
# Plaza Centers
## Annual report 2010

Suwałki Plaza in Poland, the Group's 30th shopping and entertainment center, opened to the public on May 26, 2010.

The three-floor 20,000m² center comprising of over 65 retail units has as its central focus two old prison buildings, originally built in 1901, which have been integrated to represent the site's heritage.

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


Torun Plaza, Poland

Overview

# Who we are

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

Arena Plaza


Riga Plaza

Suwałki Plaza

The Plaza Centers Group is a leading emerging markets developer of shopping and entertainment centers, focusing on developing new centers and, where there is significant redevelopment potential, redeveloping existing centers, in both capital cities and important regional centers. The Group has been present in the Central and Eastern Europe region ("CEE") since 1996 and was the first to develop western-style shopping and entertainment centers in Hungary. The Group has pioneered this concept throughout the CEE whilst building a strong track record of successfully developing, letting and selling shopping and entertainment centers. Since 2006, the Group has extended its area of operations beyond the CEE into India and, since 2010, into the USA and is considering development and investment opportunities in other countries, such as Croatia and Slovakia. In 2010 Plaza took advantage of real estate opportunities in the US and made, with its joint venture partners, its first acquisition of a strategic stake in EDT Retail Trust which owns 48 retail properties located in 20 states and will continue to source other acquisitions in the region.

The Company is an indirect subsidiary of Elbit Imaging Ltd. ("EI "), an Israeli public company whose shares are traded on both the Tel Aviv Stock Exchange in Israel and the NASDAQ Global Market in the United States. Elbit Imaging Ltd. is a subsidiary of Europe Israel (M.M.S.) Ltd. EI's activities are divided into the following principal fields: (i) Initiation, construction, and sale of shopping and entertainment centers and other mixed-use property projects, predominantly in the retail sector, located in Central and Eastern Europe ("CEE"), and in India. In certain conditions and depending on market conditions, EI operates and manages part of its commercial and entertainment centers prior to their disposal; (ii) Investment in commercial real property in the United States; (iii) Hotels operation and management, primarily in major European cities; (iv) (a) Investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine; (v) Initiation, construction and sale of residential projects and other mixed-use property projects, located primarily in India and in Eastern Europe; (vi) Distribution and marketing of fashion apparel and accessories in Israel; and (vii) Other activities consisting of (a) venture capital investments and (b) investments in hospitals and farm and dairy plant in India.

The Group has been present in real estate development in emerging markets for over 15 years, initially pursuing shopping and entertainment center development projects in Hungary and subsequently expanding into Poland, the Czech Republic, Romania, Latvia, Greece, Serbia, Bulgaria and India. To date, the Group has developed and let 30 shopping and entertainment centers in the CEE region, of which 26 were sold with an aggregate gross value of circa €1.16 billion. Twenty-one of these centers were acquired by Klépierre, a player of the top rank in the continental European shopping center property market, which owns more than 270 shopping centers in 13 countries in continental Europe. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors at that time. One shopping center was sold in 2007 to active Asset Investment Management ("aAIM"), a UK commercial property investment group. The transaction had a completion value totaling approximately €387 million, representing circa 20% of all real estate transactions completed in Hungary in 2007.

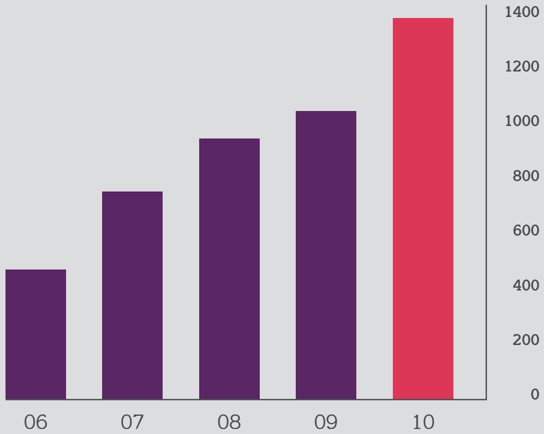
Since November 1, 2006, Plaza Centers N.V.'s shares have been traded on the main board of the London Stock Exchange under the ticker "PLAZ". From October 19, 2007, Plaza Centers N.V.'s shares are also traded on the main list of the Warsaw Stock Exchange under the ticker "PLZ", making it the first property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

# 2010hi ghlights

## Plaza makes good progress with its US acquisition program and targeted development pipeline. Robust financial position maintained.

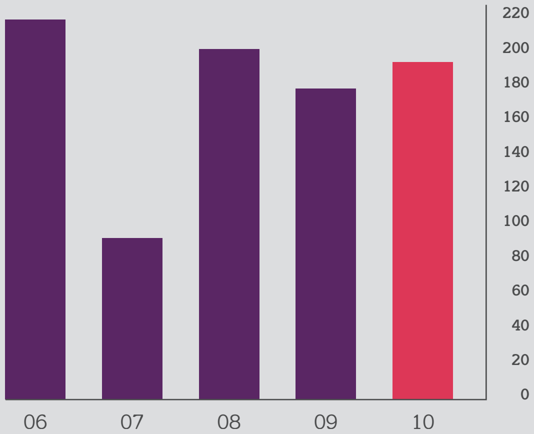
### Total assets (€)

2010: €1.4 billion
2009: €1.06 billion



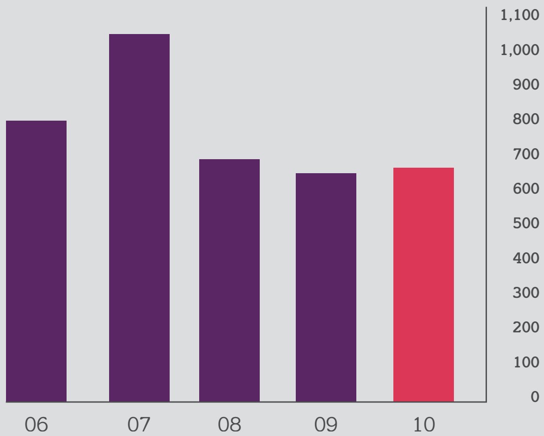

### Cash position* (€)

2010: €195 million
2009: €179 million




### NAV (€)

2010: €675 million
2009: €659 million




### Profit after tax (€)

2010: €10 million
2009: €65 million loss


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

## Operational highlights

### Ongoing progress with expansion plans for the United States:

- Launch of Elbit Plaza USA, L.P., a real estate investment venture jointly formed by Plaza and its parent, Elbit Imaging Ltd. Co-investment agreement signed with Eastgate Property ("Eastgate") to form EPN Real Estate Fund, LP (the "US Fund", "EPN"). Agreement between Elbit Plaza USA and Eastgate to invest an aggregate amount of US$200 million (split 50:50) to take advantage of opportunities in the US retail and commercial real estate sectors. The US Fund successfully raised US$31 million of additional capital commitments from Menora Mivtachim Insurance Ltd., one of Israel's leading insurance companies

- Completion of the first investment in the USA, with a circa US$116 million investment in Macquarie DDR Trust ("Trust"), an Australian publicly traded trust (ASX:EDT), which owns and manages 48 retail properties located across 20 states. EPN holds an approximate 48% ownership interest in the Trust, which was subsequently renamed the EDT Retail Trust ("EDT"). EDT reported net property income of circa US$50 million for the six months ended December 31, 2010

- In December 2010 EPN signed an agreement to acquire seven retail shopping centers located in the US for a total purchase price of US$75 million, from certain affiliates of Charter Hall Retail REIT.

### Significant development milestones achieved:

- Zgorzelec Plaza in Poland was completed and opened in March 2010. The 13,000m$^2$ GLA shopping center was circa 75% let on opening, with tenants including H&M, KappAhl and Douglas

- Completion of Plaza's 30th shopping center in CEE, with the opening of Suwałki Plaza, Poland in May 2010, which comprises 20,000m$^2$ of GLA and 450 parking spaces. The center was circa 80% let on opening to major international and local brands such as H&M, New Yorker, Douglas, and Deichman

- Construction of Plaza's tenth retail scheme in Poland, the 40,000m$^2$ GLA Torun Plaza, commenced in September 2010 and is expected to complete in Q4 2011. The center is already 55% pre-let

- Plaza has made good progress with the construction of the first phase of the Kharadi project in Pune, a 28,000m$^2$ GBA office building known as "Matrix One". To date, Plaza has pre-sold 70% of the saleable area

- Encouraging progress was made during 2010 on the construction and letting of the 110,000m$^2$ built-up area mixed-use scheme in Pune, the Koregaon Park Plaza, which will comprise a shopping center and office space. Approximately 50% of the 48,000m$^2$ GBA mall is pre-let with MOUs signed for a further 10% of the space and completion is expected in H2 2011.

## Financial highlights

- Total assets of €1.4 billion (December 31, 2009: €1.06 billion)

- Net Asset Value up 2.4% to €675 million (December 31, 2009: €659 million) mainly due to gain from accretive purchase in the US

- Net Asset Value per share of £1.96 (December 31, 2009: £2.02), a decline of 3%, attributable mainly to strengthening of GBP spot rate against the EUR compared to December 31, 2009

- Revenues doubled to €38 million (December 31, 2009: €16 million) mainly due to the increase of rental income. No material asset sales were made during the period

- Profit for the year attributable to the owners of the Company of €10 million (December 31, 2009: €65 million loss) arising from the increased income derived from the operation of recently opened assets and investment property acquired throughout the year

- Basic and diluted EPS of €0.03 (December 31, 2009: basic and diluted loss per share of €0.23)

- Cash position (including restricted bank deposits, short-term deposits and available-for-sale financial assets) of €195 million (December 31, 2009: €179 million) with net working capital of €713 million (December 31, 2009: €710 million)
  - Current cash position increased to circa €254 million following bond issuance after the period end

- Ongoing support demonstrated by successful bond issuance and approved credit rating during the reporting period:
  - Additional issuances of Series B bonds in January and February 2010 for cash consideration of NIS 330 million (circa €62.8 million)
  - Completion of first tranche of bond offering to Polish institutional investors in November 2010. A total of PLN 60 million (circa €15.2 million) of bonds issued with a three-year maturity

- Loan agreements signed for financing 70% (circa €33 million) of the development costs for a new shopping center in Kragujevac, Serbia and a development loan covering 70% (€52.5 million) of the construction costs of a 40,000m$^2$ GLA shopping center in Torun, Poland

- Conservative gearing position maintained with debt comprising only 56% of balance sheet (December 31, 2009: 46%).

## Key highlights since the period end

- Additional sums Series A and B bonds issued for an aggregate consideration of approximately NIS 300 million (€65 million)

- EPN made an off-market takeover bid to acquire all of the remaining outstanding units of EDT (approximately 52%) in March 2011 for AUS$0.078 cash per EDT unit (in total up to AUS$190 million).

Proceed selectively with our targeted development program in CEE and India, and hold and expertly manage completed assets as income-generating investments until sale yields are sufficient, whilst continuing to identify opportunities to expand our activities into new regions.

Overview

# Ours trategy

## Develop

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

## Acquire

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

## Flexibility

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

## Portfolio acquisitions

A partnership with Elbit Imaging and other entities for investing in commercial income-producing properties with appreciation potential in the US

## Maintain liquidity

Maintaining high cash balances, conservative leverage levels and well-spread debt maturities. Reliance on material non-revalued shareholders' equity of €624 million

### Objectives

1 Target 4–5 new development projects per year

2 Target returns of at least 40–60% on equity invested

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

4 Limited commencement of construction for projects meeting the two major criteria as follows:
- intensive demand from tenants
- based on external bank accompaniment which require minimal equity investment

5 Capital raising of approximately US$231 million is a part of the initial plan for raising up to US$400 million for real estate investments in the US.

### Development criteria

**Selection of target countries**

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

**Site evaluation**

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

**Project development**

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

### Emerging markets

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

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

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

# Feature developments

## Since foundation, the Group has developed and let 30 shopping and entertainment centers in the CEE region of which 26 were sold with an aggregate gross value of €1.16 billion.

## We have averaged two new shopping centers per year in the last 15 years.

### Zgorzelec Plaza
**13,000m² opened in March 2010**


### Suwałki Plaza
**20,000m² opened in May 2010**

**Zgorzelec Plaza**
In March 2010 Plaza Centers opened Zgorzelec Plaza in South-west Poland, near the German border and the Czech Republic border. The shopping and entertainment center comprises approximately 13,000m² of GLA and 300 parking spaces. Zgorzelec Plaza is the first shopping center in the region to combine shopping with entertainment elements, as well as introducing a number of international tenants to the local market. Among the tenants are retailers such as H&M, KappAhl, Empik, Rossmann, Orsay, Camaieu, Stokrotka and Douglas.

**Suwałki Plaza**
Plaza Centers opened to the public in May 2010 its 30th shopping and entertainment center in Suwałki, Poland, which is also the ninth development in Poland.

Suwałki Plaza is located in Suwałki, which links Augustow with the Lithuanian border. Suwałki Plaza is also located in the main commercial and residential district of the city. Suwałki Plaza comprises 20,000m² of lettable area spread over three floors, with over 65 retail units let to a mixture of international and domestic brands such as Delima delicatessen, H&M, New Yorker, KappAhl, Deichman, Douglas, Empik. An integral elements of the modern design of the center was to consider the heritage of the site, which included two old prison buildings originally built in 1901. They are now a central focus of the center.

## Koregaon Park Plaza

**(pictured)**

**110,000m² expected opening H2 2011**

In February 2007, Plaza Centers acquired its first development project in India, Koregaon Park Plaza. The six-acre (24,000m²) plot is located in the Koregaon Park district, an up-market area of Pune. The mixed-use scheme has a total GBA of approximately 110,000m² including a shopping center (93,000m²) and offices (17,000m²) all inclusive of underground parking spaces. The project is already under construction and the shopping center is scheduled for completion in H2 2011. It will be the Company's first completed development in India.

## Torun Plaza

**40,000m² expected opening Q4 2011**

Torun Plaza is located in Torun, a city of 200,000 inhabitants. Torun will be a three-floor shopping center with approximately 40,000m² of GLA anchored by a supermarket, a department store, a multiscreen cinema as well as a bowling and entertainment area. The shopping and entertainment center is already 55% pre-let and scheduled to open in Q4 2011.

## Kragujevac Plaza

**22,000m² expected opening H1 2012**

Kragujevac Plaza is the first development of the Group in Serbia. Kragujevac is the fourth largest city in Serbia. Plaza is developing a new shopping and entertainment center starting Q4 2010, with a total GLA of 22,000m², which will include a cinema, fashion retailer, a food court, restaurants and parking spaces for approximately 600 cars.

The shopping and entertainment center is already 70% pre-let and is expected to be completed in H1 2012.

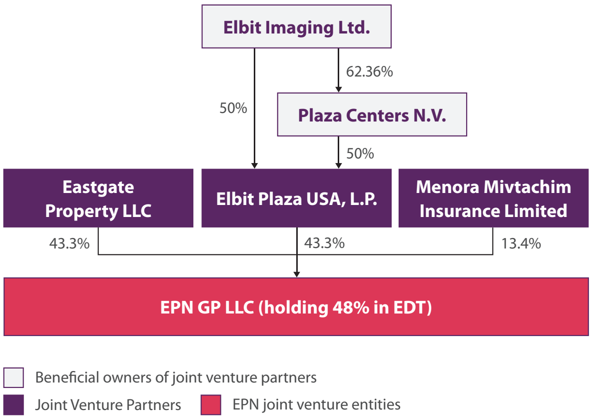
Overview
# Real estate division in the US

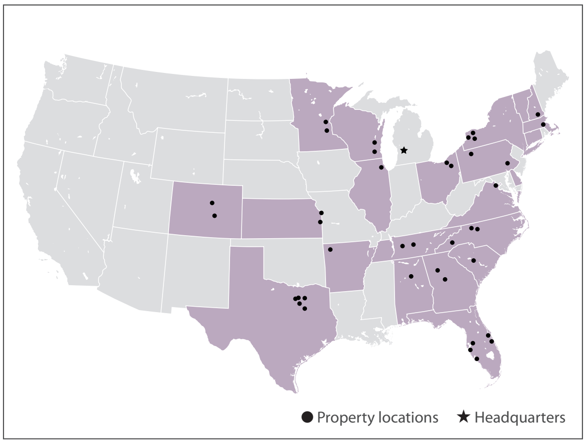
## Plaza believes that there is a rare window of opportunity for investment in the United States, given the dislocation in the market, and specifically in the retail sector, created by recent economic conditions.

### 2008
In 2008, in the midst of the global financial crisis the Company identified the potential embodied in the income-producing market in the US where it was feasible to purchase active and income-producing centers at appropriate prices without the risks of entrepreneurship and development that are coupled with initiation activities (CEE and India).

### 2009
In 2009, we outlined the entry to the commercial centers market in the US. For this purpose, a local management team was established and the desired transaction outline was formulated while defining the criteria that mainly included an income-producing property portfolio with appreciation potential.

### EDT transaction – first transaction in commercial centers
In June 2010, Plaza Centers has completed its first investment in the US through EPN GP LLC, a real estate investment venture jointly formed by Elbit Plaza USA, L.P. (a subsidiary of Elbit Imaging Ltd. and Plaza Centers) and Eastgate Property LLC, with a US$116 million investment in Macquarie DDR Trust ("EDT" (formerly "MDT") or the "Trust"), an Australian listed real estate investment trust (ASX:EDT.AX).




### EDT key data

- 48 property assets
- 20 states in the US
- 701 leases with over 420 tenants
- 88.8% shopping center portfolio occupancy
- 10.9 million ft² of gross lettable area (GLA) (1.02 million m²)
- 1.3 million ft² successfully leased during the financial year (0.12 million m²)
- US$100 million net operating income per annum
- US$1.38 billion assets value as of December 31, 2010 (Trust's share)
- 5 years weighted average lease expiry


EDT


EDT

Charter Hall

- As a result of that transaction, EPN gained control (48%) in EDT and purchased 50% in the management company partnering with DDR (shopping malls management company that manages approximately 570 properties in the US, Brazil and Puerto Rico) for approximately US$120 million.
- EDT currently holds and manages 48 active commercial centers in 20 states in the US with an aggregate property value of approximately US$1.4 billion.
- The properties generate annual net operating income of over US$100 million.
- These centers are 90% occupied where approximately 80% of annual revenues from rental derive from retail anchors with nationwide locations who are signed on long-term leases.
- The properties have rentable areas spanning over 1.02 million m$^2$ which are leased to hundreds of diverse tenants.

## Progress to date

Since the acquisition of EDT, the Company has made good progress, among others, by securing additional long-term credit, leasing of vacant spaces and reorganizing the management's structure.

### Financing

- A debt in the headquarters' level was repaid in the amount of approximately US$108 million that was due for immediate repayment and currently the Company is not indebted at this level.
- In September 2010, a refinancing of approximately US$380 million was carried out in two different property portfolios in attractive (and mainly fixed) interest rates for long term and that is based on the Company's estimate that in the coming years interest may increase.
- In March 2011, the Trust closed another US$115 million non-recourse refinancing for five years. Proceeds from the refinance will be used to repay current debt of US$103.2 million and the rest will be used for the Trust's long-term capital goal to fund its business and provide future operational flexibility.

### Leasing

- The Company increased the occupancy rates by leasing vacant spaces and renewing leases with existing tenants. Since the acquisition leasing activity was robust and the trust successfully leased more than 1.3 million ft$^2$ or 12.2% of the portfolio.

### Changing the management's structure

- The management's focus was pushed to the US from Australia while focusing on proactive management of the properties.
- In March 2011 EPN announced an off-market takeover bid to acquire all of the outstanding units of EDT that its affiliates do not already own ("Bid"). EPN's unconditional offer is to buy all outstanding units of EDT that EPN does not already own (approximately 52%) for AUS$0.078 cash per EDT unit.

## Charter Hall transaction

- In December 2010, the Company entered into an agreement with the Australian company Charter Hall to purchase seven commercial centers of grocery anchored shopping centers type in the US at property value of US$75 million.

### The acquired centers are located in three different states in the US

**650,000** ft$^2$ (60,000 m$^2$) of gross rentable area

**91%** shopping center occupancy

**US$7 million** net operating income per annum

**9.2%** return on the purchase price

## The Company's strategy in new transactions and purchases

We intend to carry out additional purchases of quality property and individual property portfolios. Furthermore, purchase of Mall type properties will be considered. The EDT and Charter Hall transactions shall constitute a platform to purchase additional properties which will be in line with our investment profile. Once exit yields decline sufficiently, the Company intends to realize the properties while generating capital gains.

## Shopping Center – principal tenant register (EDT)

| Rank | Tenant | Rating | Market capitalization (US$ billion) | % of ABR* | EDT Owned GLA** | Number of leases |
|---|---|---|---|---|---|---|
| 1 | TJX Companies | A | 18.65 | 6.0% | 655.4 | 17 |
| 2 | PetsMart | BB/- | 4.71 | 4.8% | 389.1 | 17 |
| 3 | Kohl's | BBB+/- | 14.84 | 4.7% | 811.1 | 9 |
| 4 | Best Buy | BBB-/Baa2 | 13.67 | 3.2% | 282.1 | 6 |
| 5 | Dick's Sporting Goods | -/- | 4.19 | 2.6% | 254.9 | 5 |
| 6 | Bed Bath & Beyond | BBB/- | 12.16 | 2.6% | 246.3 | 8 |
| 7 | Jo-Ann Stores | BB-/- | 1.59 | 2.3% | 220.4 | 6 |
| 8 | Wal-Mart | AA/Aa2 | 199.19 | 2.2% | 304.9 | 4 |
| 9 | Gap | BB+/- | 12.18 | 2.1% | 144.7 | 8 |
| 10 | Home Depot | BBB+/Baa1 | 59.92 | 2.0% | 219.0 | 2 |
| **Total** | | | | **32.4%** | **3,527.9** | **82** |

* ABR – Annual Base Rent
** Thousand ft$^2$

# Competitive strengths

## Plaza is strongly positioned to capitalize on its strong track record by selectively delivering projects and creating strong retailer interest. This position is strengthened further by our ability to continue to raise bank financing and debt on competitive terms despite the relatively illiquid markets.

As the CEE markets continue to recover from the financial turmoil of 2008, Plaza has positioned its development program to ensure that it can deliver shopping centers into markets with the highest retail demand. We achieved a number of development milestones throughout the year and most notably completed our 30th shopping center in the region, Suwałki Plaza, Poland, in a country which has shown to be the most resilient market in Europe during the recent downturn. We also continued our geographical expansion, with the launch of Elbit Plaza USA, a real estate investment venture jointly formed by Plaza and Elbit, which subsequently secured a significant amount of third-party equity commitments and made key acquisitions.

### Proven track record

Plaza continues to benefit from its unrivaled track record across CEE, having been active in the region for more than 15 years. Whilst the economic situation in the region remains somewhat challenging, the long-term fundamentals of the market remain the same. Our continued belief in the strength of this market was underlined this year by the achievement of a major milestone for Plaza, the completion of our 30th CEE shopping center. To date, 26 of the completed centers have been subsequently sold with an aggregate gross value of circa €1.16 billion. These disposals comprise 17 shopping centers in Hungary, seven in Poland and two in the Czech Republic, with the remaining four shopping centers currently being held as operational assets, of which two are located in Poland, one in the Czech Republic and one in Latvia.

Creating an attractive tenants mix, including fashion, Hypermarkets, food courts, electronics, sports and other retailers, with a special focus on entertainment. Most centers include a cinema multiplex, as well as a Fantasy Park, a state-of-the-art entertainment and amusement facility operated by Plaza's subsidiary, which includes bowling alleys, billiard tables, video arcades, internet cafés, children's playgrounds, bars and discos.

### Flexible business model

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

Whilst the conditions in the investment market in CEE remain uncertain, with the limited availability of debt suppressing transactional activity, Plaza continues to implement its development strategy and will continue to attempt selling completed developments while holding them on its balance sheet until sufficient sale prices are achieved.

### Diversification

The Group is well diversified and active in eight countries in CEE and India, while additional countries are examined for further expansion.

Plaza sees strong importance in its investment in India, which has been less affected by the current global crisis and will offer Plaza development prospects for at least 15 years. Plaza has maintained its long-term view of the strong potential demand for commercial Indian real estate, especially for well-located large-scale development projects.

Having monitored the US real estate market for a number of years, Plaza announced its first transaction in the region last year. With its joint venture partners, the acquisition of a strategic stake in EDT Retail Trust was an important step forward for Plaza in becoming a major retail investor in the region. In addition,

Arena Plaza

Casa Radio

Sport Star Plaza

Plaza expects to complete the acquisition of a portfolio of seven shopping centers by mid 2011. Plaza will continue to source other acquisitions in the region as we build up a critical mass in the region.

### Limited number of projects

In light of market conditions, Plaza took the strategic decision in the second half of 2008 to scale back on project starts and to focus on projects with availability of external financing or strong tenants demand. Currently, Plaza is focusing on the following projects: Kragujevac Plaza in Serbia, Koregaon Park Plaza and Kharadi Plaza in India and Torun Plaza in Poland.

### Strong cash position

Plaza continues to have a strong cash position of approximately €195 million at the period end (and circa €254 million as at today's date following the recent bond issuance). This ensures Plaza remains on a solid financial footing to continue its development program and make opportunistic investments or acquisitions where there is clear potential to create shareholder value.

### Low and conservative leverage

The Group's debt position remains conservative, with gearing of 56% at the year end. Given the strength of Plaza's balance sheet, it has been able to secure further financing during the year from a wide range of sources, including bank development finance totaling around €85 million and issuance of bonds in amount of €78 million from Israeli and Polish institutional investors, as well as an ongoing cost-cutting program throughout the business. The vast majority of the debt is long term, maturing mainly between 2011 and 2017.

### Clearly identified pipeline and acquisitions

Plaza is engaged in 30 development projects, and owns three office buildings and four operational assets, located across the CEE region and in India – the Group has the ability to identify new growth opportunities, constantly targeting attractive returns in fast-growing emerging markets.

Acquisition through a jointly controlled investment of 48% of a listed Australian trust holding operating community shopping centers across the US and signing a sale and purchase agreement to acquire a further seven shopping centers.

### Timing for delivery

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

### Supportive financing banks

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

During 2010 loan agreements were signed for financing 70% (circa €33 million) of the development costs for a new shopping center in Kragujevac, Serbia and a development loan covering 70% (€52.5 million) of the development costs of a shopping center in Torun, Poland.

### Capital markets

Ongoing support demonstrated by successful bond issuance and approved solid credit rating during the reporting period:

- Additional issuances of Series A and B bonds in 2010 for cash consideration of NIS 330 million (circa €62.8 million), and NIS 300 million (circa €65 million) Series A and B bonds after balance sheet date.

- Completion of first tranche of bond offering to Polish institutional investors in November 2010 by raising PLN 60 million (circa €15.2 million).

### Strong brand name

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

### Highly skilled management team

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

### Extensive network

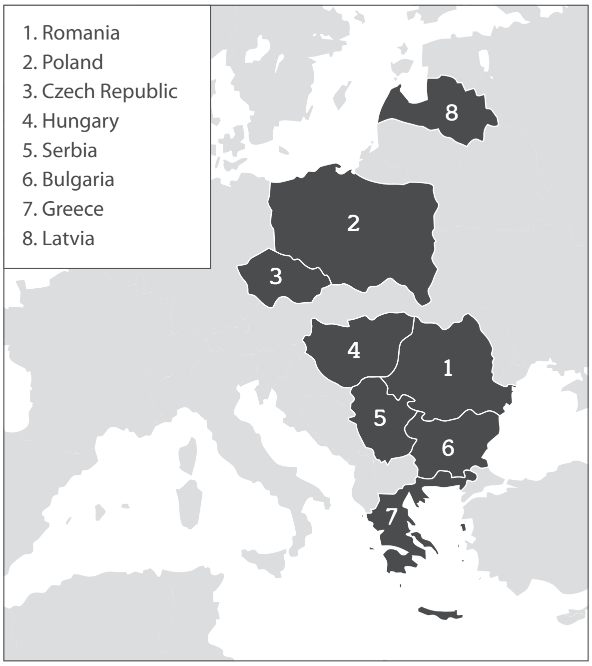
A vast and extremely well-established network of business connections with most anchors and large international tenants and extensive business relationships with large international funds and real-estate players as demonstrated by the proven ability to pre-sell projects (before or during the construction) and achieve high pre-let levels and will be used by the US Fund in sourcing single investments portfolios of attractive retail properties.

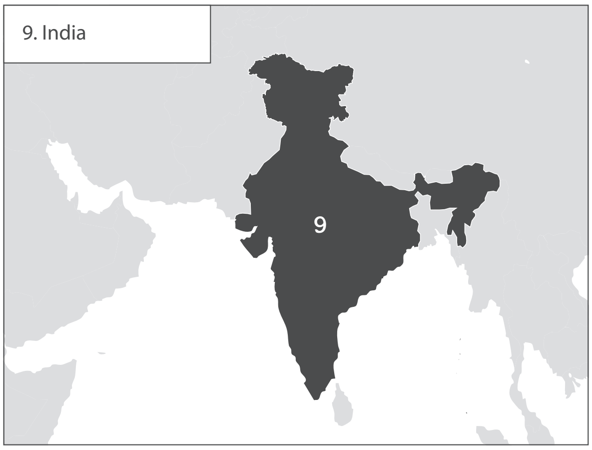
### Thorough project evaluation

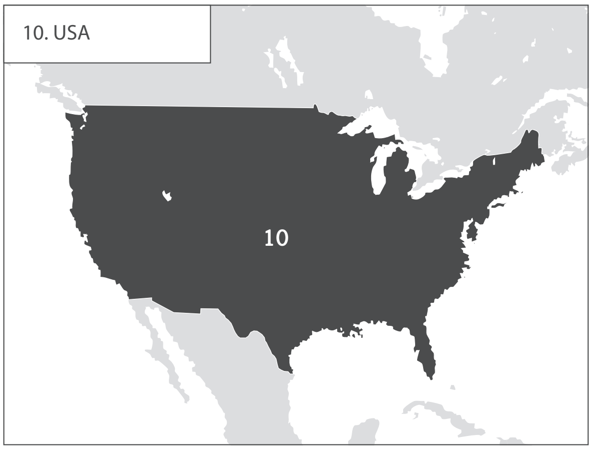
Prior to each project, Plaza goes through a carefully developed, structured evaluation process involving each of the relevant disciplines (economics, engineering, marketing, etc).

