EUL – parent company [4]	Euros	7,975	8,520
Other related parties [3]	Euros	499	613
		8,474	9,133

1 The loans received from Elbit Ultrasound B.V. (the main shareholder) ("EUL"), bear interest at three months US dollars Libor (or three months € Euribor) plus a margin of between 1.5% and 2.0% (effective interest rate as of December 31, 2006, and December 31, 2005 is 5.3% per annum and 4.2% per annum respectively). Loans are financing trading properties of the Group.

2 Other related parties in the short term include the liability to the Company's Indian partner in the joint venture company in India.

3 Other related parties in the long term include liability to the Control Centers group, a group of companies which provides project management services, controlled by the ultimate parent company controlling shareholder.

4 The loans received from Elbit Ultrasound B.V. (the main shareholder) ("EUL"), bear an interest of three-month US dollar Libor (or three months € Euribor) plus a margin of between 1.5% and 2.0% (effective interest rate as of December 31, 2006, and December 31, 2005 is 5.3% per annum and 4.2% per annum respectively). Loans are expected to be repaid in the long term, as EUL has declared its intention not to demand earlier repayment.

Note 18 – Other liabilities

	Currency	December 31 2006 €'000	December 31 2005 €'000
Short term			
Income in advance – short term [1]	Euros	**269**	4,940
Accrued expenses and commissions	Euros	**1,689**	1,627
Accrued bank interest	Euros	**195**	219
Government institutions and fees	Hungarian forints, Polish zlotys, Czech crowns	**490**	195
Salaries and related expenses	Hungarian forints, Polish zlotys, Czech crowns, US dollars	**336**	109
Other	Hungarian forints, Polish zlotys, Czech crowns	**109**	9
Total		**3,088**	7,099
Long term			
Income in advance – long term [1]	Euros	**540**	145
Liability to buyer of shopping center [2]	Euros	**1,011**	1,069
		1,551	1,214

1 Includes mainly advances provided by tenants and future tenants. 2005 – includes €4.5 million in respect of advance payment received from a tenant in respect of a shopping center in the Czech Republic.

2 Estimated liability in respect of one of the Sold Centers in connection with the Dawnay Day transaction, see also note 34.

Note 19 – Deferred tax liabilities

Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

	December 31 2006 €'000	December 31 2005 €'000
Liabilities:		
Deferred tax on excess purchase price over equity acquired – due to investment property	**1,301**	1,301
Investment property	**3,030**	1,925
Other assets	**16**	15
Interest-bearing loans and borrowings	**26**	42
Impaired receivables	**(12)**	(11)
Tax value of loss carry-forwards	**(908)**	(469)
Less: Tax losses not recognized	**686**	328
Net tax (assets)/liabilities	**4,139**	3,131

Note 19 – Deferred tax liabilities continued

Unrecognized deferred tax assets

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

	December 31 2006 €'000	December 31 2005 €'000
Tax losses	**6,838**	4,685

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.

As of December 31, 2006 the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carrying forward	2007 €'000	2008 €'000	2009 €'000	2010 €'000	2011 €'000	After 2011 €'000
29,196	688	1,021	649	2,290	1,251	23,297

Tax losses are mainly due to Hungary and The Netherlands.

Note 20 – Equity

	Remarks	December 31 2006 Number of shares	December 31 2005 Number of shares
Ordinary Shares of par value €0.01 each	See (a) below	**1,000,000,000**	1,815,120
Issued and fully paid:			
At the beginning of the period		**1,815,120**	1,815,120
Issued for forgiveness of loan to parent company	See (b) below	**2,684,880**	–
Issued for forgiveness of loan to parent company	See (b) below	**195,500,000**	–
Issued for cash to the public	See (b) below	**92,346,087**	–
At the end of the period		**292,346,087**	1,815,120

a. The number of shares authorized as of December 31, 2005 was 40 with a €453.80 par value. In September 2006 the authorized share capital was revised as follows:
   1. 40 shares of €453.8 were subdivided into 1,815,120 shares of €0.01.
   2. The authorized share capital was increased to 1 billion shares of €0.01.

b. In the course of the last quarter of 2006 the following share capital increases occurred:
   1. 2,684,880 shares of €0.01 were issued to Elbit Ultrasound B.V., the Parent Company of the Company, in October 2006, upon the change of the Company from B.V. status to N.V. status. The capital increase was effected in exchange for the forgiveness of a loan, and the shares were issued at no share premium.
   2. 195,500,000 Shares of €0.01 were issued to Elbit Ultrasound B.V. in October 2006, in order to create a share capital structure which will allow the Company to initiate the IPO. The capital increase was effected through the contribution of loans, and the shares were issued with a share premium of approximately €15,282,000.
   3. 92,346,087 shares of €0.01 were issued to the public, in October and November 2006 (including "Green Shoe" option exercised), as a result of the IPO which took place in the London Stock Exchange ("LSE") (see also note 32). The share premium recorded on the flotation (net of IPO costs) was €233,578,000.

Note 20 – Equity continued

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Capital reserve due to share option plan

Capital reserve created as a result of the Employee Share Option Plan which was introduced in October 2006 (see also note 22) was recorded and totaled €2,021,000, as of December 31, 2006.

Translation reserve

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

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 dividends is based upon the statutory report's distributable results and retained earnings of the Company itself.

Subject to mandatory provisions of Dutch laws, the dividend policy will reflect the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Subject to all of these factors, and where it is otherwise appropriate to do so, the directors intend to make distributions out of the annual net profits (after deduction of all directly related costs) derived from transactions for the sale of projects developed by the Group during any financial year, following the approval of the financial statements as of December 31, 2007 and onwards. Dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the directors, on any additional annual net profits which exceed €30 million. The dividends will be paid on or about March 31 on the basis of the aggregate of the annual net profits accumulated during the preceding financial year.

No dividends have been declared or expected to be declared in respect of the year ended December 31, 2006.

Distribution of dividends is based upon the statutory reports of the Company itself.

Note 21 – Earning per share

Profit attributable to ordinary shareholders

	December 31 2006 €'000	December 31 2005 €'000
Profit for the year	14,720	29,342
Profit attributable to ordinary shareholders	14,720	29,342

Weighted average number of Ordinary Shares

In thousands of shares with a €0.01 par value

	December 31 2006 '000 shares	December 31 2005 '000 shares
Issued Ordinary Shares at January 1	1,815	1,815
Effect of shares issued in October 6, 2006	633	–
Effect of shares issued in October 24, 2006	36,422	–
Effect of shares issued in November 1, 2006	14,090	–
Effect of shares issued in November 24, 2006	672	–
Weighted average number of Ordinary Shares at December 31, 2006	53,632	1,815

Diluted earning per share is the same as basic earnings per share since the options had no dilutive effect.

Note 22 – Employee Share Option Plan

The Employee Share Option Plan 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 Employee Share Option Plan is 33,834,586 options.

Note 22 – Employee Share Option Plan continued

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employees entitled	Number of options	Vesting conditions	Contractual life of options
Option grant to key management at October 27, 2006*	18,824,812	Three years of service starting October 27, 2006	Five years
Option grant to employees at October 27, 2006	7,283,790	Three years of service starting October 27, 2006	Five years
Total share options	26,108,602		

* Including 5,424,436 options subject to the approval of the general meeting of shareholders of EMI.

The options outstanding at December 31, 2006 have an exercise price of £1.80 (approximately €2.68) and a weighted average contractual life of five years. No options were forfeited or exercised as of balance sheet date.

According to the exercise mechanism of options, on exercise date, the Company shall allocate the Exercised Shares as calculated in accordance with the following formula:

$$\frac{(A \times B) - (A \times C)}{D}$$

A = The number of Options which a grantee wishes to exercise that is specified in the exercise notice

B = The opening price in pound sterling of the Ordinary Shares on the London Stock Exchange on the exercise day, provided that if the opening price exceeds 180% of the exercise price (without adjustments for the distribution of cash dividend) the opening price shall be set as 180% of the exercise price

C = Exercise price in pound sterling per Option

D = The opening price in pound sterling of the Company's Share on the Stock Exchange on the exercise day

Accordingly, the maximum number of exercised shares, if the share options are fully exercised, shall be 11,603,823 Ordinary Shares.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option (five years) is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. In the binomial model, exercise patterns are reflected in the suboptimal exercise multiple. The assumed suboptimal exercise multiple is £1.8 for management and employees due to the cap of 180% of the exercise price (without adjustments for the distribution of cash dividend).

