Notes to the consolidated financial statements

continued

Note 2 – Basis of preparation continued

Acquisitions on or after January 1, 2010.

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

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

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

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

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

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

Acquisitions prior to January 1, 2010

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

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

(ii) Accounting for acquisitions of non-controlling interests

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

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

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

(iii) Accounting for results of non-controlling interests

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

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

Note 3 – Summary of significant accounting policies

a. Basis of consolidation

1. Subsidiaries

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

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

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

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

2. Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the associate. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity.

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

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

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

3. Jointly controlled entities

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

The financial statements of JVs are included in the consolidated financial statements from the date that joint control commences until the date that joint control ceases. Where necessary, adjustments are made to the financial statements of JVs to bring the accounting policies used into line with those used by the Group in the consolidated financial statements.

4. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Notes to the consolidated financial statements
continued

Note 3 – Summary of significant accounting policies continued

b. Foreign currency

1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

2. Financial statements of foreign operations

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

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

3. Net investment in foreign operations.

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

c. Financial instruments

1. Non-derivative financial assets

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

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

Cash and cash equivalents, restricted deposits and cash in escrow

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

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

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

Financial assets and liabilities at fair value through profit or loss

Financial Assets and Liabilities at fair value through profit or loss includes structured deposit B (refer to note 11) and unsecured non-convertible Debentures Series A and partially Series B (refer to notes 21, 22).

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

Held-to-maturity financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

2. Non-derivative financial liabilities

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

Notes to the consolidated financial statements

continued

Note 3 – Summary of significant accounting policies continued

c. Financial instruments continued

3. Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures; however the Group has not elected to apply hedge accounting to any derivative financial instruments held during the reporting period. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in profit or loss.

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

d. Share capital

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

Repurchase of share capital (treasury shares)

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

e. Trading properties

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

Costs comprise all costs of purchase, direct materials, direct labour costs, subcontracting costs and other direct overhead costs incurred in bringing the properties to their present condition. Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the costs of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they incurred. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs may continue until the assets are substantially ready for their intended use.

Non-specific borrowing costs are capitalized to such qualifying asset, by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowing made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the period does not exceed the amount of borrowing costs incurred during that period.

f. Investment property

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

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

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

g. Property and equipment

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income or other expenses in the income statement.

Depreciation of items of property and equipment is charged to the income statement over their estimated useful lives, using the straight-line method, on the following rates:

	%
Land – owned	0
Office buildings	2 – 4
Mechanical systems in the buildings	7 – 10
Aircrafts	5
Other*	6 – 33

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

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

h. Impairment

1. Financial assets

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

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

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

2. Non-financial assets

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

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

Notes to the consolidated financial statements
continued

Note 3 – Summary of significant accounting policies continued

h. Impairment continued

3. Reversal of impairment

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

i. Provisions

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

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

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

Warranties

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

j. Revenue recognition

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

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

(i) Rental income

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

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

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

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

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

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

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

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

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

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

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

k. Operational lease payments

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

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

l. Finance income and expenses

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

Finance expenses which are not capitalized comprise interest expense on borrowings, changes in the fair value of financial instruments at fair value through profit or loss, impairment losses recognized on financial assets, net foreign exchange losses and losses on derivative instruments that are recognized in profit or loss. For capitalization of borrowing costs please refer to note 10.

Interest income and expense which are not capitalized are recognized in the income statement as they accrue, using the effective interest method. For the Company's policy regarding capitalization of borrowing costs refer to note 3 (e).

m. Taxation

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

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right

Notes to the consolidated financial statements

continued

Note 3 – Summary of significant accounting policies continued

m. Taxation continued

to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

n. Segment reporting

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

o. Employee benefits

1. Bonuses

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

2. Share-based payment transactions

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

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

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

p. Earnings per share

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

q. New standard not yet adopted

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

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

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

Note 4 – Determination of fair values

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

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

Investment properties in the US

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements
continued

Note 4 – Determination of fair values continued

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

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

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

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

Structured deposit B at fair value through profit or loss (refer to note 11)
The fair value of structured deposit B is based on a broker quote. This quote is tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market interest rates for a similar instrument at the measurement date. The test is being done by using yield analysis for structured model.

