

# Corporate governance

## Corporate governance

The Company was incorporated in The Netherlands on May 17, 1993 as a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid). The Company was converted into a public limited liability company (naamloze vennootschap) on October 12, 2006, with the name "Plaza Centers N.V.". The principal applicable legislation and the legislation under which the Company and the ordinary shares in the Company have been created is book 2 of the Dutch Civil Code (Burgerlijk Wetboek).

## Compliance

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

These exceptions are listed below.

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

- Best Practice Provision II.1.3 stipulates *inter alia* that the Company should have an internal risk management and control system which should in any event employ as instruments of the internal risk management and control system a code of conduct which should be published on the Company's website. Such code of conduct is not available at the date of publication of this document.
- Best Practice Provision II.1.4 (b) stipulates that the management Board shall provide a description of the design and effectiveness of the internal risk management and control system for the main risks. Since the Company has no such code, it cannot refer its design and effectiveness.
- Best Practice Provision II.1.6 stipulates that the management Board shall describe the sensitivity of the results of the Company to external factors and variables. Since the Company has no streaming/fixed annual revenue from operation of properties, it does not perform such analysis.
- Best Practice Provision II.2.4 stipulates that granted options shall not be exercised in the first three years after the date of granting. The current share incentive schemes of the Company do not restrict the exercise of options to a lockup period of three years. The reason therefore is that the Company and the Elbit group share the same remuneration policy and the Company's Share Option Schemes were drafted in accordance with Elbit's Share Option Scheme, in order to maintain the incentive for all employees of the Elbit group based upon the same principles.
- Best Practice Provision II.2.7 stipulates that neither the exercise price nor the other conditions regarding the granted options shall be modified during the term of the options, except insofar as prompted by structural changes relating to the shares of the Company in accordance with established market practice. The Company had on November 25, 2008 adjusted the exercise price of the granted options. This has been done since the Board was of the view that the Share Option Scheme should serve as an effective incentive for the employees of the group of companies, headed by the Company, to encourage them to remain in employment and work to achieve the best possible results for the Company and its shareholders. Market conditions, however, led to a strong decline in the Company's share price at both the London Stock Exchange and the Warsaw Stock Exchange, resulting in practically all options being out of the money without a favorable outlook for a quick recovery. In order to maintain the incentive for all employees, the Board has submitted to the extraordinary meeting of shareholders that was held on November 25, 2008, a proposal to amend the Share Option Scheme and to determine the exercise price of all options granted on or prior to October 25, 2008, to GBP 0.52. In an attempt to insure that the options are and remain an effective incentive and to assist in the retention of employees, the revised Share Option Scheme includes an extension of the vesting term for options granted less than one year prior to October 25, 2008. The shareholders approved the amendment of the Share Option Scheme and the adjustment of the exercise price.
- Best Practice Provision II.2.12 and Best Practice Provision II.2.13 stipulate *inter alia* that the remuneration report of the supervisory Board shall include account of the manner in which the remuneration policy has been implemented in the past financial year as well as an overview of the remuneration policy planned by the supervisory Board for the next financial year and subsequent years and should contain the information specified in these provisions. The current remuneration policy of the Company has remained unchanged from 2006 at the moment the Company's shares were admitted to listing and is fairly straight forward, as such that "implementation" is not an issue. Furthermore, pursuant to the Articles of Association, the general meeting of shareholders determines the remuneration policy, and not the non-executive directors. When the remuneration policy needs changing, this will be addressed in a general meeting of shareholders.