Note 22 – Employee Share Option Plan continued

	Key management personnel 2006 €	Employees 2006 €
Fair value of share options and assumptions		
Fair value at measurement date	13,855,062	4,705,328
Exercise price	2.68	2.68
Expected volatility	25–30%	25–30%
Weighted average share price	2.75	2.75
Suboptimal exercise multiple	2.68	2.68
Expected dividends	–	–
Risk-free interest rate (based on the yield rates of the non indexed linked UK treasury bonds)	4.58%–4.94%	4.58%–4.94%

The Company has been publicly traded for a short period of time and therefore has no historical data. The public companies in the Company's industry are for the most part, more mature than the Company. In order to avoid bias and given the aforementioned circumstances, the expected volatility is based on companies in comparable stages as well as companies in the industry.

During 2006 the total employee costs due to the share options granted was €2,021,000.

Note 23 – Revenues

	December 31 2006 €'000	December 31 2005 €'000
Revenue from selling trading properties *	51,276	–
Rental income from tenants	3,766	9,262
Management fees	284	3,013
Operation of entertainment centers	3,980	2,617
Other	913	63
Total	60,219	14,955

* Includes €50.3 million revenues from selling the Bes Tes shopping center in Prague – see also note 34.

Note 24 – Cost of operations

	December 31 2006 €'000	December 31 2005 €'000
Direct expenses:		
Costs of sold trading properties *	44,804	–
Salaries and related expenses	736	1,344
Initiation costs	244	710
Municipality taxes	8	107
Property taxes	195	437
Property operations and maintenance	2,968	3,564
	48,955	6,162
Other operating expenses	915	361
	49,870	6,523
Depreciation and amortization	164	90
	50,034	6,613

* Includes mainly cost of asset from selling the asset in Prague (Bes Tes shopping center – see also note 34) – €43.9 million.

Note 25 – Administrative expenses

	December 31 2006 €'000	December 31 2005 €'000
Selling and marketing expenses		
Advertising and marketing	889	943
Salaries and relating expenses	757	26
Doubtful debts	4	285
Amortization of deferred charges	1	375
	1,651	1,629
General and administrative expenses		
Salaries and related expenses [1]	2,661	1,883
Depreciation and amortization	260	306
Management fees (see Note 33)	706	500
Professional services	1,611	1,108
Impairment – other assets and debit balances	–	283
Traveling	591	200
Offices	281	336
Other	412	327
	6,522	4,943
Total	8,173	6,572

1 In 2006 – including costs due to the Share Option Plan in the amount of €1.2 million (see note 22).

Note 26 – Finance income (expenses)

	December 31 2006 €'000	December 31 2005 €'000
Interest received on bank deposits	2,000	839
Interest received from loans to related parties	595	55
Foreign exchange gains	1,405	78
Total finance income	4,000	972
Interest paid on bank loans	(3,542)	(3,475)
Interest on loans from related parties	(1,133)	(1,864)
Foreign exchange losses	–	(5,085)
Other finance expenses	(508)	(639)
	(5,183)	(11,063)
Less finance expenses capitalized to properties under development	1,847	2,506
Total finance expenses	(3,336)	(8,557)
Total	664	(7,585)

Note 27 – Other income and other expenses

	December 31 2006 €'000	December 31 2005 €'000
a. Other income		
Gain from selling of property, plant and equipment	–	151
Gain from writing off of old suppliers	252	–
Other income	35	243
Total other income	287	394
b. Other expenses		
Demolition costs	(100)	–
Loss from selling of property, plant and equipment	–	(82)
Other expenses	(357)	(151)
Total other expenses	(457)	(233)
Total	(170)	161

Note 28 – Income taxes

	December 31 2006 €'000	December 31 2005 €'000
Current tax	**170**	67
Deferred tax	**1,009**	5,792
Prior year's taxes	**429**	–
Total	**1,608**	5,859

Reconciliation of statutory to effective tax rate:

	December 31 2006 €'000	December 31 2005 €'000
Dutch statutory income tax rate	**29.6%**	31.5%
Profit before taxes	**16,328**	35,201
Tax at the Dutch statutory income tax rate	**4,834**	11,088
Utilization of prior-year losses for which deferred taxes had not been created in the past	**(576)**	(724)
Changes in tax burden as a result of differences in statutory tax rates of subsidiaries	**545**	(4,807)
Deferred taxes not provided for losses and other timing differences, net	**1,052**	864
Variances stemming from different measurement rules applied for the financial statements and those applied for income tax purposes (including exchange-rate differences)	**430**	568
Changes in future tax rate enacted at the balance sheet date	**353**	–
Non taxable income	**(5,466)**	(1,634)
Differences due to implementation of one tax unit with EUL*	**–**	505
Prior year's taxes	**429**	–
Other differences, net	**7**	(1)
Income tax expenses	**1,608**	5,859

* The Company and its parent Company, EUL are reporting to the Dutch tax authorities as one tax unit until October 27, 2006 (IPO date), therefore certain items from EUL unit can affect the tax position of the Company.

Note 28 – Income taxes continued

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

a. The Netherlands

1. Companies resident in The Netherlands are subject to corporate income tax at the general rate of 29.6% for the fiscal year of 2006. Starting 2007 the general corporate income tax rate has been reduced to 25.5%. Under the amended rules effective January 1, 2007 tax losses may be carried forward and set off against income of the immediately preceding tax year and the nine subsequent tax years. Transitional rules apply for losses of tax years up through 2002 which may be carried forward and set off against income up through 2011.

2. Under the participation exemption rules income including dividends, capital gains and capital losses derived by Netherlands companies in respect of qualifying investments in the nominal paid up share capital of resident or non-resident investee companies, are exempt from Netherlands corporate income tax provided conditions under these rules have been satisfied. The participation exemption rules and more particularly the statutory conditions there under have been amended with effect from January 1, 2007. Such amended conditions require, among others, a minimum percentage ownership interest in the investee company and require the investee company to satisfy either of or both the newly introduced "assets" test and the amended "subject to tax" test.

b. Hungary

The corporation tax rate imposed on the income of the subsidiaries incorporated in Hungary is 16% (2005: 16%). From 2007 capital gains can be considered exempted income provided that certain criteria are fulfilled. A special solidarity tax is levied on companies starting September 1, 2006, which is 4% of the accounting profit modified by certain items such as dividends received and donations. Dividends, interest and royalty paid out are not subject to withholding tax. Losses in the first three years of operation can be carried forward without limitation. Losses incurred afterwards can be carried forward for five years, subject to certain limitations. Losses arising in 2005 and later may be carried forward indefinitely, subject to certain limitations.

c. Czech Republic

The corporation tax rate imposed on the income of the subsidiaries incorporated in the Czech Republic (including capital gains) is currently 24% (2005: 26%). Tax losses can be carried forward up to seven years to offset future taxable income. Dividends paid out of net income are subject to a withholding tax of 25%, subject to the relevant double taxation treaty.

d. Poland

The corporation tax rate imposed on the income of the subsidiaries incorporated in Poland (including capital gains) is 19% (2005: 19%). Tax losses can be carried forward for the period of five years and only 50% of a loss can be offset in any one year. Dividends paid out of net income are subject to a withholding tax of 20%, subject to the relevant double taxation treaty.

e. Romania

The corporation tax rate imposed on the income of the subsidiaries incorporated in Romania (including capital gains) is currently 16% (2005: 16%). Tax losses can be carried forward and offset against taxable income of the five years following the accounting year in which they were incurred. Dividends paid out of net income to The Netherlands are not subject to any withholding tax.

f. Latvia

The corporation tax rate imposed on the income of the subsidiaries incorporated in Latvia (including capital gains) is currently 15% (2005: 15%). Tax losses can be carried forward and be offset against taxable income of the five years following the accounting year in which they were incurred. Dividends paid out of net income are subject to a withholding tax of 10%, subject to the relevant double taxation treaty or 0% tax could be applied if the recipient is a resident in another EU country.

