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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F**

(Mark One)

- ☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2009
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_
- OR**
- ☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Date of event requiring this shell company report \_\_\_\_\_

Commission file number 0-28996

**ELBIT IMAGING LTD.**

*(Exact name of registrant as specified in its charter)*

**N/A**

*(Translation of registrant's name into English)*

**ISRAEL**

*(Jurisdiction of incorporation or organization)*

**2 WEITZMAN STREET, TEL AVIV 64239, ISRAEL**

*(Address of principal executive offices)*

**DUDI MACHLUF**

**Tel: +972-3-608-6000**

**Fax: +972-3-608-6050**

**2 WEITZMAN STREET, TEL AVIV 64239, ISRAEL**

*(Name, Telephone, E-Mail and/or Facsimile Number and Address of Company Contact Person)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:  
**ORDINARY SHARES, PAR VALUE  
NIS 1.00 PER SHARE**

Name of each exchange on which registered:  
**NASDAQ GLOBAL SELECT MARKET**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**NONE**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**NONE**

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 25,461,490 ordinary shares, par value NIS 1.00 per share, excluding 2,800,000 treasury shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES ☐

NO ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES ☐

NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒

NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☐

NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 in the Exchange Act. (Check one):

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☐ U.S. GAAP

☒ International Financial Reporting Standards as issued by the International Accounting Standards Board

☐ Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

☐ Item 17

☐ Item 18

If this is an annual report indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

YES ☐

NO ☒

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## FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 20-F CONTAINS "FORWARD-LOOKING STATEMENTS," WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT"). FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS REGARDING THE INTENT, BELIEF OR CURRENT EXPECTATIONS OF THE COMPANY AND ITS MANAGEMENT ABOUT THE COMPANY'S BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS, AND ITS RELATIONSHIP WITH ITS EMPLOYEES AND THE CONDITION OF ITS PROPERTIES. WORDS SUCH AS "BELIEVE," "EXPECT," "INTEND," "ESTIMATE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS BUT ARE NOT THE EXCLUSIVE MEANS OF IDENTIFYING SUCH STATEMENTS. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE PROJECTED, EXPRESSED OR IMPLIED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS INCLUDING, WITHOUT LIMITATION, THE FACTORS SET FORTH BELOW UNDER THE CAPTION "RISK FACTORS." ANY FORWARD-LOOKING STATEMENTS CONTAINED IN THIS ANNUAL REPORT SPEAK ONLY AS OF THE DATE HEREOF, AND WE CAUTION EXISTING AND PROSPECTIVE INVESTORS NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS DO NOT PURPORT TO BE PREDICTIONS OF FUTURE EVENTS OR CIRCUMSTANCES, AND THEREFORE, THERE CAN BE NO ASSURANCE THAT ANY FORWARD-LOOKING STATEMENT CONTAINED HEREIN WILL PROVE TO BE ACCURATE. WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS. ALL SUBSEQUENT WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO US OR PERSONS ACTING ON OUR BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN "RISK FACTORS" BELOW.

## CURRENCY TRANSLATION

For the reader's convenience, financial information for 2009 has been translated from various foreign currencies to the U.S. dollar (" \$" or "U.S. dollar"), as of December 31, 2009, in accordance with the following exchange rates:

| Currency                 | \$1.00 as of December 31, 2009 |
|--------------------------|--------------------------------|
| 1 NIS                    | 0.2638                         |
| 1 Euro                   | 1.4333                         |
| 1 GBP                    | 1.5928                         |
| 1 HUF                    | 0.0053                         |
| 1 CZK                    | 0.5436                         |
| 1 LEI (RON)              | 0.3395                         |
| 1 PLN                    | 0.3473                         |
| 1 INR                    | 0.02139                        |
| 1 Crore (10 million INR) | 213.900                        |

The U.S. dollar amounts reflected in these convenience translations should not be construed as representing amounts that actually can be received or paid in U.S. dollars or convertible into U.S. dollars (unless otherwise indicated), nor do such convenience translations mean that the foreign currency amounts (i) actually represent the corresponding U.S. dollar amounts stated, or (ii) could be converted into U.S. dollars at the assumed rate. The Federal Reserve Bank of New York does not certify for customs purposes a buying rate for cable transfers in New Israeli Shekel ("NIS"). Therefore all information about exchange rates is based on the Bank of Israel rates.