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

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

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

Share-based payments transactions
The fair value of employee share options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information and the tendency of volatility to revert to its mean and other factors indicating that expected future volatility might defer from past volatility), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note 5 – Cash and cash equivalents

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

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

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

Note 6 – Restricted bank deposits

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

1 As of December 31, 2011, EUR 4.1 million is restricted in respect of bank facilities agreements signed to finance projects in Serbia, Poland, Romania, Hungary and Latvia. This amount carries an annual interest rate ranging between 0% and 1.5%. An additional EUR 1 million is restricted in respect of Interest Rate Swap ("IRS") performed in connection with bank facility agreement in Serbia (refer to note 15) and carries an annual interest rate of 3.8%.
2 As of December 31, 2011, various deposits in a total amount of PLN 10.2 million (EUR 2.3 million) are restricted in respect of bank facilities requirements, which bears interest of 50% of the Wibid benchmark.
3 As of December 31, 2011 an amount of EUR 2.1 million is restricted in respect of the EUR/NIS cross currency IRS transactions (see note 16). EUR 0.4 out of this amount are short-term restricted. The restricted amount is carrying fixed interest rate of 0.2%. An additional EUR 2.8 million is restricted in respect of the EUR/PLN cross currency IRS transaction (see note 15). The restricted amount is carrying fixed interest rate of 3.2%.
4 An amount of EUR 9.8 million is restricted in respect of investment in long-term financial instruments (see note 11). This amount is carrying an interest rate of one month EURIBOR.

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

Notes to the consolidated financial statements

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Note 7 – Available-for-sale financial assets

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

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

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

Note 8 – Trade receivables

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

1 As of December 31, 2011 trade receivables includes an amount of EUR 2.3 million (2010: EUR 2.4 million) relating to US operations. Main increase in 2011 is due to increase of operations in Poland, following the opening of the Toruń Shopping Centre.
2 Increase in allowances created during 2011 an amount of EUR 0.4 million, mainly due to operations in Czech Republic and Poland.

Note 9 – Other receivables and prepayments

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

1 As of December 31, 2011 and 2010, including mainly advance payments in the amount of EUR 28.3 million and EUR 31.8 million, respectively. For the purchase of plots in India, as part of the joint venture with EI (refer also to notes 35 (e)). Out of this amount, an amount of EUR 5 million (2010: EUR 4.8 million) is guaranteed by EI.
2 As of December 31, 2011, VAT receivable is mainly due to projects in Poland (EUR 4 million) and Serbia (EUR 1 million).

Note 10 – Trading properties

	December 31, 2011 €'000	December 31, 2010 €'000
Balance as at January 1	807,887	707,287
Acquisition and construction costs	84,827	74,111
Capitalized borrowing costs[1]	29,154	19,742
Write-down of trading properties[2]	(47,987)	(6,710)
Effect of movements in exchange rates	(23,652)	14,514
Trading properties disposed	–	(1,057)
Balance as at December 31[3]	850,229	807,887
Completed trading properties	202,769	146,626
Trading properties under construction	117,526	107,825
Trading properties under planning and design stage [4, 5]	529,934	553,436
Total	850,229	807,887

1 Suspension of capitalizing borrowing costs – In certain cases, where the efforts to develop a project are significantly diminished due to lack of external finance, or problems in obtaining permits, the Company suspends the capitalization of borrowing costs to the relevant project.
2 Write-down of trading properties to net realisable value was performed based on independent valuation reports. In the course of 2011 write-downs were recognized in respect of projects in Romania (EUR 26.5 million), Latvia (EUR 8.5 million), Poland (EUR 7 million), Bulgaria (EUR 3 million), the Czech Republic (EUR 2.5 million) and Greece (EUR 0.5 million). Refer to note 39 (a) for more information about key assumptions.
3 Including cost of large scale projects (Bangalore in India, Casa Radio in Romania and Dream Island in Hungary) in a total amount of EUR 230 million (2010: EUR 225 million). The abovementioned projects are expected to generate an operating cycle closer to eight years (refer to (5) below) comparing to other projects the Company holds.
4 The value of the Casa Radio project in Romania includes two gas turbines with a total book value of EUR 11 million.
5 The Group is involved in projects some of which may take up to eight years to complete from the asset acquisition date. The cost of trading property, loans and related derivatives which financed the development projects are presented as current assets and liabilities.

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

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

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

Notes to the consolidated financial statements
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Note 10 – Trading properties continued

Below is a summary table for project status.