Note 28 – Income taxes continued

g. Greece

The corporation tax rate imposed on the income of the subsidiary incorporated in Greece (including capital gains) is currently 29% (2005: 32%, from 2007 onwards: 25%). Tax losses can be carried forward and offset against taxable income of the five years following the accounting year in which they were incurred.

h. India

The corporate income tax applicable to the income of the Indian subsidiaries is 33.66% with a minimum alternative tax of 11.2% on the accounting profits if the Company does not have tax profits. The paid amount will be credited if the Company will have taxable profits in the following five years. Capital gains on sale of fixed assets and real estate assets are taxed at the rate of 21% provided that they were held for at least 36 months prior to the sale or 33.66% if they were held for less than 36 month. Capital gains taxes on the sale of shares by an Indian company range from 10.4% up to 41.8% depending on the nature of the assets sold and the time they were held prior to the sale thereof. Dividends paid out of these profits are taxed at an additional 14%. Dividend distributions from India to Cyprus are exempt from withholding tax. Losses can be offset against taxable income for a period of eight years.

i. Cyprus

The taxation of companies is based on tax residence and all companies are taxed at the rate of 10%. A special levy of 10% is imposed on interest received and deemed interest income in certain cases. Dividend income and profits from the sale of shares of companies are exempt from taxation. Companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. A special levy at 115% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year during the following two years. This special levy is payable for the account of the shareholders.

Note 29 – Operating leases

The Company is a lessee of a number of plots of land and paid a total rent of €0.1 million in the year ended December 31, 2006 (€0.1 million for year ended December 31, 2005) under operating leases mainly in Poland and in the Czech Republic. The leases typically run for a period of 99 years. The leases in Poland which are held under perpetual usufruct are governed by the law of Management over Real Estate. Lease payments regarding perpetual use of land can be changed according to a new valuation of the plot. All leases in the Czech Republic are indexed by the inflation rate announced by the Czech Statistical Office. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	December 31 2006 €'000	December 31 2005 €'000
Less than one year	109	151
Between one and five years	895	1,114
More than five years	4,618	4,988
	5,622	6,253

Note 30 – Financial instruments

a. Currency risk

Exchange rates of local currencies in the countries in which the Group operates, against the euro are an important factor as part of the Group's expenses may be denominated in either euros or local currencies. The Company reports its financial statements in euros. However, the Group has its operations in Hungary, the Czech Republic, Poland, Latvia, Romania, Greece and India, and therefore it incurs costs in various currencies.

Furthermore, the Group is exposed to foreign currency risk on leases that are denominated in a currency other than the euro. The currencies exposed to this risk are primarily the Czech crown and Polish zloty.

The Group's financial results are, therefore, affected by fluctuations in the exchange rates between the euro and such currencies. The Group does not currently engage in hedging or use any other financial arrangement to minimize exchange risk. The Management currently estimates the risk as low.

b. Cash flow and fair value interest rate risk

The Group's interest rate risk arises mainly from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group does not currently engage in hedging or use any other financial arrangement to minimize the exposure to these risks.

c. Credit risk

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.

d. Estimation of fair values

1. Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows. As at the balance sheet date, carrying amounts of these loans and borrowings approximate their fair value due to their short-term maturity or their variable interest rates.

2. Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value.

3. Other financial instruments

The carrying amounts of all other financial instruments (e.g. cash and cash equivalents, restricted bank deposits, other receivables / payables) approximate their fair values due to their close proximity to cash and/or short-term nature.

Note 31 – Contingent liabilities and commitments

a. Commitments to related parties

1. Agreement for the provision of co-ordination, planning and performing of supervision services over projects for the establishment of commercial centers, the initiation of which began during the term of the agreement (through December 31, 2002) by Control Centers Ltd. ("Control Centers"), a company controlled by the controlling shareholder of EMI (or companies under its control) which include the co-ordination and supervision of each planning arrangement of the projects that the Company initiates and conducting negotiation with consultants and designers. In consideration for these services, Control Centers, or its appointee, will be entitled to receive fees equivalent to 5% of the actual performance costs of each project (excluding the land, and including finding the appropriate piece of land, and purchase costs, general and administrative expenses and financial expenses). According to this agreement, Control Centers, or its appointee, is entitled to receive advance payments in connection with these services. In addition Control Centers will be entitled to reimbursement of direct costs incurred by Control Centers group in an amount which will not exceed US$50,000 per real estate project.

2. On May 31, 2006, the EMI shareholders' meeting approved the following: Approval of an agreement with Control Centers according to which the Company will receive from Control Centers (either directly or through its subsidiaries or affiliates) coordination, planning, execution and supervision services (the "Services") over real estate projects of the Company and/or its subsidiaries and/or affiliates in consideration for a fee equal to 5% of the actual execution costs (excluding land acquisition costs, financing cost and the consideration for Control Centers under the agreement) of each such project ("Supervision Fees"). The agreement will apply to real estate projects whose initiation will begin following the approval of the agreement by the Company's shareholders and to three other real estate projects which are currently under early stage of development. ("Real Estate Projects").

   The supervision fees will be paid in installments upon the meeting of milestones as stipulated in the agreement. In addition, the Company will reimburse Control Centers for all reasonable costs incurred in connection with the services rendered thereby, not to exceed a total of €75,000 per Real Estate Project.

   If the purpose of a Real Estate Project is changed for any reason prior to the completion of the project or if the development of the Real Estate Project is terminated for any reason (including the sale of the Real Estate Project), the payment to Control Centers will be calculated as a percentage of the budget for the project and provided that such percentage shall not exceed the percentage determined for the next milestone of the project had it continued as planned. The calculation of such payments to Control Centers will be subject to the approval of an independent accountant and the approval of the Audit Committee and Board of Directors. On October 27, 2006 an agreement for the provision of consultancy services for the development of real estate projects was signed between the Company and Control Centers based on the abovementioned agreement.

   At December 31, 2006 the financial statements include a provision for engineering supervision services supplied by a related party in the Control Centers Group in the amount of €3.9 million related to seven projects under development in Poland, Czech Republic, Latvia and Greece (see also item 1 above).

   In addition, the Company and/or its subsidiaries and/or affiliates may also purchase from Control Centers through Jet Link Ltd, a related party, up to 125 flight hours per calendar year in consideration for payments to Jet Link Ltd. in accordance with its price list deducted by a 5% discount. This agreement does not derogate from a previous agreement entered into between the Company and Jet Link Ltd. for the purchase of aviation services by the Company.

Note 31 – Contingent liabilities and commitments continued

a. Commitments to related parties continued

3. An agreement with Jet Link Ltd. (a company controlled by the controlling shareholder of EMI) was signed on October 27, 2006, for the provision of aviation services, (up to 150 flight hours per annum) for the operations, in connection with projects abroad, in consideration for payment calculated on the basis of the price list of Jet Link Ltd., deducted by a 5% discount.

4. On October 27, 2006, the Company entered into an agreement with the Executive Vice-Chairman of EMI ("VP") who has responsibility for the Company's operations in India, under which the VP will be entitled to receive options ("the Options") to acquire up to 5% of the holding company through which the Company will carry on its operations in India. However, where considered appropriate and by agreement, the VP will be entitled to take up a 5% interest in specific projects, in which case necessary adjustments will be made at the holding company level. The Company and the VP will agree on the terms of the Option for each acquisition, taking into account taxation, securities laws and regulations applicable to either party or their respective affiliates, and other considerations of the respective parties. If the VP exercises all of his Options (5%) at the holding company level, his right to take up interests on a project-by-project basis will lapse. The Options will be subject to vesting over a three-year period, with an initial vesting of 2% on award of the options following commencement of the relevant project with an additional 1% on the following dates: March 31, 2007, March 31, 2008 and March 31, 2009. If the VP elects to take up Options in a specific project which commences after any of the vesting dates specified above, an immediate vesting will be allowed in respect of Options which would have vested as of the above dates. The options may be exercised at any time, at a price equal to the Company's net equity investment made in the projects as at the Option exercise date plus interest at the rate of LIBOR plus 2% per annum from the date of the investment until the Options exercise date ("Exercise price").