Overview

# Our markets



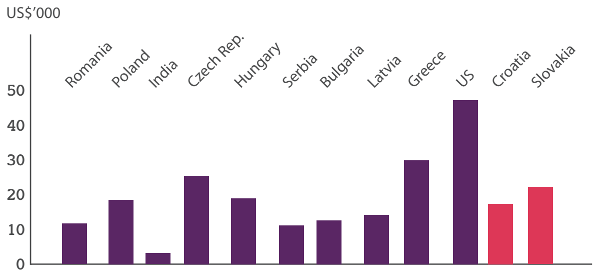

## Market data

■ Current market ■ Potential market

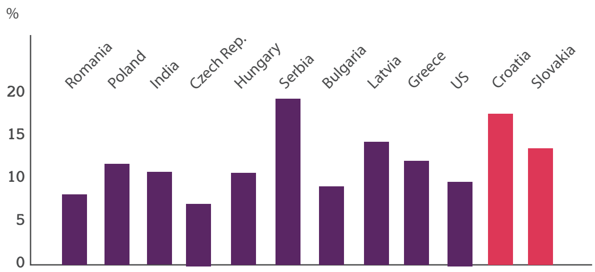
### Population (m)

| | | | |
|---|---|---|---|
| ■ Romania | 22 | ■ Bulgaria | 7 |
| ■ Poland | 38 | ■ Latvia | 2 |
| ■ India | 1,189 | ■ Greece | 11 |
| ■ Czech Republic | 10 | ■ United States | 313 |
| ■ Hungary | 10 | ■ Croatia | 4.5 |
| ■ Serbia | 7 | ■ Slovakia | 5.5 |

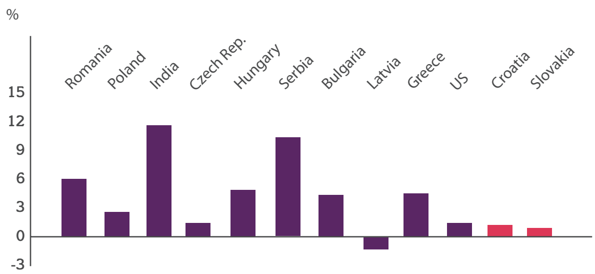
### GDP per capita




### Unemployment




### CPI – Change in 2010

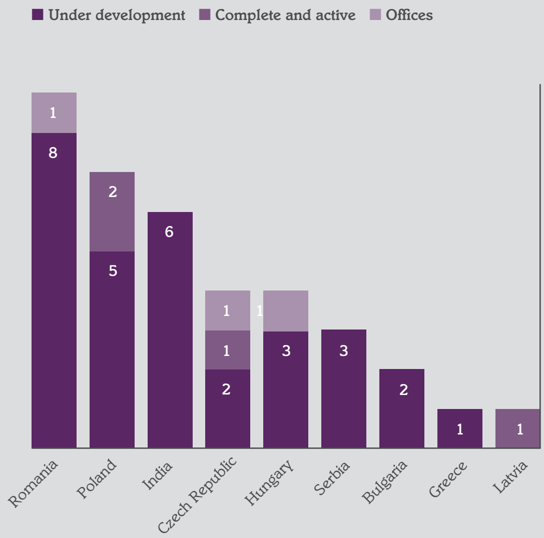


Overview

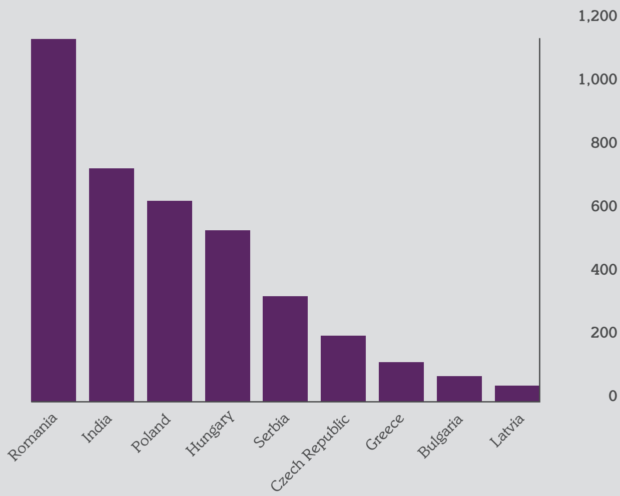
# Our portfolio at a glance

## Total of 37 assets in nine countries. Estimated value of €3,853.2m on completion

### Portfolio composition – by country (excluding US)




### Estimated market value on completion €m (excluding US)




| | Market value on completion (€m)(1) | Market value of the land and project (€m)(1) | Total GLA (m²)(2) |
|---|---|---|---|
| Active shopping and entertainment centers | 156.2 | 156.2 | 99,000 |
| Shopping and entertainment center developments | 903.6 | 180.5 | 398,000 |
| Dream Island | 467.2 | 62.9 | 350,000 (GBA) |
| Casa Radio | 772.5 | 182.4 | 600,000 (GBA) |
| Indian mixed-use projects | 734.0 | 161.8 | 2,165,000 (GBA) |
| Mixed-use projects | 320.7 | 49.8 | 176,000 |
| Other projects and developments | 499.0 | 47.1 | 198,000 |
| **Total as at December 31, 2010** | **3,853.2** | **840.7** | **3,986,000** |

### Group NAV at December 31, 2010

| | €'000 |
|---|---|
| Market value of land and projects by King Sturge LLP(1) | 840,741 |
| Assets minus liabilities as at December 31, 2010 under IFRS(3) | (165,598) |
| **Total** | **675,143** |
| **NAV per issued share** | **£1.96** |

1 Value of Plaza Centers' stake by King Sturge LLP.
2 All figures reflect 100%.
3 Excluding book value of assets which were valued by King Sturge LLP, but including Plaza's proportionate share of the US portfolio at market value valued by the external valuator (46% of the total portfolio value) and the management of EDT.

# Current developments

# Poland

| Project | City | Ownership (%) | GLA ($m^2$) | Market value on completion (€m) [1] | Market value of land and project (€m) [1] | Expected completion |
|---|---|---|---|---|---|---|
| Suwałki Plaza | Suwałki | 100% | 20,000 | 48.0 | 48.0 | Operating |
| Zgorzelec Plaza | Zgorzelec | 100% | 13,000 | 24.0 | 24.0 | Operating |
| Torun Plaza | Torun | 100% | 40,000 | 100.0 | 25.0 | Q4 2011 |
| Lodz Plaza | Lodz | 100% | 45,000 | 114.5 | 8.5 | 2014 |
| Lodz (Resi) | Lodz | 100% | 80,000[2] | 252.6 | 12.6 | – |
| Kielce Plaza | Kielce | 100% | 33,000 | 89.3 | 6.5 | 2014 |
| Leszno Plaza | Leszno | 100% | 16,000 | 5.8 | 2.0 | 2014 |

1 Value as per King Sturge LLP valuation report as at December 31, 2010.
2 GBA.

Plaza has already completed nine shopping and entertainment centers in Poland of which seven have already been sold. In March, 2010 the Company opened to the public its eighth shopping and entertainment center in Poland, Zgorzelec Plaza. In May 2010 the company opened its ninth shopping and entertainment center in Poland and the 30th in CEE in Suwałki, Poland. Currently the Group has four sites for the development of shopping and entertainment centers, including Torun Plaza, which is expected to be completed in Q4 2011, and one additional site for residential development.


Suwałki Plaza

Kielce Plaza

Zgorzelec Plaza

Torun Plaza

### Suwałki Plaza: operating, opened to the public in May 2010

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

The creation of the Suwałki Special Economic Zone offers new opportunities for trade and commerce. Suwałki is also becoming a tourist destination.

Suwałki Plaza is located in the main commercial and residential district of the city and is fronted by an important arterial route to the East. It is also located on the junction of a street which links directly into the city center. The PKS bus terminal and main railway station are located approximately 1km from the shopping and entertainment center.

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

### Zgorzelec Plaza: operating, opened to the public in March 2010

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

Thanks to two road border crossings (including one of the largest in Poland), a railway border crossing and the restored Old Town Bridge which connects the old towns of Zgorzelec and Goerlitz (58,000 citizens on the German side), Zgorzelec is called the "gate" between Germany and Poland.

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

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

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

### Torun Plaza: under construction

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

Torun is one of the most beautiful cities of Poland located at the intersection of ancient trade routes. Gothic buildings of Torun's Old Town won the designation of a World Heritage Site from UNESCO in 1997.

Torun Plaza will be a three-floor shopping center with approximately 40,000m² of GLA anchored by a supermarket, a department store, a multiscreen cinema as well as a bowling and entertainment area.

The shopping and entertainment center is already 55% pre-let and scheduled to open in Q4 2011.

### Lodz Plaza: planning and permits stage

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

Lodz is recognized as an important academic and cultural center in Poland, hosting cultural events such as the Camerimage Festival and Dialogue of Four Cultures Festival.

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

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

### Lodz (Resi): under planning

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

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

### Kielce Plaza: planning and permits stage

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

The center will be located on a 30,000m² plot alongside a major road and two kilometers from the heart of Kielce.

Kielce Plaza will have a GBA of 47,000m² with 33,000m² of GLA, and approximately 1,000 car-parking spaces.

### Leszno Plaza: under planning

Leszno Plaza is ideally located in the center of Leszno, a city with 64,000 inhabitants.

Leszno is situated in Western Poland between the two big economic centers of Poznan and Wroclaw, and is close to the central railway and bus station.

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

# Current developments
continued

## Serbia

| Project | City | Ownership (%) | GLA ($m^2$) | Market value on completion (€m) [1] | Market value of land and project (€m) [1] | Expected completion |
|---|---|---|---|---|---|---|
| Kragujevac Plaza | Kragujevac | 100% | 22,000 | 54.3 | 21.4 | H1 2012 |
| Sport Star Plaza | Belgrade | 100% | 45,000 | 117.0 | 20.4 | 2014 |
| Belgrade Plaza | Belgrade | 100% | 70,000[2] | 162.4 | 24.8 | 2014 |

1 Value as per King Sturge valuation report as at December 31, 2010.
2 GBA.

Plaza currently owns three sites in Serbia, two in Belgrade, the capital city of Serbia, and one in Kragujevac. During the third quarter of 2010 the Company commenced the construction of Kragujevac Plaza, which is scheduled for completion in the first half of 2012.


Kragujevac Plaza


Belgrade Plaza


Sport Star Plaza

### Kragujevac Plaza: under construction

The Group has purchased a 24,500$m^2$ plot of land in Kragujevac, the fourth largest city in Serbia with a population of 180,000 inhabitants and catchment area of approximately 220,000 inhabitants.

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

Plaza is developing on the land a new shopping and entertainment center, with a total gross lettable area of 22,000$m^2$.

The shopping center is expected to be completed in H1 2012 and will include a cinema, fashion retailers, a food court, restaurants and parking spaces for approximately 600 cars.

The center has already seen good interest from retailers and is already 75% pre-let.

### Sport Star Plaza: planning and permit stage

The Group has purchased a 31,000$m^2$ plot of land in Belgrade, the capital city of Serbia.

Plaza plans to build on the land a new shopping and entertainment center, with a total gross lettable area of 45,000$m^2$.

### Belgrade Plaza: planning and permit stage

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

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

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

The 70,000$m^2$ scheme will comprise an apartment hotel, business center and shopping gallery as well as 700 car-parking spaces.

## Belgrade Plaza
**Serbia**

70,000m²
100% ownership
€162.4m estimated value on completion

In the most prestigious location in Belgrade, on a prominent site of former Federal Ministry of Internal Affairs, Plaza is developing the Belgrade Plaza, a business center together with apartment hotel and retail gallery.

# Current developments
continued

# India

| Project | City | Ownership (%) | GBA (m²) | Market value on completion (€m) (1) | Market value of land and project (€m) (1) | Expected completion |
|---|---|---|---|---|---|---|
| Koregaon Park Plaza | Pune | 100% | 110,000 | 90.0 | 59.4 | H2 2011 (mall) |
| Kharadi Plaza | Pune | 50% | 165,000 | 66.7 | 19.0 | 2011-2014 |
| Trivandrum Plaza | Trivandrum | 50% | 195,000 | 50.0 | 10.1 | – |
| Bangalore | Bangalore | 23.75% | 320,000 | 153.2 | 49.1 | 2012-2017 |
| Chennai | Chennai | 38% | 800,000 | 219.1 | 21.0 | 2013-2015 |
| Kochi Island | Kochi | 23.75% | 575,000 | 155.0 | 3.3 | – |

1 Value as per King Sturge valuation report as at December 31, 2010.

The Group is currently developing six large-scale schemes in India, three commercial-led developments and three residential developments. During 2008, Plaza formed a joint venture with Elbit Imaging to develop three mega mixed-use projects in India located in the cities of Bangalore, Chennai and Kochi. Under this agreement Plaza acquired a 47.5% stake in Elbit India Real Estate Holding Limited, which already owned stakes of between 50% and 80% in three mixed-use projects in India, in conjunction with local Indian partners.

The three residential mega schemes will comprise in total approximately 1.7 million m² of built area and the construction of the first two is expected to commence in late 2011/beginning 2012. The Company expects to complete its first shopping and entertainment center in India, the Koregaon Park Plaza, in H2 2011 as well as its first office building in Kharadi, Pune.

Kochi Island

Chennai

Trivandrum Plaza

### Koregaon Park Plaza: under construction

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

Plaza is developing the site into a mixed-use scheme with a total GBA of approximately 110,000m² including shopping center (93,000m²) and offices (17,000m²) all inclusive of underground parking.

The project is currently under construction and approximately 55% of the mall is pre-let.

Koregaon Plaza will become the Company's first completed project in India during H2 2011.

### Kharadi Plaza: under planning

Plaza Centers is party to a 50:50 joint venture with a local Indian developer which holds 14 acres of land (56,000m²) in the Kharadi area in Pune, Southern India.

The Company intends to develop its plot of land through the construction of three office buildings comprising approximately 165,000m² of gross built area.

Plaza has made good progress with the construction of the first phase, a 28,000m² building known as "Matrix One" which is expected to be completed in H2 2011.

To date, Plaza has pre-sold 70% of the saleable area in Matrix One.

### Trivandrum Plaza: under planning

The Group has a site in the city of Trivandrum (with direct linkage to the bypass road which is adjacent to the project premises) on which it intends to develop 195,000m² GBA of a shopping and entertainment center together with office premises and a serviced apartment facility.

Trivandrum is a major city in the South of India. The city is the State of Kerala capital and houses many central and state government offices, organizations and IT companies. Apart from being the political center of Kerala, it is also a major academic hub and is home to several educational institutions. It has a population of three million inhabitants.

### Bangalore: under planning

The JV has a 50% stake in a company which holds a 165 acre plot in Bangalore.

The site is located on the Eastern side of Bangalore, India's fifth largest city, with a population of over seven million people.

The JV intends to develop the site into a mega project with a total built area of over 320,000m².

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

### Chennai: under planning

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

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

The site will be developed into an integrated mixed-use project consisting of high-rise residential units and high-quality villas with a total built area of 800,000m².

### Kochi Island: under planning

The JV has a 50% stake in a company which holds a 41 acre plot in Kochi.

The site is located on a backwater island adjacent to the administrative, commercial and retail hub of the city of Kochi, in the state of Kerala, with a local population of more than three million people.

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

## Casa Radio

**Romania**

600,000m²

75% ownership

€772.5m estimated value on completion (Plaza share)

In the heart of Bucharest, Plaza is developing its mega mixed-use Casa Radio project, the company's biggest development in CEE.

Overview

# Currentdevel opments

continued

## Romania

| Project | City | Ownership (%) | GLA (m²) | Market value on completion (€m) [1] | Market value of land and project (€m) [1] | Expected completion |
|---|---|---|---|---|---|---|
| Casa Radio | Bucharest | 75% | 600,000 [2] | 772.5 | 182.4 | 2013-2015 |
| Iasi Plaza | Iasi | 100% | 62,000 | 113.8 | 17.5 | 2014 |
| Timisoara Plaza | Timisoara | 100% | 40,000 | 95.1 | 16.4 | 2014 |
| Targu Mures Plaza | Targu Mures | 100% | 30,000 | 55.9 | 6.1 | 2013 |
| Constanta Plaza | Constanta | 100% | 18,000 | 19.9 | 11.3 | 2013 |
| Slatina Plaza | Slatina | 100% | 17,000 | 32.5 | 2.0 | 2013 |
| Csiki Plaza | Miercurea Ciuc | 100% | 14,000 | 26.8 | 14.6 | 2013 |
| Hunedoara Plaza | Hunedoara | 100% | 13,000 | 26.0 | 3.0 | 2013 |
| Palazzo Ducale | Bucharest | 100% | 700 | 1.9 | 1.9 | Operating office |

1 Value as per King Sturge valuation report as at December 31, 2010.
2 GBA.

Plaza has a significant development pipeline in Romania, with eight sites for shopping and entertainment centers and mixed-use schemes in various stages of development. During 2010, the Group continued with the feasibility and planning phase and made good progress with obtaining permits.


Hunedoara Plaza

Iasi Plaza


Slatina Plaza

Targu Mures Plaza

Overview

# Current developments

continued

## Romania continued

### Casa Radio: initial construction commenced; approval of the certificate de urbanism has been obtained

Plaza acquired a 75% interest in a company which has entered into a public-private partnership agreement with the Government of Romania to develop the Casa Radio (Dambovita) scheme in Bucharest, the largest development plot available in central Bucharest.

The Romanian Government will remain a 15% partner in the scheme, as well as another developer holding 10%.

The Casa Radio development will comprise approximately 600,000m² of GBA, including 170,000m² shopping mall and leisure center (one of the largest in Europe), ferris wheel, offices, hotel, apartment hotel, casino, hypermarket and a convention and conference hall. The project is the Group's biggest project in Europe and has obtained the approval of the urban technical commission of Bucharest, Romania.

### Iasi Plaza: under planning

The Group purchased a 46,500m² plot of land in Iasi (population of 350,000 inhabitants and catchment area of approximately 820,000 inhabitants), a city in the North-east of Romania, which will be developed as a shopping and entertainment center and office space.

The shopping center will comprise approximately 40,000m² of GLA and will include an anchor supermarket, a cinema, fashion retailers, a fantasy park, a food court and restaurants.

There will be office space with GLA of 22,000m².

### Timisoara Plaza: under planning

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

Timisoara Plaza is situated in the North-east of Timisoara, a city in Western Romania, close to the Hungarian border (population of 350,000 inhabitants, catchment area of approximately 700,000 inhabitants).

The planned shopping center will have GLA of approximately 40,000m² and will include a supermarket, a cinema complex, fashion retailers, a Fantasy Park, a cinema, a food court and restaurants.

### Targu Mures Plaza: under planning

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

The modern, western-style center will have 30,000m² of lettable retail space, comprising more than 140 units.

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

### Constanta Plaza: under planning

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

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

The Group are investigating the option of adapting the existing shopping center to create approximately 18,000m² of lettable area which will be suitable for a number of larger anchors such as a leading supermarket and/or DIY store and a number of smaller retail units.

### Slatina Plaza: under planning

Plaza plans to build a shopping and entertainment center with approximately 17,000m² of gross lettable area and 750 parking spaces.

Slatina is a city with around 80,000 inhabitants and is considered a major city in the county of Olt which has a population of 520,000. It has a strong industrial base, with companies such as Pirelli Tyres located there.

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

The Group purchased a plot of land with an area of 33,000m² in Miercurea Ciuc, on which it intends to develop a shopping and entertainment center.

Csiki Plaza is situated in the center of Miercurea Ciuc, a city with a population of 50,000 inhabitants and a catchment area of approximately 300,000 inhabitants. The site is situated 400m from the city hall.

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

### Hunedoara Plaza: under planning

The Group purchased a 41,000m² plot, near Hunedoara city center.

It is ideally located alongside the main road to the city center, and has a large catchment of 500,000 people in the region.

### Palazzo Ducale: operating

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

The building has become the headquarters of Plaza Centers in Romania.

## Timisoara Plaza
**Romania**

40,000m²
100% ownership
€95.1m estimated value on completion

The 32,000m² site located alongside a major road approaching the city center will be developed into a 40,000m² shopping and entertainment center.

## Dream Island
**Hungary**

350,000$m^2$
43.5% ownership
€467.2m estimated value on completion

A major resort on the Obuda Island in central Budapest. With a land area of 320,000$m^2$ the development will comprise hotels, casino and a business and leisure complex.

# Currentde velopments

continued

# Hungary

| Project | City | Ownership (%) | GLA (m²) | Market value on completion (€m) (1) | Market value of land and project (€m) (1) | Expected completion |
|---|---|---|---|---|---|---|
| Dream Island | Budapest | 43.5% | 350,000(2) | 467.2 | 62.9 | 2014-2016 |
| Arena Plaza Extension | Budapest | 100% | 40,000 | 64.3 | 9.1 | 2013 |
| Uj Udvar | Budapest | 35% | 16,000 | 3.0 | 3.0 | 2013 |
| David House | Budapest | 100% | 2,000 | 4.2 | 4.2 | Operating |

1 Value as per King Sturge valuation report as at December 31, 2010.
2 GBA.

Plaza has already completed and sold 17 shopping and entertainment centers and one office building in Hungary. During 2007, The Arena Plaza shopping and entertainment center, which was developed by Plaza, was sold to aAiM for a total consideration of circa €387 million, representing circa 20% of all real estate transactions in Hungary in 2007 and currently is one of the most successful shopping and entertainment centers in the Hungarian capital. Plaza currently owns one office building and three development sites in Hungary, including the Dream Island mega scheme which is intended to be developed as a major resort area including hotels, recreation facilities, a casino and a business and leisure complex.

### Dream Island: initial excavation and archaeological works commenced, casino license for 20 years (+ ten years option) obtained

Plaza holds a 43.5% stake in Dream Island, a prestigious development on the Obuda Island in central Budapest, with a land area of 240,000m², which is intended to be developed as a major resort area including hotels, recreation facilities, a casino and a business and leisure complex comprising 350,000m² GBA.

### Arena Plaza Extension: under planning

Arena Plaza Extension is a planned office addition to the Arena Plaza that will comprise GLA of approximately 40,000m².

The development will offer A-class offices in a central location in Budapest.

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

### Uj Udvar: operating, currently working on refurbishment plans

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

Uj Udvar is located in the center of the third district of Budapest, next to the Kolosy Square on the Bécsi Street, surrounded by housing estates, office buildings and family houses.

The shopping center is currently active and has approximately 12,000m² of GLA and approximately 14,000m² of parking areas.

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

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

The Company owns an office building located on Andrássy Boulevard, a prestigious location and one of the most sought-after streets in the center of Budapest with several foreign embassies situated nearby.

The facades of all buildings on the Andrássy Boulevard, including David House, are listed in the "World Heritage" list.

The building was reconstructed/refurbished by the Group during 2000/2001 in co-operation with the local monument preservation authority. Many of the original features have been retained, including the inner courtyard, staircases, stucco, ornate metalwork and fine wood carvings.

The building is located on a 796m² plot and consists of four floors, an atrium and a basement, with a total constructed area of approximately 2,400m².

# Current developments

continued

# Czech Republic

| Project | City | Ownership (%) | GLA (m²) | Market value on completion (€m) (1) | Market value of land and project (€m) (1) | Expected completion |
|---|---|---|---|---|---|---|
| Prague 3 | Prague | 100% | 61,600(2) | 156.7 | 16.2 | – |
| Liberec Plaza | Liberec | 100% | 17,000 | 33.7 | 33.7 | Operating |
| Roztoky | Prague | 100% | 14,000(2) | 19.3 | 3.1 | 2013-2014 |

1 Value as per King Sturge valuation report as at December 31, 2010.
2 GBA.

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

### Prague 3: currently operating as an office building and warehouse short lease, future residential use is in progress and is expected to be obtained in H2 2010

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

The buildings are located on a site of approximately 46,500m² with current total GLA of approximately 44,300m³ and potentially 61,600m² built area for future residential use.

The Prague III district has a number of major domestic and multinational companies such as Vodafone, Cesky Telecom and others. The area also has an extensive range of public services.

Due to planning difficulties, it is not possible to develop the site into a shopping and entertainment center. Due to its strategic location and good public transport connections, the Group is currently examining the possibilities of developing a residential complex on the site with a three-phase construction program comprising 61,600m² of built area.

### Liberec Plaza: completed, opened to the public

Liberec Plaza is located in the center of Liberec, a city in the North of the Czech Republic, close to the border with Germany and Poland, with a population of 98,000 and a catchment area of approximately 350,000 inhabitants.

The site is situated 20m from the city's main square.

The shopping and entertainment center, which was completed in March 2009, comprises 17,000m² of GLA including an anchor supermarket, fashion retailers, a food court and restaurants.

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

### Roztoky: planning and permits stage

The Group owns 39,000m² of land in Roztoky, a town located North-east of Prague on the way to the airport (6,500 inhabitants). The site is located on the West side of the town, on a hill and attached to a park.

The Company intends to develop a residential compound which will include 15 row houses and 64 semi-detached units of 150-200m² each.

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

## Liberec Plaza
**Czech Republic**

17,000m²
100% ownership
€33.7m estimated value on completion

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

# Latvia, Greece, Bulgaria

| Project | City | Ownership (%) | GLA (m²) | Market value on completion (€m) (1) | Market value of land and project (€m) (1) | Expected completion |
|---|---|---|---|---|---|---|
| **Latvia** | | | | | | |
| Riga Plaza | Riga | 50% | 49,000 | 51.0 | 51.0 | Operating |
| **Greece** | | | | | | |
| Piraeus Plaza | Athens | 100% | 26,000 | 125.9 | 34.3 | 2014 |
| **Bulgaria** | | | | | | |
| Sofia Plaza Business Center | Sofia | 51% | 44,000 | 44.5 | 7.5 | – |
| Shumen Plaza | Shumen | 100% | 20,000 | 37.6 | 6.1 | 2013-2014 |

1 Value as per King Sturge valuation report as at December 31, 2010.

In March 2009, Plaza completed the development of Riga Plaza shopping and entertainment center, its first development in the Baltic states. Plaza is currently developing one shopping and entertainment center and one mixed-used project in Bulgaria. During 2010, Plaza received a building permit for its planned development in Piraeus, Athens, which will comprise 26,000m² GLA. The Company intends to start the construction in 2012 and has already made good progress in its discussions with banks to secure funding for the scheme.

Piraeus Plaza

Riga Plaza


Shumen Plaza


Sofia Plaza Business Center

# Bulgaria

## Sofia Plaza Business Center: under planning

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

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

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

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

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

## Shumen Plaza: under planning

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

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

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

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

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

# Latvia

## Riga Plaza: completed, opened to the public

In March 2004, the Group entered into a 50:50 JV with an American capital fund with extensive experience in Latvia for this project.

Riga Plaza is located on the West bank of the Daugava River, South-west of Riga's city center (population of approximately 740,000 people, the largest city in the Baltic states) with excellent transportation connections to the city center and primary catchment of 350,000 inhabitants.

Riga Plaza is a three-floor shopping and entertainment center with a GLA of approximately 49,000m², anchored by a hypermarket, an eight-screen multiplex cinema and 2,000m² bowling and entertainment area.

# Greece

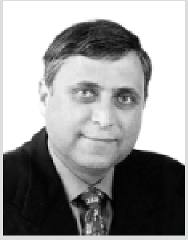
## Piraeus Plaza: under planning

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

The site has an ideal highly visible and commercial position at the junction of two of the biggest arteries in Attica: National Highway, running from the North to the South of Greece and Piraeus Avenue, connecting the center of Athens with the port of Piraeus. Conveniently located in front of the ISAP metro line, bus stations and in walking distance of Europe's largest passenger port of Piraeus, the project will be easily accessed by a large catchment of more than one million people.

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

# Chairman's statement



Mordechay Zisser

We believe that the next two years will witness a turning point for the markets in which we operate and, indeed, already have started to see positive signs in 2011 to date. Many competitor companies are no longer operational, representing a substantial market opportunity for well-financed companies with a strong track record, such as Plaza. We therefore look forward to significantly increasing our volume of activities and that this will certainly contribute to further strong performance in the coming years.

## Milestones

### Strong financial position

Total assets exceeded €1.4 billion at the year end and Plaza maintained a strong cash position with net working capital of €713 million; conservative geering position maintained at 56%.

### Acquisition program in the US

Completion of first investment in the real estate market of the United States with a circa US$116 million investment in Macquarie DDR Trust ("Trust"), an Australian publicly traded trust (ASX: EDT), a sale and purchase agreement signed for a second portfolio of assets for a total purchase price of US$75 million.

### Completion of developments

Two major shopping centers were completed during the year. Completion and opening of shopping centres in Zgorzelec and Suwałki in Poland in March and May 2010. Suwałki is the Company's 30th shopping mall in the CEE region.

### Construction in Poland

Construction of Plaza's tenth retail scheme in Poland, the 40,000m$^2$ GLA Torun Plaza, commenced in September 2010 and is expected to complete in Q4 2011. The centre is already 55% pre-let.

### Progress in India

Encouraging progress was made during 2010 on the construction and letting of the 110,000m$^2$ mixed-use scheme in Pune, the Koregaon Park Plaza, which will comprise a shopping center and office space. Completion is expected in H2 2011, and is already over 50% let.

Plaza has made good progress with the construction of the first phase of the Kharadi project in Pune, a 28,000m$^2$ GBA office building known as "Matrix One". To date, Plaza has pre-sold 70% of the saleable area.

### Project finance

Loan agreements signed for financing 70% of the development costs for a new shopping center at Kragujevac, Serbia and a development loan covering 70% of the development costs for a new shopping center in Torun, Poland.

### Capital markets

Plaza raised gross proceeds of approximately €78 million from the issue of debentures to Israeli and Polish institutional investors during 2010 and a further €65 million at the start of 2011. This was an exceptional achievement, given debt market conditions, with significant support shown by investors.

I am pleased to report that during the reporting period, Plaza has continued to advance its targeted development program across the CEE region and India, achieving a number of development milestones, as well as progressing in its expansion plans in the US by raising third-party capital and making strategic acquisitions.

As the CEE markets continue to recover from the financial turmoil of 2008, Plaza has positioned its development program to ensure that it can deliver shopping centers into markets with the highest retail demand. We achieved a number of development milestones throughout the year and most notably completed our 30th shopping center in the region, in Suwałki Plaza, Poland, in a country which has shown to be the most resilient market in Europe during the recent downturn. We also continued our geographical expansion, with the launch of Elbit Plaza USA, a real estate investment venture jointly formed by Plaza and Elbit, which subsequently secured a significant amount of third-party equity commitments and made key acquisitions.

Despite 2010 being a year of ongoing economic crisis in many areas of the world, Plaza has been able to use its financial strength and business experience to consolidate its strong market presence and build upon our foundations to establish a potentially highly profitable pipeline of ventures for the next five years.

Our financial position remains robust, with the Company delivering a net profit as a result of the increased income from operating shopping centers and the Company's US investment, whilst an active balance sheet management program ensures the Company retains a strong cash position and conservative gearing levels.

## Key events

Over the last year and since the period end, Plaza has completed its first investment in the real estate market of the United States and signed a sale and purchase agreement for a second portfolio of assets.

The Company has invested a total of €66.7 million in cash across its entire portfolio of projects under development since January 2010 and a further €20 million into its US portfolio.

Plaza also completed and opened to the public its shopping centers in Zgorzelec and Suwałki in Poland in March and May 2010. Suwałki is the Company's 30th shopping mall in the CEE region.

Loan agreements signed for financing 70% (circa €33 million) of the development costs for a new shopping center at Kragujevac, Serbia and a development loan covering 70% (€52.5 million) of the construction costs of a 39,000m$^2$ GLA shopping center in Torun, Poland

Plaza raised gross proceeds of approximately €78 million from the issue of debentures to Israeli and Polish institutional investors during 2010 and a further €65 million in the beginning of 2011. This was an exceptional achievement, given debt market conditions, with significant support shown by debenture investors for the Company's highly rated bonds at interest rates which were favorable to the Company. The bonds issued in Israel are rated ilA/Negative by S&P Maalot and A2/Negative by Midroog Ltd., the Israeli Credit Rating Agency and an affiliate of Moody's Investors Service.

## Results

Plaza ended the 2010 financial year with a net profit attributable to the owners of the Company of €10 million. This was mainly as a result of the higher income derived from operating assets in the Company's portfolio and the accounting gain from the highly accretive purchase of EDT in the US. The Company incurred only minor losses from the impairment of its trading properties which are carried at cost, representing less than 1% of the cost value of the projects.

Plaza invested a total of €87 million during the year in new acquisitions and in real estate inventories under construction.

The Company continues to have a strong cash position (including restricted bank deposits, short-term deposits and available-for-sale financial assets) of approximately €195 million at the period end (and circa €254 million as at today's date following the recent bond issuance). This ensures Plaza remains on a solid financial footing to continue its development program and make opportunistic investments or acquisitions where there is clear potential to create shareholder value.

The Company's debt position remains conservative, with gearing of 56% at the year end. Given the strength of Plaza's balance sheet, it has been able to secure further financing during the year from a wide range of sources, including bank development finance totaling around €58 million and bond issuances, which have raised total proceeds of €78 million from Israeli and Polish institutional investors.

This strong financial position will ensure that the business can continue its growth strategy through development activities and strategic acquisitions.

# Chairman's statement

continued

## NAV

The Company's property portfolio was valued by King Sturge LLP as at December 31, 2010 and their summary valuation is shown below.

The main impact on the increase in NAV came mainly from gain from the bargain purchase of the highly accretive EDT in the US and from the increase in the value of the two completed shopping and entertainment centers in Suwałki and Zgorzelec in Poland which were completed and opened during H1 2010.

The Company's NAV was calculated as follows:

| Use | €'000 |
|---|---|
| Market value of land and projects by King Sturge LLP[1] | 840,741 |
| Assets minus liabilities as at December 31, 2010[2] | (165,598) |
| **Total** | **675,143** |

1 Per valuation attached below.
2 Excluding book value of assets which were valued by King Sturge LLP, but including Plaza's proportionate share of the US portfolio at market value valued by the external valuer (46% of the total portfolio value) and the management of EDT.

In total, the NAV per share increased by 2% in Euro terms compared to December 31, 2009. However, owing to the strengthening of the GBP spot rate against the EUR and options exercised during the year to December 31, 2010, the resulting NAV per issued share was £1.96 (December 31, 2009: £2.02), representing a minor 3% decrease.

## Portfolio progress

As at the year end, the Company was engaged in 30 development projects and owned four operational assets, located across the Central and Eastern European ("CEE") region and in India. The location of the projects and assets under development, as at March 23, 2010, is summarized as follows:

| | Number of assets (CEE and India) | | |
|---|---|---|---|
| Location | Active | Under development | Offices |
| Romania | – | 8 | 1 |
| India | – | 6 | – |
| Poland | 2 | 5 | – |
| Hungary | – | 3 | 1 |
| Serbia | – | 3 | – |
| Czech Republic | 1 | 2 | 1 |
| Bulgaria | – | 2 | – |
| Greece | – | 1 | – |
| Latvia | 1 | – | – |
| **Total** | **4** | **30** | **3** |

During the year, the Company invested a total of €20 million in cash to acquire the EDT portfolio in US, and an additional €66.5 million into the projects under development. Out of the total investment €53 million was financed by bank loans.