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- Best Practice Provision II.3.3 and Best Practice Provision III.6.2 stipulate that both executive directors and non-executive directors shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which they have a conflict of interest with the Company. Section 17.2 of the Articles stipulates that a member of the Board may take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a conflict of interest with the Company, provided that any resolution in such respect shall be adopted unanimously in a meeting in which all members of the Board are present or represented. Since Mr Ran Shtarkman is, as of January 1, 2010, both Executive Director of the Company and Co-Chief Executive Officer with Elbit Imaging, the Company's parent company, there may be conflicts of interest in respect of Mr Shtarkman representing the Company. In order to enable Mr Shtarkman to, in his capacity of CEO represent the Company in all matters, the Articles of Association include this possibility, provided, as stated above, that in such matter the underlying Board resolution has been adopted anonymously.
- Best Practice Provision II.3.4 and Best Practice Provision III.6.3 stipulate, *inter alia*, that decisions to enter into transactions in which there are conflicts of interest with management Board members that are of material significance to the Company and/or to the relevant Board members require the approval of the non-executive directors. Though, pursuant to the Articles, each Board member is obliged to notify all direct and indirect conflicts of interest, the Articles contain no specific approval clause.
- Best Practice Provision III.1.7 stipulates that the supervisory Board shall discuss at least once a year on its own, both its own functioning and that of its individual members, and the conclusions that must be drawn on the basis thereof. The desired profile, composition and competence of the supervisory Board shall also be discussed. Moreover, the supervisory Board shall discuss at least once a year without the management Board being present, the functioning of the management Board as an organ of the Company and the performance of its individual members, and the conclusions that must be drawn on the basis thereof. In 2011, the non-executive directors have not specifically discussed the items that appear in this Best Practice Provision on separate occasions. The Board, however, feels it important to notify the shareholders that as a rule, every Board meeting includes an assessment by all Board members of their own functioning and that of their fellow Board members. The Board is of the view that, given the fact that the Company has a one-tier Board rather than a separate management Board and supervisory Board, this course of action appropriately meets the requirements as laid down in this Best Practice Provision.
- Best Practice Provision III.1.8 stipulates that the supervisory Board shall discuss at least once a year the corporate strategy and the risks of business and the results of assessment by the management Board of the structure and operation of the internal risks management and control systems, as well as any significant changes thereto. In 2011, there have not been separate meetings of the non-executive directors to discuss the items mentioned in this Best Practice Provision. The reason therefore is that risk management at the Company is, pursuant to the internally applicable corporate governance regulations, a matter specifically reserved for decision by the full Board. Board meetings in 2011 have included discussions in respect of corporate strategy and risk management and periodically throughout the year, the internal system of risk management has been assessed by the full Board.
- Best Practice Provisions III.2.1 and III.8.4 stipulate that the majority of the members of the Board shall be independent non-executives within the meaning of Best Practice Provision III.2.2. The Company currently has two executive directors (who are considered to be non-independent) and four non-executive directors out of whom two non-executive directors are considered to be independent, applying the criteria of Best Practice Provision III.2.2. The non-executive directors who are considered to be non-independent are Messrs Shimon Yitzhaki and Edward Paap. The independent non-executive directors are Messrs Mark Wichers and Marius Van Elbergen Santhagens. See also page 46 – Additional Information for an overview of the directors' former and current functions. Consequently, two out of the six directors are considered to be independent. The Board believes that the experience of the non-independent directors is of great importance to the Company.
- Best Practice Provision III.3.3 and Best Practice Provision III.4.1 (a) stipulate that all supervisory Board members shall follow an induction program. Since 2006, no new non-executive directors have started working in the Company and it is not envisaged that in the foreseeable future, there will be new non-executive directors; there is currently no induction program in place.
- Best Practice Provision III.3.5 stipulates that a non-executive director (in terms of the Dutch Corporate Governance Code, a supervisory director (*commissaris*)) may be appointed to the Board for a maximum of three four-year terms. Section 15 of the Articles provides for a retirement schedule whereby directors who have been in office for not less than three consecutive AGMs shall retire from office. Pursuant to section 15.6 of the Articles, such a director may be reappointed, which could result in a term of office which is longer than three four-year terms.