		December 31, 2011 Share holding			General information		
Project	Location	Purchase/ transaction year	Rate (%)	Nature of rights	Status of registration of land	Permit status	Planned GLA (m²)
Suwalki Plaza	Poland	2006	100	Ownership	Completed	Operational shopping center (starting Q2 2010)	20,000
Zgorzelec Plaza	Poland	2006	100	Ownership	Completed	Operational shopping center (starting Q1 2010)	13,000
Toruń Plaza	Poland	2007	100	Ownership	Completed	Operational shopping center (starting Q4 2011)	40,000
Łódź residential	Poland	2001	100	Ownership/ Perpetual usufruct	Completed	Planning permit valid	80,000*
Łódź Plaza	Poland	2009	100	Perpetual usufruct	Completed	Planning permit pending	45,000
Kielce Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit pending	33,000
Leszno Plaza	Poland	2008	100	Perpetual usufruct	Completed	Planning permit pending	16,000
Liberec Plaza	Czech Republic	2006	100	Ownership	Completed	Operational shopping center (starting Q1 2009)	17,000
Roztoky	Czech Republic	2007	100	Ownership	Completed	Planning permit valid	14,000*
Riga Plaza	Latvia	2004	50	Ownership	Completed	Operational shopping center (starting Q1 2009)	49,000
Bangalore	India	2008	23.75	Ownership	In process	Under negotiations	320,000*
Chennai	India	2008	38	Ownership	In process	Under negotiations	1,060,000*
Koregaon Park	India	2006	100	Ownership	Completed	Building permit valid	110,000*
Kharadi	India	2007	50	Ownership	Completed	Partial building permit valid	250,000*
Trivandrum	India	2007	50	Ownership	Completed	Under negotiations	120,000*
Casa Radio	Romania	2007	75	Leased for 49 years	Completed	Zoning and planning permit valid	600,000*
Timişoara Plaza	Romania	2007	100	Ownership	Completed	Zoning and planning permit valid	38,000
Miercurea Ciuc Plaza	Romania	2007	100	Ownership	Completed	Building permit valid	14,000
Iaşi Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	62,000
Slatina Plaza	Romania	2007	100	Ownership	Completed	Planning permit valid	17,000
Târgu Mureş Plaza	Romania	2008	100	Ownership	Completed	Planning permit valid	30,000
Hunedoara Plaza	Romania	2008	100	Ownership	Completed	Planning permit valid	13,000
Constanţa Plaza	Romania	2009	100	Ownership	Completed	Existing building	18,000
Belgrade Plaza	Serbia	2007	100	Ownership	Completed	Under negotiations	70,000*
Kragujevac Plaza	Serbia	2007	100	Currently construction lease period (99 years) with subsequent ownership	Completed	Building permit valid	22,000
Sport Star Plaza	Serbia	2007	100	Land use rights	Completed	Under negotiations	40,000
Shumen Plaza	Bulgaria	2007	100	Ownership	Completed	Planning permit valid	20,000
Sofia Plaza Business Centre	Bulgaria	2009	51	Ownership	Completed	Planning permit valid	44,000
Dream Island (Budapest)	Hungary	2003	43.5	Ownership	Completed	Under negotiations	350,000*
Arena Plaza Extension	Hungary	2005	100	Land use rights	Completed	Building permit valid	40,000
Új Udvar	Hungary	2007	35	Ownership	Completed	Building permit pending	16,000
Piraeus Plaza	Greece	2002	100	Ownership	Completed	Building permit valid	26,000

* GBA (sqm)

Note 11 – Long-term deposits and other investments

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

* Structure A – The EUR 38 million principal is capital protected and payable at maturity (February 2023). Structure A bears interest of 11.5% per annum, payable quarterly to the extent that the spread between the 30 years Euro CMS (Constant Maturity Swap) and the 10 years Euro CMS (measured on a daily basis) is higher than the accrual barrier which was set at 0.05%. For days in which the spread is lower than the barrier no interest is paid. Structure A is presented in the financial statements as held to maturity financial instrument at amortized cost. Although Structure A is callable by the issuer on a quarterly basis at par value, the Company has the ability and a positive intent to hold Structure A until it is called or until maturity, and the Company would recover substantially all of Structure A carrying amount.
The fair value of the structure, determined by management based on the broker quotes, as of December 31, 2011 was EUR 26.9 million.

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

For both structures financial results refer to note 31.

Note 12 – Property and equipment

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

Major additions/disposals/impairment in the period

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

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

Notes to the consolidated financial statements
continued

Note 13 – Investment property

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

Investment property in the United States

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

(i) Valuation basis

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

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

(ii) Non-current assets pledged as security

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

(iii) Leasing arrangements

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

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

Investment property in the Czech Republic

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

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

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

Note 14 – Proportionate consolidation

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

	2011 €'000	2010 €'000
Current assets	243,874	271,937
Non-current assets	260,781	228,132
Current liabilities	118,439	100,464
Non-current liabilities	144,735	131,618
Non-controlling interests	7,289	24,254

	For the year ended December 31, 2011 €'000	For the year ended December 31, 2010 €'000
Revenues and other income	41,154	63,283
Expenses and tax	(51,268)	(23,027)
Profit (loss) after tax	(10,114)	40,256

Note 15 – Derivatives

Selling options strategy

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

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

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

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

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

Cross currency interest rate swap ("SWAP")