## Liquidity and financing

We ended 2010 with a strong liquidity position, with cash (including restricted bank deposits, short-term deposits and available-for-sale financial assets) of €195 million, compared to €179 million at the end of 2009. Working capital at December 31, 2010 totaled €713 million (December 31, 2009: €710 million), and the current cash position has increased to circa €254 million following the bond issuance after the period end.

The principal impact on the cash position was the raising of approximately €78 million through a number of bond issuances to Israeli and Polish institutional investors, as well as an ongoing cost-cutting program throughout the business. The Group continues to pursue a conservative financing policy, with the level of debt being only 56% of the balance sheet (2009: 46%).

The combination of Plaza's strong balance sheet and exceptional operational track record has meant that it has been able to successfully secure funding for new developments during the year. The new debt, totaling circa €85 million, is for two new projects in Kragujevac, Serbia and Torun in Poland. This represents 70% of the anticipated development costs for the projects and is an exceptional achievement in what is largely a closed market for new finance.

### Strategy and outlook

The Company continues to benefit from its unrivaled track across Central and Eastern Europe, having been active in the region for over 15 years. Whilst the economic situation in the region remains somewhat challenging, the long-term fundamentals of the market remain the same. Our continued belief in the strength of this market was underlined this year by the achievement of a major milestone for Plaza, the completion of our 30th CEE shopping center. To date, 26 of these have been subsequently sold with an aggregate gross value of circa €1.16 billion. These disposals comprise 17 shopping centers in Hungary, seven in Poland and two in the Czech Republic, with the remaining four shopping centers currently being held as operational assets, of which two are located in Poland, one in the Czech Republic and one in Latvia.

Whilst the conditions in the investment market in CEE remain uncertain, with the limited availability of debt suppressing transactional activity, Plaza continues to implement its development strategy and will continue to attempt selling completed developments while holding them on its balance sheet until sufficient sale prices are achieved.

Beyond the CEE, we have been encouraged by both the overall improvement in sentiment towards the Indian real estate market and the operational progress we have made there this year. Following our entry into this market in 2006, we have maintained our long-term view of the strong potential demand for commercial Indian real estate, especially for well-located large scale development projects. We are pleased to be nearing the completion of our first office development in India, which we anticipate to occur at the end of this year, which has already achieved a high level of pre-sales to date (70%). We also expect to open our first shopping and entertainment center at Koregaon Park in Pune in the second half of 2011, which is already attracting strong retailer interest.

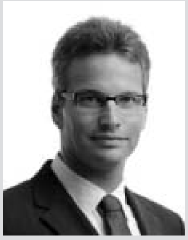
Lastly, having monitored the US real estate market for a number of years, we announced our first transaction in the region last year. With our joint venture partners, the acquisition of a strategic stake in EDT Retail Trust which now owns 48 retail assets across the US, was an important step forward for us in becoming a major retail investor in the region. In addition, we expect to complete the acquisition of a portfolio of seven shopping centers, which we announced at the end of the year, by mid 2011 and, as announced earlier in March 2011, we have launched an offer for EDT's outstanding shares. We will continue to source other acquisitions in the region, as we build up a critical mass in the region.

We therefore believe that we have realigned our strategy over the last two years, ensuring that we have the appropriate balance of targeted development activity and a growing income profile from completed developments and investment acquisitions appropriate for a continually evolving market across the globe. We remain firmly committed to our key areas of operation across CEE, India and the US, where we now established substantial platforms and look forward to growing the business across these exciting markets.

We believe that the next two years will witness a turning point for the markets in which we operate and, indeed, already have started to see positive signs in 2011 to date. Many competitor companies are no longer operational, representing a substantial market opportunity for well-financed companies with a strong track record, such as Plaza. We therefore look forward to significantly increasing our volume of activities and that this will certainly contribute to further strong performance in the coming years.

**Mordechay Zisser**
**Chairman**
March 23, 2011

# Chief Executive's review



Ran Shtarkman

As one of the only active developers in the CEE region, Plaza is strongly positioned to capitalize on its strong track record by selectively delivering projects and creating strong retailer interest. This position is strengthened further by our ability to continue to raise bank financing and debt on competitive terms despite the highly illiquid markets.

In addition, our in-house team of expert asset managers are working to deliver a growing income for the Company from our four operating properties to increase their value for future disposal as economic conditions improve.

Our global presence remains strong and we are proud we have averaged an opening of two shopping and entertainment centers per year throughout our 15-year history.

We are therefore confident that 2011 will be a year in which our extensive and expanding platforms across CEE, India and the US will deliver strong growth for our business on behalf of our shareholders.

Over the course of the reporting period and since the year end, Plaza has continued to make good operational and strategic progress, whilst delivering a strong financial performance.

Highlights for the financial year included:

- **Openings:** Zgorzelec and Suwałki Plaza in Poland opened in March and May respectively.
- **Acquisition of projects:** Acquisition through a jointly controlled investment of 48% of a listed trust holding operating community shopping centers across the US and signing a sale and purchase agreement to acquire a further seven shopping centers.
- **Investments:** Total gross investment in current projects and new pipeline activity in 2010 of €86 million.
- **Financial strength and flexibility:** Gross proceeds of approximately €78 million were raised from a debenture issue to Israeli and Polish institutional investors in 2010, while additional €65 million raised from a debenture issue to Israeli institutional investors post balance sheet, providing significant additional financial flexibility. Plaza's current cash position stands at circa €254 million.

To date, Plaza is involved in the development of 30 schemes in eight countries, of which eight are located in Romania, six in India, five in Poland, three in Hungary, three in Serbia, two in the Czech Republic, two in Bulgaria and one in Greece. In addition, Plaza owns four operating shopping and entertainment centers in Poland, Czech Republic and Latvia and three office buildings in Budapest, Prague and Bucharest.

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

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

| Asset/Project | Location | Nature of asset | Size m² (GLA) | Plaza's effective ownership % | Status* |
|---|---|---|---|---|---|
| Arena Plaza Extension | Budapest, Hungary | Office scheme | 40,000 | 100 | Under planning. Construction scheduled to commence in 2012; completion scheduled for 2013 |
| Dream Island (Obuda) | Budapest, Hungary | Major business and leisure resort | 350,000 (GBA) (for rent and sale) | 43.5 | Initial excavation and archaeological works commenced; staged completion scheduled for 2014-2016. Exclusive casino licence obtained |
| Uj Udvar | Budapest, Hungary | Retail and entertainment scheme | 16,000 | 35 | Operating, currently working on refurbishment plans. Building permit expected to be granted by year end |
| David House | Budapest, Hungary | Office | 2,000 | 100 | Operational office |
| Suwałki Plaza | Suwałki, Poland | Retail and entertainment scheme | 20,000 | 100 | Operating, opened in May 2010 |
| Lodz | Lodz, Poland | Residential scheme | 80,000 (GBA) | 100 | Under planning |
| Lodz Plaza | Lodz, Poland | Retail and entertainment scheme | 45,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2014 |
| Zgorzelec Plaza | Zgorzelec, Poland | Retail and entertainment scheme | 13,000 | 100 | Operating, opened in March 2010 |
| Torun Plaza | Torun, Poland | Retail and entertainment scheme | 40,000 | 100 | Construction commenced in Q3 2010; completion scheduled for Q4 2011 |

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

# Chief Executive's review

continued

| Asset/Project | Location | Nature of asset | Size m² (GLA) | Plaza's effective ownership % | Status* |
|---|---|---|---|---|---|
| Kielce Plaza | Kielce, Poland | Retail and entertainment scheme | 33,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2014 |
| Leszno Plaza | Leszno, Poland | Retail and entertainment scheme | 16,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2014 |
| Prague 3 | Prague, Czech Republic | Office, for future residential use | 61,600 (residential for sale) | 100 | Currently operational as an office building; re-zoning for future residential use is in progress, expected to be obtained in 2011 |
| Liberec Plaza | Liberec, Czech Republic | Retail and entertainment scheme | 17,000 | 100 | Operating, opened in March 2009 |
| Roztoky | Prague, Czech Republic | Residential units | 14,000 (GBA) | 100 | Zoning is in place. Construction scheduled to commence in 2012; completion scheduled for 2013-2014 |
| Casa Radio | Bucharest, Romania | Mixed-use retail and leisure plus office scheme | 600,000 (GBA including parking) | 75 | Initial construction commenced in 2007, completion scheduled for 2013-2015; approval from the Urban Technical Commission has been obtained |
| Timisoara Plaza | Timisoara, Romania | Retail and entertainment scheme | 40,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2014 |
| Csiki Plaza | Miercurea Ciuc, Romania | Retail and entertainment scheme | 14,000 | 100 | Construction commenced in late 2008; awaiting external financing for completion |
| Iasi Plaza | Iasi, Romania | Retail, entertainment and office scheme | 62,000 | 100 | Construction scheduled to commence in 2013; completion scheduled for 2014 |
| Slatina Plaza | Slatina, Romania | Retail and entertainment scheme | 17,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2013 |
| Hunedoara Plaza | Hunedoara, Romania | Retail and entertainment scheme | 13,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2013 |
| Targu Mures Plaza | Targu Mures, Romania | Retail and entertainment scheme | 30,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2013 |
| Constanta Plaza | Constanta, Romania | Retail and entertainment scheme | 18,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2013 |
| Palazzo Ducale | Bucharest, Romania | Office | 700 | 100 | Operational |

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

| Asset/Project | Location | Nature of asset | Size m² (GLA) | Plaza's effective ownership % | Status* |
|---|---|---|---|---|---|
| Belgrade Plaza | Belgrade, Serbia | Apart-hotel and business center with a shopping gallery | 70,000 (GBA) | 100 | Construction scheduled to commence in 2012; completion scheduled for 2014 |
| Sport Star Plaza | Belgrade, Serbia | Retail and entertainment scheme | 45,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2014 |
| Kragujevac Plaza | Kragujevac, Serbia | Retail and entertainment scheme | 22,000 | 100 | Construction commenced in Q4 2010; completion scheduled for H1 2012 |
| Shumen Plaza | Shumen, Bulgaria | Retail and entertainment scheme | 20,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2013-2014 |
| Sofia Plaza Business Center | Sofia, Bulgaria | Retail, entertainment and office scheme | 44,000 | 51 | Currently being let to hypermarket operator. Under planning |
| Riga Plaza | Riga, Latvia | Retail and entertainment scheme | 49,000 | 50 | Operating; opened in March 2009 |
| Helios Plaza | Athens, Greece | Retail and entertainment scheme | 26,000 | 100 | Construction scheduled to commence in 2012; completion scheduled for 2014 |
| Koregaon Park | Pune, India | Retail, entertainment and office scheme | 110,000 (GBA) | 100 | Construction commenced in late 2007; expected mall completion in H2 2011 |
| Kharadi | Pune, India | Office scheme | 165,000 (GBA) | 50 | Construction commenced in late 2010; expected completion in 2011-2014 |
| Trivandrum | Trivandrum, India | Retail, entertainment, office and apart-hotel scheme | 195,000 (GBA) | 50 | Under planning |
| Bangalore | Bangalore, India | Mixed-use multi-level residential units and villas | 320,000 (GBA) | 23.75 | Under planning; construction scheduled to commence in late 2011; completion scheduled for 2012-2017 |
| Chennai | Chennai, India | Mixed-use of high-quality villas and high-rise residential buildings with local retail facility | 800,000 (GBA) | 38 | Under planning; construction scheduled to commence in 2012; completion scheduled for 2013-2015 |
| Kochi Island | Kochi, India | High-end residential apartment buildings, office complexes, a hotel and serviced apartments complex, retail area and a marina | 575,000 (GBA) | 23.75 | Under planning |

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

# Chief Executive's review
continued

Details of these activities by country are as follows:

### Hungary

Plaza owns a plot of land which will serve as an office extension next to the previously built Arena Plaza. The extension will comprise an office complex with approximately 40,000m$^2$ of GLA. Arena Plaza, which the Company developed and sold in 2007, remains one of the most high-profile and successful shopping centers in Budapest.

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

The Dream Island project is a prestigious development on the Obuda Island in central Budapest, with a land area of 320,000m$^2$. It will be developed into a major resort including hotels, recreation facilities, a casino and a business and leisure complex with a development budget of circa €900 million and 350,000m$^2$ of GBA. Preliminary design, excavation and archaeological works are continuing at the site. In addition, a concession licence was obtained in 2008 for the 20-year operation of a large-scale casino (the first in Budapest) with an option to extend for an additional ten years. The project is intended to be completed in phases between 2014 and 2016.

In accordance with its strategy to acquire operating shopping centers that show significant redevelopment potential for refurbishment and subsequent sale, in September 2007 the Company bought a 35% stake in the Uj Udvar shopping center in Budapest, Hungary. The shopping center is currently operational and Plaza's co-shareholders are working on a new design to be implemented. A new zoning permit was awarded for the project and the process for obtaining the building permit is at an advanced stage and is expected to be received by year end.

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

### Poland

During the reporting period, Plaza completed and opened to the public two shopping and entertainment centers: in Suwałki (comprising approximately 20,000m$^2$ of GLA and forming the 30th completed center constructed by Plaza in the CEE region) and in Zgorzelec (comprising approximately 13,000m$^2$ of GLA). The centers were approximately 80% and 75% let on opening, respectively.

Construction of Torun Plaza (comprising approximately 40,000m$^2$ of GLA) commenced in Q3 2010. Bank financing was secured for 70% of the expected development cost and completion is expected for Q4 2011. The development is already circa 55% pre-let, and among major tenants are Cinema City, H&M, KappAhl, Camaieu, Orsay, Rossmann, New Yorker, Stokrotka and Douglas.

In addition, Plaza continued the feasibility and planning studies of four development schemes: in Kielce (comprising approximately 33,000m$^2$ of GLA), in Leszno (comprising approximately 16,000m$^2$ of GLA) and two schemes in Lodz, Lodz Residential (designated for residential use) and Lodz Plaza (comprising approximately 45,000m$^2$ of GLA).

### Czech Republic

Plaza continues to hold Liberec Plaza shopping and entertainment center (approximately 17,000m$^2$ GLA), which was opened in March 2009. Plaza has agreed lettings totaling 72% of the center's GLA to tenants including Billa, Gate, Dracik, Schleker, Triumph, Sephora, Fantasy Park and Dino Park.

During the reported period, Plaza continued the feasibility and planning studies for its residential developments at Roztoky (14,000m$^2$) and Prague 3 (61,600m$^2$). The latter is held as an income-generating office and warehouse building and a re-zoning permission is expected to be received in 2011.

Plaza's development in Opava was sold at the beginning of 2010 for circa €0.8 million, a price close to book value, as the scheme did not meet Plaza's stringent development criteria.

### Romania

Plaza holds a 75% interest in a company in partnership with the Government of Romania to develop Casa Radio (Dambovita), the largest development plot in central Bucharest. It will comprise approximately 600,000m$^2$ of GBA, including a 170,000m$^2$ GBA shopping mall and leisure center (one of the largest in Europe), offices, hotel, an apartment hotel, casino, hypermarket and a convention and conference hall. The Company has obtained the approval of the Urban Technical Commission of Bucharest and completion of the first phase is scheduled for 2013.

In the second half of 2008, the Group commenced the construction of its development in Miercurea Ciuc (14,000m$^2$ GLA). However, as external finance is not currently available for this project, the Group will only resume development once such financing has been secured.

The Company continues the feasibility and planning phases of its development schemes in Timisoara, Iasi, Slatina, Hunedoara and Targu Mures. Timisoara and Iasi are in the design and planning stage and construction is scheduled to commence on projects in 2012 and 2013 respectively, with completion expected in 2014. In Slatina, the detailed design has been agreed, the majority of permits secured and construction is due to commence in 2012, subject to financing. Slatina is expected to be completed in 2013. Hunedoara and Targu Mures are in the preliminary design phase and scheduled for completion in 2013.

During 2009, the Group completed the acquisition of a plot in Constanta, Romania. Constanta Plaza will comprise a retail and entertainment scheme with a GLA of 18,000m$^2$ and completion is expected in 2013.

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

| Location | Fountain Park Bucharest | Acacia Park Ploiesti | Primavera Tower Ploiesti | Green Land Ploiesti | Poiana Brasov Brasov | Primavera Tower Brasov | Pinetree Glade Brasov | Total – |
|---|---|---|---|---|---|---|---|---|
| Plaza-Bas Share | 25% | 50% | 50% | 50% | 50% | 50% | 50% | – |
| Nature | Residential | Residential | Offices | Residential | Residential | Offices | Residential | – |
| Size (m²) | 18,000 | 32,000 | 10,000 | 37,000 | 140,000 | 12,000 | 50,000 | 299,000 |

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

### Serbia
Plaza successfully established its presence in Serbia in 2007 with the acquisition of three plots. The first of these was a state-owned plot and building in Belgrade, which Plaza secured in a competitive tender. The building was formerly occupied by the federal ministry of internal affairs of the former Yugoslavia and is located in the center of Belgrade in a neighborhood of Government offices and foreign embassies. On completion, the scheme, Belgrade Plaza, will comprise an apartment-hotel, business center and shopping gallery totaling circa 70,000m² of GBA. Construction is planned to commence in 2012 and completion is scheduled for 2014. The project is now in the local planning and permitting process.

In December 2007, the Company won a second competitive public auction announced by the Government of Serbia for the development of a new shopping and entertainment center in Belgrade called Sport Star Plaza with a total GLA of approximately 45,000m². Concept design has been submitted. Construction is planned to commence in 2012 and the completion is scheduled for 2014.

During H2 2010, Plaza signed a loan agreement for development financing of 70% of its project in Kragujevac, a city of 180,000 inhabitants. The planned shopping and entertainment center will comprise approximately 22,000m² of GLA. Construction commenced in Q4 2010 and the opening is planned for H1 2012. The center has already seen good interest from retailers and is already 75% pre-let.

### Greece
Plaza owns a 15,000m² plot of land centrally located in Piraeus Avenue, Athens. During 2010 Plaza obtained updated building permits for the construction of a shopping center totaling approximately 26,000m² of GLA. Construction is planned to start in 2012 and completion is scheduled for 2014. The Company has already made good progress in its discussions with banks to secure funding for the scheme.

### Bulgaria
The Group owns a 25,000m² plot of land in Shumen, the largest city in Shumen County, which it intends to develop into a new shopping and entertainment center with a total GLA of 20,000m². The Company is currently finalizing the design, and construction is expected to commence in 2012, subject to agreeing financing.

In 2009, Plaza acquired an additional plot in Sofia by purchasing a 51% stake (with an option to increase to up to 75%) in a development project from a local developer for a total consideration of €7.14 million. The consideration consists of a cash payment of €2.78 million and the assumption of €4.36 million of debt financed by a foreign bank, representing 51% of the project's debt liability. The planned scheme will comprise 44,000m² GLA of retail, entertainment and offices. The project has a valid planning permit for the office scheme and is currently being leased to a hypermarket operator.

### India
Plaza has identified strong long-term potential in India and in 2006 acquired its first development project in the city of Pune in a 50:50 joint venture with a local partner. In November 2008, the Group bought the remaining 50% stake held by its JV partner which enables the Company to have full control over the Koregaon Park Plaza development. The mixed-use scheme has a total built-up area of 110,000m² which will comprise a shopping center and office space. Construction is already under way with development finance secured totaling approximately US$45 million, to fund 50% of the total project costs. Encouraging progress on this scheme has been made this year on construction and lettings. Approximately 50% of the 48,000 GBA mall (excluding parking) is pre-let with memoranda of understanding signed for a further 10% of the space. Completion of the shopping and entertainment center is expected in H2 2011.

During 2007, Plaza acquired two additional development projects in a 50:50 joint venture. The first is located in the Kharadi district of Pune, opposite to EON Park (the best quality IT park in the region), and totals approximately 165,000m² of GBA including parking). The second is in Trivandrum, the capital city of the State of Kerala, and totals approximately 195,000m² of GBA. The Kharadi development consists of three office buildings and a small retail area, and the Trivandrum development is designed for a mixed-use development.

# Chief Executive's review

continued

Plaza has made good progress with the construction of the first phase of Kharadi, a 300,000 ft$^2$ office building known as "Matrix One". To date, Plaza has pre-sold 70% of the saleable area. This first office building has a total expected development cost of US$23.5 million, and, based on accumulated sales of office space to date inclusive of underground parking revenues, will have an end development value of approximately US$36.5 million. Plaza therefore anticipates this will deliver a development pre-tax profit of approximately US$13.0 million.

During 2008, Plaza formed a joint venture with Elbit Imaging ("the JV") to develop three mega mixed-use projects in India located in the cities of Bangalore, Chennai and Kochi. Under this agreement Plaza acquired a 47.5% stake in Elbit India Real Estate Holding Limited, which already owned stakes of between 50% and 80% in three mixed-use projects in India, in conjunction with local Indian partners. This joint venture's voting rights are split 50:50 between Elbit and Plaza.

These three projects are as follows:

**Bangalore** – This mixed-use project, 50% owned by the JV and 50% owned by a prominent local developer, is located on the eastern side of Bangalore, India's fifth largest city with a population of more than seven million people. With a total built-up area of over 320,000m$^2$ excluding parking, it will comprise over 1,000 luxury residential villas.

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

**Chennai** – A mixed-use development, which is 80% owned by the JV and 20% owned by a prominent local developer, will be developed into an integrated mixed-use project consisting of high-rise residential units and high-quality villas and a local retail facility, with a total built-up area of 800,000m$^2$. Chennai is India's fourth largest city with a population of more than ten million people.

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

The construction of the JV's first project in Bangalore is planned to commence in late 2011, in Chennai the construction is scheduled to commence in 2012 and the Kochi Island development is in the design phase.

The joint venture will also look for further large-scale mixed-use development opportunities in India, predominantly led by either residential, office or hotel schemes. In addition, Plaza will independently continue to develop, manage and look for new opportunities for shopping center led projects in India.

### USA

Plaza believes that there is a rare window of opportunity for investment in the United States, given the dislocation in the market, and specifically in the retail sector, created by recent economic conditions. With its 15 years of experience of developing and managing shopping and entertainment centers in the CEE, Plaza is well placed to take full advantage of this.

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

As a result of this, EPN has become EDT's largest unitholder, and has appointed its representatives to be the majority members of the board of the responsible entity of the trust. Plaza's effective holding in EPN is 21.65%, bringing its effective share in EDT to 10.35%.

EDT currently holds interests in 48 operating retail properties covering approximately 10.9 million ft$^2$ of leasable area across 20 states in the US. The portfolio provides access to over 420 existing tenants operating in the stores, with over 78% of base rent generated from nationally recognized retailers and generates approximately US$100 million net operating income per annum.

The portfolio's occupancy rate is approximately 88.8% with a weighted average lease term of five years. The value of the portfolio was approximately US$1.38 billion as at December 31, 2010 and the secured non-recourse debt related to it amounted to circa US$926 million as at December 31, 2010.

Among our first actions in EDT:

- the entire corporate company debt of US$108 million was repaid
- major refinances in two portfolios of assets were closed for a sum of US$380 million with long maturities and attractive rates of interest
- transformation of the management location and efforts from Australia to the US.

In December 2010, Plaza has signed a purchase agreement to acquire a further seven shopping centers located in the US for a total purchase price of US$75 million from certain affiliates of Charter Hall Retail REIT. Out of the total purchase price of US$75 million, US$22.7 million will be paid through the assumption of property-level debt.

The portfolio of shopping centers comprises four assets located in Georgia, two in Oregon and one in Florida, with a total GLA of approximately 650,000ft$^2$ (circa 60,000m$^2$) and a current occupancy rate of approximately 91%. Net operating income from the seven assets totals circa US$7 million per annum, which reflects a yield of approximately 9.2%.

### Prospects

In CEE, Plaza remains one of the only active developers in the region. This is due to the fact that we have a track record in the region for delivering the highest quality products tailored for the local market. Retaining a conservative financing position has also been a significant factor behind our ongoing progress over the last few years and, as a result, we have been able to cultivate our strong relationships with banks, retailers and, where appropriate, joint venture partners in the region. All of this means that we can continue to be active with our development program, selectively delivering projects when we are able to secure bank financing on competitive terms and creating strong retailer interest. In addition, our in-house team of expert asset managers are working to deliver a growing income for the Company from our four operating properties to increase their value for future disposal as economic conditions improve.

We have been encouraged by the progress with regards to our Indian developments, especially given that we will complete and open our first retail and development projects in the region later this year. The level of pre-sales and pre-lets on both these projects has been strong and we expect to see further progress in this regard throughout the year. With strong signs of economic growth in India, and little competition in the local real estate market for large-scale mixed use developments such as ours, we see India as an important part of our overall growth strategy.

Finally, the USA remains a key target for acquisitions. Our growing investment portfolio exposure in the region has already shown us that value can be created by utilizing our long-established track record in the field of development, leasing, management and financing of commercial centers. Our management plans for our existing assets are expected to deliver strong income and capital growth over time. With significant capital still to invest in the region, we will work to build upon this strong platform and we expect additional transactions to close this year in the US.

We are therefore confident that 2011 will be a year in which our extensive and expanding platforms across CEE, India and the US will deliver strong growth for our business on behalf of our shareholders.

**Ran Shtarkman**
**President and CEO**
March 23, 2011

# Financial review

**Roy Linden**

## Results

During 2010, Plaza opened its 30th shopping mall in the CEE region. Currently the Company manages four completed shopping centers, with a further four projects currently under construction. The acquisition in the US market also has a substantial impact on the Company's financial statements.

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

The investment in the US is treated as investment property as it is the intention of the Company to hold those assets for capital appreciation and to obtain rental income.

Revenues for the year ended December 31, 2010 increased to €38 million (2009: €16 million) as there were more assets in operation compared to 2009 (increase of €14 million, mainly due to US operations) and there was a fair value adjustment in connection with the US portfolio. The revenues are attributable mainly to rental income, management and utilities fees from operating malls and income from the entertainment subsidiary Fantasy Park (which totaled €7.4 million and €7.3 million for 2010 and 2009, respectively) and the fair value adjustment (an increase totaling €4.6 million and €0.4 million for 2010 and 2009, respectively).

The total cost of operation amounted to €28 million (2009: €47 million). The majority of the cost of operations is attributable to the utility, maintenance and other costs of shopping malls in operation. In 2010 impairment losses of €6.7 million were recorded (€34 million in 2009) in respect of the trading properties, amounting to less than 1% of the book value of projects.

Administrative expenses amounted to €17.9 million (2009: €19.1 million). The cost of non-cash share-based payments decreased to €2.5 million (2009: €2.8 million). The cost of professional services has also fallen to €3.7 million from €4.5 million in 2009. The travel and office expenses have also decreased as a result of cost-saving measures introduced in 2008.

Depreciation and amortization, as well as selling and marketing expenses, have remained at the same level compared to 2009.

Other income increased significantly to €42 million, mainly from an accounting gain resulting from the EDT transaction.

As a result of EPN acquiring approximately 48% of EDT as well as 50% of the responsible entity for the trust, EPN is required by IFRS to consolidate 100% of the financial statements of EDT, while allocating approximately 52% to non-controlling interests.

As Plaza's effective interest in EPN is 21.65% (reflecting Plaza's commitments of US$50 million out of US$231 million of total investment commitments) and it has joint control (together with its partners), it has proportionally consolidated 21.65% of the financial statements of EPN, and as a result reflects 21.65% of the assets and liabilities of EDT in its financial statements. EDT's results are included in Plaza's financial statements from July 1, 2010 onwards.

As the net value of EDT's equity was substantially higher than the purchase price paid by EPN, combined with the value of the non-controlling interests per market quoted price of EDT's units, the difference, under IFRS, is assumed as "gain from a bargain purchase" and as such should be attributed upon acquisition to the income statement. As described, Plaza's share in this recognized gain amounted to €38 million.

Net finance expenses have increased to a loss of €21 million (2009: €18 million loss). The change is caused by a number of factors including an increase in the interest expense of the loans financing shopping malls already in operation, as well as an increase in the loss from the increase in the fair value of debentures measured through profit or loss and related foreign exchange differences. This was partly offset by the increase of the gain in the fair value of the derivatives (hedging instruments for the bonds issued in ILS and linked to the Israeli CPI).

Current tax expenses represent a non-material expense of €143,000 (2009: €74,000). The total tax benefit of €1.3 million (2009: €3.8 million) is attributable to the deferred tax changes which are mainly due to change in fair values of debentures mentioned above, as well as tax losses incurred in 2010.

Net profit for the period amounted to circa €14 million in 2010, compared to €65 million loss in 2009. The change is caused by the increased rental revenues, the sharply decreased impairment losses and the recognition of the bargain purchase gain attributable to the US portfolio. Net profit attributed to owners of the Company amounted to circa €10 million in 2010, compared to €65 million loss in 2009.

Basic and diluted earnings per share for 2010 were both €0.03 (2009: €0.23 loss).

### Balance sheet and cash flow

The balance sheet as at December 31, 2010 showed current assets of €1.065 billion compared to current assets of €945 million at the end of 2009. This rise results from the investment in our substantial pipeline of development projects mainly through bank financing and the long-term debentures raised.

The Company's cash position deriving from cash, short-term deposits, restricted cash deposits and available-for-sale financial assets increased to €195 million (2008: €179 million), with the increase reflecting long-term debentures raised, offset by investments in Plaza's pipeline projects.

Gearing position remained conservative with debt comprising only 56% of balance sheet (December 31, 2009: 46%).

Trade receivables have increased from €2 million to €4 million as a result of receivables from tenants in the US, as well as in the two new operating shopping malls in Zgorzelec and Suwałki, Poland, in addition to the other two centers already operational in 2009.

The value of the investment property increased significantly in 2010 (from €13 million to €239 million) as Plaza entered the US market through its joint venture. This portfolio is classified as investment property rather than trading property as the Company is not actively seeking buyers, and it is its intention to hold the assets and achieve appreciation in the value and receive income from the operation.

Long-term deposits and balances have remained at a similar level (2010: €53 million, 2009: €51 million) consisting mainly of investment in long-term financial instruments.

Total bank borrowings (long and short term) amounted to €366 million (2009: €184 million). This increase is partly the result of the acquisition in the US (circa €144 million) and the consequent proportionate consolidation and also from loans drawn in respect of the shopping malls under construction, or completed in the course of 2010.

Apart from bank financing, Plaza has on its balance sheet a liability of €379 million (with a par value of circa €370 million) from issuing debentures on the Tel Aviv Stock Exchange and to the Polish institutional investors. These debentures are presented at their fair value with the exception of the debentures issued from August 2009 onward, which are presented at amortized cost. Plaza has substantially hedged the future expected payments in New Israeli Shekels (principal and interest linked to the Israeli CPI index) and Polish Zloty to correlate with the Euro and the Euribor interest rate, using cross-currency interest rate swaps, and in certain cases selling call options and entering into forward transaction to correlate with changes in the EUR/NIS rate. At December 31, 2010 the value of these hedge transactions amounted to circa €53 million and is presented in the assets in the balance sheet as Derivatives.

Trade payables decreased to €11 million (2009: €20 million), due to the completion of two shopping and entertainment centers in the first half of 2010.

Non-controlling interest increased to €24 million at December 31, 2010, mainly due to Plaza's proportion of the non-controlling interest recorded in EPN as a result of the purchase of EDT.

At the 2010 year end, the net balance of the Plaza Group with its controlling shareholders is a liability of approximately €2.6 million, of which €0.4 million is due to a provision in respect of project management fees charged by the Control Centers group. These fees relate to the project supervision services granted in respect of the extensive schemes within the Group. The remaining net balance of €2.2 million includes a net liability regarding charges from Elbit Imaging group companies to the Company.

In summary, Plaza's balance sheet reflects a high level of liquid balances and conservative gearing, with the majority of the Group's debt maturing only between 2011 and 2017. High cash balances and substantial total equity of approximately €624 million, a total balance sheet of over €1.4 billion and a debt to balance sheet ratio of circa 56%, will enable the Company to strengthen its market position, develop its current portfolio and make opportunistic purchases of new projects in the best performing markets under current economic conditions. During the coming years, Plaza expects to complete three additional shopping and entertainment centers, in Torun, Kragujevac and Koregaon Park, resulting in an active portfolio of seven shopping and entertainment centers in the CEE region and India. The additional material expected income from these centers, along with the acquisition of EDT that has created a stable yielding income stream, will enhance further Plaza's ability to present recurring income and deliver future value enhancement.