- Best Practice Provision III.5.1 provides that the committee rules stipulate that a maximum of one member of each committee need not be independent within the meaning of Best Practice Provision III.2.2; the Company's Nomination Committee is comprised of three members, two of whom, Messrs Yitzhaki and Paap, are considered to be non-independent. The Board believes that the composition of the Nomination Committee as currently envisaged is in the best interests of the Company, given the skills and experience of the committee members.
- Best Practice provision III.5.6 stipulates that the Audit Committee must not be chaired by the Chairman of the Board or by a former executive director of the Company. The Company's Audit Committee is chaired by Mr Shimon Yitzhaki, who has been an executive director of the Company and thus the Company deviates from this Best Practice Provision. The Board, however, believes that given Mr Yitzhaki's extensive financial experience, chairmanship of the Audit Committee is appropriate.
- Best Practice Provision III.5.11 *inter alia* provides that the Remuneration Committee shall not be chaired by a non-executive director who is either a former executive director or a member of the management board of another listed company. Since the Remuneration Committee is chaired by Mr Shimon Yitzhaki, who is a former executive director and serves as President of Elbit Imaging Ltd., the Company deviates from this requirement. The Board is convinced that the experience of Mr Yitzhaki in this respect should be considered more important than the fact that Mr Yitzhaki is a board member of another listed company.
- Best Practice Provision III.7.1 stipulates that non-executive directors should not be granted any shares and/or rights to shares by way of remuneration. Under the Share Option Scheme, prior to Admission, options were granted to Mr Yitzhaki, a non-executive director. Furthermore, the Share Option Schemes do not exclude the possibility of making further grants of options to non-executive directors. In particular, the Board believes that the granting of options to Mr Yitzhaki is appropriate, given his extensive involvement in the Company to date and his special efforts made in respect of the preparation of the Company for Admission. Furthermore, the Company has retained the right to grant options to non-executive directors as it believes that granting such options is appropriate in order to offer present and future non-executive directors a competitive remuneration package.
- Best Practice Provision V.3 stipulates *inter alia* that the Company should have an internal auditor. Though in fact the Company does not have an internal auditor itself, as part of the Europe Israel Group, the Company has a Quality Control Regulator, which practically functions as an internal auditor.

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

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

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

The Code of Best Practice for WSE-Listed Companies (the "WSE Corporate Governance Rules") applies to companies listed on the WSE, irrespective of whether such companies are incorporated outside of Poland. The WSE Corporate Governance Rules consist of general recommendations related to best practice for listed companies (Part I) and best practice provisions relating to management boards, supervisory board members and shareholders (Parts II to IV). The WSE Corporate Governance Rules impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I). Moreover, every year each WSE-listed company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with the Company's annual report. Companies listed on the WSE are required to justify non-compliance or partial compliance with any WSE Corporate Governance Rule and to present possible ways of eliminating the potential consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in the future. The Company intends, to the extent practicable, to comply with all the principles of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent permitted by Dutch law. Detailed information regarding non-compliance, as well as additional explanations regarding partial compliance with certain Corporate Governance Rules of the WSE due to incompatibilities with Dutch law, will be included in the aforementioned reports, which will be available on the Company's website and published by way of a current report.

### Role of the Board

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

### Board practices

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

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

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

The Board is accountable to the general meeting of shareholders.

### Composition and operation of the Board

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

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

### Audit Committee

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

**Composition:** Mr Yitzchaki, Mr Wichers, Mr van Eibergen 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 other senior employees and the Company's share incentive plans (under Dutch law and the Articles, the principal guidelines for directors' remuneration and approval for directors' options and share incentive schemes must be determined by a general meeting of shareholders). The Committee also prepares an annual report on the Company's remuneration policy. The remuneration report may be found on pages 64 and 65 of this document.

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

#### Nomination Committee

Meeting at least twice a year, the Nomination Committee comprises three non-executive directors. Its main roles are to prepare selection criteria and appointment procedures for Board members and to review the Board's structure, size and composition. Whereas all senior management of the Company was already nominated and since there wasn't any other necessity, the Nomination Committee met only once in 2011.

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

#### Internal control/risk management

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

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

#### Share dealing code

The Company operates a share dealing code, which limits the freedom of directors and certain employees of the Company to deal in the Company's shares. The share dealing code imposes restrictions beyond those that are imposed by law. The Company takes all reasonable steps to ensure compliance by those parties affected. The Company operates a share dealing code, particularly relating to dealing during close periods, for all Board members and certain employees, as is appropriate for a listed company. The Company takes all reasonable steps to ensure compliance by those parties affected.

The share dealing code meets the requirements of both the Model Code set out in the Listing Rules and the Market Abuse chapter of the Netherlands Act on the financial supervision.