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

   The Share Option arrangement will apply to all projects sourced to the Company from EMI. The Options' arrangement is subject to the approval of EMI's shareholders meeting.

   As of December 31, 2006, no liability is recorded in these financial statements in respect of this agreement, as its value was not significant.

5. On October 27, 2006 the Company and the Chairman of its board entered into a service agreement, pursuant to which the Chairman will be entitled to a monthly salary of $25,000 (NIS 106,000) which includes pension, retirement and similar benefits for his services as the Company's Chairman. The agreement is subject to the approval of the shareholders meeting of EMI.

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

7. In October 2006, the Company and EMI entered into an agreement, pursuant to which with effect from January 1, 2006 the Company will pay commissions to EMI in respect of all and any outstanding corporate and first demand guarantees which have been issued by EMI in favor of the company up to 0.5% of the amount or value of the guarantee, per annum.

Note 31 – Contingent liabilities and commitments continued

a. Commitments to related parties continued

8. On October 13, 2006, EMI entered into an agreement with the Company, under which EMI is obliged to offer to the Company potential real estate development sites sourced by it in India. These sites will be suitable for shopping and entertainment centers development projects as well as mixed use projects (comprising offices, residential units, congress centers and leisure facilities). The projects may also involve the acquisition and renovation of existing shopping and entertainment centers. In "Integrated Shopping Center Projects", the shopping and entertainment center may not be the key element of the project. Under the agreement, EMI is obliged to offer the Company the exclusive right to develop all of the shopping center projects which EMI acquires during the 15-year term of the agreement. The Company must, within 30 days of receiving EMI's offer, indicate to EMI whether it wishes to accept or decline the offer. In respect of sites acquired by the Company, it has agreed to pay EMI the cost of the site paid by EMI as well as direct costs, subject to a cap of 5% of the cost of the site.

b. Commitments to others

A subsidiary incorporated in Prague, Czech Republic ("Bestes"), which was sold in June 2006 (see note 34) is a party to an agreement with a third party ("the lessee"), for the lease of commercial areas in a center constructed on property owned by Bestes, for a period of 30 years, with an option to extend the lease period for an additional 30 years, in consideration for €6.9 million. Through June 30, 2006, the entire amount of €6.9 million was paid. According to the lease agreement, the lessee has the right to terminate the lease subject to fulfillment of certain conditions as stipulated in the agreement. Bestes was sold to Klepierre on June 30, 2006, however the Company remains liable to Klepierre in case the lessee terminates his contract in certain conditions. The Company's management believes that this commitment will not result in any material amount being paid by the Company.

c. Contingent liabilities

On April 5, 2006, Cukierman Real Estate Ltd. filed a summary procedure claim with the District Court of Tel-Aviv against EMI and the Company. Within the framework of this claim, the District Court has been requested to order the Defendants to pay the Plaintiff the amount of approximately €2.0 million as an intermediary brokerage fee arising out of the sale by the Company to Klepierre S.A. of its shopping centers in Poland and Czech Republic in terms of the agreement dated July 29, 2005. This Statement of Claim has not yet been formally served upon the Company at its registered address in Amsterdam, as required by the Israeli Civil Procedure Rules. An application for leave to defend has not yet been filed. On May 8, 2006, EMI filed a motion to strike out the claim in limine or alternatively to strike out the title "summary procedure". This request was denied by the court, following which the Company submitted a statement of defense on January 25, 2007. The Company believes, based, inter alia, on legal opinions, that there is a fairly good chance that the entire legal action against the Company, or the majority thereof, will be denied.

The Company is involved in various legal actions arising in the ordinary course of business. While the outcome of such matters is currently not determinable, it is management's opinion that these matters will not have a material adverse effect on the Company's consolidated financial condition or results of its operations, therefore no provision was recorded.

d. Securities, guarantees and liens under bank finance agreements

In order to secure loans granted for construction or refinance of the centers, the Company has granted banks with regard to certain subsidiaries: first ranking liens on all their assets, including rights in land and the projects for which the loans were taken; liens on all of their rights, including by way of assignment of rights, pursuant to the agreements to which they are party, including general contractor contracts, long-term tenants' leases and subordination of all shareholders loans to the financing bank; liens on all of the rights deriving from each material contract the borrowing company is a party, etc. Alom Sziget has a bank loan (of €23.0 million), the Company has committed to repay 30% of the outstanding loan amount in case Alom Sziget fails to do so.

Note 31 – Contingent liabilities and commitments continued

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

Payments to the shareholders, including dividend distribution, are subject to financial covenants and usually require the financing bank's prior approval.

Several project companies have undertaken 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 have undertaken not to allow, without the prior consent of the financing bank: (i) any changes in and to the holding structure of the project companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, related party transactions and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the project company in favor of third parties; (v) receipt of loans by the project company and/or the provision of any guarantee to third parties.

In addition, the investee companies are obliged to maintain minimum share capital of the borrowing companies in accordance with the financing agreements or the injection of further finance, in any case of variance from the budgets of the business plans; restrictions on the ratio of shareholder loans to bank loans and on the amount of the outstanding bank loans in relation to the cost of the project. In certain projects, the Company, together with other shareholders, undertook to make up amounts that are required in the event that current operations of the commercial center result in a deficit. The subsidiaries undertook to comply with certain financial ratios and minimum cash balances ("covenants"). Covenants include: complying with ratios between timely rental income and timely loan repayments and other similar ratios, accumulating funds to pay back last part of loans, occupancy percentage, minimum rental fees, creating refurbishment funds, and reporting requirements. The Company's management is in the opinion that all Group companies are in compliance with such covenants.

Note 32 – Significant acquisitions and events (since January 1, 2005)

Flotation of Plaza Centers N.V. on the London Stock Exchange

On October 27, 2006 the Company announced the pricing of its initial public offering of Ordinary Shares (the "IPO" or the "Offer") on the Official List of the London Stock Exchange ("LSE"). The offer price was set at 180 pence per Ordinary Share (the "Offer Price"). Based upon the Offer Price, the market capitalization of the Company at the commencement of conditional dealings was £514.3 million (approximately €760 million). Conditional dealings commenced on the LSE under the ticker symbol PLAZ. The Offer consisted of 85.71 million new Ordinary Shares (excluding 10% over allotment option for underwriters which was exercised on November 24, 2006, in respect of 6.6 million Ordinary Shares). Following the Offer, the free float of the Company was approximately 30%. The admission of the Company's Ordinary Shares to the Official List of the United Kingdom Listing Authorities and to trading on the main market for listed securities of the LSE ("Admission") became effective and unconditional dealings commenced on November 1, 2006. Including the exercise of the over allotment ("Green Shoe") Option, the total proceeds from the IPO received by November 24, 2006 were £166.2 million (approximately €247.2 million) from issuing 92.3 million Ordinary Shares.

Sadyba transaction

On May 17, 2005, the Company purchased 50% of the Sadyba shopping center (in which the Company already held 50% as a joint venture) from the Company's partner to the joint venture. The total purchase price was approximately US$20 million (€16 million). The Sadyba shopping Center was sold in July 2005 to Klepierre (see note 34).

Note 32 – Significant acquisitions and events (since January 1, 2005) continued

Lublin joint venture

The Company entered into a joint venture agreement ("JV Agreement") on November 2003 for the purchase of 50% of the ownership of a company registered in Lublin, Poland ("MPSA"). MPSA holds a perpetual usufruct in and to the land leased from the local municipality for a period of 99 years, and plans to construct thereon a complex, consisting of: commercial area, a hotel, offices, congress center and the like. MPSA has a right to acquire the land, upon completion of construction, at an agreed upon price (PLN 8.5 million – €2.0 million) net (after deduction of accumulated lease fees paid until the exercise of such right). The local municipality is entitled to terminate the usufruct if and to the extent the use of the land does not correspond to the approved usage and/or in the event unauthorized delays or schedule deviations occur. Should the usufruct be so terminated, MPSA shall be entitled to demand reimbursement of its investment in the construction of the complex through termination.