**Roy Linden**
**Chief Financial Officer**
March 23, 2011

# Valuation summary by King Sturge LLP

as at December 31, 2010

| Country | Project name | Market value upon completion December 31, 2010 € | Market value upon completion December 31, 2009 € | Market value of the land and project December 31, 2010 € | Market value of the land and project December 31, 2009 € |
|---|---|---|---|---|---|
| Hungary | Arena Plaza extension | 64,270,000 | 64,270,000 | 9,100,000 | 9,500,000 |
| | Dream Island | 467,225,000 | 410,400,000 | 62,865,000 | 71,900,000 |
| | David House | 4,180,000 | 4,180,000 | 4,180,000 | 4,180,000 |
| | Uj Udvar | 3,045,000 | 3,220,000 | 3,045,000 | 3,220,000 |
| Poland | Kielce Plaza | 89,300,000 | 88,100,000 | 6,500,000 | 6,600,000 |
| | Torun Plaza | 100,000,000 | 100,600,000 | 25,000,000 | 15,100,000 |
| | Suwałki Plaza | 48,000,000 | 53,800,000 | 48,000,000 | 24,200,000 |
| | Lodz (Resi) | 252,600,000 | 252,600,000 | 12,600,000 | 10,800,000 |
| | Lodz Plaza | 114,500,000 | 110,200,000 | 8,500,000 | 7,300,000 |
| | Zgorzelec Plaza | 24,000,000 | 30,400,000 | 24,000,000 | 16,600,000 |
| | Leszno Plaza | 5,800,000 | 4,500,000 | 2,000,000 | 1,500,000 |
| Czech Republic | Prague 3 | 156,700,000 | 154,720,000 | 16,180,000 | 16,490,000 |
| | Liberec Plaza | 33,710,000 | 37,010,000 | 33,710,000 | 37,010,000 |
| | Roztoky | 19,260,000 | 23,800,000 | 3,100,000 | 3,100,000 |
| Romania | Csiki Plaza | 26,800,000 | 26,800,000 | 14,580,000 | 14,800,000 |
| | Timisoara Plaza | 95,100,000 | 95,600,000 | 16,400,000 | 16,910,000 |
| | Casa Radio Plaza | 772,535,000 | 693,100,000 | 182,400,000 | 181,600,000 |
| | Iasi Plaza | 113,800,000 | 113,800,000 | 17,500,000 | 17,400,000 |
| | Slatina Plaza | 32,500,000 | 32,500,000 | 2,020,000 | 2,030,000 |
| | Palazzo Ducale | 1,900,000 | 1,900,000 | 1,900,000 | 1,900,000 |
| | Targu Mures Plaza | 55,900,000 | 55,900,000 | 6,070,000 | 6,100,000 |
| | Constanta Plaza | 19,900,000 | 19,900,000 | 11,250,000 | 11,060,000 |
| | Hunedoa ra Plaza | 26,000,000 | 26,000,000 | 2,990,000 | 2,990,000 |
| Latvia | Riga Plaza | 50,500,000 | 51,000,000 | 50,500,000 | 51,000,000 |
| Greece | Helios Plaza | 125,900,000 | 138,600,000 | 34,300,000 | 38,400,000 |
| India | Koregaon Park | 89,990,000 | 78,860,000 | 59,425,000 | 36,190,000 |
| | Kharadi Plaza | 66,675,000 | 55,070,000 | 19,000,000 | 12,600,000 |
| | Trivandrum Plaza | 50,010,000 | 51,590,000 | 10,100,000 | 10,210,000 |
| | Bangalore | 153,200,000 | 143,500,000 | 49,090,000 | 49,070,000 |
| | Chennai | 219,145,000 | 203,010,000 | 20,965,000 | 20,150,600 |
| | Kochi Island | 155,013,000 | 135,230,000 | 3,335,000 | 2,460,000 |
| Bulgaria | Shumen Plaza | 37,568,000 | 40,650,000 | 6,070,000 | 6,430,000 |
| | Sofia Plaza business center | 44,480,000 | 45,900,000 | 7,466,000 | 7,790,000 |
| Serbia | Belgrade Plaza | 162,400,000 | 162,400,000 | 24,800,000 | 24,300,000 |
| | Sport Star Plaza | 117,000,000 | 165,800,000 | 20,400,000 | 19,600,000 |
| | Kragujevac Plaza | 54,300,000 | 61,700,000 | 21,400,000 | 17,600,000 |
| **Total** | | **3,853,208,000** | **3,737,000,000** | **840,741,000** | **778,000,000** |

**Notes**

All values of land and project assume full planning consent for the proposed use.
Plaza Centers has a 50% interest in the Riga Plaza shopping center development.
Plaza Centers has a 35% interest in the Uj Udvar shopping center development.
Plaza Centers has a 50% interest in Kharadi Plaza and Trivandrum Plaza.
Plaza Centers has a 43.5% interest in Dream Island.
Plaza Centers has a 75% share of Casa Radio Plaza.
Plaza Centers has a 23.75% share of Bangalore.
Plaza Centers has a 38% share of Chennai.
Plaza Centers has a 23.75% share of Kochi Island.
Plaza Centers has a 51% interest in Sofia Plaza business centre.
All the figures reflect Plaza's share.

# Management structure

## Plaza Centers' Board

**Executive directors**

**Mordechay (Motti) Zisser**
Chairman

**Ran Shtarkman**
President & CEO

**Shimon Yitzhaki**
Director

**Edward Paap**
Director

**Marco Wichers**
Director

**Marius van Eibergen Santhagens**
Director

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

## Senior management

**Ran Shtarkman**
President & CEO

**Roy Linden**
CFO

**Uzi Eli**
General Counsel

**Ami Hayut**
Chief Engineer

**Functional Management Support**

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

## Local country management

**Eli Mazor**
Country Director (Poland & Latvia)
Regional Marketing Director (Europe)

**Sagiv Meger**
Country Director
(Czech Republic & Serbia)

**Luc Ronsmans**
Country Director
(The Netherlands & Romania)

**Yossi Ofir**
Country Director
(India)

**Daniel Belhassen**
Country Director
(Bulgaria & Greece)
Head of shopping centers management

**Alexander L. Berman**
Country Director
(USA)

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

# Board of Directors and Senior Management

## Executive Directors

### Mordechay Zisser, Chairman (male, 55, Israeli)

Mordechay Zisser is the founder and Chairman of the Europe Israel Group of companies, of which Plaza Centers is a member. During more than 25 years' active involvement in some of the world's most prestigious real estate developments, he has led successful projects in Israel, Western Europe, Central and Eastern Europe (CEE), South Africa and India. Mr Zisser was appointed as Executive Director and Chairman of the Board of Directors of the Company on August 17, 2006 and reappointed in 2008 for an additional three years.

### Ran Shtarkman, President and CEO (male, 43, Israeli)

Ran Shtarkman (CPA, MBA) joined Plaza Centers in 2002, becoming Chief Financial Officer in 2004 and CEO in September 2006. He was additionally appointed as Executive Director on October 12, 2006 (and reappointed in 2008 for an additional three years), as President in 2007 and as Co-CEO of Elbit Imaging Ltd. in January 2010. Previous roles include CFO of SPL Software Ltd., Finance and Administration Manager for Continental Airlines' Israeli operations and Controller of Natour Ltd.

## Non-executive Directors

### Shimon Yitzhaki (male, 55, Israeli)

Shimon Yitzhaki (CPA), Chairman of Elbit Imaging Ltd. (the Company's indirect controlling shareholder) since January 2010 (prior to that he was the President of Elbit Imaging Ltd. since 1999). Mr Yitzhaki has been with the Europe Israel Group since 1985 and has held several positions within the Group, among which, he served as Executive Director of Plaza Centers for the period commencing on March 3, 2000 and ending on October 12, 2006, thereafter he was appointed as Non-executive Director of Plaza Centers for a period of three years and reappointed in 2010 for an additional three years.

### Edward Paap (male, 47, Dutch)

Edward Paap is an expert in international tax, having gained a master's degree as a tax lawyer from the University of Leiden. Following seven years as a tax adviser in a medium-sized accountancy practice, working principally in the international tax field, since 1997 he has been acting as Managing Director of an Amsterdam-based Trust Office with many international clients. Mr Paap served as Executive Director of Plaza Centers for the period commencing on March 3, 2000 and ending on October 12, 2006, thereafter he was appointed as Non-executive Director of Plaza Centers for a period of three years and reappointed in 2010 for an additional three years .

## Independent Non-executive Directors

### Marius van Eibergen Santhagens (male, 59, Dutch)

Marius van Eibergen Santhagens has over 25 years at the forefront of corporate finance and change management, with a specialist focus on leisure since 2000. Today, he is the General Manager and owner of Leisure Investments & Finance B.V., prior to which he was a consultant at Beauchamp Leasing and Metro B.V. and held a number of positions at Generale Bank Nederland B.V. Mr van Eibergen Santhagens was appointed as Non-executive Director of Plaza Centers on November 1, 2006 and reappointed in 2009 for an additional three years.

### Marco Wichers (male, 51, Dutch)

Marco Wichers is the CEO and owner of AMGEA Holding BV and the CEO of real estate consultancy AMGEA Vastgoed Adviseurs B.V. Previously, he was the CEO of two New York-based manufacturing companies – Branco International Inc. (1988-1995) and Cravat Club Inc. (1983-1995), which he also owned. Mr Wichers was appointed as Non-executive Director of Plaza Centers on November 1, 2006 and reappointed in 2009 for an additional three years.

## Senior Management

### Roy Linden (34) BBA, CPA (USA, Isr), Chief Financial Officer

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

### Ami Hayut (45) BSc, Chief Engineer

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

### Uzi Eli (35), LLB, Attorney at Law (Isr), MBA, General Counsel and Compliance Officer

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

### Luc Ronsmans (60), MBA, Netherlands and Romania Country Director

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

### Eli Mazor (56), Regional Marketing Director and Poland and Latvia Country Director

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

### Yossi Ofir (54), Republic of India Country Director

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

### Sagiv Meger (33), Republic of Serbia and Czech Republic Country Director

Sagiv Meger joined the Company in late 2007 as the Country Director of Plaza Centers Serbia and was appointed as Country Director of the Czech Republic in 2009. Prior to joining Plaza Centers he was the COO of a company based in Angola, Africa for four years, supporting over 50 various projects, ranging from telecommunications, real estate, agriculture to military intelligence. He gained an extensive range of first-hand experience in previous management positions.

### Daniel Belhassen (41), LLB in Law and BA in Economics and Business Administration, Republic of Bulgaria and Greece Country Director and Head of Shopping Centers Management

Daniel Belhassen joined the Plaza team in the beginning of 2008, as the Country Director for Plaza Centers Bulgaria and since the beginning of 2009 for Greece as well. Prior to joining Plaza Centers, Mr Belhassen was acting for two years as a business development manager in a real estate development company based in Israel, supporting several retail projects in Hungary, Poland, Germany, and the Czech Republic. Mr Belhassen has gained vast experience in the purchasing, financing, development and management of retail projects in CEE region. At the end of 2010 he was appointed as the head of shopping centers management.

### Alexander L Berman (51), CPA, MBA, United States Country Director

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

# Directors' report*

## Principal activities and review of business

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

Since then, it has expanded its CEE operations into Poland, Czech Republic, Latvia, Romania, Bulgaria, Greece and Serbia. In addition, the Group has extended its area of operations beyond the CEE into India and the US. The Group has been present in real estate development in emerging markets for over 15 years. To date, the Group has developed, let and opened 30 shopping and entertainment centers and one office building. Twenty-one of these centers were acquired by Klépierre, one of the largest shopping center owners/operators in Europe. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors at that time and one shopping center (Arena Plaza in Budapest, Hungary) was sold to Active Asset Investment Management ("aAIM"), a UK commercial property investment group. The remaining four centers which were completed during 2009 and last year are being held and managed by the Company, while utilising the Company's extensive experience in managing retail assets.

For a more detailed status of current activities and projects, the directors refer to the Chairman's statement and the Chief Executive's report on pages 30 to 41, as well as to the following chapters: Overview, Business review and Management and governance.

## Pipeline projects

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

## Going concern

The directors' review of the 2011 budget and long-term plans for the Company has satisfied them that, at the time of approving the financial statements, it is appropriate to adopt the "going concern" basis in preparing the financial statements of the Company.

## Dividends

According to the Company's dividend policy, dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the Company's Board of Directors, on any additional annual net profits which exceed €30 million.

The Company did not distribute a dividend for the year ended December 31, 2009 due to the market conditions and the ongoing global financial crisis, and as a material part of annual profits resulting from finance activities rather than realization of real estate assets.

The Board will propose to the Annual General Meeting not to distribute a dividend for the year ended December 31, 2010. 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.

## Directors' interests

The directors have no interests in the shares of the Company, other than the director's share options as given on page 64 of this report.

## Directors and appointments

The following served as directors of the Company at December 31, 2010:

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

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

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

### Substantial shareholdings

As of the balance sheet date, ING Open Pension Fund, Poland held approximately 5.81% of the entire issued share capital of the Company, BZ WBK AIB Asset Management S.A. of Poland held approximately 5.95% of the entire issued share capital of the Company and Aviva PTE, Poland held approximately 7.64% of the entire issued share capital of the Company. Other than that and except as disclosed under "directors' interests" above, the Company is not aware of any additional interests amounting to 3% or more in the Company's shares besides that of its parent company Elbit Imaging Ltd.

### Issue of shares

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

### Employee involvement

The Company has 163 employees and other persons providing similar services. The Company's employees are vital to its ongoing success. It is therefore important that all levels of staff are involved in its decision-making processes. To this end, the Company has an open culture and flexible structure, and staff are encouraged formally and informally to become involved in discussions on the Company's future strategy and developments. An employee share option scheme was adopted on October 26, 2006 (as was amended in October 2008) which enables employees to share directly in the success of the Company. The Company does not expect any significant development in employees.

### Annual General Meeting (AGM)

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

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

The Annual General Meeting of shareholders was held at Park Plaza Victoria Hotel Amsterdam, Damrak 1-5, 1012 LG Amsterdam, The Netherlands on May 25, 2010 at 1pm (CET).

In this AGM, *inter alia,* the following resolutions were taken by the shareholders: (i) to approve the Company's Dutch statutory annual accounts and annual report being drawn up in the English language; (ii) to consider the Company's Dutch statutory annual accounts and the annual report for the year ended December 31, 2009; (iii) to adopt the Company's Dutch statutory annual accounts for the year ended December 31, 2009; (iv) to discharge the directors of the Company from their liability for the conduct of business for the year ended December 31, 2009; (v) to resolve to pay no dividend to the holders of ordinary shares in respect of the year ended December 31, 2009; (vi) to authorize the Board generally and unconditionally to exercise all powers of the Company to allot equity securities in the Company up to an aggregate nominal value of €978,394, being 33% of the Company's issued ordinary share capital (as of May 2010), provided that such authority shall expire on the conclusion of the Annual General Meeting to be held in 2011 unless previously renewed, varied or revoked by the Company in a general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities

# Directors' report



in pursuance of such an offer or agreement as if the authority conferred hereby had not expired; (vii) to give a special instruction to the Board authorizing it to disapply the pre-emption rights set out in article 6 of the Company's Articles of Association, such power to expire at the conclusion of the next Annual General Meeting to be held in 2011, and the Board may allot equity securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to the allotment of the equity securities up to a maximum aggregate nominal amount of €296,483; (viii) to amend the Company's Articles of Association in order to adjust the conflict of interest article in the Articles of Association; (ix) to authorize Mr Ran Shtarkman, as special authority of the general meeting of shareholders, to represent the Company, also in matters where a conflict of interest exists, which authority shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2011 (unless such authority is revoked or renewed prior to such time); (x) to approve a proposal from the Board to issue 1,000,000 (one million) options over ordinary shares in the capital of the Company, under the Company's Incentive Plan, to Mr Shimon Yitzchaki, non-executive director of the Company; (xi) to approve and to the extent necessary ratify the issue and offering to the public in Israel by the Company of unsecured Series B Notes of the Company (Series B Notes) in the aggregate nominal amount of NIS 457,717,000 and the subsequent admission of those Series B Notes to listing on the Tel Aviv Stock Exchange; (xii) to re-elect as a director, Mr Shimon Yitzchaki; (xii) to re-elect as a director, Mr Edward Paap; and (xiii) to authorize the Company, generally and unconditionally, for the purpose of Article 8 of the Articles of Association of the Company, to make market purchases of ordinary shares in the capital of the Company on such terms and in such manner as the directors may from time to time determine, subject to certain conditions.

### Article 10 of Directive 2004/25

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

- There are no special restrictions on the transfer of the shares of the Company.
- There are no special statutory rights related to the shares of the Company.
- There are no restrictions on the voting rights on the Company's shares.
- Information on significant shareholding can be found above.
- There are no agreements between the shareholders which are known to the Company and may result in restrictions on the transfer of securities and/or voting rights.
- The applicable provisions regarding the appointment and dismissal of members of the Board and amendments to the Articles of Association are set forth above.
- The power of the Board regarding the issue of shares and the exclusion of pre-emption rights and the repurchase of shares in the Company can be found above.
- There are no significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid.
- There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.
- Other information can be found in the notes to the financial statements (please see note 25 Equity).

# 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 Section 1 of the UK Combined 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 2010 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 written code, it cannot refer its design and effectiveness.

- 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 scheme of the Company does 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 Scheme was drafted in accordance with Elbit's Share Option Scheme, in order to maintain the incentive for all employees of 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 has 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 current Share Option Scheme should serve as an effective incentive for the employees of the group, 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 the favorable outlooks for a quick recovery. In order to maintain the incentive for all employees, the Board has submitted to the extraordinary meeting of shareholders that was held on November 25, 2008, a proposal to amend the Share Option Scheme and to determine the exercise price of all options granted on or prior to October 25, 2008, to 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. Not all requirements of Best Practice Provisions 11.2.12 have been implemented in the remuneration report. 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 straightforward, 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 changes, this will be addressed in a general meeting of shareholders.

- 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

# Corporate governance

continued

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 2010 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 2009, 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 2009 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 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 Annual General Meetings shall retire from office. Pursuant to section 15.6 of the Articles, such a director may be reappointed, which could result in a term of office which is longer than three four-year terms.

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

- Best Practice Provision III.5.1 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 Scheme does 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 III.8.1 states that the Chairman of the Board shall not also be or have been an executive director. Mr Zisser is Executive Chairman and the Board considers, given Mr Zisser's extensive business experience that this is in the best interests of the Company.

- Best Practice Provision III.8.4 stipulates 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-independents) and four non-executive directors out of whom two non-executive directors are considered to be independent, applying the criteria of Best Practice Provision III.2.2. The non-executive directors who are considered to be non-independent are Messrs Shimon Yitzhaki and Edward Paap. The independent non-executive directors are: Messrs Mark Wichers and Marius Van Eibergen Santhagens. See also page 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 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 Section 1 of the UK Combined Code not applied by the Company in the year 2010 are:

- Best Practice Provision A.1.3 and Best Practice Provision A.6.1 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 2010 the Chairman and the non-executive directors have not met separately as mentioned in this Best Practice Provision. 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 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, specifically in light of the fact that the Company's Chairman is also an executive director.

- Best Practice Provision A.3.3 stipulates that the Board should appoint one of the independent non-executive directors to be the senior independent director. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate. Since the financial year ended December 31, 2010 is the first year that the provisions of the UK Combined Code should be complied with, not all adjustments pursuant to the requirements of Best Practice Provision A.3.3 have been made. Steps have been taken to comply with this provision.

- Best Practice Provision A.4.1 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 Board member of another listed company.

- 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. Since the financial year ended December 31, 2010 is the first year the provisions of the English UK Combined Code should be complied with, not all adjustments pursuant to the requirements of Best Practice Provision A.3.5 have been made. This will be adjusted in the forthcoming year.

# Corporate governance

continued

- Best Practice Provision D.1.1 stipulates that the Chairman should ensure that the views of shareholders are communicated to the Board as a whole. The Chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend meetings with major shareholders and should expect to attend them if requested by major shareholders. The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. This provision is complied with, with the exception of the fact that in the past year, there was no senior independent director (see page 53).

- Best Practice Provision D.2.2 stipulates *inter alia* that the company should ensure to make available on its website the numbers of the shares in respect of which proxy appointments have been validly made, the number of votes for and against the resolution and the number of shares in respect of which the vote was directed to be withheld. Since the financial year ended December 31, 2010 is the first year the provisions of the UK Combined Code should be complied with, not all adjustments pursuant to the requirements of Best Practice Provision D.2.2 have been made. This will be adjusted in the forthcoming year.

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 (Chairman and CEO/President) and four non-executive directors, of whom two are independent.

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

## 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 2010.

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 weakness.

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 62.36% 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 Annual General Meeting (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 Chairman, CEO, CFO and our financial PR advisors, although all directors are open to dialogue with shareholders as appropriate. The Board encourages communication with all shareholders at any time other than during close periods, and is willing to enter dialogue with both institutional and private shareholders.

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

# Corporate governance

continued

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

## Corporate, social and ethical policies

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

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

## Environment

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

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

## Health and safety

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

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

## Corporate Governance declaration

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

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

- Compliance with the provisions and best practice principles of the Code (pages 51 to 53);
- The functioning of the Shareholders' Meeting and its primary authorities and the rights of shareholders and how they can be exercised (page 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).

Management and governance

# 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 analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies 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 fact that Plaza has – to a certain degree – diversified its business over different markets (geographic segments) and sectors also results in some risk mitigation.

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.

The Group has entered the US market by acquiring yielding assets at compelling prices. 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.

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; 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 investor, creditor and market confidence and to sustain future development of the business. The Board of directors also monitors the level of dividends to ordinary shareholders (e.g. decision on no distribution of dividend following the years 2009 and 2010).

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, and private issuance in Poland.

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, selling yields and other indices, its financial assets 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 56% of the balance sheet (2009: 46%).

### 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 income from investment property.

# Risk management

continued

### 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. Currently, the Group does not hedge against interest rate fluctuations unless obliged to do so by the lending banks if interest rates exceed certain levels.

### 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. 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 2009 and in 2010 as well. The global economy is still very 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 development to only the very best opportunities focusing on projects with tenant demand or availability of external financing. 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 these countries 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 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 retails 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 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 and Polish institutional investors in 2010. 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, Plaza has secured financing for 70% of its two development sites in 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.

# Risk management

continued

## 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

### I) Definition and objectives

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

Plaza's internal control procedures aim to ensure:

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

The system is based on the following three key principles:

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

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

## II) Four components of internal control procedures

### a) Organization and environment

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

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

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

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

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

### 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.

# Risk management

continued

### 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 Supervisory 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 Supervisory Board, 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 share 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.

# Remunerationreport

## 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.

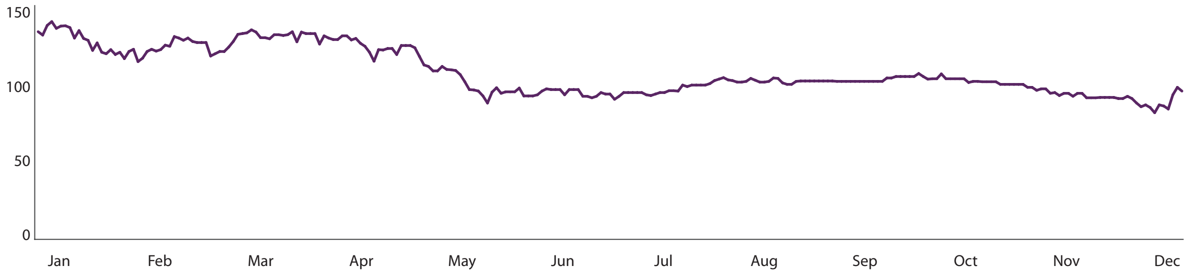
The Remuneration Committee reviews base salaries annually. Increases for all employees are recommended by reference to cost of living, responsibilities and market rates, and are performed at the same time of year.

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.

| 2010 | Salary and fees €'000 | Share incentive plan[1] €'000 | Total non-performance related remuneration €'000 | Total performance related remuneration €'000 |
|---|---|---|---|---|
| **Chairman and executive directors** | | | | |
| Mr Mordechay Zisser | 244 | 153 | 397 | – |
| Mr Ran Shtarkman | 481 | 397 | 878 | 100 |
| Total | 725 | 550 | 1,275 | – |
| **Non-executive directors** | | | | |
| Mr Shimon Yitzhaki | – | 234 | 234 | – |
| Mr Marius van Eibergen Santhagens | 50 | – | 50 | – |
| Mr Edward Paap | 50 | – | 50 | – |
| Mr Marco Wichers | 50 | – | 50 | – |
| Total | 150 | 234 | 384 | – |
| Total – all directors | 875 | 784 | 1,659 | 100 |

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

## Total shareholder returns performance 2010



## Service arrangements

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

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

## Bonuses

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

## Share options

The Company adopted its Share Option Scheme on October 26, 2006 which was amended on November 25, 2008 (refer to note 27 to the consolidated financial statements), the terms and conditions of which (except for the exercise price) are regulated by the Share Option Scheme. Options will vest in three equal annual portions and have a contractual life of seven years following grant. In the course of 2010, 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, 2010 | Exercise price of options £ |
|---|---|---|---|
| Mr Mordechay Zisser | 3,907,895 | 3,039,474 | 0.52 |
| Mr Ran Shtarkman | 10,150,376 | 6,475,287 | 0.52 |
| Mr Shimon Yitzhaki | 2,116,541 | 868,420 | 0.52-1.14 |
| Mr Marius van Eibergen Santhagens | – | – | n/a |
| Mr Edward Paap | – | – | n/a |
| Mr Marco Wichers | – | – | n/a |

| | Number of options as at December 31, 2010 |
|---|---|
| Total pool | 33,834,586 |
| Granted | 38,951,174 |
| Exercised | 7,360,699 |
| Forfeited | (5,720,298) |
| Left for future grant | 603,710 |

Amsterdam, April 28, 2011

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 2010 as included herein give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its affiliated companies that are included in the consolidated financial statements; and (ii) the annual report includes a fair review of the position at the balance sheet date and the development and performance of the business of the Company and its affiliated companies that are included in the consolidated annual financial statements and that the principal risks and uncertainties that the Company faces are described.

The Board of managing directors:

**Mordechay Zisser**
**Executive Director and Chairman**

**Ran Shtarkman**
**Executive Director and CEO**

**Shimon Yitzchaki**
**Non-executive Director**

**Edward Paap**
**Non-executive Director**

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

**Marco Habib Wichers**
**Non-executive Director**

April 28, 2011

Financial statements

# Independent auditors' report

The Board of Directors and Stockholders
Plaza Centers N.V.

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Plaza Centers N.V. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

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

## Auditors' responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2010 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the EU.

**KPMG Hungária Kft.**
**Budapest** March 22, 2011

# Consolidated statement of financial position

| | Note | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | **137,801** | 122,596 |
| Restricted bank deposits | 6 | **29,954** | 39,202 |
| Short-term deposits | | **–** | 2,589 |
| Available for sale financial assets | 7 | **27,098** | 15,040 |
| Trade receivables | 8 | **4,064** | 1,920 |
| Other receivables and prepayments | 9 | **47,828** | 54,118 |
| Derivatives | 16 | **10,535** | 1,810 |
| Trading properties | 10 | **807,887** | 707,287 |
| **Total current assets** | | **1,065,167** | 944,562 |
| Long-term deposits and other investments | 11 | **52,559** | 51,447 |
| Deferred tax assets | 24 | **282** | – |
| Derivatives | 16 | **42,110** | 20,151 |
| Property and equipment | 12 | **11,361** | 14,990 |
| Investment property | 13 | **238,702** | 13,399 |
| Restricted bank deposits | 6 | **15,751** | 14,737 |
| Other non-current assets | | **364** | 335 |
| **Total non-current assets** | | **361,129** | 115,059 |
| **Total assets** | | **1,426,296** | 1,059,621 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Interest bearing loans from banks | 17 | **232,902** | 176,637 |
| Debentures at fair value through profit or loss | 22 | **48,318** | 7,423 |
| Debentures at amortized cost | 23 | **20,762** | – |
| Trade payables | 18 | **11,260** | 19,953 |
| Related parties | 19 | **3,758** | 3,234 |
| Provisions | 20 | **15,597** | 16,305 |
| Other liabilities | 21 | **19,474** | 11,465 |
| **Total current liabilities** | | **352,071** | 235,017 |
| Interest bearing loans from banks | 17 | **133,514** | 7,435 |
| Debentures at fair value through profit or loss | 22 | **211,997** | 211,940 |
| Debentures at amortized cost | 23 | **97,979** | 27,792 |
| Other liabilities | 21 | **5,330** | 291 |
| Deferred tax liabilities | 24 | **956** | 2,437 |
| **Total non-current liabilities** | | **449,776** | 249,895 |
| Share capital | 25 | **2,967** | 2,942 |
| Translation reserve | 25 | **8,074** | (9,640) |
| Other reserves | 25 | **31,272** | 28,888 |
| Share premium | 25 | **261,773** | 261,773 |
| Retained earnings | | **296,109** | 285,836 |
| **Total equity attributable to equity holders of the Company** | | **600,195** | 569,799 |
| Non-controlling interests | | **24,254** | 4,910 |
| **Total equity** | | **624,449** | 574,709 |
| **Total equity and liabilities** | | **1,426,296** | 1,059,621 |

Date of approval of the financial statements: March 22, 2011
The notes on pages 74-135 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

Financial statements

# Consolidated income statement

| | Note | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|---|
| Revenues | 28 | **37,641** | 16,045 |
| Impairment losses – trading properties | 10 | **6,710** | 33,893 |
| Cost of operations | 29 | **20,853** | 12,970 |
| **Gross profit (loss)** | | **10,078** | (30,818) |
| Administrative expenses (*) | 30 | **17,923** | 19,054 |
| Other income | 31 | **(42,603)** | (280) |
| Other expenses | 31 | **260** | 39 |
| **Results from operating activities** | | **34,498** | (49,631) |
| Finance income | 32 | **49,596** | 33,423 |
| Finance expenses | 32 | **(70,773)** | (51,543) |
| Net finance expenses | | **(21,177)** | (18,120) |
| Share in loss of associate | 15 | **(381)** | (780) |
| **Profit/(loss) before income tax** | | **12,940** | (68,531) |
| Tax benefit | 33 | **(1,308)** | (3,819) |
| **Profit/(loss) for the year** | | **14,248** | (64,712) |
| **Profit/(loss) attributable to:** | | | |
| Owners of the Company | | **10,273** | (64,769) |
| Non controlling interests | | **3,975** | 57 |
| | | **14,248** | (64,712) |
| **Basic earnings/(loss) per share (in EURO)** | 26 | **0.03** | (0.23) |
| **Diluted earnings/(loss) per share (in EURO)** | 26 | **0.03** | (0.23) |

* Including non-cash expenses due to the share option plan in the amount of EUR 2.5 million (2009: EUR 2.8 million).