#### Controlling Shareholder and conflicts of interest

The Company has a Controlling Shareholder who owns approximately 62.52% of the share capital and therefore has effective control of the Company. The Board is satisfied that the Company is capable of carrying on its business independently of the Controlling Shareholder, with whom it has a relationship agreement to ensure that all transactions and relationships he has with the Group are conducted at arm's length and on a normal commercial basis.

The Articles of Association of the Company include provisions on conflicts of interest between the Company and holders of control. If a conflict of interest arises between the Controlling Shareholder and the Company, the Board's decisions on the matter should be adopted unanimously in a meeting in which all members of the Board are present or represented.

#### Shareholder communication

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

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

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

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

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

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

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

### Corporate, social and ethical policies

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

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

### Environment

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

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

### Health and safety

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

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

### Corporate Governance declaration

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

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

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

# Risk management

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

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

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

## Business strategy

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

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

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

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

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

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

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

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

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

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

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

## Capital management

The Board's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The basis of the Company's stated dividend policy at the time of its IPO was to reflect the long-term earnings and cash flow potential of the Group, taking into account its capital requirements, whilst at the same time maintaining an appropriate level of dividend cover.

## Risk management

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According to the Company's dividend policy, dividends are expected to be paid at the rate of 25% on the first EUR 30 million of such annual net profits and thereafter at the rate of between 20% and 25%, as determined by the Company's Board of Directors, on any additional annual net profits which exceed EUR 30 million. As published on September 23, 2011, the dividend for 2012-2013 will be subject to certain caps and conditions.

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

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

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

### Financing risk management

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

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

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

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

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

### External factors influencing the results

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

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

### Interest rate risks

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

### Foreign currency exchange rates

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

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



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

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

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

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

#### The Company's top risks

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

- **Global financial and economic developments**

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

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

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

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

**Risk mitigation:** Once assets are developed, and given the Company's financial strength, Plaza is able to hold developments on its balance sheet as yielding assets. Sales of assets will not be undertaken if offered yields are high and Plaza will capitalize upon its extensive experience gained over eight years of managing and running shopping malls efficiently to hold and manage these as income-generating investments in its portfolio, until sufficient offered yields are in place.

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

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

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

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

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

## Risk management

continued

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

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

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

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

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

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

### **Legal and regulatory risk**

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

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

Changes to the tax laws or practice in the countries in which the Company operates or any other tax jurisdiction affecting the Group could be relevant. Such changes could affect the value of the investments held by the Company or affect the Company's ability to achieve its investment objective or alter the post-tax returns to shareholders. The tax positions taken by the Group, including the tax effect of transfer pricing and the availability of tax relief provisions, are also subject to review by various tax authorities. Under the Dutch participation exemption rules, income including dividends and capital gains derived by Dutch companies in respect of qualifying investments in the nominal paid-up share capital of resident or non-resident investee companies, are exempt from Dutch corporate income tax provided the conditions as set under these rules have been satisfied. The participation exemption rules and more particularly the statutory conditions thereunder have been amended with effect of January 1, 2007. Such amended conditions require, among others, a minimum percentage of ownership interest in the investee company and require the investee company to satisfy either of, or both, the newly introduced assets test and the amended "subject to tax" test. Should the Company not be in compliance with all participation exemption requirements or

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

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

**Internal control and risk management procedures**

**1) Definition and objectives**

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

Plaza's internal control procedures aim to ensure:

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

The system is based on the following three key principles:

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

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

**II) Four components of internal control procedures**

**a) Organization and environment**

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

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

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

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

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

# Risk management

continued

## b) Risk management

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

## c) Control activities to meet these risks

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

### First level – First degree – Permanent control

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

### First level – Second degree – Permanent control

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

### Second level – Permanent control

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

### Internal accounting control

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

## d) Management and supervision of internal control systems

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

## III) Risk management and internal control bodies

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

### a) Executive Board

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

### b) Audit Committee

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

### c) Functional management

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

### d) Group employees

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

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

### I) Definition and objectives

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

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

**II) Management process for accounting and financial organization**

**a) Accounting organization**

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

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

**b) Financial risk management**

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

**c) The Audit Committee**

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

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

**a) Operational processes used to generate accounting information**

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

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

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

**c) The Audit Committee**

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

# Remuneration report

## Remuneration Committee

As stated in the Corporate Governance report on pages 51 to 56 of this document, the Remuneration Committee meets at least twice each financial year to prepare, among other matters, the decision of the Board relating to the remuneration of directors and any share incentive plans. It is also responsible for preparing an annual report on the Company's remuneration policies and for giving full consideration in all its deliberations to the principles set out in the Combined Code.