In November 2004, MPSA and the local municipality amended the agreement so as to divide the project into two stages, subject to the first (construction of the congress and commercial areas) being completed by August 31, 2006. The second stage (construction of the hotel and office area) shall commence by no later than September 30, 2009 and conclude by the end of 2011. The parties are allowed, with written consent, to increase or decrease the areas provided for offices and a hotel or to change those functions. Should MPSA fail to comply with the timetable of the second stage a penalty shall be imposed thereon in the amount of PLN 2.5 million (€0.6 million).

According to the JV Agreement, financing of the project to be constructed by MPSA is to be borne by both parties in equal shares, except for an initial payment of $4.0 million which is to be provided by the Company, with half of such amount to be considered as a loan to the other shareholder (the "JV Partner"). Through December 31, 2005, the Company has invested (mainly via loans, LIBOR + 2.5% annually interest bearing), indirectly, in MPSA's project, €8.4 million.

The Company and the JV Partner are currently in dispute regarding the shareholders' loan ("equity loans") required to be invested by the JV Partner. The JV Partner alleges that the increase in the project budget, in comparison with the original one, was caused by the acts or omissions of the Company, and accordingly that the Company alone should bear all additional equity loans.

The Company refutes such allegation and has demanded the fulfillment of the JV Agreement on its terms as indicated above, namely all additional amounts, over the initial $4.0 million, required for the financing of the project, should be financed by the parties in equal parts. This dispute has not yet been resolved.

Within the framework of the 2005 sale agreement with Klepierre, as stated in Note 34, the Company awarded an option to Klepierre to acquire 100% of the equity rights in MPSA, subject to the acquisition by the Company of the entire interests of the JV Partner in MPSA, by not later than the end of November 2006 (the "first option"). In the event that the Company shall fail to acquire the JV Partner's rights by that date, then and in such event Klepierre shall automatically have an additional option to acquire the 50% of such equity rights in MPSA which are held (indirectly) by the Company (the "second option").

The exercise by Klepierre of the second option shall be subject, at all times, to (i) the JV Partner's rights of "first offer" which entitles the JV Partner to acquire the Company shares in the event that the Company is desirous of selling its shares to a third party; and to (ii) the "tag-along" rights which entitles the JV Partner to demand that Klepierre shall also acquire its shares together with the Company's shares on the identical terms and conditions, pro rata. In the event that the JV Partner shall exercise its rights of first offer to acquire the Company shares, as aforesaid, then and in such event the second option shall automatically lapse and be of no further force and effect.

Note 32 – Significant acquisitions and events (since January 1, 2005) continued

Until the date on which the second option would have lapsed, the Company covenants not to amend, modify, and/or terminate the JV Agreement, without the prior approval of Klepierre, and to abstain from taking any actions which may prejudice the rights and/or interests (present or future) of Klepierre under or in connection with this option.

In the event the transaction for the sale and transfer of the entire equity rights in MPSA to Klepierre shall not have been consummated for any reason or in the event that the JV Partner shall exercise its "first offer" rights, then and in such events the Company undertakes to pay to Klepierre a Commitment Penalty in the amount of €1.6 million, without prejudice to the rights of Klepierre to be further indemnified in the event that such non-consummation would result from a breach by the Company of its contractual obligations. In the event that Klepierre shall have elected to exercise the second option and the acquisition by Klepierre of the Company shares cannot be fully consummated for any reason, then and in such event the Company undertakes to pay to Klepierre a Commitment Penalty in a reduced amount of €0.8 million.

In the event that the JV Partner shall exercise its "tag-along" rights and in the event that Klepierre shall actually acquire both the Company shares and the JV Partner shares, then and in such event the Company shall be severally and jointly liable with the JV Partner with respect to the sale of the JV Partner shares and the Company shall grant to Klepierre the same indemnifications provisions guarantee with respect to the JV Partner's shares to the extent that the JV Partner fails or refuses to give any indemnifications.

Upon the exercise of either of the options mentioned above, the Company shall assume full liability for the performance of the obligation made by MPSA in favor of the local municipality in terms of the ground lease to construct a hotel above or adjacent to the commercial center project and shall furnish Klepierre with a full indemnity against such liability and/or against any harm which may be suffered by Klepierre and/or by MPSA as result of the failure to construct the hotel as aforesaid.

Upon delivery and receipt of one of the options, the project shall be included as a project under development for all purposes in terms of the 2005 sale agreement with Klepierre and that the provisions of this agreement shall apply, mutatis mutandis, to the project, such as conditions for delivery, conditions for closing, methodologies for the determination of the final purchase price of the sold center as well as of the MPSA shares.

Kerepesi transaction

On November 15, 2005, the Company signed an agreement and consummated a transaction for the acquisition of a company owning 122,857 square meters (approximately 1.35 million square feet) of land situated on Kerepesi Street in the 8th district of Budapest, the former site of the Hypodrome ("Site").

Building permits for the construction of a large shopping and entertainment center have been issued in respect of this Site, the rights to which were also acquired. The acquisition was carried out by the purchase of the entire equity rights (100%) of four companies holding all the freehold ownership and usage rights to the Site.

The purchase price of the entire equity rights represents a Site value of €21.0 million. The financing of the Site was provided by a consortium of Hungarian Banks, and constitute approximately 90% of the above value.

Currently the Company is constructing the Arena Plaza shopping center on the site. Completion is expected in the fourth quarter of 2007.

Note 32 – Significant acquisitions and events (since January 1, 2005) continued

Casaradio project – Bucharest, Romania

On October 11, 2006, the Company entered into an agreement, according to which it will acquire 75% interest in a company ("Project SPV") which, under a public-private partnership agreement with the Government of Romania is to develop the Casa Radio site in central Bucharest. The consummation of the transaction is subject to the fulfilment of certain conditions, including obtaining the approval of the Government of Romania to an amendment to the public-private partnership agreement. The cost of the acquisition of the interest in Project SPV amounts to approximately US$40 million (€30 million). As of the balance sheet date, an amount of US$25.4 million (€19.4 million) was deposited by the Company into an escrow account which will be released to the seller following the fulfilment of the conditions included in the agreement.

The other investors include the Government of Romania, which will assure that the development company is granted the necessary development and exploitation rights in relation to the site for a 49-year period in consideration for a 15% interest in Project SPV, and the seller which will retain a 10% interest in the Project SPV.

In November 2006, the public-private partnership agreement was approved by the Government of Romania subject to ratification by the Romanian Parliament which as of the date of the approval of these financial statements has been obtained. The transaction approval and the nomination of directors in Project SPV by the Company were adopted by the general shareholders meeting of Project SPV in February 2007. Until that date the Company could not exercise control over the Project SPV operations and accordingly, the financial statements of the Project SPV were not consolidated in the Company financial statement as of December 31, 2006 and the escrow account is presented in the consolidated balance sheet as prepayments within other accounts receivable in current assets.

The project, which will have an estimated built area of approximately 360,000 square meters, will include shopping and entertainment center, a five star hotel, residential units and offices. The purchasers (including the Company) have undertaken to cause Project SPV to construct an office building measuring approximately 13,000 square meters for the Government of Romania at its own cost. Project SPV intends to finance the construction of the project through bank loans. Additional finance for the project (if needed) will be borne by the Company and the seller pro-rata to their shareholding.

Koregaon Park project – Pune, India

On December 1, 2006, the Company acquired a 100% shareholding from EMI in a company which holds a 50% interest in an Indian private limited liability company, which owns a plot of land in Pune, India ("JVI"). The remaining 50% interest in JVI is controlled by another property developer. The Company will repay EMI its original investment of INR 310 million (approximately €5.4 million) in the project plus preliminary development costs which are not to exceed 5% of the investment. This freehold development site is currently held by 24 separate companies in equal undivided shares (one of which is JVI). 12 of these companies ("Group B Companies") have sold the development rights relating to their respective portions of the land to an affiliate of the partner. The remaining 11 companies ("Group A Companies") and JVI retain the development rights relating to their respective portions.