## EXCHANGE RATES

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 3.737 to the U.S. dollar on May 4, 2010. The exchange rate has fluctuated during the six months period beginning December 2009 through May 4, 2010 from a high of NIS 3.815 to the U.S. dollar to a low of NIS 3.667 to the U.S. dollar. The monthly high and low exchange rates between the NIS and the U.S. dollar during the six months period beginning December 2009 through May 4, 2010, as published by the Bank of Israel, were as follows:

| MONTH                    | HIGH                   | LOW                    |
|--------------------------|------------------------|------------------------|
|                          | 1 U.S. dollar =<br>NIS | 1 U.S. dollar =<br>NIS |
| December 2009            | 3.8098                 | 3.7746                 |
| January 2010             | 3.795                  | 3.6844                 |
| February 2010            | 3.7913                 | 3.7091                 |
| March 2010               | 3.7935                 | 3.7095                 |
| April 2010               | 3.749                  | 3.682                  |
| May 2010 (through May 4) | 3.737                  | 3.73                   |

The average exchange rate between the NIS and U.S. dollar, using the average of the exchange rates on the last day of each month during the period, for each of the five most recent fiscal years was as follows:

| PERIOD                              | EXCHANGE RATE  |
|-------------------------------------|----------------|
| January 1, 2005 - December 31, 2005 | 4.488 NIS/\$1  |
| January 1, 2006 - December 31, 2006 | 4.442 NIS/\$1  |
| January 1, 2007 - December 31, 2007 | 4.0847 NIS/\$1 |
| January 1, 2008 - December 31, 2008 | 3.586 NIS/\$1  |
| January 1, 2009 - December 31, 2009 | 3.932 NIS/\$1  |

## PART I

### ITEM 1.IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

### ITEM 2.OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

### ITEM 3.KEY INFORMATION

#### A. SELECTED FINANCIAL DATA

The following selected consolidated financial data of Elbit Imaging Ltd. and its subsidiaries (together, "EI," "Elbit," the "Company," "our," "we" or "us") are derived from our 2009 consolidated financial statements and are set forth below in table format. Our 2009 consolidated financial statements and notes included elsewhere in this report were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). We initially adopted IFRS in our financial statements for the year ended December 31, 2007. Our previous financial statements were prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP"), which included reconciliation to U.S. GAAP.

The consolidated financial statements were audited by Brightman Almagor Zohar & Co., a firm of certified public accountants in Israel and a member of Deloitte Touche Tohmatsu, except for an associate which was audited by another auditor. Our selected consolidated financial data are presented in NIS. A convenience translation to U.S. dollars is presented for 2009 only.

The selected financial data for the years ended December 31, 2009, 2008, 2007 and 2006 which are presented in the table below derived from our consolidated financial statements prepared in accordance with IFRS and do not include consolidated financial data in accordance with U.S. GAAP. The selected financial data for the year ended December 31, 2005 presented in Table II below are derived from our consolidated financial statements prepared in accordance with Israeli GAAP and include consolidated financial data in accordance with U.S. GAAP.