The notes on pages 74-135 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **Profit/(loss) for the year** | **14,248** | (64,712) |
| **Other comprehensive income** | | |
| Net change in fair value of available for sale financial assets | **(179)** | 1,722 |
| Foreign currency translation differences for foreign operations | **12,221** | 2,586 |
| Other comprehensive income for the year, net of income tax | **12,042** | 4,308 |
| Total comprehensive income/(loss) for the year | **26,290** | (60,404) |
| Total comprehensive income/(loss) attributable to: | | |
| Owners of the Company: | **27,808** | (60,512) |
| Non-controlling interests | **(1,518)** | 108 |
| **Total comprehensive income/(loss) for the year** | **26,290** | (60,404) |

The notes on pages 74-135 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

| | Attributable to the equity holders of the Company | | | | | Financial assets available for sale reserve €'000 | Retained earnings €'000 | Total €'000 | Non-controlling interest €'000 | Total €'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital €'000 | Share premium €'000 | Other capital reserves €'000 | Translation reserve €'000 | Reserve for own shares €'000 | | | | | |
| **Balance at December 31, 2008** | 2,924 | 248,860 | 22,898 | (12,175) | (5,469) | (1,120) | 350,605 | 606,523 | 3,008 | 609,531 |
| Own shares acquired | – | – | – | – | (3,523) | – | – | (3,523) | – | (3,523) |
| Own shares sold | – | 12,913 | – | – | 8,992 | – | – | 21,905 | – | 21,905 |
| Effect of acquisition of subsidiaries | – | – | – | – | – | – | – | – | 1,794 | 1,794 |
| Share-based payment | – | – | 5,406 | – | – | – | – | 5,406 | – | 5,406 |
| Share option exercised | 18 | – | (18) | – | – | – | – | – | – | – |
| **Comprehensive income for the year** | | | | | | | | | | |
| Loss | – | – | – | – | – | – | (64,769) | (64,769) | 57 | (64,712) |
| Foreign currency translation differences | – | – | – | 2,535 | – | – | – | 2,535 | 51 | 2,586 |
| Available for sale reserve, net | – | – | – | – | – | 1,722 | – | 1,722 | – | 1,722 |
| **Total comprehensive income for the year** | – | – | – | 2,535 | – | 1,722 | (64,769) | (60,512) | 108 | (60,404) |
| **Balance at December 31, 2009** | 2,942 | 261,773 | 28,286 | (9,640) | – | 602 | 285,836 | 569,799 | 4,910 | 574,709 |
| Effect of acquisition of subsidiaries | – | – | – | – | – | – | – | – | 20,862 | 20,862 |
| Share-based payment | – | – | 2,588 | – | – | – | – | 2,588 | – | 2,588 |
| Share option exercised | 25 | – | (25) | – | – | – | – | – | – | – |
| **Comprehensive income for the year** | | | | | | | | | | |
| Profit | – | – | – | – | – | – | 10,273 | 10,273 | 3,975 | 14,248 |
| Foreign currency translation differences | – | – | – | 17,714 | – | – | – | 17,714 | (5,493) | 12,221 |
| Available for sale reserve, net | – | – | – | – | – | (179) | – | (179) | – | (179) |
| **Total comprehensive income for the year** | – | – | – | 17,714 | – | (179) | 10,273 | 27,808 | (1,518) | 26,290 |
| **Balance at December 31, 2010** | **2,967** | **261,773** | **30,849** | **8,074** | **–** | **423** | **296,109** | **600,195** | **24,254** | **624,449** |

The notes on pages 74-135 are an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

| | Note | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) for the year | | **14,248** | (64,712) |
| Adjustments necessary to reflect cash flows used in operating activities: | | | |
| Depreciation and impairment on trading property, property and equipment and other assets | 10,12 | **8,953** | 35,365 |
| Change in fair value of investment property | 13 | **(4,647)** | (429) |
| Finance expenses, net | 32 | **21,177** | 18,120 |
| Interest received in cash | | **8,631** | 9,471 |
| Interest paid | | **(28,234)** | (5,513) |
| Share-based payment | 27,38 | **2,540** | 2,821 |
| Gain from a bargain purchase | 37 | **(42,039)** | – |
| Loss/(gain) on sale of property and equipment | | **212** | (141) |
| Share in loss of associate | | **381** | 780 |
| Loss on sale of trading property | | **133** | – |
| Income tax expenses (tax benefit) | 33 | **(1,308)** | (3,819) |
| | | **(19,953)** | (8,057) |
| Decrease/(increase) in trade accounts receivable | | **390** | (1,001) |
| Decrease in other accounts receivable | | **9,881** | 7,188 |
| Change in restricted cash | | **(9,030)** | 6,945 |
| Increase in advance payment on accounts of trading properties | | **(4,035)** | (1,567) |
| Increase in trading properties | 10 | **(62,693)** | (108,940) |
| Purchase of trading property companies (see appendix A) | | **–** | (7,202) |
| Decrease in trade accounts payable | | **(6,343)** | (1,538) |
| Increase/(decrease) in other liabilities and provisions | | **3,904** | (4,696) |
| Proceeds from disposal of trading property, net of cash disposed (see appendix B) | | **965** | – |
| | | **(86,914)** | (110,811) |
| Income tax paid | | **(121)** | (74) |
| **Net cash used in operating activities** | | **(87,035)** | (118,942) |
| Purchases of property, equipment and other assets | | **(466)** | (1,222) |
| Proceeds from sale of property and equipment | 12 | **3,135** | 303 |
| Capital expenditure on Investment properties | | **(1,168)** | – |
| Acquisition of subsidiaries, net of cash acquired | 37 | **(14,354)** | – |
| Purchase of available for sale financial assets | 7 | **(21,935)** | (8,294) |
| Proceeds from sale of available for sale financial assets | 7 | **10,195** | 3,808 |
| Long-term deposits, net | | **(33)** | (99) |
| **Net cash used in investing activities** | | **(24,626)** | (5,504) |
| **Cash from financing activities** | | | |
| Proceeds from loans from banks and financial institutions | 17 | **53,274** | 44,267 |
| Proceeds from loans from partners | 21 | **5,130** | – |
| Proceeds from selling settlement of derivatives | 16 | **9,259** | 13,114 |
| Proceeds from own shares sold | | **–** | 21,905 |
| Treasury shares purchased | | **–** | (3,523) |
| Proceeds from issuance of long-term debentures | 22,23 | **77,968** | 27,408 |
| Long-term loans and debentures repaid to banks | | **(18,694)** | (2,478) |
| Loans repaid to related parties | | **–** | (32) |
| **Net cash provided by financing activities** | | **126,937** | 100,661 |
| **Effect of exchange rate fluctuations on cash held** | | **(71)** | 355 |
| **Increase/(decrease) in cash and cash equivalents during the year** | | **15,205** | (23,430) |
| **Cash and cash equivalents at the beginning of the year** | | **122,596** | 146,026 |
| **Cash and cash equivalents at the end of the year** | | **137,801** | 122,596 |

The notes on pages 74-135 are an integral part of these consolidated financial statements.

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **Appendix A – Purchase of trading property companies** | | |
| Cash and cash equivalents of subsidiaries acquired | – | 1,729 |
| Short-term deposits | – | – |
| Trade receivables and other receivables | – | 4,673 |
| Long-term deposit | – | (1,536) |
| Property and equipment | – | – |
| Trading property | – | 41,555 |
| Other assets | – | 24 |
| Trade payables | – | (82) |
| Interest bearing loans from banks | – | (32,477) |
| Related parties | – | – |
| Minority interest | – | (1,147) |
| Deferred taxes | – | (139) |
| Other accounts payable | – | (3,669) |
| Less – Cash and cash equivalents of subsidiaries acquired | – | (1,729) |
| Acquisitions of subsidiaries, net of cash held | – | 7,202 |
| **Appendix B – Disposal of subsidiary** | | |
| Other receivables | **41** | – |
| Trading properties | **1,057** | – |
| Net identifiable assets and liabilities disposed | **1,098** | – |
| Cash from sale of subsidiaries | **965** | – |
| Less – Cash and cash equivalents of subsidiaries disposed | – | – |
| | **965** | – |

The notes on pages 74-135 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") (refer also to note 37).
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") and starting October 19, 2007, the Company's shares are also listed in the Warsaw Stock Exchange ("WSE").

The Company's immediate parent company is Elbit Ultrasound B.V. ("EUL"), which holds 62.4% 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. Mordechay Zisser. For the list of the Group entities, refer to note 42.

## 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").

These consolidated financial statements are not intended for statutory filing purposes. The Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. At the date of approving these financial statements the Company had not yet prepared consolidated financial statements for the year ended December 31, 2010 in accordance with The Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on March 22, 2011.

### 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; and
- Financial instruments at fair value through profit or loss are measured at fair value.

### c. Functional and presentation currency

These consolidated financial statements are presented in 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.

Information about 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 13, 41, 4 – classification and valuation of investment property.
- Note 11 – held to maturity investment.
- Notes 22, 23 – debentures at fair value through profit or loss.
- Note 10 – suspension of borrowing costs capitalization.
- Note 41– assessing control in business combination.

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, 41 – key assumptions used in determining the net realizable value of trading properties.
- Note 13 – key assumptions used in valuation of investment property.
- Note 36 – provisions and contingencies.
- Note 27 – measurement of share-based payments.
- Note 16 – key assumption used in valuation of financial instruments (Swap).

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.

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.

## Note 2 – Basis of preparation continued

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 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.

**(iv) Excess of current liabilities over current assets in EDT**

The financial statements for EDT as at December 31, 2010 have been prepared on a going concern basis as the directors of the Responsible Entity, after reviewing EDT's going concern status, have concluded that EDT has reasonable grounds to expect to be able to pay its debts as and when they become due and payable. As at December 31, 2010, EDT had a net current asset deficiency of USD 67.6 million (EUR 50.5 million). Regarding the US facility which matures in June 2011 see note 17.

Investment properties in the controlled entities and jointly controlled entities are valued based on a price which would be achieved between willing parties in an arm's-length transaction.

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

# Note 3 – Summary of significant accounting policies

## a. Basis of consolidation

### 1. Subsidiaries

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

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

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

### 2. Associates

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

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

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

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

### 3. Jointly controlled entities

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

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

### 4. Acquisitions from entities under common control

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

# Notes to the consolidated financial statements

continued

## Note 3 – Summary of significant accounting policies continued

### 5. 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.

### 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.

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 USD) 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 USD 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.

### 3. Net investment in foreign operations.

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

### c. Financial instruments

### 1. Non-derivative financial 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.

### Restricted deposits and cash in escrow

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

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

### 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 note 22, 23).

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 eliminates or significantly reduces a measurement or recognition inconsistency. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

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

### 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 10), 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.

# Notes to the consolidated financial statements

continued

## Note 3 – Summary of significant accounting policies continued

### 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.

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

## f. Normal operating cycle

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 is presented as current assets and liabilities (refer to note 10).

## g. 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.

## h. 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(i)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

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

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

| | % |
|---|---|
| Land – owned | 0 |
| 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.

## i. 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.

# Notes to the consolidated financial statements

continued

## Note 3 – Summary of significant accounting policies continued

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 time value are reflected as a component of interest 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 assets 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.

### 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.

### j. Provisions

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

### k. 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 to the real estate assets sold.

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

## I. 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.

# Notes to the consolidated financial statements

continued

## Note 3 – Summary of significant accounting policies continued

### m. Finance income and expenses

Finance income comprises interest receivable on funds invested (including available-for-sale financial debt and equity securities), changes in the fair value of financial instruments at fair value through profit or loss, gains on 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).

### n. Taxation

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

### o. 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 39) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### p. Employee benefits

#### 1. Bonuses

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

### q. Earning per share

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

### r. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these consolidated financial statements:

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

- Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after January 1, 2011) amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances.

- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011) addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR).

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010) clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a "debt for equity swap" are consideration paid in accordance with IAS 39.41.

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after February 1, 2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

# Notes to the consolidated financial statements

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## 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

At each reporting date, the fair values of the investment properties are remeasured by EDT Retail Management Limited, 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 maximize 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 Limited 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.

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 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. The fair value of held-to-maturity investments is determined for disclosure purposes only. 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.

### 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 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.

### Forward transactions

The fair value of forwards transaction is based on bank quotes received. Those quotes are tested by an external, independent valuation company, having appropriate recognized qualifications and recent experience in the field of the financial instruments being valued, which estimated the fair value by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

### Swap transactions

Fair values of the swaps 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") using the valuation technique. The quoted market prices of debentures Series B was 0.679 as opposed to 0.852 using the valuation technique.

### 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.

# Notes to the consolidated financial statements
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## Note 5 – Cash and cash equivalents

| Bank deposits and cash denominated in | Interest rate as of December 31, 2010 | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|---|
| EURO ("EUR") | Mix of fixed and floating interest rates between 0-4.3% – see (1) below | 111,789 | 101,165 |
| Hungarian Forints (HUF) | 0%-5.5% | 422 | 2,112 |
| Polish Zlotys (PLN) | 0%-3.7% | 6,171 | 8,744 |
| Czech Crowns (CZK) | 0%-0.8% | 458 | 2,322 |
| Indian Rupee (INR) | 0%-6.5% | 3,282 | 2,105 |
| Latvian Lats (LVL) | Mainly 0.6% | 226 | 541 |
| United States Dollar (USD) | 0.25%-0.75% | 14,587 | 2,377 |
| Romanian Lei (RON) | Mainly 0% | 285 | 2,972 |
| Serbian Dinar (RSD) | Mainly 0% | 23 | 253 |
| New Israeli Shekel (NIS) | 0% | 541 | 5 |
| In other currencies | 0% | 17 | – |
| **Total** | | **137,801** | 122,596 |

1 As at December 31, 2010, cash in banks is deposited for periods between overnight deposits and three months deposits. The Group has deposits in several commercial banks. Fixed deposits bear interest rates varying between 0.2% and 4.3%, while floating deposits bear overnight interest rates, as determined by the EONIA overnight interest benchmark.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 35.

## Note 6 – Restricted bank deposits

| | Interest rate as of December 31, 2010 | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|---|
| **Short-term restricted bank deposits** | | | |
| In EUR | See[1] and[4] below | 23,635 | 37,456 |
| In USD | 0% | 1,333 | – |
| In PLN | See[2] below | 3,273 | 1,490 |
| In HUF | MNB-0.5%* | 1,713 | – |
| In other currencies | 0% | – | 256 |
| **Total short term** | | **29,954** | 39,202 |
| **Long-term restricted bank deposits** | | | |
| In EUR | see[3] below | 13,469 | 14,336 |
| In other currencies | 0% | 2,282 | 401 |
| **Total long term** | | **15,751** | 14,737 |

* Hungarian National Bank base rate

As of December 31, 2010, the Group pledged the above restricted bank deposits to secure banking facilities received, to secure acquisition and construction activities to be performed by the Group, or as guarantees for non-qualified hedging instruments.

1 As of December 31, 2010, EUR 10.6 million are restricted in respect of bank facilities agreements signed to finance Projects in Serbia, Poland, Romania, Hungary, Latvia and the Czech Republic. This amount carries an annual interest rate ranging between 0% and 4.3%. An additional amount of EUR 2.9 million is cash in restricted deposit in respect of the swap transactions (see note 16). This amount bears an interest of between 0.2% and 1.2%. Another EUR 1 million are restricted in respect of Interest Rate Swap ("IRS") performed in connection with bank facility agreement in Serbia (refer to note 16).

2 As of December 31, 2010 an amount of PLN 9.2 million (EUR 2.3 million) is cash in a restricted account in respect to the purchase of one of the Company's projects in Poland. This amount bears an interest between 80% of the Warsaw Interbank bid rate (WIBID) and 3.5%. Other restricted cash is in respect of restriction due to bank facilities requirements in a total amount of PLN 4 million (EUR 1 million), which bears interest of 3.3% per annum.

3 As of December 31, 2010 an amount of EUR 11.5 million is restricted in respect of the EUR/NIS cross currency IRS transactions (see note 16). The deposits are carrying fixed interest rates ranging between 0.2%-1.2%. An additional EUR 2 million is restricted in respect of the EUR/PLN cross currency IRS transaction (see note 16).

4 An amount of EUR 9.1 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 EUR Libor.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 35.

## Note 7 – Available-for-sale financial assets

Available-for-sale financial assets ("AFS") consist of mainly perpetual securities, notes and corporate bonds securities. AFS have stated fixed or no fixed redemption or maturity date. Information on performance of AFS:

| | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|
| Interest income from AFS | 1,379 | 586 |
| Gain (loss) from selling AFS | 724 | (71) |
| Premium amortization | 497 | 224 |
| | 2,600 | 739 |

## Note 8 – Trade receivables

| | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|
| Trade receivables[1] | 6,247 | 3,034 |
| Less – Allowance for doubtful debts[2] | (2,183) | (1,114) |
| | 4,064 | 1,920 |

1 As of December 31, 2010 includes an amount of EUR 2.4 million relating to US operations.

2 Increase in allowances created during 2010 in the amount of EUR 1.7 million, mainly due to operations in the US (approximately EUR 1 million), Latvia, Czech Republic, and Poland. An allowance of EUR 0.6 million was written off (mainly due to US operations).

## Note 9 – Other receivables and prepayments

| | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|
| Advances for plot purchase[1] | 33,090 | 27,339 |
| Advances to suppliers[2] | 3,028 | 7,882 |
| Prepaid expenses | 711 | 603 |
| VAT receivables[3] | 3,323 | 10,744 |
| Related parties | 1,185 | 513 |
| Loans to partners in jointly controlled entities | 3,379 | 5,013 |
| Accrued interest receivable | 2,027 | 1,560 |
| Others | 1,085 | 464 |
| | 47,828 | 54,118 |

1 As of December 31, 2010, including mainly advance payments in the amount of EUR 31.8 million for the purchase of plots in India, as part of the Joint Venture with EI (refer also to notes 37). Out of this amount, an amount of EUR 4.7 million is guaranteed by EI.

2 As of December 31, 2010 including mainly advance payments to general contractors in India.

3 As of December 31, 2010, VAT receivable is mainly due to projects in Romania (EUR 1 million) and Poland (EUR 1 million).

# Notes to the consolidated financial statements

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## Note 10 – Trading properties

| | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|
| Balance as at 1 January | **707,287** | 575,334 |
| Acquisition and construction costs | **74,111** | 109,591 |
| Capitalized borrowing costs[1] | **19,742** | 12,790 |
| Write-down of trading properties[2] | **(6,710)** | (33,893) |
| Addition due to acquisitions of subsidiary | – | 41,555 |
| Effect of movements in exchange rates | **14,514** | 1,910 |
| Trading properties disposed | **(1,057)** | – |
| Balance at 31 December[3] | **807,887** | 707,287 |
| Completed trading property | **146,626** | 86,694 |
| Trading properties under construction | **107,825** | 260,431 |
| Trading properties under planning and design stage | **553,436** | 360,162 |
| Total | **807,887** | 707,287 |

1 Suspension of capitalizing borrowing costs – The Group principally ceases capitalization of borrowing costs when substantially all of the activities necessary to prepare the asset for use are complete. 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 realizable value was performed based on external valuation reports. The write-downs were recognized in respect of projects in the Czech Republic (EUR 4 million), Latvia (EUR 1 million), Romania (EUR 1.3 million), Hungary (EUR 0.7 million) and Poland (EUR 0.3 million net uplift of value from 2009 impairment). Refer to note 41a for more information about key assumptions.

3 Including cost of large scale projects (Bangalore in India, Casaradio in Romania and Dream Island in Hungary) in a total amount of EUR 225 million (2009 – EUR 199 million). The above mentioned projects are expected to generate an operating cycle closer to eight years (refer to note 3(f)) comparing to other projects the Company holds.

As of December 31, 2010, 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 39.

Regarding the changes in global markets and their effect on the development of trading properties under construction refer to note 37.

As of December 31, 2010, a total carrying amount of EUR 275 million (December 31, 2009 – EUR 227 million) of the above mentioned trading property is secured against bank loans.

As of 31 December 2010, trading properties include capitalization of share-based payments in the amount of EUR 10.5 million (December 31, 2009 – EUR 9.9 million).

Below is a summary table for project status:

| | | December 31, 2010 | Share holding | | General information | | |
|---|---|---|---|---|---|---|---|
| Project | Location | Purchase/ transaction year | Rate (%) | Nature of rights | Status of registration of land | Permit status | Planned GLA (m²) |
| Suwałki Plaza | Poland | 2006 | 100 | Ownership | Completed | Operational shopping center (starting Q2 2010) | 20,000 |
| Zgorzelec Plaza | Poland | 2006 | 100 | Ownership | Completed | Operational shopping center (starting Q1 2010) | 13,000 |
| Torun Plaza | Poland | 2007 | 100 | Ownership | Completed | Building permit valid | 40,000 |
| Lodz | Poland | 2001 | 100 | Ownership/ Perpetual usufruct | Completed | Planning permit valid | 80,000* |
| Lodz – New | 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 | 450,000* |
| Chennai | India | 2008 | 38 | Ownership | In process | Under negotiations | 860,000* |
| Koregaon Park | India | 2006 | 100 | Ownership | Completed | Building permit valid | 111,000* |
| Kharadi | India | 2007 | 50 | Ownership | Completed | Partial building permit valid | 205,000* |
| Trivandrum | India | 2007 | 50 | Ownership | Completed | Under negotiations | 195,000* |
| Casa Radio | Romania | 2007 | 75 | Leased for 49 years | Completed | Planning permit valid | 600,000* |
| Timisoara Plaza | Romania | 2007 | 100 | Ownership | Completed | Planning permit valid | 43,000 |
| Miercurea Ciuc Plaza | Romania | 2007 | 100 | Ownership | Completed | Building permit valid | 14,000 |
| Iasi Plaza | Romania | 2007 | 100 | Ownership | Completed | Planning permit valid | 62,000 |
| Slatina Plaza | Romania | 2007 | 100 | Ownership | Completed | Planning permit valid | 17,000 |
| Targu Mures Plaza | Romania | 2008 | 100 | Ownership | Completed | Planning permit valid | 30,000 |
| Hunedoara Plaza | Romania | 2008 | 100 | Ownership | Completed | Planning permit valid | 13,000 |
| Constanta Plaza | Romania | 2009 | 100 | Ownership | Completed | Building permit valid | 18,000 |
| Belgrade Plaza** | Serbia | 2007 | 100 | Ownership | Completed | Under negotiations | 70,000* |
| Kragujevac Plaza** | Serbia | 2007 | 100 | Construction lease period with subsequent ownership | Completed | Building permit valid | 22,000 |
| Sport Star Plaza** | Serbia | 2007 | 100 | Land use rights | Completed | Under negotiations | 45,000 |
| Shumen Plaza | Bulgaria | 2007 | 100 | Ownership | Completed | Planning permit valid | 20,000 |
| Sofia Plaza Business Center | Bulgaria | 2009 | 50.1 | Ownership | Completed | Planning permit valid | 44,000 |
| Dream Island (Budapest) | Hungary | 2003 | 43.5 | Land use rights | Completed | Under negotiations | 350,000 |
| Arena Plaza Extension | Hungary | 2005 | 100 | Land use rights | Completed | Building permit valid | 40,000 |
| Uj Udvar | Hungary | 2007 | 35 | Ownership | Completed | Building permit pending | 16,000 |
| Piraeus Plaza | Greece | 2002 | 100 | Ownership | Completed | Building permit valid | 26,000 |

* GBA (m²)

** In respect of commitments to projects in Serbia, refer to note 36.

# Notes to the consolidated financial statements
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## Note 11 – Long-term deposits and other investments

| | Interest rate as of December 31, 2010 | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|---|
| Financial structure A* | **0-11.5%** | **38,000** | 38,000 |
| Financial structure B** | **6.25%-12.5%** | **14,017** | 12,952 |
| Long-term loan to associated Company | **7%** | **542** | 495 |
| | | **52,559** | 51,447 |

* Structure A – The EUR 38 million Principal is capital protected and payable at Maturity. Structure A bears interest of 11.5% per annum, payable quarterly to the extent that the margin between the 30-year Euro CMS (Constant Maturity Swap) and the 10-year Euro CMS (measured on a daily basis) is higher than the accrual barrier which was set at 0.05%. For days in which the margin is lower than the barrier no interest is paid. 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, 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, 2010 was EUR 27.7 million.

** Structure B – The EUR 13 million Principal of the Structure is capital protected and payable at Maturity. 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 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. As of December 31, 2010, the Company recorded a fair value gain of EUR 1.1 million (2009: gain of EUR 3.1 million) in respect to Structure B. An amount of EUR 0.7 million is outstanding as interest receivable due to structure B.

## Note 12 – Property and equipment

| | Land and buildings €'000 | Equipment €'000 | Fixtures and fittings €'000 | Airplanes €'000 | Total €'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at December 31, 2008** | 7,057 | 4,572 | 1,258 | 9,099 | 21,986 |
| Additions | – | 320 | 118 | – | 438 |
| Disposals | – | (229) | – | – | (229) |
| Exchange rate effect | – | 6 | – | 75 | 81 |
| **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** |
| **Accumulated depreciation** | | | | | |
| **Balance at December 31, 2008** | 2,289 | 1,873 | 928 | 1,103 | 6,193 |
| Depreciation expenses | 92 | 611 | 25 | 459 | 1,187 |
| Disposals | – | (69) | – | – | (69) |
| Exchange rate effect | – | – | – | (25) | (25) |
| **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** |
| **Carrying amounts** | | | | | |
| At December 31, 2010 | 4,494 | 2,488 | 411 | 3,968 | 11,361 |
| At December 31, 2009 | 4,676 | 2,254 | 423 | 7,637 | 14,990 |

### Major additions/disposals in the period

In June 2010, Elbit Plaza India Real Estate Holdings Ltd. ("EPI"), the Company's 50% held Joint Venture company with EI, sold its airplane for a total consideration of EUR 6.7 million. The book value was EUR 7.1 million, and EPI recorded a loss of EUR 0.4 million from the disposal.

## Note 13 – Investment property

| | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|
| Balance at January 1 | **13,399** | 12,970 |
| Capital expenditures on investment properties | **1,168** | – |
| Effect of movements in exchange rate | **(24,776)** | – |
| Acquisition through business combination (refer to note 37) | **256,477** | – |
| Exclusion of MV LLC (refer to note 37) | **(12,213)** | – |
| Fair value revaluation | **4,647** | 429 |
| Balance at December 31 | **238,702** | 13,399 |

The below information relates to Investment property acquired in June 2010 acquired through business combination (refer also to note 37), which totaled EUR 225 million as of the date of statement of financial position:

### (i) Valuation basis

EDT obtains independent valuations in accordance with the policy set out in note 4. The directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. At the end of the reporting period, the key assumptions used in determining fair value were in the following ranges for the Group's portfolio of properties:

| | Independent valuation range | Directors valuation range |
|---|---|---|
| Discount rate | 6.50%–10.50% | n/a |
| Terminal yield | 6.75%–9.50% | n/a |
| Capitalization yield | 6.50%–8.75% | 7.56%–16.65% |
| Expected vacancy rate | 1.00%–9.00% | 0.00%–10.00% |
| Rental growth rate | 0%–3% | 0% |

### Sensitivity analysis

Capitalization rates used in the independent and directors' valuations involve judgment using the most recent information available from the investment property market. The impact on the profit for the Company, by having a higher and lower capitalization rate is shown in the table below.

| | Profit (loss) December 31, 2010 €'000 |
|---|---|
| Capitalization rate – increase 50bps | **(7,299)** |
| Capitalization rate – decrease 50bps | **19,904** |

### (ii) Non-current assets pledged as security

All investment properties held in the US are pledged as security to loans provided from financial institutions, which totaled EUR 144 million, as of December 31, 2010.

### (iii) Contractual obligations

There are no contractual obligations related to investment properties at the end of the period.

# Notes to the consolidated financial statements

continued

## Note 13 – Investment property continued

### (iv) 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 (Company part) are as follows:

| | December 31, 2010 €'000 | December 31, 2009 €'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 | **17,066** | N/A |
| More than one year up to five years | **48,154** | N/A |
| More than five years | **22,026** | N/A |
| Balance at December 31 | **87,246** | N/A |

Apart of the above mentioned investment property assets in the US, the Company has one logistic building in Prague that is leased to third parties. Generally, leases contain an initial period of one to ten 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. As of 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% and 7.5% for 2010 and 2009, respectively.

## Note 14 – Proportionate consolidation

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

| | 2010* €'000 | 2009 €'000 |
|---|---|---|
| Current assets | **271,937** | 230,170 |
| Non-current assets | **228,132** | 4,529 |
| Current liabilities | **100,464** | 71,761 |
| Non-current liabilities | **131,618** | 119 |
| Non-controlling interest | **24,254** | 4,910 |

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| Revenues and other income | **63,283** | 5,173 |
| Expenses | **(23,027)** | (19,285) |
| Profit/(loss) after tax | **40,256** | (14,112) |

* From the third quarter of 2010 the US real estate operation is proportionally consolidated (refer to note 15). Regarding list of Group entities refer to note 42.

## Note 15 – Equity accounted associates

The Company hold 25% ownership in Malibu invest s.r.l ("Malibu"). Malibu is engaged in the development of residential project in Bucharest, Romania. In addition, the Company has a 24.5% indirect holding in Dream Island Entertainment Ltd. ("DIE"), which holds a casino license to operate a first-class casino in Budapest.

As both Malibu and DIE have negative equity as of the end of the reporting period, the carrying value of the investment is nil as of December 31, 2010.

# Note 16 – Derivatives

### Forward transactions

In the course of 2009 through 2010 the Company entered into, and later on in 2010 settled, two Forward transactions ("Forward A" and "Forward B"), in line with it's risk management policies. Both Forwards were in respect of Series A bonds (refer to note 22), and in Forward B also in respect of Series B (refer to note 23).

In 2010, the Company received a total consideration of NIS 44.1 million (approximately EUR 9.3 million). following the settlement of both Forwards.

### Cross currency interest rate swap

As of the end of the reporting period the Group maintains, consistent with its risk management policies, an interest rate swap with par value of NIS 799 million with Israeli financial institutions. The Company will pay interest in a range between six month Euribor + 3.52 % and 3.66% and receive 5.4% interest linked to the Israeli CPI with the same amortization schedule as the Series B debentures.

At each payment date of the annual instalments of the debentures the Company will receive the principal amount in NIS and will pay the principal amount in EUR (subject to the amortization schedule).

In January 2009 the Company settled its Cross Currency transaction in respect of its Series A debentures ("swap transaction"), for a total proceeds of EUR 13.1 million. In addition, the Company released a long-term restricted deposit in the amount of EUR 5.3 million, which served as a security for the swap transaction.

The swaps are measured at fair value at the end of each reporting period with changes in the fair value are charged to the profit or loss. The aggregate fair value of the swaps, relating to Series B debentures, based on a valuation technique was EUR 52.7 million.

The swaps are presented as short-term and long-term derivatives as of the end of the reporting period, depending on the maturity of the cross currency interest rate swap.

The fair value of the swaps is determined using valuations techniques which require management to make judgment and assumptions regarding the following variables in respect of mainly the interest rate yield curves of the adjusted NIS and EUR.

In respect of PLN 60 million par value bonds issued (refer to notes 23, 36), the Company entered into a EUR-PLN cross-currency interest rate swap in order to hedge the expected payments in PLN (principal and interest) and to correlate them with the EUR.

The Company will pay a fixed interest of 6.98% and will receive an interest of six months WIBOR + 4.5% with the same amortization schedule as the Polish bonds.

As at the date of these financial statements, the Company has pledged a security deposit in the amount of EUR 16.3 million (refer to note 6(1) and 6(3) above). The above mentioned hedges are non-qualified hedges for accounting purposes.

### Interest rate swap

In respect of Suwałki project loan, the Company hedges its exposure to cash flow due to floating interest rate. As a result, in June 2010, the Company entered into swap transaction in which it will pay fixed interest rate of 2.02% and receives Euribor three months on a quarterly basis starting on June 30, 2011 and ending on June 30, 2014.

The principle amount is EUR 22 million. The Company established a bail mortgage up to EUR 4 million encumbering the real estate project.

In March 2011, the Company entered into additional swap transaction in connection with the above mentioned loan, in which it will pay fixed interest rate of 2.97% and receives Euribor three months on a quarterly basis starting on June 30, 2011 and ending on June 30, 2014. The principle amount is EUR 3.1 million.

In respect of Kragujevac project loan, the Company hedges its exposure to cash flow due to floating interest rate. As a result, in October 2010, the Company entered into swap transaction 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 principle amount is EUR 32.9 million. The Company has pledged a security deposit in amount of EUR 1 million. In respect of foreign currency hedge using call options refer to note 40.

# Notes to the consolidated financial statements

continued

## Note 17 – Interest bearing loans from banks

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 35. All interest bearing loans from banks are of balances of secured bank loans. Terms and conditions of outstanding loans were as follows:

| | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|
| **Non-current loans** | | |
| Investment property secured bank loans | **130,601** | 4,555 |
| Other secured bank loans | **2,913** | 2,880 |
| | **133,514** | 7,435 |
| **Current loans (including current maturities of long-term loans)** | | |
| Trading property secured bank loans | **170,546** | 132,758 |
| Investment property secured bank loans | **17,904** | 469 |
| Other secured bank loans | **44,452** | 43,410 |
| | **232,902** | 176,637 |

| | Nominal interest rate | Currency | Year of maturity | December 31, 2010 Carrying amounts €'000 | December 31, 2009 Carrying amounts €'000 |
|---|---|---|---|---|---|
| Trading property secured bank loan[1] | 3M EURIBOR+2.5% | EUR | 2014 | **34,590** | 36,000 |
| Trading property secured bank loan[1] | 3M EURIBOR+3.5% | EUR | 2014 | **24,069** | 37,724 |
| Trading property secured bank loan[1] | 3M EURIBOR+3% | EUR | 2010 | **21,037** | 21,355 |
| Trading property secured bank loan | 3M EURIBOR+3% | EUR | 2012 | **1,971** | – |
| Trading property secured bank loan | 3M EURIBOR+2.5% | EUR | 2012 | **3,772** | 3,546 |
| Trading property secured bank loan[1,2] | 3M EURIBOR+1.85% | EUR | 2016 | **29,665** | 7,310 |
| Trading property secured bank loan[1] | 3M EURIBOR+2.75% | EUR | 2016 | **20,691** | 8,503 |
| Trading property secured bank loan[2] | 3M EURIBOR+5.5% | EUR | 2027 | **3,930** | – |
| Trading property secured bank loan | 3M EURIBOR+2.25% | EUR | 2011 | **8,182** | 8,182 |
| Trading property secured bank loan | INR linked – 11.75%–12.25% | INR | 2011 | **16,589** | 5,055 |
| Trading property secured bank loan | 3M EURIBOR+4.5% | EUR | 2011 | **4,100** | 3,633 |
| Trading property secured bank loan | 3M EURIBOR+4.75% | EUR | 2011 | **1,200** | 700 |
| Trading property secured bank loan | 3M EURIBOR+2.5% | EUR | 2011 | **750** | 750 |
| | | | | **170,546** | 132,758 |
| Other secured bank loans | 3M EURIBOR+0.5% | EUR | 2011 | **8,047** | 7,017 |
| Other secured bank loans[3] | 3M EURIBOR+0.4% | EUR | 2011 | **26,225** | 26,225 |
| Other secured bank loans[3] | 12M EURIBOR+0.4% | EUR | 2011 | **10,000** | 10,000 |
| Other secured bank loans | 3M USD LIBOR+1.65% | USD | 2014 | **3,093** | 3,048 |
| | | | | **47,365** | 46,290 |
| Investment property secured bank loan | 4.91% | USD | 2012 | **13,232** | – |
| Investment property secured bank loan | 5.01% | USD | 2017 | **22,504** | – |
| Investment property secured bank loan | 5.1% | USD | 2012 | **5,245** | – |
| Investment property secured bank loan[4] | 4.18% | USD | 2011 | **17,282** | – |
| Investment property secured bank loan | 3M LIBOR+3.25% | USD | 2013 | **28,274** | – |
| Investment property secured bank loan | 6% | USD | 2013 | **11,655** | – |
| Investment property secured bank loan | 6.4% | USD | 2015 | **44,224** | – |
| Investment property secured bank loan | 5.5% | USD | 2013 | **1,261** | – |
| Investment property secured bank loan | 6.25% | USD | 2013 | **247** | – |
| Investment property secured bank loan | 3M EURIBOR+1.75% | EUR | 2016 | **4,581** | 5,024 |
| | | | | **148,505** | 5,024 |
| Total interest bearing liabilities | | | | **366,416** | 184,072 |

1 Refer to note 36 (d) for details on breach of certain covenants regarding these loans.

2 IRS on bank loans – refer to note 16

3 Secured bank loans taken in respect of structured deposits (refer to note 11). These loans were extended for a period of between three months and one year in February 2011. The Company is required to secure 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 the fair value of the structures calculated by the issuing bank. As of the end of the reporting period the Company had secured total amount of EUR 9.1 million in respect to both structures (refer to note 6).