Under the agreement, the Company is to subscribe for shares and convertible securities representing 50% of JVI, upon fulfilment of certain conditions precedent being satisfied ("First Closing") which are principally that the JVI will acquire 100% of all the Group A and Group B Companies and conclude a development rights assignment agreement with the affiliate of the partner, whereby the development rights to the Group B Companies' land will be irrevocably assigned to JVI. The cash consideration payable by JVI is INR 440 million (€7.7 million), payable in instalments whereby an amount of INR 310 million (€5.4 million) was paid at First Closing and INR 130 million (€2.3 million) at Second Closing (being the date within ten days after the issue of the necessary building permits on the site).

Note 32 – Significant acquisitions and events (since January 1, 2005) continued

Koregaon Park project – Pune, India continued

As of December 31, 2006, the Company invested an amount of INR 310 million (€5.4 million) in JVI by means of shareholder equity and fully and compulsorily convertible debentures ("FCDs") bearing an annual interest of 14% and convertible into non-voting preference shares.

Ercorner

In May 2006, the Budapest General Assembly approved an amendment to the local town-planning scheme, which approves the construction plans for the Obuda island. As part of this approval, Alom Sziget has undertaken to ensure the traffic connections to, from and within the island and to develop landscape works. The additional investment required in respect of the aforementioned projects is estimated at approximately €55 million.

In September 2006, Alom Sziget received from the Municipality of Budapest final formal approval for the zoning plan of the project. Upon receiving this approval and in accordance with the law in Hungary, Alom Sziget is allowed to apply for the receipt of a building permit.

Other small scale acquisitions of projects

- In August 2006 the Group signed with the municipality of Liberec, Czech Republic a lease and purchase agreement for a project to be constructed on land in Liberec city center with a planned gross lettable area of approximately 21,000 square meters. Construction is due to commence in the second quarter of 2007 and the center is scheduled to open in the third quarter of 2008.

- In July 2006 the Group signed with the municipality of Opava, Czech Republic a lease and purchase agreement for a project to be constructed on a land in Opava city center with a planned gross lettable area of approximately 14,200 square meters. Construction is due to commence in the first quarter of 2008 and the center is scheduled to open in the second quarter of 2009.

- In July 2006 the Group purchased from the municipality of Suwałki, Poland a plot of land in Suwałki city center for a total consideration of €1.45 million and with a planned gross lettable area of approximately 14,000 square meters. Construction is due to commence in the third quarter of 2007 and the center is scheduled to open in the third quarter of 2008.

- In December 2006 the Group signed a preliminary purchase agreement with a private seller for a project to be constructed on land in Zgorzelec, Poland. The total purchase price is approximately €4.8 million. The plot size is 38,213 square meters. The building plan is with a planned gross lettable area of approximately 16,000 square meters. Construction is due to commence in the last quarter of 2007, and the center is scheduled to open in the first quarter of 2009.

Note 33 – Related party transactions

Related party transactions

The main shareholder of the Company, holding 68.4% of all issued and paid share capital of the Company as of balance sheet date, is Elbit Ultrasound B.V. ("EUL"), incorporated in The Netherlands, and the ultimate controlling party is Elbit Medical Imaging ("EMI"). EMI's indirect controlling shareholder is Mr Mordechay Zisser. The rest of the Company's shares are held by the public, as of October 27, 2006.

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

The Company has six directors. The annual salary cost of the directors in 2006 amounted to TEUR 105 (2005: TEUR 338), and the annual share-based compensation expenses amounted to TEUR 1,216 (2005: Nil).

There are no other benefits granted to directors.

Information about related party balances as of December 31, 2005 and 2006 is disclosed in notes 10 and 17.

Trading transactions

During the year, Group entities had the following trading transactions with related parties that are not members of the Group:

	December 31 2006 €'000	December 31 2005 €'000
Income		
Interest on shareholders' loan to EMI	670	–
Costs and expenses		
Charges and management fees – EMI	832	988
Interest on shareholders' loan from EUL	1,133	1,864
Selling of inactive companies to EUL	196	–
Aviation services – Jet Link [1]	643	868
Project management provision and charges – Control Centers group [1]	6,182	1,800

1 Jet Link and Control Centers are companies under the control of the controlling shareholder of the ultimate parent company.

Notes to the consolidated financial statements continued

For the year ended December 31, 2006

Note 34 – Disposal of subsidiaries (investment property and trading property)

Dawnay Day transaction

In April 2005, a transaction was consummated between the Company and the Dawnay Day Europe group – an international fund management company based in the United Kingdom (the "Purchaser") – in accordance with which the Company sold to the Purchaser the entire equity and voting rights (100%) in four companies owning four commercial and entertainment centers in certain cities in Hungary ("Sold Centers"). For the companies which were sold, refer to note 37 of these financial statements. The net cash consideration which was paid to the Company amounted to €17.2 million and was determined according to the asset value of the Sold Centers (€54.4 million) together with monetary and other balances, after deduction of bank and other monetary liabilities pertaining thereto, and with the addition of a variable amount, determined based on the period that lapsed from the reference date of the transaction (January 1, 2005) through consummation thereof (in the amount of €1.5 million). The Company recorded in the 2005 financial statements a loss of approximately €1.9 million on this transaction. The Company undertook within the framework of the agreement to guarantee certain operational targets of one of the Sold Centers, for a period of three years through March 31, 2008. The loss includes management's estimation that the costs expected to materialize under this guarantee total €1.9 million (out of which €0.9 million was paid in the course of 2005 and 2006).

Klepierre transaction – stage A

On July 29, 2005, a transaction was consummated between the Company and Klepierre for the sale by the Company of the entire equity and voting rights (100%) of the companies owning four operational shopping centers in Poland ("Polish Sold Centers"), for a consideration of €73.8 million (out of which €10.9 million were paid to EUL to settle an existing advance), based on the Polish Sold Centers' value amounting to €204.0 million. The value was calculated on the basis of the gross rentals of the Polish Sold Centers as at the closing, capitalized at certain agreed yields, together with monetary and other balances, after deduction of bank and other monetary liabilities pertaining thereto ("the first stage").

An adjustment of the purchase price was conducted on the basis of the gross rentals as of December 31, 2005 (in respect of one shopping center – as of a date up to July 2006), capitalized at the agreed yields.

As part of the transaction, Klepierre has also acquired the entire outstanding share capital of the Polish subsidiary (PCM Poland) of the Company which operates and manages the acquired operational shopping centers. In 2005, the Company recorded a loss of €7.8 million.

The gain from the sale of investment property in 2006, recorded in the consolidated income statement (€13.7 million) is comprised mainly of the following:

- Part of the proceeds of the 2005 agreements in the amount of €5.4 million was subject to obtaining utilities licenses in respect of the Sold Centers and was deferred. Within the framework of a settlement agreement signed between the Company and Klepierre on November 16, 2006 it was agreed that the Company shall be unconditionally and irrecoverably released from its obligations to obtain such utilities licenses and that Klepierre will assume full and sole responsibility for the obtaining of these utilities permits. As a result, an additional gain of €5.4 million was recorded.

- In November 2006 the Company and Klepierre concluded a final purchase price adjustment in respect of the Sold Centers in accordance with the provisions set forth in the sale agreement and accordingly the Company recorded an additional gain of €8.2 million which is mainly due to Poznan shopping center on account of the price adjustment, based on the updated gross rentals.