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

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

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

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

Notes to the consolidated financial statements

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Note 15 – Derivatives continued

Cross currency interest rate swap ("SWAP") continued

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

SWAP settlement and utilization in 2011

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

Interest rate swap ("IRS")

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

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

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

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

Note 16 – Interest bearing loans from banks

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

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

Note 16 – Interest bearing loans from banks continued

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

1 Refer to note 34 (d) for details on breach of certain covenants regarding these loans.
2 IRS on bank loans – refer to note 15.
3 Secured bank loans taken in respect of structured deposits (refer to note 11). These loans were extended for a period of three months and one year, respectively in February 2012. The Company is required to secure a certain amount of cash upon request from the issuing bank as collateral for the credit facilities granted by the issuing bank to finance part of these structures. The amount of the collateral is determined based on a formula which includes, among other parameters, the fair value of the structures calculated by the issuing bank. As of the end of the reporting period the Company had secured a total amount of EUR 9.8 million in respect of both structures (refer to note 6).
4 On January 10, 2012, US$85 million investment property secured loan (Company part is EUR 14.7 million), which matured on January 11, 2012, was refinanced with a new US$85 million loan secured by the same investment properties. The loan bears interest at LIBOR+1% per annum and has a scheduled maturity date of March 30, 2012. On February 1, 2012, the loan was extended based upon delivery of the binding sales contract. US group companies have guaranteed the loan and DDR Macquarie Longhorn Holdings LLC has pledged its membership interests to the lender.

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Note 17 – Trade payables

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

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

Note 18 – Related parties

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

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

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

Note 19 – Provisions

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

Note 20 – Other liabilities

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

1 2011 increase is mainly due to advances from tenants in India.
2 As of December 31, 2011 includes loans from partners in Bulgaria and Romania.
3 Include mainly US real estate taxes liability.

Other long-term liabilities 2011

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

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

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

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

	Series A debentures			Series B debentures		
	Fair value	CPI adjusted	Par value	Fair value	CPI adjusted	Par value
January 1, 2011 (NIS)	310,514	303,760	266,994	922,834	880,381	797,957
Repayment 2011 (NIS)*			(38,142)			(159,591)
December 31, 2011 (NIS)	170,839	266,986	228,852	536,547	722,212	638,366
January 1, 2011 (EUR)	65.538	64,113	56,353	194,777	185,817	168,420
December 31, 2011 (EUR)	34,596	54,067	46,344	108,654	146,253	129,274

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

Both debentures series are rated (effective March 2012) ilBBB+ by S&P Maalot Ltd. on a local scale and ilA3/Negative by Midroog Ltd., the Israeli Credit Rating Agency and an affiliate of Moody's Investors Service ("Midroog"). Debentures Series A bears an annual interest rate of 4.5% (paid semi-annually) with eight annual equal principal instalments between December 2010 and 2017. Debentures Series B bears an annual interest rate of 5.4% (paid semi-annually) with five annual equal principal instalments between July 2011 and 2015.

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Note 22 – Long-term debentures at amortized cost

Bonds issued in Israel

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

1 Issued in the course of 2009 through 2010.
2 In January 2011, following the public offering in Israel of unsecured non-convertible Series A and B debentures, pursuant to the Company's prospectus, it was agreed with Israeli investors to issue an additional principal amount of approximately NIS 86 million (approximately EUR 19 million) in principal amount of Series A debentures for an aggregate consideration of approximately NIS 99 million (approximately EUR 21 million), and an additional principal amount of approximately NIS 181 million (approximately EUR 39 million) in principal amount of Series B debentures for an aggregate consideration of approximately NIS 201 million (approximately EUR 44 million) by way of a private placement ("Additional Debentures"). The purpose of the Issuance is purported to refinance debt principal. For credit rating refer to note 21. The terms of all additional debentures are identical to the terms of the Series A and B debentures issued under the Company's prospectus dated July 2007 and February 2008, respectively (refer to note 21).
3 One seventh of Series A debentures was repaid at December 30, 2011 and one fifth of Series B debentures was repaid at July 1, 2011
4 Regarding the buyback program of long-term debentures at amortized costs refer to note 35 (m).
5 Before offset of unamortized cost of raising debentures in the amount of EUR 0.6 million.

Bonds issued in Poland

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

Note 23 – Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

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

* Change included in comprehensive income

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

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

Unrecognized deferred tax assets

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

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

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

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

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

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

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Note 24 – Equity

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

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

Other capital reserve due to share option plans

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

Translation reserve

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

Dividend policy

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

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

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

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

Note 25 – Earnings per share

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

Weighted average number of ordinary shares

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

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

Weighted average number of ordinary shares (diluted)

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

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