4 As of the date of statement of financial position, EDT has a number of assets which are collateralized against the following facility which mature within 12 months: A USD 103.9 million (EUR 78 million) facility which is non-recourse to EDT is separately secured on 13 properties which have a book value of USD 181.1 million (EUR 135.4 million). The loan to value ratio is 57% and EDT has executed a non-binding letter of intent to complete a new financing for at least comparable proceeds prior to the loan maturity.

# Notes to the consolidated financial statements
continued

## Note 18 – Trade payables

| | Currency | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|---|
| Construction related | Mainly in INR, PLN | **10,812** | 19,210 |
| Other trade payables | | **448** | 743 |
| | | **11,260** | 19,953 |

## Note 19 – Related parties

| | Currency | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|---|
| EI Group – ultimate parent company – recharged | EUR, USD | **1,803** | 1,135 |
| Other related parties* | EUR | **404** | 1,338 |
| Former vice chairman of EI (refer to note 36) | INR | **1,164** | 625 |
| EUL (parent company) | EUR, USD | **387** | 136 |
| | | **3,758** | 3,234 |

* 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 38. Transactions with related parties are priced at an arm's-length basis.

## Note 20 – Provisions

| | Provision in respect of liability to governmental institution* €'000 | Provision in respect of liability due to selling of trading and investment property €'000 | Total €'000 |
|---|---|---|---|
| **Current provisions** | | | |
| Balance at January 1, 2010 | 15,834 | 471 | 16,305 |
| Provision used during the period | (237) | (471) | (708) |
| **Balance at December 31, 2010** | **15,597** | **–** | **15,597** |

* The Group's provision relates to liability with the Romanian government. The provision is expected to be settled by 2013.

## Note 21 – Other liabilities

| Short term | Currency | December 31, 2010 €'000 | December 31, 2009 €'000 |
|---|---|---|---|
| Obligation in respect of plot purchase | Mainly EUR | **1,699** | 1,946 |
| Advance payment received[1] | EUR | **6,716** | 2,133 |
| Accrued expenses and commissions | EUR | **815** | 258 |
| Accrued bank interest | EUR | **991** | 295 |
| Government institutions and fees[2] | HUF, PLN, CZK | **2,915** | 366 |
| Salaries and related expenses | EUR, HUF, PLN, CZK, USD | **539** | 487 |
| Loan from partners in jointly controlled company and subsidiaries[3] | EUR | **5,279** | 4,861 |
| Other | HUF, PLN, CZK | **520** | 1,119 |
| Total | | **19,474** | 11,465 |

1 2010 increase is mainly due to advances from tenants in India.
2 2010 increase is mainly due to US real estate taxes liability.
3 As of December 31, 2010 Includes loans from partners in Bulgaria, and Romania.

As of December 31, 2010 other long-term liabilities include a DDR originated EUR 5.1 million (the Company 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 22 – Long-term debentures at fair value through profit or loss

The Company is presenting its Series A debentures (raised in July 2007) and Series B debentures (raised in February and May 2008) at fair value through profit or loss. Both debentures are linked to the increase in the Israeli Consumer Price Index. Accrued interest on both debentures is paid every six months. Series A and Series B debentures raised from 2009 onwards are presented at amortized cost (refer to note 23). Below is a summary of information on the debentures presented at fair value through profit or loss:

| | **Series A debentures** December 31, 2010 €'000 | Series B debentures December 31, 2009 €'000 | **December 31, 2010 €'000** | December 31, 2009 €'000 |
|---|---|---|---|---|
| Fair value (EUR) | **65,538** | 59,382 | **194,777** | 159,981 |
| Par value (NIS) | **266,994** | 305,136 | **797,957** | 797,957 |
| Adjusted par value (NIS) | **303,760** | 136 | **880,381** | 860,744 |
| Adjusted par value (EUR) | **64,113** | 56,074 | **185,817** | 158,176 |

Both debentures Series are rated (effective 2011) ilA/negative by S&P Maalot Ltd. on a local scale and A2/negative MIDROOG Ltd., the Israeli Credit Rating Agency and an affiliate of Moody's Investors Service ("Midroog"). Furthermore, Midroog has ratified the same rating for the additional NIS 300 million Series A and B notes issued in January 2011 (see note 23 below). Debentures Series A bears an annual interest rate of 4.5% with eight annual equal principal instalments between December 2010 and 2017. Debentures Series B bears an annual interest rate of 5.4% with five annual equal principal instalments between July 2011 and 2015.

## Note 23 – Long-term debentures at amortized cost

In the course of 2009 through 2010, following the public offering in Israel of unsecured non-convertible Series B debentures of the Company (the "Series B debentures"), pursuant to the Company's prospectus dated February 3, 2008 ("prospectus"), it was agreed with Israeli investors to issue an additional principal amount of NIS 453 million (approximately EUR 84.6 million) of Series B debentures (the "Additional Debentures") for an aggregate consideration of approximately NIS 482 million (approximately EUR 90 million).

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 88 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 179 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. The purpose of the issuance is purported to refinance debt principal. For credit rating refer to note 22. 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 22).

### Bonds issuance 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 37). 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 and will bear interest rate of six months Polish Wibor plus a margin of 4.5%. Interest will be paid to holders every six months and principal after three years. For debt covenants refer to note 36 (4).

## Note 24 – Deferred tax assets and liabilities

### Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

| Liabilities/(assets) | December 31, 2009 €'000 | Acquired in 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, 2009 €'000 | **December 31, 2010 €'000** |
|---|---|---|
| Tax base higher than book value | 2,185 | – |
| Tax losses | 50,346 | **6,341** |
| | 52,531 | **6,341** |

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 Eastern Europe and India, as well as extensive tax losses incurred in parent company level.

As of December 31, 2010 the expiry date status of tax losses to be carried forward is as follows:

| Total tax losses carried forward | 2011 €'000 | 2012 €'000 | 2013 €'000 | 2014 €'000 | 2015 €'000 | After 2015 €'000 |
|---|---|---|---|---|---|---|
| 53,378 | 790 | 1,168 | 4,894 | 6,953 | 2,532 | 37,041 |

Tax losses are mainly generated from operations in Hungary, 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.

## Note 25 – Equity

| | **December 31, 2010 Number of shares** | December 31, 2009 Number of shares |
|---|---|---|
| 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 | **294,195,700** | 292,431,381 |
| Exercise of share options[1] | **2,526,429** | 1,764,319 |
| At the end of the year | **296,722,129** | 294,195,700 |

1 In the course of 2009, 2,970,976 vested options were exercised into 1,764,319 shares of EUR 0.01. In the course of 2010, 3,954,541 vested options were exercised into 2,526,429 shares of EUR 0.01.

### Capital reserve due to share option plan

Capital reserve is in respect of Employee Share Option Plan ("ESOP") in the total amount of EUR 31,029 as of December 31, 2010 (2009: EUR 28,467). Regarding the amendment of ESOP and its effect on the capital reserve refer to note 27.

### 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, 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.

### Treasury shares

The buyback program announced in October 2008 was fully utilized within three months and the 14,500,000 purchased shares were held in treasury.

On October 9, 2009 the Company placed the 14,500,000 ordinary shares mentioned above with a number of Polish institutional investors. The shares were sold at a price of 6.5 Polish Zlotys ("PLN") per share (circa 141 pence), compared to the Warsaw Stock Exchange closing price on October 9, 2009 of 6.6 PLN per share (circa 143 pence).

The Company received a total gross consideration of circa GBP 20.5 million (EUR 21.9 million) on disposal, representing a gross economic (not accounting) gain of circa GBP 12.8 million (circa EUR 13.8 million). For accounting purposes the excess of amount paid over the value of treasury shares was recorded as share premium.

# Notes to the consolidated financial statements

continued

## Note 26 – Earnings per share

The calculation of basic earnings per share at December 31, 2010 was based on the profit attributable to ordinary shareholders of EUR 10,273 thousand (2009: loss of EUR 64,712 thousand) and a weighted average number of ordinary shares outstanding of 296,454 thousand (2009: 281,357 thousand).

### Weighted average number of ordinary shares

| In thousands of shares with a EUR 0.01 par value | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Issued ordinary shares at January 1 | **294,196** | 283,222 |
| Effect of own shares sold | – | 3,019 |
| Effect of own shares held | – | (5,191) |
| Share-based p ayment – exercise of options | **2,258** | 307 |
| Weighted average number of ordinary shares at December 31 | **296,454** | 281,357 |

In 2009, diluted earnings per share are not presented as their assumed conversion would have an anti-dilutive effect i.e increase in earnings per share. 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, 2010 | December 31, 2009 |
|---|---|---|
| Weighted average number of ordinary shares (basic) | **296,454** | 281,357 |
| Effect of share options on issue | **15,287** | – |
| Weighted average number of ordinary shares (diluted) at December 31 | **311,741** | 281,357 |

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

## Note 27 – Employee share option plan

On October 26, 2006 the Company's Board of Directors approved the grant of up to 33,834,586 non-negotiable options by the Company's ordinary shares to the Company's Board members, employees in the Company and other persons who provide services to the Company including employees of the Group ("Offerees"). The options were granted to the Offerees for no consideration.

Exercise of the options was subject to the following mechanism:

On exercise date the Company shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of the Company's shares on the LSE on the exercise date, provided that if the opening price exceeds 180% of the Exercise Price the opening price shall be set at 180% of the exercise price; less (B) the exercise price of the options; and such difference (A minus B) will be divided by the opening price of the Company's Shares in the LSE on the exercise date. The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

| Grant date/employees entitled | Number of options | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Option grant to key management at October 27, 2006 | 15,165,754 | see [2] below | seven years |
| Option grant to employees at October 27, 2006 | 2,596,996 | see [2] below | seven years |
| Total granted in 2006 | 17,762,250 | see [2] below | seven years |
| Total granted in 2007[1] | 1,726,701 | see [2] below | seven years |
| Total granted in 2008[1] | 1,423,890 | see [2] below | seven years |
| Total granted in 2009[1] | 1,168,336 | Three years of service | seven years |
| Total granted in 2010[1] | 2,789,000 | Three years of service | seven years |
| Total share options granted | 24,870,177 | | |

1 2007 – 200,000 share options granted to key management. 2008 – 626,667 share options granted to key management. 2009 – 73,334 share options granted to key management. 2010 – 1,600,000 share options granted to key management.

2 Vesting conditions – refer to modification of employee share option paragraph below.

| | **Weighted average exercise price 2010 GBP** | **Number of options 2010** | Weighted average exercise price 2009 GBP | Number of options 2009 |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **0.53** | **26,255,482** | 0.52 | 30,115,208 |
| Forfeited during the period – back to pool | **0.52** | **(200,716)** | 0.50 | (2,223,750) |
| Exercised during the year | **0.52** | **(3,954,541)** | 0.52 | (2,970,976) |
| Granted during the year | **1.23** | **2,789,000** | 0.80 | 1,335,000 |
| Outstanding at the end of the year | **0.61** | **24,889,225** | 0.532 | 26,255,482 |
| Exercisable at the end of the year | | **15,279,330** | | 12,800,446 |

* The options outstanding at December 31, 2010 have an exercise price in the range of GBP 0.52 to GBP 1.64 (app. EUR 0.59 – EUR 1.85) and a weighted average remaining contractual life of four years. The weighted average share price at the date of exercise for share options exercised in 2010 was GBP 1.41 (2009: GBP 1.32).

### Modification of employee share option plan

On November 25, 2008 the Company's general shareholders meeting and the Board of Directors approved to amend the exercise price of all options granted more than one year prior to October 25, 2008 ("Record Date") to the average closing price of the shares on the London Stock Exchange during the 30-day period ending on November 25, 2008 (i.e., GBP 0.52 per option). In addition, the amendment plan determined that all options that were not vested on the Record Date shall vest over a new three year period commencing on the Record Date, in such way that each year following that date 1/3 (one third) of such Options shall be vested. Furthermore, the Option Term was extended in additional two years to a total period of seven years, which starts at the date of grant by the Company's Board of Directors. The above mentioned 180% limit on the potential benefit from each option was changed to a cap of 324 pence per option. The number of options which were modified under the amendment was 28,182,589. The incremental fair value granted (i.e: the increase in fair value of the share options measured immediately before and after the modifications) as a result of the above mentioned modifications was EUR 6.4 million which will be recognized over the vesting period or immediately for vested options. The immediate effect of the modification on the profit or loss statement was an expense of EUR 1.8 million. Following the modification of the employee share option plan, the contractual life of the options (seven years) is used for future grants and the assumed suboptimal exercise multiple is three for management and 2.5 for Employees due to the cap of 324 pence.

Following the modification of the option plan, the maximum number of shares issuable upon exercise of all outstanding options as of the end of the reporting period is 21,201,017. The estimated fair value of the services received is measured based on a binomial lattice model using the following assumptions:

# Notes to the consolidated financial statements
continued

## Note 27 – Employee share option plan continued

| | **Key management personnel 2010 EUR** | Key management personnel 2009 EUR | **Employees 2010 EUR** | Employees 2009 EUR |
|---|---|---|---|---|
| Fair value of share options and assumptions | | | | |
| Fair value at measurement date (in EUR)* | **859,861** | 26,609 | **652,132** | 516,691 |
| Weighted average exercise price | **1.14** | 0.56 | **1.35** | 0.99 |
| Expected volatility | **46.3%-57.93%** | 55.9% | **40.3%-57.93%** | 49.01-61.11% |
| Weighted average share price | **0.92** | 0.62 | **1.01** | 1.18 |
| Suboptimal exercise multiple | **2** | 3 | **1.5** | 2.39-2.5 |
| Expected dividends | **–** | – | **–** | – |
| Risk-free interest rate (based on the yield rates of the non indexed linked UK treasury bonds) | **0.55%-4.37%** | 1.67%-3.89% | **0.65%-5.65%** | 0.65%-4.57% |

During 2010 the total employee costs for the share options granted (including the modifications) was EUR 2,173 (2009: EUR 5,402).

On January 22, 2010 ("grant date") the Company signed an option agreement with a service provider in connection with his function as Co Chief Executive Officer of EI. The grantee will perform certain services to the issuer in the field of real estate development in the United States. The options were granted to the grantee for no consideration and are vested in three equal years starting grant date. The number of option granted is 1,000,000 and the exercise price is GBP 1.3075. The fair value at grant date was GBP 0.65 and share price GBP 1.3575. The share options exercise mechanism is the same as the employee share option scheme including a cap of GBP 3.24.

Since Plaza has been a publicly traded company since October 2006, there is not enough information concerning Plaza share price. Therefore, in order to derive the expected stock price volatility, analysis was performed based on the data of Plaza, and of three other companies operating in the similar segment, which have similar market capital and are traded at the Warsaw Stock Exchange. In an attempt to estimate the expected volatility, first calculation of the short-term standard deviation (standard deviation of company's share during one year as of the options' grant date) has been done. In the next stage, calculation of the long-term standard deviation (standard deviation for the period starting one year prior to the grant date for the remaining period of the plan) has been done, where the weight of the standard deviation for the Company was ranging between 35% – 50% and the weight of the average of standard deviations of comparative companies was 50% – 65% (2009: 55.9% – 61.11%). The working assumption is that the standard deviation of the underlying asset yield converges in the long term with the multi-year average.

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

On October 27, 2006, the Company entered into an agreement with the former Executive Vice-Chairman of EI ("VC") who had responsibility for the Company's operations in India, under which the VC will be entitled to receive options ("the Options") to acquire up to 5% of the holding company through which the Company will carry on its operations in India. The options are fully vested as of December 31, 2010. The vested options may be exercised at any time, at a price equal to the Company's net equity investment made in the projects as at the option exercise date plus interest at the rate of USD LIBOR plus 2% per annum from the date of the investment until the options exercise date ("Exercise price").

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

On January 17, 2008 EI's shareholders approved another agreement with the VC according to which EI has undertaken to allot the VC 5% of the aggregate issued and outstanding share capital in the Company's jointly controlled subsidiary with EI (refer to note 37), Elbit Plaza India Real Estate Holdings Limited ("EPI").

The allotment has been performed and as of the end of the reporting period, VC holds 5% of the shares of EPI, while each of the Company and EI hold 47.5% of the shares of EPI. The VC shares in EPI shall not be entitled to receive any distributions (including, but not limited to, payment of dividends, interest, other expenses and principal repayments of shareholder loans, management fees or other payments made to the VC and any loans provided by the EPI to the VC) from EPI until the Group's investments (principal and interest calculated in accordance with a mechanism provided for in the agreement) in EPI have been repaid in full. The agreement includes, *inter alia,* "tag along" and "drag along" rights.

## Note 28 – Revenues

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| Revenue from selling trading properties[1] | **924** | – |
| Rental income from tenants[2] | **20,576** | 6,433 |
| Management fees | **2,861** | 1,413 |
| Operation of entertainment centers[3] | **7,442** | 7,273 |
| Adjustment to fair value of investment property | **4,647** | 429 |
| Other | **1,191** | 497 |
| Total | **37,641** | 16,045 |

1 Revenue from selling trading properties in 2010 is due to selling a plot in the Czech Republic.

2 Rental income relates either to revenues from investment properties the Company holds (which totaled in 2010 EUR 13.4 million, including revenues of EUR 12.4 million from US operations, and in 2009 circa EUR 1 million or from the trading properties the Company holds. As of the end of the reporting period, and apart of the above mentioned US operations, the main rental income is derived from projects in Latvia, Poland and in the Czech Republic, which were completed and operative in the course of 2009 through 2010.

3 Revenue from operation of entertainment centers is attributed to special subsidiary of the Company trading as "Fantasy Park" which provides gaming and entertainment services in active shopping centers. As of December 31, 2010, these subsidiaries operate in 12 shopping centers.

## Note 29 – Cost of operations

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| Direct expenses: | | |
| Cost of sold trading properties | **1,057** | 362 |
| Salaries and related expenses | **1,899** | 1,853 |
| Initiation costs | **812** | 62 |
| Doubtful debts | **120** | 869 |
| Municipality taxes | **531** | 65 |
| Property taxes | **907** | 748 |
| Property operations and maintenance | **13,589** | 6,586 |
| | **18,915** | 10,545 |
| Other operating expenses | **1,623** | 2,135 |
| | **20,538** | 12,680 |
| Depreciation and amortization | **315** | 290 |
| | **20,853** | 12,970 |

2010 – includes PCNV share (21.65%) in cost of operating of 48 shopping centers in the US, totaling EUR 5.4 million, as well as cost of operating four shopping centers, and in addition also Fantasy Park operations in 14 shopping centers. 2009 – includes mainly cost of operating two shopping centers, as well as Fantasy Park operations in 11 shopping centers.

# Notes to the consolidated financial statements

continued

## Note 30 – Administrative expenses

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **Selling and marketing expenses** | | |
| Advertising and marketing | **1,665** | 1,616 |
| Salaries and relating expenses | **941** | 758 |
| Others | **36** | 27 |
| | **2,642** | 2,401 |
| **General and administrative expenses** | | |
| Salaries and related expenses[1] | **7,661** | 7,543 |
| Depreciation and amortization | **1,086** | 1,007 |
| Management fees | **–** | – |
| Professional services | **3,721** | 4,478 |
| Travelling and accommodation | **968** | 1,233 |
| Offices and office rent | **1,077** | 1,461 |
| Others | **768** | 931 |
| | **15,281** | 16,653 |
| Total | **17,923** | 19,054 |

### General and administrative

1 Including non-cash expenses due to the share option plan in the amount of EUR 2.5 million (2009: EUR 2.8 million) refer to note 27 for more details on share-based payments.

## Note 31 – Other income and other expenses

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **a. Other income** | | |
| Gain from selling property and equipment | **–** | 167 |
| Gain from bargain purchase* | **42,039** | – |
| Non-claimed payable | **360** | – |
| Other income | **204** | 113 |
| Total other income | **42,603** | 280 |
| **b. Other expenses** | | |
| Loss from selling property and equipment | **(212)** | (26) |
| Impairment of property and equipment | | – |
| Other expenses | **(48)** | (13) |
| Total other expenses | **(260)** | (39) |
| Total | **42,343** | 241 |

* Gain from bargain purchase – refer to note 37.

# Note 32 – Net finance expenses

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **Recognized in profit or loss** | | |
| Interest income on bank deposits and available for sale financial assets | **4,300** | 4,578 |
| Interest income on structured deposits | **5,162** | 4,709 |
| Interest from loans to related parties | **136** | 624 |
| Changes in fair value of derivatives | **37,308** | 17,341 |
| Changes in fair value of structured deposit | **1,065** | 3,088 |
| Foreign exchange gains on deposits, bank loans | **456** | 1,921 |
| Other interest income | **1,169** | 1,162 |
| **Finance income** | **49,596** | 33,423 |
| Interest expense on bank loans and debentures | **(27,540)** | (16,269) |
| Interest expenses on loan on structures | **(462)** | (834) |
| Interest on loans from related parties | **–** | (306) |
| Changes in debentures measured at fair value through profit or loss* | **(50,112)** | (44,220) |
| Foreign exchange losses on debentures at amortized cost | **(10,366)** | (383) |
| Foreign exchange losses – related parties | **–** | (215) |
| Foreign exchange losses | **(742)** | (207) |
| Other finance expenses | **(1,293)** | (1,899) |
| | **(90,515)** | (64,333) |
| Less- borrowing costs capitalized to trading properties under development | **19,742** | 12,790 |
| **Finance costs** | **(70,773)** | (51,543) |
| **Net finance expenses** | **(21,177)** | (18,120) |

* The change in fair value includes a total of EUR 10.6 million (2009: EUR 65.8 million) attributable to the credit risk of the Company.

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **Recognized in equity** | | |
| Net change in fair value of available-for-sale financial asset | **(179)** | 1,722 |
| Foreign currency translation differences for foreign operations | **17,714** | 2,535 |
| | **17,535** | 4,257 |

# Notes to the consolidated financial statements

continued

## Note 33 – Tax benefit

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **Recognized in equity** | | |
| Current tax* | **(143)** | 74 |
| Deferred tax | **(1,261)** | (3,893) |
| Prior year's taxes | **96** | – |
| Total | **(1,308)** | (3,819) |

* Mainly due to withholding tax refund in respect of US operations which was repaid to US entities in the beginning of 2011 in the amount of EUR 0.2 million (Company part).

### Deferred tax expense (tax benefit)

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| Origination and reversal of temporary differences | **381** | (3,893) |
| Recognition of previously unrecognized tax losses | **(1,642)** | – |
| | **(1,261)** | (3,893) |

Reconciliation of effective tax rate:

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| Dutch statutory income tax rate | **25%** | 25.5% |
| Profit/(loss) before income taxes | **12,940** | (68,531) |
| Tax at the Dutch statutory income tax rate | **3,235** | (17,475) |
| Recognition of previously unrecognized tax losses | **(1,642)** | – |
| Effect of tax rates in foreign jurisdictions | **9,197** | 3,236 |
| Deferred taxes not provided for losses and other temporary differences, net | **8,428** | 6,916 |
| Variances stemming from different measurement rules applied for the financial statements and those applied for income tax purposes (including exchange-rate differences) | **(4,557)** | (713) |
| Non-deductible expenses (Non taxable income)* | **(15,873)** | 4,217 |
| Prior years taxes | **(96)** | – |
| Tax benefit | **(1,308)** | (3,819) |

* Non taxable profit is attributable mainly to gain from bargain purchase in the US (refer to note 37).

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

### The Netherlands

a. Companies resident in The Netherlands are subject to corporate income tax at the general rate of 25.5% (25% commencing the year 2011). The first EUR 200,000 of profits are taxed at a rate of 20%. Tax losses may be carried back for one year and carried forward for nine years. As part of the measures to combat the consequences of the economic crisis, taxpayers can elect for an extension of the loss carry back period to three years (instead of one year). The election is only available for losses suffered in the taxable years 2009, 2010 and 2011. If a taxpayer makes use of the election, two additional limitations apply: (i) the loss carry forward period for the taxable years 2009, 2010 and/or 2011 will be limited to a maximum of six years (instead of nine years); and (ii) the maximum amount of loss that can be carried back to the second and third year preceding the taxable year will be limited to EUR 10 million per year. The amount of loss that can be carried back to the year directly preceding the taxable year for which the election is made will remain unrestricted.

b. Under the participation exemption rules, income (including dividends and capital gains) derived by Netherlands companies in respect of qualifying investments in the nominal paid up share capital of resident or non-resident investee companies, is exempt from Netherlands corporate income tax provided the conditions as set under these rules have been satisfied. Such conditions require, among others, a minimum percentage ownership interest in the investee company and require the investee company to satisfy at least one of the following tests:

– Motive Test, the investee company is not held as passive investment;

– Tax Test, the investee company is taxed locally at an effective rate of at least 10% (calculated based on Dutch tax accounting standards);

– Asset Test , the investee company owns (directly and indirectly) less than 50% low taxed passive assets.

c. Dividend distributions from a Netherlands company to qualifying Israeli corporate shareholders holding at least 25% of the shares of such Netherlands company is subject to withholding tax at a rate of 5% provided certain compliance related formalities have been satisfied.

### India

The corporate income tax applicable to the income of Indian subsidiaries is 33.2175%. Minimum alternate tax (MAT) of 16.99% is applicable to the book profits (i.e. profits shown in the financial statements). The final tax payable is higher of the MAT liability or corporate tax payable. If taxes are paid under MAT, then credit to the extent of MAT paid over corporate tax is available (MAT credit). MAT Credit will be credited, if the company has taxable profits in the following ten years. Capital gains on sale of fixed assets (on which tax depreciation has not been claimed) and real estate assets are taxed at the rate of 22.145% provided that they were held for more than 36 months immediately preceding the date of the transfer or 33.2175% if they were held for less than 36 months. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.61%. There is no withholding tax on dividends distributed by an Indian company and no additional taxes need to be paid by the shareholder. Business losses can be offset against taxable income for a period of eight years from the incurrence year's end. There is no limit for carry forward of unabsorbed depreciation.

### Cyprus

The taxation of companies incorporated in Cyprus is based on tax residence and all companies are taxed at the rate of 10%. Dividend income and profits from the sale of shares and other titles of companies are tax exempt. There is no withholding tax on payments of dividends to non-resident shareholders or shareholders that are companies resident in Cyprus. Companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. A special levy at 15% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year during the following two years. This special levy is payable for the account of the shareholders.

### USA and Australia

Under current Australian income tax legislation, EDT (which is holding two Real Estate Investment Trust ("REIT I" and "REIT 2") incorporated in the US) is not liable to pay income tax provided its taxable income (including assessable realized capital gains) is fully distributed to unitholders, by way of cash or reinvestment. US REIT I and US REIT II have elected to be taxed as Real Estate Investment Trusts (REITs) under US federal taxation law, and on this basis, will generally not be subject to US income taxes on that portion of the US REITs' taxable income or capital gains which are distributable to the US REITs' shareholders, provided that the US REITs comply with the requirements of the US Internal Revenue Code of 1986 and maintain their REIT status.

The US REITs may ultimately realize a capital gain or loss on disposal which may attract a US income tax liability if the proceeds from disposal are not reinvested in a qualifying asset. If the capital gain is realized, it may give rise to a foreign tax credit which would be available to unitholders. A deferred tax liability is recognized based on the temporary difference between the carrying amount of the assets in the Statement of Financial Position and their associated tax cost bases.

A current tax liability is recognized in the financial statements for realized gains on disposals of US investments, except where the proceeds of such disposals are reinvested in a qualifying asset. This special levy is payable for the account of the shareholders. Taxation allowances for the depreciation of buildings and plant and equipment are claimed by the Trust and contribute to the tax deferred component of distributions.

## Note 34 – Operating leases

The Company is a lessee of a number of plots of land and paid a total rent of EUR 0.1 million in the year ended December 31, 2010 (EUR 0.1 million for year ended December 31, 2009) under operating leases in Poland. The leases typically run for a period of 99 years. The leases in Poland which are held under perpetual usufruct are governed by the law of management over real estate. Lease payments regarding perpetual use of land can be changed according to a new valuation of the plot. None of the leases includes contingent rentals. Non-cancellable operating lease rentals are payable as follows:

| | **For the year ended December 31, 2010 €'000** | For the year ended December 31, 2009 €'000 |
|---|---|---|
| Less than one year | **28** | 126 |
| Between one and five years | **146** | 446 |
| More than five years | **532** | 895 |
| | **706** | 1,467 |

## Note 35 – Financial instruments

### Financial risk management

**Overview**

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

- Credit risk.
- Liquidity risk.
- Market risk.
- Operational risk.

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

The Board of Directors has established a continuous process for identifying and managing the risks faced by the Company, and confirms that it is responsible to take appropriate actions to address any weaknesses identified.

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

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

#### a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's financial instruments held in banks and from receivables and other financial institutions.

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

Cash and deposits, structured deposits and available for sale financial assets.

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

### b. Liquidity risk

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

The Company's Board of Directors and Audit Committee instructed the management to maintain during all times in the Company's reserves a net cash balance of at least EUR 40 million.

### c. Market risk

**Currency and inflation risk**

Currency risk is the risk that the Group will incur significant fluctuations in its profit or loss as a result of utilizing currencies other than the functional currency of the respective Group company.

The Group is exposed to currency risk mainly on borrowings (debentures issued in Israel and in Poland) that are denominated in a currency other than the functional currency of the respective Group companies. The currencies in which these transactions primarily are denominated are the NIS or PLN. As these currencies are subject to fluctuations, the Company is holding small amount of financial instruments denominated in these currencies, and hedging them, where appropriate. Regarding currency and inflation risk hedging of the debentures refer also to note 16.

**Interest Rate Risk**

The Group's interest rate risk arises mainly from short- and long-term borrowing (as well as debentures). Borrowings issued at variable interest rate expose the Group to variability in cash flows (mainly borrowings in USD). Borrowings issued at fixed interest rate expose the Group to changes in fair value. Except for the debentures, the Group does not currently engage in hedging or use of other financial arrangement to minimize the exposure to these risks. Regarding interest rate risk hedging of the debentures and bank facilities, refer to note 16.

### d. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to the senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Compliance with regulatory and other legal requirements.
- Requirements for the periodic assessment of operational risks faced, and procedures to address the risks identified.
- IT controls and manuals.
- Training and professional development.
- Risk mitigation, including insurance where this is effective.

**Capital management**

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

# Notes to the consolidated financial statements
continued

## Note 35 – Financial instruments continued

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

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. No purchase is made unless the expected effect will be to increase earnings per share. The purchase of shares by the Company under this authority would be effected by a purchase in the market. It should not be confused with any share dealing facilities that may be offered to shareholders by the Company from time to time.

At present employees hold 0% of ordinary shares, but with future potential of about 6.5% assuming that all outstanding employee share options vest and are exercised at maximum price of 324 pence.

The Company's Board of Directors was authorized by the general meeting of the shareholders to allot equity securities (including rights to acquire equity securities) in the Company up to an aggregate nominal value of approximately EUR 978 thousands, being approximately 33% of the Company's issued ordinary share capital as at May 25, 2010. Such authorization shall expire on the conclusion of the Annual General Meeting which will be held in May 2011. There were no changes in the Group's approach to capital management during the year.

**Credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Note | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|---|
| Cash and cash equivalents | 5 | **137,801** | 122,596 |
| Restricted bank deposits | 6 | **29,954** | 39,202 |
| Derivative and short-term deposits | 16 | **10,535** | 4,399 |
| Available for sale debt securities | 7 | **27,098** | 15,040 |
| Trade receivables, net | 8 | **4,064** | 1,920 |
| Other receivables and prepayments | 9 | **10,525** | 18,384 |
| Related parties | 19 | **1,185** | 513 |
| Non-current derivatives | 16 | **42,110** | 20,151 |
| Long-term deposits and other investments | 11 | **52,559** | 51,447 |
| Restricted bank deposits | 6 | **15,751** | 14,737 |
| | | **331,582** | 288,389 |

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

| | For the year ended December 31, 2010 €'000 | For the year ended December 31, 2009 €'000 |
|---|---|---|
| Banks and financial institutions | **317,293** | 268,637 |
| Tenants | **4,064** | 1,920 |
| Governmental institutions | **3,323** | 10,744 |
| Related parties and other | **6,902** | 7,088 |
| | **331,582** | 288,389 |

## Liquidity risk

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

| December 31, 2010 | Carrying amount €'000 | Contractual cash flows €'000 | 6 months or less €'000 | 6-12 months €'000 | 1-2 years €'000 | 2-5 years €'000 | More than 5 years €'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Secured bank loans | **366,416** | **(418,946)** | **(35,285)** | **(89,318)** | **(85,442)** | **(128,601)** | **(80,300)** |
| Unsecured debentures issued | **379,056** | **(424,342)** | **(68,047)** | **(17,418)** | **(81,907)** | **(237,416)** | **(19,554)** |
| Trade and other payables | **51,661** | **(54,781)** | **(257)** | **(31,065)** | **(580)** | **(17,293)** | **(5,586)** |
| Related parties | **3,758** | **(3,758)** | **–** | **(3,758)** | **–** | **–** | **–** |
| | **800,891** | **(901,827)** | **(103,589)** | **(141,559)** | **(167,929)** | **(383,310)** | **(105,440)** |

| December 31, 2009 | Carrying amount €'000 | Contractual cash flows €'000 | 6 months or less €'000 | 6-12 months €'000 | 1-2 years €'000 | 2-5 years €'000 | More than 5 years €'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Secured bank loans | 184,072 | (217,103) | (41,364) | (5,138) | (18,282) | (91,366) | (60,953) |
| Unsecured debentures issued | 247,155 | (277,399) | (5,741) | (13,539) | (52,462) | (144,878) | (60,779) |
| Trade and other payables | 48,014 | (48,014) | (31,905) | – | (16,109) | – | – |
| Related parties | 3,234 | (3,234) | – | (3,234) | – | – | – |
| | 482,475 | (545,750) | (79,010) | (21,911) | (86,853) | (236,244) | (121,732) |

## Currency risk

### Exposure to currency risk

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

| December 31, 2010 | NIS €'000 | USD €'000 | HUF €'000 | PLN €'000 | CZK €'000 | RON €'000 | INR €'000 | LVL €'000 | RSD €'000 | Other €'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current assets | **11,093** | **18,836** | **3,144** | **11,768** | **1,110** | **1,649** | **3,767** | **447** | **266** | **–** |
| Non-current assets | **184,243** | **1,707** | **259** | **14,931** | **316** | **–** | **–** | **–** | **–** | **–** |
| Total | **195,336** | **20,543** | **3,403** | **26,699** | **1,426** | **1,649** | **3,767** | **447** | **266** | **–** |

| December 31, 2009 | NIS €'000 | USD €'000 | HUF €'000 | PLN €'000 | CZK €'000 | RON €'000 | INR €'000 | LVL €'000 | RSD €'000 | Other €'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current assets | 27,792 | 2,562 | 3,324 | 14,501 | 3,179 | 9,070 | 2,536 | 1,123 | 625 | 27 |
| Non-current assets | 211,940 | | | | | | | | | |
| Total | 239,732 | 2,562 | 3,324 | 14,501 | 3,179 | 9,070 | 2,536 | 1,123 | 625 | 27 |

| December 31, 2010 | NIS €'000 | USD €'000 | HUF €'000 | PLN €'000 | CZK €'000 | RON €'000 | INR €'000 | LVL €'000 | RSD €'000 | Other €'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current liabilities | **69,469** | **23,546** | **801** | **4,113** | **1,407** | **16,492** | **20,713** | **681** | **619** | **360** |
| Non-current liabilities | **295,045** | **129,401** | **–** | **14,931** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total | **364,514** | **152,947** | **801** | **19,044** | **1,407** | **16,492** | **20,713** | **681** | **619** | **360** |
| Net exposure | **(169,178)** | **(132,404)** | **2,602** | **7,655** | **19** | **(14,843)** | **(16,946)** | **(234)** | **(353)** | **(360)** |

| December 31, 2009 | NIS €'000 | USD €'000 | HUF €'000 | PLN €'000 | CZK €'000 | RON €'000 | INR €'000 | LVL €'000 | RSD €'000 | Other €'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current liabilities | – | 168 | 1,522 | 10,586 | 6,229 | 1,235 | 7,367 | 366 | 216 | 3,578 |
| Non-current liabilities | 239,732 | 2,880 | – | – | – | – | – | – | – | – |
| Total | 239,732 | 3,048 | 1,522 | 10,586 | 6,229 | 1,235 | 7,367 | 366 | 216 | 3,578 |
| Net exposure | – | (486) | 1,802 | 3,915 | (3,050) | 7,835 | (4,831) | 757 | 409 | (3,551) |

# Notes to the consolidated financial statements

continued

## Note 35 – Financial instruments continued

The following significant exchange rates applied during the year:

| EUR | **Average rate 2010 €'000** | Average rate 2009 €'000 | **Reporting date spot rate 2010 €'000** | Reporting date spot rate 2009 €'000 |
|---|---|---|---|---|
| RSD 10 | **0.097** | 0.107 | **0.095** | 0.105 |
| USD 1 | **0.754** | 0.718 | **0.748** | 0.694 |
| PLN 1 | **0.250** | 0.231 | **0.253** | 0.243 |
| HUF 100 | **0.362** | 0.357 | **0.359** | 0.369 |
| RON 1 | **0.237** | 0.236 | **0.233** | 0.237 |
| CZK 10 | **0.393** | 0.378 | **0.399** | 0.378 |
| INR 10 | **0.165** | 0.148 | **0.167** | 0.149 |
| NIS 1 | **0.202** | 0.183 | **0.211** | 0.184 |

### Sensitivity analysis

The following table demonstrates the pre-tax impact of devaluation of various currencies against the EUR in the below quoted rates with all other variables held constant (the impact on the Group's equity is the same):

| | | Effect on pre-tax profit/(loss) | |
|---|---|---|---|
| | Increase in currency rate | **For the year ended December 31, 2010 €'000** | For the year ended December 31, 2009 €'000 |
| EUR vs. HUF | 16% | **(416)** | (288) |
| EUR vs. USD[1] | 13% | **17,213** | 63 |
| EUR vs. RSD | 8% | **28** | (61) |
| EUR vs. PLN | 18% | **(1,378)** | (705) |
| EUR vs. INR[1] | 12% | **2,034** | 580 |
| EUR vs. CZK | 11% | **(2)** | 335 |
| EUR vs. LVL | 2% | **5** | (15) |
| EUR vs. RON | 7% | **1,039** | (548) |
| EUR vs. NIS | 13% | **21,993** | – |

1 Effect on equity

A similar weakening of the Euro against all currencies at December 31 would have had the equal but adverse effect on the pre-tax profit (loss) and equity to the amount shown above provided that all other variables remain constant.

### Derivatives and debentures

#### Sensitivity analysis – changes in exchange rates EUR-NIS

| | Fair value change 10% €'000 | Fair value 4.7379 €'000 | Fair value change -10% €'000 |
|---|---|---|---|
| Derivative B | (15,586) | 52,676 | 15,586 |
| Debentures A | 6,554 | (65,538) | (6,554) |
| Debentures B | 30,516 | (305,162) | (30,516) |
| **Total net** | **21,484** | **318,024** | **(21,484)** |

## Interest rate risk

### Profile

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

| | Carrying amount 2010 €'000 | 2009 €'000 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial assets | **210,604** | 210,939 |
| Financial liabilities | **(177,667)** | (5,055) |
| | **32,937** | 205,884 |
| **Variable rate instruments** | | |
| Financial assets | **52,559** | 36,482 |
| Financial liabilities | **(567,805)** | (429,406) |
| | **(515,246)** | (392,924) |

## Cash flow sensitivity analysis for variable rate instruments

A change of 30 basis points in EURIBOR interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

Variable interest rate effect (excluding debentures and structure A)

| | Profit or Loss 30 bp increase €'000 | 30 bp decrease €'000 |
|---|---|---|
| **December 31, 2010** | **(566)** | **566** |
| December 31, 2009 | (226) | 226 |

## Fair value sensitivity analysis for structure B

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

## Sensitivity analysis – changes in interest on structure

| | Fair value change – increase 5 bp €'000 | Fair value €'000 | Fair value change – decrease 5 bp €'000 |
|---|---|---|---|
| Structure B (refer to note 11) | 13,975 | 14,017 | 14,059 |

## Derivatives and debentures

### Sensitivity analysis – Changes in Israeli CPI

| | Fair value change 3% €'000 | Fair value 107.6 €'000 | Fair value change -3% €'000 |
|---|---|---|---|
| Derivative B | 6,256 | 52,676 | (6,256) |
| Debenture A | (1,966) | (65,538) | 1,966 |
| Debenture B | (9,156) | (305,162) | 9,156 |
| **Total net** | **(4,866)** | **318,024** | **4,866** |

# Notes to the consolidated financial statements

continued

## Note 35 – Financial instruments continued

### Sensitivity analysis – changes in interest on debentures

| | Fair value change – increase 100 bp €'000 | Fair value €'000 | Fair value change – decrease 100 bp €'000 |
|---|---|---|---|
| Derivative B | (5,106) | 52,676 | 5,106 |
| Debenture A | 2,372 | (65,538) | (2,372) |
| Debenture B | 7,125 | (305,162) | (7,125) |
| **Total net** | **4,391** | **318,024** | **(4,391)** |

### Fair values

#### Fair values versus carrying amounts

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of borrowings approximates the carrying amount (with the exception of debentures issued in Israel, which have a quoting active market), as the impact of discounting is not significant.

In respect of the debentures, the total fair value as of December 31, 2010 is EUR 110.5 million (in comparison of amortized cost of EUR 103.8 million). As of December 31, 2009, the fair value was EUR 28.7 million (in comparison of amortized cost of EUR 27.8 million).

#### Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

| December 31, 2010 | Total €'000 | Level 3 €'000 | Level 2 €'000 | Level 1 €'000 |
|---|---|---|---|---|
| Available for sale financial assets | **27,098** | – | – | **27,098** |
| Structured deposit B (refer to note 11) | **14,017** | **14,017** | – | – |
| Derivative financial assets | **52,645** | – | **52,645** | – |
| | **93,760** | **14,017** | **52,645** | **27,098** |
| Option plan to former VC of Elbit (refer to note 36) | **(1,164)** | **(1,164)** | – | – |
| Debentures at fair value through profit or loss | **(260,315)** | – | – | **(260,315)** |
| | **(167,719)** | **12,853** | **52,645** | **(233,217)** |

Both level 3 financial instruments were outstanding at the beginning and at the end of the year. The total effect included in profit or loss for the year ended December 31, 2010 is as follows:

- Structured deposit B – 1,065 TEUR as part of finance income (refer to note 32)

- Option plan to Vice Chairman of Elbit – 463 TEUR

# Note 36 – Contingent liabilities and commitments

## a. Contingent liabilities and commitments to related parties:

The Company and/or its subsidiaries are bound by the following agreements, with Control Centers Ltd. ("Control Centers"), a company controlled by the ultimate shareholder of EI and/or companies controlled thereby.

1. On October 27, 2006, the Company entered into an agreement with Control Centers under which Control Centers will provide coordination, planning, and execution and supervision services in respect of the Group's projects (the "Agreement"). Such Agreement is substantially the same as a similar agreement concluded between EI and Control Centers, which was approved by the shareholders of EI on May 31, 2006 under the applicable provisions of Israeli law.

   The Company will receive from Control Centers (either directly or through its subsidiaries or affiliates, other than the Company and its subsidiaries) coordination, planning, execution and supervision services (the "Services") over Real Estate Projects of the Group and/or its affiliates in consideration for a fee equal to 5% of the actual execution costs of each project, plus value added tax. The agreement is in effect until May 31, 2011.

   At December 31, 2010 the financial statements include a liability for engineering supervision services supplied by related parties in Control Centers Group in amount of EUR 0.4 million which relates to 11 projects under development in Serbia, Poland, Czech Republic and Romania (for the total charges in 2010 and 2009 refer to note 38).

2. On October 27, 2006 the Company signed an agreement with Jet Link Ltd (a company owned by the ultimate shareholder of the Company and which owns an airplane) under which the Group and/or its affiliates may use the airplane for their operational activities up to 275 flight hours per year. The Company will pay Jet Link Ltd. in accordance with its price list, reduced by a 5% discount. The agreement is in effect for a five-year term.

3. On October 27, 2006 the Company and the Chairman of its Board of Directors entered into a service agreement, pursuant to which the Chairman will be entitled to a monthly salary of USD 25 thousand (EUR 17 thousand) which includes pension, retirement and similar benefits for his services as the Company's Chairman.

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

5. On October 13, 2006, EI entered into an agreement (the "Agreement") with the Company, under which EI is obliged to offer to the Company potential real estate development sites sourced by it in India. Under the agreement, EI is obliged to offer the Company the exclusive right to develop all of the shopping center projects which EI acquires during the 15-year term of the Agreement. The Agreement was terminated upon the signing of the joint venture in India (refer to note 37), but both EI and the Company agreed that upon the termination of the Joint Venture agreement they will re-execute the Agreement.

6. On November 25, 2007 the Company entered into an indemnity agreement with all of the Company's directors – the maximum indemnification amount to be granted by the Company to the directors shall not exceed 25% of the shareholders' equity of the Company based on the shareholders' equity set forth in the Company's last consolidated financial statements prior to such payment. No consideration was paid by the Company in this respect since the agreement was signed.

## b. Contingent liabilities and commitments to others

1. Tesco

   The Company is liable to the buyer of its previously owned shopping center in the Czech Republic ("NOVO") – sold in June 2006 – in respect to one of its tenants ("Tesco"). Tesco leased an area within the shopping center for a period of 30 years, with an option to extend the lease period for an additional 30 years, in consideration for EUR 6.9 million. The entire amount of EUR 6.9 million was paid in advance. According to the lease agreement, the tenant has the right to terminate the lease agreement subject to fulfilment of certain conditions as stipulated in the agreement. The Company's management believes that it is not probable that this commitment will result in any material amount being paid by the Company.

## Note 36 – Contingent liabilities and commitments continued

2. General commitments and warranties in respect of trading property and investment property disposals.

   In the framework of the transactions for the sale of the Group's real estate assets, the Group has undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnifications usually include: (i) Indemnifications in respect of completeness of title on the assets and/or the shares sold (i.e that the assets and/or the shares sold are owned by the Group and are clean from any encumbrances and/or mortgage and the like). Such indemnifications generally survived indefinitely and are capped to the purchase price in each respective transaction; and (ii) Indemnifications in respect of other representation and warranties included in the sales agreements (such as: development of the project, responsibility to defects in the development project, tax matter and others). Such indemnifications are limited in time (generally three years from signing a closing agreement) and are generally capped to 25% to 50% of the purchase price.

   The tax authorities have challenged the applied tax treatment in two of the entities previously sold. Currently the issue is being re-examined in the first instance by the authorities.

   The Group's management estimates, based, *inter alia,* on a professional opinion and past experience that no significant costs will be borne thereby, in respect of these indemnifications.

3. Aggregate amount of the Group's commitments in respect of construction services totaled, as of December 31, 2010, approximately EUR 177 million.

4. In relation with the investment property segment: DDR or the US REITs may exercise its pre-emptive right to acquire the properties held by the jointly controlled entities held by EDT and DDR (as for December 31, 2010: 7 assets) at fair market value if the Responsible Entity is removed, or there is a change in control of DDR or the US REITs or other defined events occur.

5. The Company is retaining the 100% holding in all its projects in Serbia after it was decided to discontinue the negotiations with a Serbian developer. The Company paid, as of the end of the reporting period, an amount of EUR 1.3 million as part of a settlement agreement signed with the Serbian developer with an obligation to pay the developer every time there is major progress in the projects.

### c. Contingent liabilities due to legal proceedings

On April 5, 2006 the Company and EI were sued by a third party requesting the court to order the Company and EI to pay the plaintiff an amount of NIS 10.8 million (approximately EUR 2 million) as an intermediary fee for certain sales of shopping centers in Poland and the Czech Republic.

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

The Company is involved from in other litigation arising in the ordinary course of its business. Although the final outcome of each of these cases cannot be estimated at this time, the Company's management believes, based on legal advice, that it is not probable that these litigations will cause any outflow of resources to settle them, and therefore no provision was recorded.

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

1. Certain companies within the Group which are engaged in the purchase, construction or operation of shopping centers ("Project Companies") have secured their respective credit facilities (EUR 514 million) awarded by financing banks (for projects in the US, Hungary, Latvia, Czech Republic, India, Serbia and Bulgaria), by providing the first or second ranking (fixed or floating) charges on property owned thereby, including right in and to real estate property as well as the financed projects, on rights pertaining to certain contracts (including lease, operation and management agreements), on rights arising from insurance policies, and the like. Shares of Project Companies were also pledged in favour of the financing banks. The Company guarantees fulfilment of one of its subsidiaries obligations under loan agreements in an aggregate amount of EUR 37 million. Shareholders loans as well as any other rights and/or interests of shareholders in and to the Project Companies were subordinated to the respective credit facilities. Payment is permitted to the shareholders (including the distribution of dividends but excluding management fees) subject to fulfilling certain preconditions.

Certain loan agreements include an undertaking to fulfil certain financial and operational covenants throughout the duration of the credit, namely: complying with "a minimum debt services cover ratio", "loan outstanding amount" to secured assets value ratio; complying with certain restrictions on interest rates; maintaining certain cash balances for current operations; maintaining equity to project cost ratio and net profit to current bank's debt; occupancy percentage and others.

All of the companies are in compliance with the entire loan covenants with the exception of covenants in respect of four of the secured loans granted. The Company is in negotiation with the financing banks in respect of settling the bank requirements and agreeing on new covenants and/or waivers. In addition, one financial facility has matured on December 31, 2010, and the Company is currently negotiating with the financing bank the details of the prolongation of the facility.

The Project Companies undertook not to make any disposition in and to the secured assets, not to sell, transfer or lease any substantial part of their assets without the prior consent of the financing bank. In certain events the Project Companies undertook not to allow, without the prior consent of the financing bank: (i) any changes in and to the holding structure of the Project Companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, related party transactions and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the Project Company in favor of third parties; (v) receipt of loans by the Project Company and/or the provision thereby of a guarantee to third parties; and the like.

2. Commitment in respect of derivative transaction

Within the framework of cross currency interest rate swap transactions and regular swaps (refer to note 16), executed between the Company and Israeli and Polish banks (the "Banks") , the Company agreed to provide the Banks with a cash collateral deposit which will be calculated in accordance with a specific mechanism provided in each swap transaction agreement. Accordingly, as of the end of the reporting period, the Company has pledged, a security deposit in the amount of EUR 17.3 million in respect of these swaps transactions. In respect of the Suwałki IRS the project company also established a bail mortgage up to EUR 4 million encumbering the real estate project. In respect of commitments connected to call options, refer to note 40.

3. Commitment in respect of structured deposits

In order to secure credit lines provided to the Company for the purpose of investing in financial structures (refer to note 16), the Company has provided the issuing banks a pledge on the structures issued. In addition the Company also has to comply with certain covenants stipulated in the loan agreement (mainly loan to value covenants). Failing to comply with the said covenants shall oblige the Company to provide an additional cash collateral. As of the end of the reporting period the Company has secured cash collateral of EUR 9.1 million.

4. Commitment in respect of bonds raised in Poland

Under the offering memorandum for the issuance of Polish bonds, certain circumstances shall be deemed events of default giving the bondholders the right to demand early redemption, which includes among others the following covenants:

a) Breach of the cash position as a result of the payment of dividend or the buy-back programme – if at any time during a period of 90 days from the payment of dividend, or the acquisition of its own shares, the cash position falls below EUR 50 million;

b) Breach of financial ratios – the Net Capitalization Ratio exceeds 70%; net capitalization ratio is the net debt divided by the equity plus the net debt, as calculated by the Group's auditor; "net debt" mean the Group's total debt under: loans and borrowings, lease agreements, bonds, other debt securities and other interest bearing or discounted financial instruments in issue, less related hedge derivatives, cash and cash equivalents, short- and long-term interest bearing deposits with banks or other financial institutions, available-for-sale marketable securities and restricted cash, calculated based on the consolidated financial statements.

c) Failure to repay material debt – the Company fails to repay any matured and undisputable debt in the amount of at least EUR 100 million within 30 days of its maturity.

# Notes to the consolidated financial statements

continued

## Note 37 – Significant acquisitions and events

### Framework agreement for a joint venture in the US

On February 9, 2010 the Company entered through Elbit Plaza USA, L.P. ("Elbit Plaza USA"), a new Real Estate Investment Partnership with Elbit, into a framework and co-investment agreement with Eastgate Property LLC ("Eastgate") to take advantage of real estate opportunities in the US, primarily in the retail sector. Under the terms of the new strategic joint venture, Elbit Plaza USA and Eastgate have jointly committed to invest a total of USD 200 million in equal shares in one or more dedicated US real estate investment platforms, which will focus on investments in the US commercial real estate sector (collectively, the "Fund"). The Fund will seek to identify potential investments and make both direct purchases and enter into joint ventures with local business partners over a two year acquisition period. Once assets have been acquired, Elbit and the Company will undertake asset management initiatives to maximize income and capital value growth from the properties.

Pursuant to the framework and co-investment agreement with Eastgate, EPN GP LLC ("EPN") was jointly established as a Real Estate Investment Venture for the purpose of investing in the US real estate market, primarily in the retail sector. For the transaction in the US refer to Investment in US Real Estate market section below.

In June 2010 Elbit Plaza USA and Eastgate have raised from Menora Mivtachim Insurance Ltd. ("Menora"), a leading pension insurance entity in Israel, and certain of Menora's affiliates, USD 31 million (EUR 25 million) of capital commitments to be invested in EPN. Following this commitment, the Company indirect interests in EPN were reduced from 25% to 21.65%.

### Investment in US real estate market

During the period from April through June 2010 the Company entered, through its jointly controlled entity, EPN, into a Series of agreements (which are described below) for the purpose of acquiring the controlling interests in Macquarie DDR Trust ("EDT" or the "Trust"). EDT is an Australian publicly traded trust (ASX:EDT.AX), which holds and manages as of December 31, 2010 two US REIT portfolios of 48 retail properties. The properties have approximately 10.9 million ft$^2$ of lettable area of mainly community shopping centers across 20 states in the US. Pursuant to these agreements, on June 18, 2010 EPN acquired 47.8% of the unitholdings in the trust. In addition, EPN acquired a 50% interest in the entity which is the owner of the Responsible Entity of the Trust (the "US Manager") for approximately USD 3 million. The Responsible Entity is the company who looks after the day-to-day management of EDT, including its investments, strategy management and financing. Developers, Diversified Realty Corporation, an Ohio corporation specializing in real estate investments and assets management ("DDR"), will remain as a 50% co-owner of the US Manager and continue to act as property manager of the Trust's assets. Pursuant to the agreements EPN has the right to appoint six board members out of 11 (55%) of the Responsible Entity's board of directors while according to Responsible Entity constitution few decision required at least seven affirmative votes including the unanimous vote of all Non-Independent Directors. The Company's management is in the opinion, based on its best judgment, that those decisions do not affect the Company's ability to control the Responsible Entity.

Consequently, together with its 47.8% holding in the Trust and due to the fact that the Responsible Entity can be appointed or dismissed only by major vote of EDT general meeting which EPN is the largest unit holder while the rest of the unit holders are in very large distribution the Company management is of the opinion that EPN has de facto control over EDT, that is the power to govern the financial and operating policies of EDT. Accordingly, EPN presents its investment in EDT on a fully consolidation basis. Given the joint control agreement between the Company and EI in Elbit Plaza USA, and between Elbit Plaza USA and Eastgate, the Company presents its investment in EPN, and therefore indirectly in EDT, on a proportional consolidation basis based on 21.65%.

In the framework of the transaction:

(i) EPN acquired a unit holding representing 15% of the Trust's units, pre-placement, through a 9.5 million Australian Dollar ("AUD") (EUR 6.6 million) private placement (the "Placement");

(ii) EPN acquired from Macquarie Group Limited ("Macquarie") its 2.6% principal unit holding in the Trust for AUD 1.7 million (EUR 1.2 million);

(iii) Subsequently, EPN participated in and sub-underwrite a proposed recapitalization of EDT to raise approximately AUD 200 million (EUR 139 million) ("Recapitalization"). The Recapitalization was undertaken by way of a pro rata entitlement offer ("Entitlement Offer"). Following the completion of the Entitlement Offer EPN became a 47.8% holder of the Trust's units, and by that becoming the largest unit holder of the Trust.

The net proceeds of the Placement and Entitlement Offer were used for the repayment of the amounts outstanding under EDT's unsecured debt and derivative liabilities.

Following the completion of the above transactions, EPN is fully consolidating the financial statements of the Trust with non-controlling interest of 52.2%, as of June 18 2010.

The June 30, 2010 effective date was modified to June 18, 2010 to adequately reflect the business combination performed.

The following presents the fair value of asset acquired and liabilities assumed (all items are thousands of EUR, and reflects 100% of the acquired assets and liabilities):

| Item | Fair value 30.06.10 | Fair value 31.12.10 |
|---|---|---|
| Cash and cash equivalents | 25,224 | 25,224 |
| Restricted cash | 4,065 | 4,065 |
| Trade and other receivables | 30,588 | 26,929 |
| Investment properties | 1,153,104 | 1,184,651 |
| Deferred tax assets* | 4,993 | 2,605 |
| Other assets | 1,473 | 1,515 |
| Trade payables | (3,169) | (3,256) |
| Interest bearing loans* | (831,649) | (847,261) |
| Other accounts payable | (18,349) | (18,844) |
| Total net asset | 366,280* | 375,628 |

* Changes from the June report is due to the updated Purchase Price Allocation reported, which was concluded in the second half of 2010.

** The carrying amount of all assets and liabilities of EDT are identical to its fair value, with the exception of interest bearing loans, for which the carrying amount totaled EUR 840 million. Deferred tax asset in the amount of EUR 2.5 million was provided in respect of difference.

The total purchase price, in thousands of EUR, as well as fair value of the non-controlling interest was as follows:

| | |
|---|---|
| Total amount paid by EPN*: | 94,343 |
| Fair value of non-controlling interest **: | 89,477 |
| Total | 183,820 |

* The total part of the amount paid by the Company was EUR 19.8 million, and after deduction of cash acquired of EUR 5.4 million (Company part) the net cash consideration totaled EUR 14.4 million. The change in total amount paid by EPN as recorded on June 30, 2010 figure (95,608 TEUR) is due to foreign currency translation of the USD proceeds to June 18, 2010 rates.

** The Company chose to measure non-controlling interests at fair value. The non-controlling interest was evaluated at AUD 0.051 per unit (according to stock exchange quote as of June 18, 2010), totaling USD 109 million (circa EUR 89 million). The change comparing to June 2010 report (AUD 0.055 per unit) is to reflect adequately the business combination date.

As a result of the above, EPN recorded a gain from a bargain purchase of USD 240 million (EUR 192 million), and the Company recorded 21.65% out of this amount, totaling approximately EUR 42 million as other income in the Company consolidated income statement.

### Planned liquidation of certain assets in EDT

The Trust's investment in the MV LLC joint venture entity was equity accounted to nil. The Trust has no obligation to provide further funding of this portfolio. As a result, the Group no longer recognized further losses from this portfolio from that date as part of the equity accounted profit or loss from jointly controlled entities and the portfolio no longer contributed to the Group's Net Tangible Assets (NTA). Due to the likelihood of not being able to retrieve any equity value from this portfolio and significant additional capital being required, the Trust, DDR and the loan servicer jointly requested that a court appoint a third party receiver to manage and liquidate the remaining assets within the portfolio. On August 24, 2010 a third party receiver was appointed over the remaining assets within the MV LLC portfolio. As a result the Trust no longer has joint control over MV LLC and in accordance with its accounting policies accounted for its interest in MV LLC at December 31, 2010 as an investment held at the lower of cost and net realizable value which was nil at that date.

# Notes to the consolidated financial statements

continued

## Note 37 – Significant acquisitions and events continued

### Restructuring of partnership agreement in India

On March 13, 2008, Elbit Plaza India Real Estate Holdings Ltd. ("EPI"), a 50%/50% joint venture company with EI entered into an amended and reinstated share subscription and framework agreement ("Framework Agreement"), with a third party (the "Partner"), and a wholly owned Indian subsidiary of EPI ("SPV"), to acquire, through the SPV, up to 440 acres of land in Bangalore, India (the "Project Land"). As of December 31, 2010, the SPV has secured rights over approximately 54 acres and the total aggregate consideration paid was approximately INR 2,843 million (EUR 48 million), presented in the statement of financial position as of December 31, 2010 as trading property.

In addition the SPV has paid to the Seller advances of approximately INR 2,536 million (EUR 42 million) on account of the future acquisitions by the SPV of a further 51.6 acres ("Refundable Advance"). Such amount is presented in the statement of financial position as of December 31, 2010 and 2009 as other receivables and prepayments. The Company share in this advance is 50%.

On July 22, 2010, due to changes in the market conditions and due to new arrangements between the parties, EPI, the SPV and the Seller entered into new framework agreement which established the new commercial understandings pertaining, *inter alia,* to the joint development of the Project and its magnitude and financing, the commercial relationships and working methods between the parties and the distribution mechanism of the revenues from the Project. In accordance with the new framework agreement, the following commercial terms have been agreed between the parties:

- EPI will remain the holder of 100% of the shareholdings and the voting rights in the SPV.

- The scope of the new Project will be decreased to approximately 165 acres instead of 440 acres.

- The Seller undertakes to complete the acquisitions of the additional land in order to obtain the rights over the said 165 acres.

- The SPV and/or EPI will not be required to pay any additional amounts in respect of such acquisitions or with respect to the Project.

The Project will be executed jointly by the Seller and the SPV. The Seller (or any of its affiliates) will also serve as the general contractor of the Project, as well as the marketing manager of the Project. Under the new framework agreement the Seller is committed to a maximum construction costs, minimum sale prices and a detailed timeline and budget with respect to the development of the Project.

The profits from the Project (including the sale by the Seller or any transaction with respect to the original lands which do not form part of the said 165 acres) will be distributed in a manner by which the Group's share will be approximately 70% until such time that EPI's investment in the amount of INR 5,780 million (approximately EUR 97 million) ("EPI's Investment") plus an Internal Return Rate ("IRR") of 20% per annum calculated from September 30, 2009 is paid to the SPV (on behalf of EPI) (the "Discharge Date").

Following the Discharge Date, EPI will not be entitled to receive any additional profits from the Project and it will transfer to the Seller the entire shareholdings in the SPV for no consideration. In addition, the Seller has a call option, subject to applicable law and regulations, to acquire the entire shareholdings of the SPV, at any time, in consideration for EPI's Investment plus an IRR of 20% per annum calculated on the relevant date.

The terms of the new framework agreement will enter into full force and effect upon execution of all of the Ancillary Agreements (as defined therein), following such event the terms of the original Framework Agreement will be suspended and may be revived upon occurrence of certain events as specified in the new framework agreement.

As of December 31, 2010 and 2009, the Joint Venture Company's operations are proportionately (25%) consolidated with those of the Company, since significant decisions in respect of the Project Land require the consent of both EPI and the JV partner.

### Additional transaction in the US

In December, 2010, indirect subsidiary of the company EPN Investment Management, LLC ("EPN"), has signed a Real Estate Purchase and Sale Agreement (the "Agreement"), to purchase from certain affiliates of Charter Hall Retail REIT seven retail shopping centers located in Georgia, Oregon and Florida in the US, with a total Gross Lettable Area (GLA) of approximately 650,000 square feet (approximately 60,000 square meters) and a current occupancy rate of approximately 91.0% (the "Properties"). The purchase price of the Properties is USD 75 million (EUR 56 million), out of which an amount of USD 22.7 million (EUR 17 million) shall be paid by way of assumption of property-level debt (the "Assumed Debt").

The Properties have Net Operating Income (NOI) of approximately US$7.0 million, which reflects an annual yield of approximately 9.2%.