Note 34 – Disposal of subsidiaries (investment property and trading property) continued

Klepierre transaction – stage B

On July 29, 2005, the Company and Klepierre signed a preliminary share purchase agreement for the future acquisition by Klepierre of the entire equity and voting rights (100%) in two companies presently developing two shopping centers in Poland, as well as a further two companies developing shopping centers in the Czech Republic (one of these, Bes Tes S.R.O., was sold in June 2006 – see below), for an estimated assets value of €158.4 million ("the second stage"). For the names of the companies refer to note 37. Klepierre also has an option to acquire the entire equity and voting rights held by the Company (50%) of the third company (Movement Poland) developing a shopping center in Poland, for an estimated value of €62.0 million upon the fulfilment of certain conditions. Upon the exercise of the option, the construction and delivery of the shopping center will be subject to the same terms and conditions applicable to the remaining centers. If Klepierre does not exercise the option to acquire the shares of such third Polish company, the Company will be obligated to pay a penalty in the amount of €1.6 million. The consideration was determined based on forecasted gross rentals at the date of the execution of the agreement. Upon the completion and delivery of each of these centers, in accordance with certain pre-agreed parameters as determined in the preliminary agreement, and upon the fulfilment of certain pre-conditions, Klepierre will pay to the Company the purchase price of each specific center-owning company which will be calculated based on gross rentals prevailing at a date close to delivery, capitalized at agreed yields. A final adjustment of the purchase price for each of these development centers will be conducted not later than 12 months following delivery, on the basis of actual gross rentals prevailing on the respective adjustment dates, capitalized at the agreed yields. In addition, a net asset value adjustment will be carried out on the basis of audited financial statements as at the delivery date.

Klepierre has furnished the Company with a bank guarantee in the amount of €115.0 million for the payment of the respective purchase prices of those development centers in respect of which building permits have been issued. These bank guarantees may be exercised in accordance with an agreed mechanism provided for therein. The Company has furnished Klépierre with its corporate guarantee for the fulfilment by the Company of all its undertakings and obligations under the definitive agreements.

On June 30, 2006 the Company sold (as part of the stage B transaction with Klepierre – see above) its wholly owned subsidiary in the Czech Republic, Entertainment Plaza, which holds 99% of Bes Tes S.R.O., a Company which owns a shopping center in Prague for a net consideration of €5.0 million, representing a gross asset value of €43.9 million. For commitments in respect of Bes Tes S.R.O., see note 31. As a result of negotiations with Klepierre on the price adjustment regarding the sale of Entertainment Plaza, the Company recorded in 2006 a gain of approximately €6.5 million as a result of this transaction.

Klepierre transaction – stage B improvement of yield and additional rights

Within the framework of an agreement signed between the Company and Klepierre on November 16, 2006, Klepierre expressed its interest in principal in acquiring all the equity rights in the companies presently developing four shopping centers in the Czech Republic, Poland and Latvia (Liberec Plaza, Opava Plaza, Suwlaki Plaza and Riga Plaza) at agreed upon yields ("New Development Projects"). The Company undertakes to conduct good faith negotiation with Klepierre in order to execute a preliminary agreement on substantially the same terms and conditions provided for in the stage B agreement in respect of at least two of the New Development Projects ("New Preliminary Agreement"). In addition the Company undertakes that Klepierre will be awarded an option to acquire up to 5% of the equity rights in each of the companies holding the rights in the New Development Projects in respect of which its New Preliminary Agreement shall be executed. The option is subject to the consent of the financing bank which has provided a construction loan to the relevant project and it is subordinated to the financing bank under the terms of the loan agreement. The option shall be exercisable at any time following the condition precedent satisfaction date against payment of the exercise price which shall be agreed between the Company and Klepierre at the date of the execution of the relevant New Preliminary Agreement. Upon consummation of the transaction, the exercise price of the option shall be

Note 34 – Disposal of subsidiaries (investment property and trading property) continued

Klepierre transaction – stage B improve of yield and additional rights continued

deemed to constitute a flat down payment on account of the full transaction consideration. In the event that the transaction is not consummated, the Company has a call option to reacquire the 5% shares in consideration for the amount paid by Klepierre for the option.

In addition, Klepierre agreed to reduce the capitalization rates in respect of three commercial centers included in the stage B transaction (other than the Novo Plaza which was delivered to Klepierre in June 2006). Such reduced capitalization rates will apply only to the extend that: (i) the Company shall procure by not later than May 29, 2007, that its joint venture partner in Lublin Plaza will agree to sell its 50% holding in the project to Klepierre together with the 50% held by the Company on the same terms and conditions agreed between Klepierre and the Company; (ii) a New Preliminary Agreement will be concluded between the Company and Klepierre in respect of at least two of the New Development Projects by not later than 90 days following the date of the agreement and that on the same date Klepierre will be awarded an option to acquire up to 5% of the equity rights in each of the companies holding the rights in the New Development Projects in respect of which the New Preliminary Agreement shall be executed; and (iii) the Company shall procure that planning permission will be obtained for the relocation of the supermarket unit in the Pilsen Plaza shopping center. Following such amended capitalization rates the estimated value of the three commercial centers wholly owned by the Company and which, as of the balance sheet date, were not yet delivered to Klepierre amount to €149.0 million and the estimated fair value of Lublin Plaza (100%) amount to €74.0 million.

Other small scale disposal of subsidiaries

- In August 2006 the Group sold a subsidiary in Hungary, which owns a plot of land in Pecs, Hungary for a total consideration of €1.6 million. The Company recorded a gain of approximately €0.7 million from this transaction.

Note 35 – Subsequent events

Kharadi project – Pune, India

In February 2007, the Company indirectly acquired through a 100% subsidiary a 50% stake in an Indian limited liability company ("JV1"), which owns the freehold of approximately 14 acres of land situated in the Kharadi district of Pune, Maharashtra State, India. The remaining 50% of the stake of JV1 is held by a property developer in Pune. The consideration paid totaled €17.0 million, invested in the form of equity.

As of the date of the approval of these financial statements, there were no shares allocated to JV1.

JV1 intends to develop its plot of land through the construction of a project totaling approximately 2.4 million square feet (225,000 square meters) gross lettable area which will include:

- a shopping center with a total area of approximately 1.3 million square feet (approximately 120,000 square meters);
- an office complex measuring approximately 870,000 square feet (approximately 81,000 square meters); and
- a serviced apartment facility of approximately 260,000 square feet (approximately 24,000 square meters).

The total investment in the project (100%) is anticipated to be approximately USD 175 million (approximately €133 million).

Timisoara project – Romania

In March 2007, the Company acquired a site in Timisoara, West Romania, for a total consideration of €12.0 million. The site totals 31,800 square meters and is located alongside a major road approaching the city center of Timisoara. The Company plans to build a multi-story shopping center of approximately 30,000 square meters gross lettable area, exclusive of parking area.

Note 35 – Subsequent events continued

Timisoara project – Romania continued

The Company has also secured an option to develop on the site approximately 20,000 square meters of new mixed retail, office and residential space adjacent to the shopping center.

The total estimated development cost of the project is €60.0 million.

Torun project – Poland

In February 2007, the Group won a tender and signed a preliminary purchasing agreement with the Municipality of Torun, Poland for a project to be constructed on a site in Torun. The initial consideration was €1.7 million and the total plot price will be €15.8 million, to be paid in the course of the following two years. The plot size is 62,800 square meters. The building plan is with a planned gross lettable area of approximately 30,000 square meters. Construction is due to commence in the first quarter of 2009 and the center is scheduled to open in the last quarter of 2010.

Opening of Rybnik shopping center – Poland

In March 2007, the Company opened its pre-sold shopping center in Rybnik, Poland. The shopping center is scheduled to be transferred to Klepierre on March 31, 2007.

Note 36 – Critical accounting judgments and key sources of estimation uncertainty

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

a. Valuation of investment property

The financial statements include investment properties at values that are subject to considerable estimation uncertainty. The risk that an investment property will not be appropriately valued exists, since factors not known to the valuer or to the Company might affect the value of the asset.

b. Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

c. Potential penalties, guarantees issued

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

d. Expired building permits

The process of construction is long, and subject to authorization from local authorities. It may occur (such as in the Helios Project, see note 7) that building permits will expire and will cause the Company additional preparations and costs, and can cause construction to be delayed or abandoned. See note 7 for more details.