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

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

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

## Remuneration policy

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

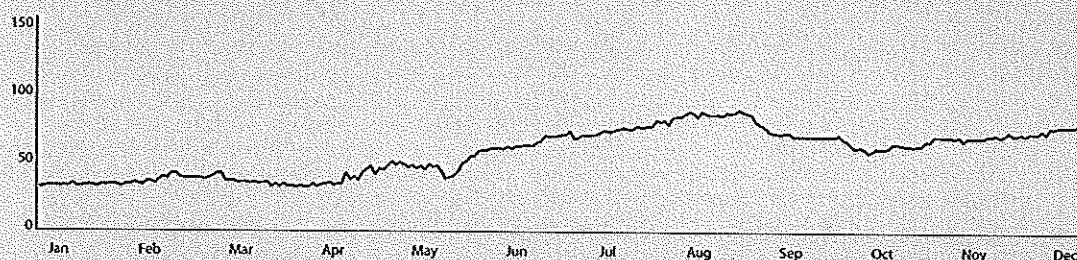
The Remuneration Committee reviews base salaries annually. Increases for all employees are recommended by reference to cost of living, responsibilities and market rates, and are performed at the same time of year.

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

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

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

## Total shareholder returns performance 2011



**Service arrangements**

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

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

**Bonuses**

The Company has a performance-linked bonus policy for senior executives and employees, under which up to 3% of net annual profits are set aside for allocation by the directors to employees on an evaluation of their individual contributions to the Company's performance. In addition, the Board can award

ad hoc bonuses to project managers, area managers and other employees on the successful completion and/or opening of each project. The directors also have the authority to award discretionary bonuses to outstanding employees which are not linked to the Company's financial results.

**Share options**

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

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

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

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

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

Amsterdam, April 30, 2012

The Board of Directors

Mordechay Zisser

Ran Shtarkman

Shimon Yitzhaki

Marius van Eibergen Santhagens

Marco Wichers

Edward Paap

## Statement of the directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In view of all of the above, hereby following the requirements of article 5:25c paragraph 2 under c. of the Netherlands Act on the financial supervision (Wet op het financieel toezicht), the directors hereby confirm that (i) the annual financial statements 2011 as included herein give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its affiliated companies that are included in the consolidated financial statements; and (ii) the annual report includes a fair review of the position at the balance sheet date and the development and performance of the business of the Company and its affiliated companies that are included in the consolidated annual financial statements and that the principal risks and uncertainties that the Company faces are described.

The Board of managing directors:

**Mordechay Zisser**  
Executive Director and Founder

**Ran Shtarkman**  
Executive Director and CEO

**Marco Habib Wichers**  
Independent Non-executive Director and Chairman

**Shimon Yitzchaki**  
Non-executive Director

**Edward Paap**  
Non-executive Director

**Marius Willem van Eibergen Santhagens**  
Independent Non-executive Director

April 30, 2012



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## Consolidated statement of financial position

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

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

Ran Shtarkman  
Director, President and  
Chief Executive Officer

Shimon Yitzchaki  
Director and Chairman  
of the Audit Committee

# Consolidated income statement

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

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

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

## Consolidated statement of comprehensive income

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

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

# Consolidated statement of changes in equity

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

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

## Consolidated statement of cash flows

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

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

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

# Notes to the consolidated financial statements

## Note 1 – Principal activities and ownership

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

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

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

## Note 2 – Basis of preparation

### a. Statement of compliance

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

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

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

### b. Basis of measurement

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

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

### c. Functional and presentation currency

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

### d. Use of estimates and judgments

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



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

#### Functional currency

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

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

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

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

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

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

#### e. Changes in accounting policies

##### (i) Accounting for business combinations

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

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