The closing of the transaction is contingent upon, *inter alia,* the receipt of the approval of the applicable lenders to the assignment and assumption of the Assumed Debt, applicable ground lessors' consent to the sale of three Properties which are subject to ground leases, and all other documentation required for closing.

### Bonds issuance program in Poland

On July 28, 2010 the Board of the Company approved a bond issuance program for the issuance of up to 3,000 unsecured bearer bonds, governed by Polish law, to the maximum amount of PLN 300 million (approximately EUR 75 million) (the "Bonds"), in several tranches. The tranches have been approved for issuance between July 28, 2010 and the end of 2016 (the "Bonds Issuance Program") as part of a long-term strategic financing plan. For the raise of the bonds refer to note 23.

### Changes in global markets

The Company continues to monitor closely market conditions in the countries in which it operates. Although there has been a slight easing in debt market conditions, the repercussions of the global recession are still very strong and the Company's management estimates, that it will continue to have an impact on current and potential tenants for some time. The Company's management believes that it is able to mitigate the global recession consequences by ensuring maintaining its strong, lasting relationships with its high-quality tenant base, across its geographically diverse portfolio of western style, well located centers.

During 2010 the Company completed the construction of two developments in Suwałki and Zgorzelec, and continues to make progress with the construction of four further projects (Torun in Poland, Kragujevac in Serbia and Koregaon Park and Kharadi in Pune, India). The remainder of the Company's development pipeline projects is either in the design phase or waiting permit. Commencement of these projects will depend, amongst other things, on the availability of external financing.

### Appointment of the Company's Chief Executive Officer

On December 29, 2009, the Company announced that Mr. Ran Shtarkman, its President and Chief Executive Officer, had been appointed Joint Chief Executive Officer of EI effective January 1, 2010. In this role, he continues to work full time as the CEO of the Company, based at the Company's offices, but also assumed certain responsibilities for EI, with particular emphasis on overseeing its real estate interests in India.

### Hedging and settlement of hedging transactions performed in the course of 2010

For the above mentioned hedging and settlement refer to note 16.

### Issuance of debt securities in Israel

For the issuance of debt refer to note 23.

### Purchase of additional stake in Dream Island project, Budapest

In March 2009, the Company, through its 50% jointly controlled subsidiary ("Ercorner") has acquired an additional 27% stake in Alom Sziget Kft. ("Alom Sziget") for a total consideration of EUR 21.4 million .The consideration Ercorner paid consisted of a cash payment of EUR 12 million and the assumption of EUR 9.4 million of debt, representing 27% of the project's net debt liability. Following the transaction, Ercorner holds 87% of the equity and voting rights in Alom Sziget.

# Notes to the consolidated financial statements

continued

## Note 38 – Related party transactions

### Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below and in note 36.

The Company has six directors. The annual remuneration of the directors in 2010 amounted to EUR 1.1 million (2009: EUR 0.8 million), and the annual share-based compensation expenses amounted to EUR 0.8 million (2009: EUR 2.5 million). In the course of 2010, 2.5 million options were granted to related parties personnel. There are no other benefits granted to directors. For the nomination of the Company's CEO as a joint CEO in EI refer to note 37. Information about related party balances as of December 31, 2010 and 2009 is disclosed in note 19.

### Trading transactions

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

| | **For the year ended December 31, 2010 €'000** | For the year ended December 31, 2009 €'000 |
|---|---|---|
| **Income** | | |
| Interest on balances with EI | **136** | 624 |
| **Costs and expenses** | | |
| Charges – EI and EUL | **919** | 175 |
| Chairman of Board[1] | **244** | 214 |
| Former executive Vice Chairman of EI[2] | **710** | (500) |
| Finance on shareholders loan from EUL | **–** | 521 |
| Aviation services – Jet Link[3] | **496** | 414 |
| Project management provision and charges – Control Centers group[3] | **5,039** | 19,071 |

1 The Chairman of the Board of Directors of the Company, who is also the controlling shareholder of the ultimate parent company is receiving an annual salary of USD 300 thousand.

2 Including option plan expenses of EUR 0.5 million. For the option Plan for the former Executive Vice-Chairman of EI refer to note 27.

3 Jet Link Ltd. and Control Centers (refer to note 36 a(1)) are companies owned by the ultimate shareholder of the Company.

## Note 39 – Operating segment

The Group comprises the following main geographical segments: CEE, India and the US (Starting June 30, 2010). In presenting information on the basis of geographical segments, segment revenue is based on the revenue resulted from either the selling or operating of assets geographically located in the relevant segment.

| Year ended December 31, 2010 | Central Eastern Europe | India | US | Total |
|---|---|---|---|---|
| **Revenues** | **20,824** | **–** | **16,817** | **37,641** |
| **Operating profit/(loss) by segment** | **(8,579)** | **(3,669)** | **11,329** | **(919)** |
| Share in losses of associates, net | | | | **(381)** |
| Less – unallocated general and administrative expenses | | | | **(6,926)** |
| Financial expenses, net | | | | **(21,177)** |
| Other income, net | | | | **42,343** |
| **Profit before income taxes** | | | | **12,940** |
| Tax benefit | | | | **1,308** |
| **Profit for the year** | | | | **14,248** |
| **Purchase cost of segment (tangible and intangible) assets** | **63,674** | **16,420** | | **80,094** |
| **Depreciation and amortization of segment assets (appreciation of investment property)** | **7,940** | **760** | **(4,394)** | **4,306** |
| December 31, 2010 | | | | |
| Total segment assets | **675,207** | **196,978** | **236,292** | **1,108,477** |
| Investment on the equity basis | **–** | **–** | | **–** |
| Unallocated assets | | | | **317,819** |
| | | | | **1,426,296** |
| Segment liabilities | **43,240** | **3,777** | **4,644** | **51,661** |
| Unallocated liabilities | | | | **750,186** |
| | | | | **801,847** |

# Notes to the consolidated financial statements

continued

## Note 39 – Operating segment continued

| Year ended December 31, 2009 | Central Eastern Europe | India | Total |
|---|---|---|---|
| **Revenues** | 16,045 | – | 16,045 |
| **Operating loss by segment** | (39,954) | (2,012) | (41,966) |
| Share in losses of associates, net | | | (780) |
| Less – unallocated general and administrative expenses | | | (7,906) |
| Financial expenses, net | | | (18,120) |
| Other income, net | | | 241 |
| **Loss before income taxes** | | | (68,531) |
| Income taxes | | | 3,819 |
| **Profit for the year** | | | (64,712) |
| **Purchase cost of segment (tangible and intangible) assets** | 91,248 | 18,718 | 109,966 |
| **Depreciation and amortization of segment assets** | 34,927 | 381 | 35,308 |
| December 31, 2009 | | | |
| Total segment assets | 629,297 | 151,648 | 780,945 |
| Investment on the equity basis | – | – | – |
| Unallocated assets | | | 278,676 |
| | | | 1,059,621 |
| Segment liabilities | 41,858 | 6,156 | 48,014 |
| Unallocated liabilities | | | 436,898 |
| | | | 484,912 |

## Note 40 – Events after the reporting period

### Off-market takeover bid for EDT

In March 2011, the Company announced that EPN has made an off-market takeover bid to acquire all of the outstanding units of EDT.

EPN's unconditional offer is to buy all outstanding units of EDT that EPN's affiliate does not already own (approximately 52%), for AUD 0.078 cash per EDT unit. The total consideration, which will be paid by EPN, assuming full take up of EDT units, is approximately USD 190 million (EUR 142 million).

EPN is required to send its offers to EDT unit holders within two months after the date of the announcement. EPN has not yet determined the date on which its offers will be sent.

### Foreign currency hedge using call options

In January 2011, the Company decided to use calls options strategy (through major Israeli 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 IRS, forwards).

As of the financial statements approval, the Company wrote EUR 150 million call options with strike prices (EUR/NIS exchange rate) between 4.74 and 5 and expiration date of March 31, 2011 and EUR 25 million call option with strike price of 5 expiring on June 30, 2011. Premium received totaled EUR 3.4 million. The Company has secured deposit in amount of EUR 10.4 million in respect of the above mentioned call options. The Company will monitor and adjust the hedging strategy, if needed by ongoing basis.

The hedge is not qualified for special hedge accounting. The premium received on sale of the options is treated as finance income.

### Cross-currency IRS transaction in Poland

Refer to note 16.

# Note 41 – Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements and application of accounting standards often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected. Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

## a. Impairment of Trading Properties analysis

Trading Properties are measured at the lower of cost and net realizable value. In situations where excess Trading Property balances are identified, estimates of net realizable values for the excess amounts are made.

Management is responsible for determining the net realizable value of the Group's Trading Properties. In determining net realizable value of the vast majority of Trading Properties, management utilizes the services of an independent third party recognized as a specialist in valuation of properties. The independent valuation service utilizes market prices of same or similar properties whenever such prices are available. Where necessary, the independent third party valuation service uses models employing techniques such as discounted cash flow analyses. The assumptions used in these models typically include assumptions for rental levels, residential units sale prices, cost to complete the project, developers profit on costs, financing costs and capitalization yields, utilizing observable market data, where available. On an annual basis, the Company reviews the valuation methodologies utilized by the independent third-party valuation service for each property. At December 31, 2010, the majority of the properties were valued by the independent third-party valuation service. Management made adjustments to the valued received to reflect the net realizable value by neutralizing the developers profit on costs from the valuations.

Determining net realizable value is inherently subjective as it requires estimates of future events, many of which are difficult to predict. Actual results could be significantly different than our estimates and could have a material effect on our financial results. This evaluation becomes increasingly difficult as it relates to estimates and assumptions for projects in the preliminary stage of development in addition to current economic uncertainty and the lack of transactions in the real estate market in the CEE and India for same or similar properties.

Trading Properties accumulated write-downs from cost as of December 31, 2010, amounted to EUR 40.6 million or 5% of gross Trading Properties balance.

# Notes to the consolidated financial statements

continued

## Note 41 – Critical accounting judgments and key sources of estimation uncertainty continued

### Significant estimates

Significant estimated (on the basis of weighted averages) used in the valuations as of December 31, 2010 are presented below:

| | Retail | | Offices | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Estimated rental value per m² per month (in EUR)*** | | | | |
| Romania | **10-24** | 10-22 | **12-19** | 12.5 |
| Czech Republic | **10-15** | 13-15 | **13** | 13 |
| Serbia | **16-36** | 16-36 | **17** | 17 |
| Latvia | **15.8** | 17.4 | **N/A** | N/A |
| Poland | **12-18** | 14-18 | **11.75** | 11.75 |
| Greece | **30** | 30 | **N/A** | N/A |
| Hungary | **10-22** | 10-24 | **11.5** | 11.5 |
| Bulgaria | **16.5-21** | 12-22 | **11.67** | 12 |
| **Average risk adjusted yield used in capitalization** | | | | |
| Romania | **7.00%-9.70%** | 7.00%-9.70% | **7.00%-9.65%** | 9.65% |
| Czech Republic | **7. 25%-8.00%** | 7.50%-8.25% | **7.50%** | 7.50% |
| Serbia | **9.25%-10.50%** | 9.25%-10.50% | **9.25%** | 9.25% |
| Latvia | **8.75%** | 9.25% | **N/A** | N/A |
| Poland | **7.75%-8.25%** | 7.75%-8.50% | **7.75%** | 7.75% |
| Greece | **7.75%** | 7.25% | **N/A** | N/A |
| Hungary | **8.00%-9.00%** | 8.75%-9.00% | **8.50%** | 8.75% |
| Bulgaria | **9.00%-9.75%** | 8.50%-9.25% | **8.5%** | 8.5% |
| **Estimated rental value per m² per month (in USD)*** | | | | |
| India | **17-29** | 15-26 | **9-18** | 15.4 |
| **Average risk adjusted yield used in capitalizing the net** | | | | |
| India | **9%-13%** | 10%-12% | **11%-12%** | 12% |

* Rental value per m² spread due to various geographic locations in the countries (e.g provincial area comparing capital cities).

### b. Potential penalties, guarantees issued

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

### c. Expired building permits

The process of construction is long, and subject to authorization from local authorities. It may occur that building permits will expire and will cause the Company additional preparations and costs, and can cause construction to be delayed or abandoned.

### d. Valuation of share-based payments arrangements

The Company measures the fair value of share-based payments using a valuation technique. The valuation is relying on assumptions and estimations of key parameters such as volatility, which are changing, as market conditions change. The risk is that the estimated costs related to share-based payments might not be correct eventually.

### e. Classification of investment property

The Company is classifying its assets purchased as part of business combination in the US as investment property, as it estimates it benefits from up lift of prices in the US and it will be able to dispose of these assets within four to five years with significant gain, and without any need for significant capital expenditure spent. Shopping centers which were constructed by the Company in Eastern Europe and are open to the public (four shopping centers as of December 31, 2010) are classified as trading property, as the Company holds them temporarily, and is making continuous efforts to prepare the assets to be ready for sale and dispose of them. The Company is regarding the rental income from the shopping centers as incidental to the selling price of the shopping centers.

### f. Effective control over EDT

According to the Company management judgment, the rights specified in EDT's responsible entity constitution mention in note 37 do not give EDT's minority rights to participate in operating and financial decisions of EDT and its ordinary course of business, and therefore fail to impair the Company's power to control financial and operating policies of the EDT. In addition, the Company management come to the conclusion that despite EPN shares in EDT is 47.8% there is a "de facto control" in EDT because it has the only significant units in EPN and the rest of the other units are widely scattered.

## Note 42 – List of Group entities

During the period starting January 1, 2009, the Company has owned the following companies (all subsidiaries were 100% owned by the Group at the end of each reporting period presented unless otherwise indicated):

| Hungary | Activity | Remarks |
|---|---|---|
| **Directly wholly owned** | | |
| 'Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft. | Holder of land usage rights | Arena extension project |
| HOM Ingatlanfejlesztési és Vezetési Kft. | Management company | |
| Plaza House Ingatlanfejlesztési Kft. | Office building | David House |
| Tatabánya Plaza Ingatlanfejlesztési Kft. | Inactive | |
| Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft. | Inactive | |
| Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft. | Inactive | |
| **Indirectly owned (or jointly owned)** | | |
| Ercorner Gazdagsagi Szolgaltato Kft. | Holding company | Jointly controlled (50% /50%) with commercial bank. Holding company of Álom Sziget 2004 Kft. |
| Alom Sziget 2004 Ingatlanfejlesztő Kft. | Mixed-used project | Held 87% by Ercorner Kft. |
| DI Gaming Holding Ltd. | Holding company | Held 87% by Ercorner Kft. |
| Plasi Invest 2007 Ingatlanforgalmazo kft. | Holding company | Held 70% by Plaza Centers N.V. |
| SBI Hungary Ingatlanforgalmazo es Epito kft. | Shopping center | Jointly controlled (50% /50%) by Plasi Investment Kft. and SBI Real Estate Development B.V. |
| Alom Sziget Entertainment Zrt. | Holding company | Held 49.99% by DI Gaming Holding Ltd. |
| Alom sziget Hungary Kaszinojatek Kft. | Holding company | Held 100% by Alom Sziget Entertainment Zrt. |
| Pro-One Ingatlanfejlesztő Kft. | Holding company | Held 50% by Alom sziget 2004 Ingatlanfejlesztő Kft. |
| Water Front City Kft. | Plot of land | Held 100% by Pro-One Ingatlanfejlesztő Kft. |
| Buszesz IMMO Zrt. | Plot of land | Held 100% by Pro-One Ingatlanfejlesztő Kft. |
| Fantasy Park Magyarorszag Kft. | Inactive | Held 100% by Mulan B.V. |

| Poland | Activity | Remarks |
|---|---|---|
| **Directly wholly owned (or jointly owned)** | | |
| Bielsko-Biala Plaza Sp.z.o.o | Inactive | |
| Bytom Plaza Sp.z.o.o | Inactive | |
| Bydgoszcz Plaza Sp.z.o.o | Inactive | |
| Rzeszów Plaza Sp.z.o.o. | Inactive | |
| Chorzow Plaza Sp.z.o.o | Inactive | |
| Zgorzelec Plaza Sp.z.o.o | Active shopping center | Zgorzelec project |
| Gdansk Centrum Plaza Sp.z.o.o | Inactive | |
| Gliwice Plaza Sp.z.o.o | Inactive | |
| Gorzów Wielkopolski Plaza Sp.z.o.o | Inactive | |
| Grudziadz Plaza Sp.zo.o | Inactive | |
| Jelenia Gora Plaza Sp.z.o.o | Inactive | |
| Katowice Plaza Sp.z.o.o | Inactive | |
| Suwałki Plaza Sp.z.o.o | Active shopping center | Suwałki project |
| EDMC Sp.z.o.o | Management company | |
| Legnica Plaza Sp.z.o.o | Inactive | |
| Lodz Centrum Plaza Sp.z.o.o | Own plot of land | Lodz residential project |
| Plaza Centers (Poland) Sp.z.o.o | Management company | |
| Kielce Plaza Sp. z.o.o | Shopping center project | Kielce project |
| Olsztyn Plaza Sp.z.o.o | Own plot of land | Bialystok |
| Opole Plaza Sp.z.o.o | Inactive | |
| Plock Plaza Sp.z.o.o | Own plot of land | Radom project |
| Radom Plaza Sp.z.o.o | Inactive | |

# Notes to the consolidated financial statements
continued

## Note 42 – List of Group entities continued

| Poland (continued) | Activity | Remarks |
|---|---|---|
| Szczecín Plaza Sp.z.o.o | Inactive | |
| Tarnow Plaza Sp.z.o.o | Inactive | |
| Torun Plaza Sp.z.o.o | Shopping center project | Torun project |
| Tychy Plaza Sp.z.o.o | Inactive | |
| Wloclawek Plaza Sp.z.o.o | Mixed use project | Lodz shopping center project |
| Zabrze Plaza Sp.z.o.o | Inactive | |
| Leszno Plaza Sp.z.o.o | Own plot of land | Leszno project |
| **Indirectly owned (or joint controlled)** | | |
| Fantasy Park Investments Sp.z.o.o | Inactive | Wholly owned by Fantasy park Enterprises B.V. |
| EDP Sp.z.o.o | Inactive | Jointly controlled (50% / 50%) with Classic Or B.V. |
| Lublin Or Sp.z.o.o | Stage B – Lublin | Held 50% together with Israeli based partner |
| Fantasy Park Sp.z.o.o | Entertainment | Wholly owned by Mulan B.V. |
| Hokus Pokus Rozrywka Sp.z.o.o | Inactive | Held 50% by P.L.A.Z.A B.V. and 50% Held by Plaza Centers N.V. |

| Czech Republic | Activity | Remarks |
|---|---|---|
| **Directly owned** | | |
| Praha Plaza S.R.O | Logistic center | |
| Plaza Centers Czech Republic S.R.O | Management company | |
| P4 Plaza S.R.O | Active shopping center | Liberec project |
| Plaza Housing S.R.O | Plot of land owned | Roztoky Project |
| **Indirectly owned** | | |
| Fantasy Park Czech Republic S.R.O | Entertainment | Wholly owned by Mulan B.V. |

| Greece | Activity | Remarks |
|---|---|---|
| Helios Plaza S.A | Shopping center project | Piraeus Plaza project |

| Latvia | Activity | Remarks |
|---|---|---|
| Fantasy Park Riga SIA | Entertainment | Held 100% by Mulan B.V. |
| Diksna SIA | Active shopping center | Jointly controlled with an American based partner. Riga Plaza Project |

| The Ukraine | Activity | Remarks |
|---|---|---|
| Plaza Centers Ukraine Limited | Management company | Held 100% by PC Ukraine Holdings Ltd. |

| Cyprus – Ukraine | Activity | Remarks |
|---|---|---|
| PC Ukraine Holdings Limited | Holding company | |
| Nourolet Enterprises Limited | Inactive | Held by PC Ukraine Holdings Limited |
| Tanoli Enterprises Limited | Inactive | Held by PC Ukraine Holdings Limited |

| Russia | Activity | Remarks |
|---|---|---|
| **Indirectly owned** | | |
| Plaza Centers Management O.O.O | Management company | 100% Held by Obuda B.V. |
| Plaza Centers Project 1 O.O.O | Inactive | 100% Held by Obuda B.V. |
| Plaza Centers Project 2 O.O.O | Inactive | 100% Held by Obuda B.V. |

| Cyprus – Russia | Activity | Remarks |
|---|---|---|
| **Indirectly owned (or joint controlled)** | | |
| Plaza & Snegiri Ltd. | Inactive | 50% Held by Plaza Centers N.V. |

| Bulgaria | Activity | Remarks |
|---|---|---|
| **Indirectly owned** | | |
| ON International E.O.O.D | Office project | Sofia Project – held 100% by Plaza On Holdings B.V |
| **Directly owned** | | |
| Shumen Plaza E.O.O.D | Shopping center project | Shumen Plaza Project |
| Plaza Centers Development E.O.O.D | Inactive | |
| Plaza Centers Management Bulgaria E.O.O.D | Management company | |

| Romania | Activity | Remarks |
|---|---|---|
| **Directly owned** | | |
| S.C. CENTRAL PLAZA S.R.L | Inactive | |
| S.C. GREEN PLAZA S.R.L. | Shopping center project | Iasi Project |
| S.C. ELITE PLAZA S.R.L | Shopping center project | Timisuara Project |
| S.C. PLAZA CENTERS MANAGEMENT ROMANIA S.R.L | Management company | |
| S.C. NORTH GATE PLAZA S.R.L | Shopping center project | Miercurea Ciuc Project |
| S.C. SOUTH GATE PLAZA S.R.L | Shopping center project | Slatina Project |
| S.C. WEST GATE PLAZA S.R.L | Inactive | |
| S.C. EASTERN GATE PLAZA S.R.L | Inactive | |
| S.C. NORTH WEST PLAZA S.R.L | Shopping center project | Hunedoara Project |
| S.C. NORTH EASTERN PLAZA S.R.L | Shopping center project | Constanza project |
| S.C. SOUTH WEST PLAZA S.R.L | Inactive | |
| S.C. SOUTH EASTERN PLAZA S.R.L | Inactive | |
| S.C. WHITE PLAZA S.R.L | Inactive | |
| S.C. GOLDEN PLAZA S.R.L | Inactive | |
| S.C. BLUE PLAZA S.R.L | Inactive | |
| S.C. PALAZZO DUCALE S.R.L | Office building and Company's Romanian headquarters | |
| S.C. MOUNTAIN GATE S.R.L | Shopping center project | Targu Mures project |
| **Indirectly owned (or joint controlled)** | | |
| S.C. DAMBOVITA CENTER S.R.L | Shopping center project | Casa Radio Project,75% held by Dambovita Centers Holdings B.V. |
| Bas Development S.R.L | Residential project | Held 50% by Plaza Bas B.V. |
| Spring Invest S.R.L | Office project | Held 50% by Plaza Bas B.V. |
| Sunny Invest S.R.L | Residential project | Held 50% by Plaza Bas B.V. |
| Colorado Invest S.R.L | Residential project | Held 50% by Plaza Bas B.V. |
| Malibu Invest S.R.L | Residential project | Held 25% by Plaza Bas B.V. |
| Adams Invest S.R.L | Residential project | Held 50% by Plaza Bas B.V. |
| Primavera Tower S.R.L | Office project | Held 50% by Plaza Bas B.V. |
| Fantasy Park Romania S.R.L | Inactive | Held 100% by Mulan B.V. |

# Notes to the consolidated financial statements

continued

## Note 42 – List of Group entities continued

| Serbia | Activity | Remarks |
|---|---|---|
| **Directly owned** | | |
| Plaza Centers Management D.O.O | Management company | |
| **Indirectly owned** | | |
| Orchid Group D.O.O | Shopping center project | 100% Held by Plaza Centers (Ventures) B.V. Belgrade Plaza Project |
| Leisure Group D.O.O | Shopping center project | Sport Star Plaza Project – Merged into Sevac D.O.O in November 2009. |
| Sek D.O.O | Shopping center project | 100% Held by Plaza Centers Holding B.V. Kragujevac Project |
| Accent D.O.O | Inactive | Held by Plaza Centers Logistics B.V |
| Telehold D.O.O | Inactive | Held by S.S.S. Project Management B.V |
| Fantasy Park SRB D.O.O | Inactive | Held 100% by Mulan B.V. |

| Moldova | Activity | Remarks |
|---|---|---|
| I.C.S Plaza Centers Prodev S.R.L | Inactive | |

| Slovakia | Activity | Remarks |
|---|---|---|
| Plaza Centers Slovak Republic S.R.O | Inactive | |

| The Netherlands | Activity | Remarks |
|---|---|---|
| **Indirectly owned** | | |
| Plaza Centers (Enterprises) B.V. | Finance company | Held 100% by Plaza Dambovita complex B.V. |
| **Directly owned** | | |
| Plaza Centers Management B.V. | Inactive | |
| Plaza Centers (Ventures) B.V. | Holding company – Serbia | Holds 100% of Orchid Group D.O.O |
| Plaza Centers (Estates) B.V. | Holding company – Serbia | Holds 100% of Leisure Group D.O.O |
| Plaza Centers Holding B.V. | Holding company – Serbia | Holds 100% of Sek D.O.O |
| Plaza Centers Foundations B.V. | Inactive | |
| Plaza Centers Establishment B.V. | Inactive | |
| S.S.S Project Management B.V. | Inactive | |
| Plaza Centers Logistics B.V. | Holding company – Serbia | Holds 100% of Accent D.O.O |
| Obuda B.V. | Holding company – Russia | Holds 100% of all Russian subsidiaries |
| Plaza-BAS B.V. | Holding company – Romania | Held 51% by Plaza Centers N.V., holds project companies in Romania. |
| Plaza Dambovita Complex B.V. | Holding company | |
| Plaza Centers Engagements B.V. | Inactive | Held 100% by Plaza Dambovita Complex B.V. |
| Plaza Centers Administrations B.V. | Inactive | |
| Plaza Centers Connection B.V. | Inactive | |
| Plaza-On Holding B.V. | Holding company – Bulgaria | Held 50.1% by the Company. Holds 100% of ON International E.O.O.D |
| Plaza Centers Corporation B.V. | Inactive | |
| Dambovita Center Holdings B.V. | Holding company – Romania | Holds 75% of S.C. Dambovita Center S.R.L |
| Mulan B.V. (Fantasy Park Enterprises B.V.) | Holding company | Holding Company of Fantasy Park subsidiaries in CEE and India |
| P.L.A.Z.A. B.V. | Holding company – Poland | Held 100% by Mulan B.V, Holds 50% of Hokus Pokus Rozrywka Sp.z.o.o |

| The Dutch Antilles | Activity | Remarks |
|---|---|---|
| Dreamland N.V. | Inactive | |

| Cyprus – India | Activity | Remarks |
|---|---|---|
| **Directly owned** | | |
| Elbit Plaza India Real Estate Holdings Limited | Holding company | Held 47.5% by Plaza Centers N.V. |
| PC India Holdings Public Company limited | Holding company | Held 100% by Plaza Centers N.V. |
| **Indirectly owned** | | |
| Spiralco Holdings Limited | Holding company | Holds 50% of P – one Infrastructure Private Limited. Held 100% by PC India Ltd. |
| Permindo Limited | Holding company | Holds 100% of Anuttam Developers Private Ltd. Held 100% by PC India Ltd. |
| Dezimark limited | Inactive | Held 100% by PC India Ltd. |
| Xifius limited | Inactive | Holds 99.9% of Ximanco Developers India Private Limited. Held 100% by PC India Ltd. |
| Stenzo Limited | Inactive | Holds 99.9% of Cymsten Developers India Private Limited. Held 100% by PC India Ltd. |
| Mercero Limited | Inactive | Holds 99.9% of Meranco Developers India Private Limited. Held 100% by PC India Ltd. |
| Ruvencio Limited | Inactive | Holds 99.9% of Ruvenco India Developers Private Limited. Held 100% by PC India Ltd. |
| Rosesmart Limited | Inactive | Holds 99.9% of Rosesenco India Developers Private Limited. Held 100% by PC India Ltd. |
| Sortera Limited | Inactive | Holds 99.9% of Sorcym Developers India Private Limited. Held 100% by PC India Ltd. |
| Rebeldora Limited | Holding company | Holds 99.9% of Rebelenco India Developers Private Limited. Held 100% by PC India Ltd. |
| Polyvendo Limited | Holding company | Held 100% by Elbit India Real Estate Holdings Limited |
| Elbit India Architectural Services Limited | Holding company | Held 100% by Elbit India Real Estate Holdings Limited |
| Rafalmendo Limited | Holding company | Held 100% by Elbit India Real Estate Holdings Limited |
| Demiracos Limited | Holding company | Held 100% by Elbit India Real Estate Holdings Limited |

# Notes to the consolidated financial statements

continued

## Note 42 – List of Group entities continued

| India | Activity | Remarks |
|---|---|---|
| **Indirectly owned through PC India Holdings Public Company Limited** | | |
| Hom India Infrastructure Private Limited | Management company | Held 100% by PC India Holdings |
| P – one Infrastructure Private Limited | Real estate | Held 50% by Spiralco Ltd. – Kharadi and Trivandrum Projects |
| Anuttam developers private Ltd. | Holding company of 23 subsidiaries, all held in connection with the Company's project in Pune India | Held 99.9% by Permindo (Koregaon Park Project) |
| Atrushya developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Ajanu developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Agmesh developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Animish developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Anahat developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Apratirath developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Athang developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Avyang developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Asankhya developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Apramad developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Abhyang developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Amartya developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Atmavan developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Amrutansh developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Achal developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Akhula developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Antarmukh developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Aprameya developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Amraprabhu developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Ajakshya developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Avyaya developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Avyaja developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| Anantshree developers private Ltd. | Owns plot of land | Wholly owned subsidiary of Anuttam |
| **Indirectly owned through Elbit Plaza India Real Estate Holdings Limited** | | |
| Cymsten Developers India Private Limited | Inactive | Held 99.90% by Stenzo Ltd |
| Sorcym Developers India Private Limited | Inactive | Held 99.90% by Sortera Ltd |
| Meranco Developers India Private Limited | Inactive | Held 99.90% by Mercero Ltd |
| Rebelenco India Private Limited | Inactive | Held 99.90% by Rebeldora Ltd |
| Ruvenco India Developers Private Limited | Inactive | Held 99.90% by Ruvencio Ltd |
| Rosesenco India Developers Private Limited | Inactive | Held 99.90% by Rosesmart Ltd |
| Elbit Plaza India management services private Limited | Bangalore offices | Held 100% by Polyvendo Limited |
| Elbit India Architecture and Design Private Limited | | Held 100% by Elbit India Architectural Services Limited |
| Aayas Trade Services Private Limited | Holding company | Held 100% by Elbit India Real Estate Holdings Limited Bangalore Project |
| Kadvanthra Builders Private Limited | Holding company | Held 80% by Elbit India Real Estate Holdings Limited Chennai project |
| Rafalenco India Developers Private Limited | Inactive | Held 100% by Rafalmendo Limited |
| Elbit India Builders&Developers Private Limited | Inactive | Held 100% by Demiracos Limited |
| Fantasy Park India Entertainment Limited | Inactive | Held 99.9% by Mulan B.V., Held 0.1% by P.L.A.Z.A B.V. |

| United States | Activity | Remarks |
|---|---|---|
| **Directly owned (or jointly owned)** | | |
| Elbit Plaza USA L.P | Holding company | Held 50% by the Company |
| **Indirectly owned (or jointly owned)** | | |
| EPN GP LLC | Holding company | Held 43.3% by Elbit Plaza USA LP, Holds 50% of EDT Retail Trust Management LLC and 47.8% of EDT Retail Trust |
| EPN Investment Management LLC | Holding company | Held 50% by Elbit Plaza USA LP |
| EPN Fund GP LC | Holding company | Held 50% by Elbit Plaza USA LP |
| EPN Real Estate Fund LP | Holding company | Held 0.2% by EPN Fund GP LC, Holds 13.4% of EPN GP LLC |
| EDT Retail Trust Management LLC | Holding company | Held 50% by EPN GP LLC, Holds 100% of EDT Australian Services Ltd, EDT Retail Management Ltd and EDT US Services LLC |
| EDT Australian Services Ltd | Holding company | Held 100% by EDT Retail Trust Management LLC |
| EDT Retail Management Ltd | Holding company | Held 100% by EDT Retail Trust Management LLC |
| EDT US Services LLC | Holding company | Held 100% by EDT Retail Trust Management LLC |
| EDT Retail Trust | Holding company | Held 48% by EPN GP LLC |
| US REIT I | Holding company | Held 99.98% by EDT Retail Trust |
| US REIT II | Holding company | Held 99.90% by EDT Retail Trust |
| US LLC | Holding company | Held 100% by US REIT I |
| MV LLC | Holding company | Held 50% by US REIT II |
| PS LLC | Holding company | Held 90.3% by US REIT II |

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