Note 37 – List of subsidiaries and affiliates of the Company

During the period starting January 1, 2005, the Company has owned the following companies (all subsidiaries were 100% owned by the Group at each balance sheet date presented unless otherwise indicated:

Hungary	Activity	Remarks
Directly wholly owned		
Kerepesi 2 Hypermarket Ingatlanfejleszt Kft.	Shopping center	
Kerepesi 3 Áruház Ingatlanfejleszt Kft.	Shopping center	
Kerepesi 4 Szálloda Ingatlanfejleszt Kft.	Holder of land usage rights	
Kerepesi 5 Irodaépület Ingatlanfejleszt Kft.	Holder of land usage rights	
HOM Ingatlanfejlesztési és Vezetési Kft. ("HOM")	Management company	
Plaza House Ingatlanfejlesztési Kft.	Office building	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Intercompany financing	
Zalaegerszeg 2002 Ingatlanhasznosító és Vagyonkezel Kft.	Own plot of land	Sold to Dawnay Day in 2006
Szolnok 2002 Ingatlanhasznosító és Vagyonkezel Kft.	Inactive	Sold in August 2006 to Parent Company
Szombathely 2002 Ingatlanhasznosító és Vagyonkezel Kft.	Intercompany financing	
Szeged 2002 Ingatlanhasznosító és Vagyonkezel Kft.	Inactive	
Eger House Ingatlanfejlesztési Kft.	Inactive	Sold in August 2006 to Parent Company
Pecs 2002 Ingatlanhasznosító és Vagyonkezel Kft.	Holding company of Pécs Plaza	Sold to Dawnay Day in 2005
Indirectly wholly owned (or jointly owned)		
PÉCS Plaza Ingatlanfejlesztési Kft.	Shopping center	Sold to Dawnay Day in 2005
Plaza Centers Magyarország Kft. ("PCM")	Shopping center	Sold to Klepierre during 2004 and 2005
Sopron Plaza Kft.	Shopping center	Sold to Dawnay Day in 2005
Szombathely Plaza Ingatlanfejlesztési Kft.	Shopping center	Sold to Dawnay Day in 2005
Veszprém Plaza Ingatlanfejlesztési Kft.	Shopping center	Sold to Dawnay Day in 2005
Ercorner Kft.	Holding company	Jointly controlled (50%–50%) with MKB Bank and holding company of Álom Sziget 2004 Kft. , The Island project – see note 15.
Alom Sziget 2004 Kft.	A convention, hotel and entertainment center	Held 60% by Ercorner

Note 37 – List of subsidiaries and affiliates of the Company continued

Poland	Activity	Remarks
Directly wholly owned		
Bialystok Plaza Sp.zo.o	Inactive	
Bielsko-Biala Sp.zo.o	Inactive	
Bytom Plaza Sp.z.o.o	Inactive	
Bydgoszcz Sp.zo.o	Inactive	
Rzeszów Plaza Sp.z.o.o.	Inactive	
Chorzow Plaza Sp.zo.o	Inactive	
Czestochowa Plaza Sp.zo.o.	Shopping center	Zgorzelec project
Gdansk Centrum Sp.zo.o	Inactive	
Gdynia Plaza Sp.zo.o	Inactive	
Gliwice Plaza Sp.zo.o.	Inactive	
Gorzów Wielkopolski Plaza Sp.zo.o.	Inactive	
Grudziadz Plaza Sp.zo.o	Inactive	
Jelenia Gora Plaza Sp.zo.o	Inactive	
Katowice Plaza Sp.zo.o	Inactive	
Suwałki Plaza Sp.zo.o	Shopping center	
Koszalin Plaza Sp.zo.o	Inactive	
Krakow Plaza Sp.zo.o	Shopping center	Sold to Klepierre in 2005
Legnica Plaza Sp.zo.o	Inactive	
Lodz Centrum Plaza Sp.zo.o	Own plot of land	
Plaza Centers (Poland) Sp.zo.o.	Management company	
Plaza Centers (Poland) South Sp.zo.o.	Management company	
Plaza Centers Management (Poland) Sp.zo.o	Management company	Sold to Klepierre in 2005
Olsztyn Plaza Sp.zo.o	Inactive	
Opole Plaza Sp.zo.o	Inactive	
Plock Plaza Sp.zo.o	Inactive	
Poznan Plaza Sp.zo.o	Shopping center	Sold to Klepierre in 2005
Radom Plaza Sp.zo.o	Inactive	
Ruda Śląska Plaza Sp.zo.o	Shopping center	Sold to Klepierre in 2005
Rybnik Plaza Sp.zo.o	Shopping center	Pre-sold to Klepierre 2005
Hokus Pokus Rozrywka Sp.zo. o.	Entertainment center	
Sadyba Center S.A.	Shopping center	Sold to Klepierre in 2005
Sosnowiec Plaza Sp.z.o.o.	Shopping center	Pre-sold to Klepierre 2005
Szczecín Plaza Sp.zo.o	Inactive	
Tarnow Plaza Sp.zo.o	Inactive	
Torun Plaza Sp.zo.o	Shopping center	
Tychy Plaza Sp.zo.o	Inactive	
Wloclawek Plaza Sp.zo.o	Inactive	
Wroclaw Plaza Sp.zo.o	Inactive	
Zielona Gora Plaza Sp.zo.o	Inactive	
Indirectly owned (or joint controlled)		
Fantasy Park Sp.zo.o	Entertainment center	Wholly owned by Fantasy park Enterprises B.V.
Movement Poland S.A	Shopping center	Wholly owned by Centers Classic B.V., and is the Company's joint venture in Poland (50%–50%) – Pre-sold to Klepierre in 2005

Notes to the consolidated financial statements continued

For the year ended December 31, 2006

Note 37 – List of subsidiaries and affiliates of the Company continued

Czech Republic	Activity	Remarks
Directly owned		
Praha Plaza S.R.O.	Logistic center	
B1 Plaza S.R.O.	Shopping center	Opava Project
Plaza Centers S.R.O.	Management company	
Pilzen Plaza S.R.O.	Shopping center	Pre-sold to Klepierre in 2005
P4 Plaza S.R.O.	Shopping center	Liberec project
Entertainment Plaza S.R.O.	Holding company of Bes Tes S.R.O	Sold to Klepierre in 2006
Indirectly owned		
Bes Tes S.R.O.	Shopping center	Sold to Klepierre in 2006
Fantasy Park S.R.O.	Entertainment center	Wholly owned by Fantasy Park Enterprises B.V.
Greece		
Helios Plaza S.A.	Shopping center	
Romania		
Bucuresti Plaza Center S.R.L.	Inactive	Sold to Parent Company in December 2006
Obor Plaza S.R.L.	Inactive	
Green Plaza S.R.L.	Intercompany financing	
Elite residence esplanada S.R.L.	Inactive	
The Netherlands		
Directly owned		
PCM B.V.	Inactive	
Indirectly owned (or joint controlled)		
Centers Classic B.V.	Holding company	Jointly controlled (50%–50%) with a partner – holding company of Movement Poland S.A.
Fantasy park Enterprises B.V.	Holding company	Held 100% by Dreamland N.V., and holding company of Fantasy Park Sp.z.o.o and Fantasy Park S.R.O.
The Dutch Antilles		
Dreamland N.V.	Holding company	
Cyprus		
Amanati limited	Inactive	
Premindo limited	Holding company	Holding company of the Anuttam developers private limited (50%)
Latvia		
SIA Diksna	Shopping center	Jointly controlled with an American based partner.
SIA Geibi	Owns plot of land	Plot of land – 100% held by SIA Diksna. Was merged with SIA Diksna in October 2006

Note 37 – List of subsidiaries and affiliates of the Company continued

India	Activity	Remarks
Indirectly owned through Permindo Ltd.		
Anuttam developers private Ltd.	Holding company in India of 23 subsidiaries (listed below), all held in connection with the Company's JV in Pune India (Koregaon Park project).	Held 50% by Permindo in a joint venture agreement
Atrushya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Ajanu developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Agmesh developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Animish developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Anahat developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Apratirath developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Athang developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Avyang developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Asankhya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Apramad developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Abhyang developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Amartya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Atmavan developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Amrutansh developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Achal developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Akhula developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Antarmukh developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Aprameya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Amraprabhu developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Ajakshya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Avyaya developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Avyaja developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam
Anantshree developers private Ltd.	Owns plot of land	Wholly owned subsidiary of Anuttam

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