**CONSOLIDATED STATEMENTS OF OPERATIONS IN ACCORDANCE WITH IFRS**

**(in thousands, except share and per share data)**

|  | FOR THE YEAR ENDED DECEMBER 31 |                  |                  |                  |                  |
|--|--------------------------------|------------------|------------------|------------------|------------------|
|  | 2009                           | 2009             | 2008             | 2007             | 2006             |
|  | Convenience translation        |                  |                  |                  |                  |
|  | (\$'000)                       |                  |                  | (NIS '000)       |                  |
| <b>Revenues and gains</b>  |                                |                  |                  |                  |                  |
| Commercial centers   | 22,640                         | 85,466           | 524,163          | 2,917,616        | 397,202          |
| Hotels operations and management   | 105,096                        | 396,736          | 384,220          | 395,227          | 351,610          |
| Gains from sale of real estate assets  | -                              | -                | -                | 62,621           | 81,794           |
| Sale of medical systems  | 16,340                         | 61,683           | 38,076           | 49,648           | 85,824           |
| Gains from changes of shareholding in subsidiaries   | 8,240                          | 31,106           | 49,122           | 5,310            | 667,014          |
| Sale of fashion retail   | 31,360                         | 118,386          | 102,736          | 68,139           | 58,035           |
|  | <u>183,676</u>                 | <u>693,377</u>   | <u>1,098,317</u> | <u>3,498,561</u> | <u>1,641,479</u> |
| <b>Expenses and losses</b>   |                                |                  |                  |                  |                  |
| Commercial centers   | 44,835                         | 169,253          | 432,760          | 1,714,253        | 395,814          |
| Hotels operations and management   | 93,571                         | 353,229          | 354,850          | 330,063          | 308,623          |
| Cost and expenses of medical systems operation   | 17,855                         | 67,403           | 55,469           | 69,953           | 71,746           |
| Cost of fashion merchandise  | 35,534                         | 134,142          | 118,040          | 80,308           | 67,834           |
| Research and development expenses  | 19,592                         | 73,959           | 68,759           | 69,559           | 73,538           |
| General and administrative expenses  | 17,524                         | 66,153           | 54,944           | 116,992          | 66,983           |
| Share in losses (profits) of associates, net   | 3,719                          | 14,039           | 12,952           | 12,667           | (736)            |
| Financial expenses   | 75,112                         | 283,546          | 296,527          | 232,566          | 132,310          |
| Financial income   | (24,563)                       | (92,725)         | (135,278)        | (73,293)         | (19,219)         |
| Change in fair value of financial instruments measured at fair value through profit and loss | 18,729                         | 70,702           | (225,244)        | (18,347)         | 5,495            |
| Impairment, charges and other expenses, net  | 68,934                         | 260,225          | 68,797           | 38,233           | 77,048           |
|  | <u>370,842</u>                 | <u>1,399,926</u> | <u>1,102,576</u> | <u>2,572,954</u> | <u>1,179,436</u> |
| PROFIT BEFORE INCOME TAXES   | (187,166)                      | (706,549)        | (4,259)          | 925,607          | 462,043          |
| Income taxes (tax benefits)  | (9,423)                        | (35,571)         | 24,736           | 16,288           | (1,787)          |
| PROFIT FROM CONTINUING OPERATIONS  | (177,743)                      | (670,978)        | (28,995)         | 909,319          | 463,830          |
| Profit from discontinued operation, net  | 4,384                          | 16,550           | 4,934            | 10,289           | 35,665           |
| PROFIT (LOSS) FOR THE YEAR   | <u>(173,359)</u>               | <u>(654,428)</u> | <u>(24,061)</u>  | <u>919,608</u>   | <u>499,495</u>   |
| <b>Attributable to:</b>  |                                |                  |                  |                  |                  |
| Equity holders of the Company  | (141,263)                      | (533,269)        | (103,714)        | 539,749          | 510,803          |
| Minority interest  | (32,096)                       | (121,159)        | 79,653           | 379,859          | (11,308)         |
|  | <u>(173,359)</u>               | <u>(654,428)</u> | <u>(24,061)</u>  | <u>919,608</u>   | <u>499,495</u>   |
| <b>Earnings per share - (in NIS)</b>   |                                |                  |                  |                  |                  |
| Basic earnings per share:  |                                |                  |                  |                  |                  |
| From continuing operations   | (5.72)                         | (21.60)          | (4.27)           | 20.80            | 18.83            |
| From discontinued operations   | 0.17                           | 0.65             | 0.19             | 0.40             | 1.41             |
|  | <u>(5.55)</u>                  | <u>(20.95)</u>   | <u>(4.08)</u>    | <u>21.20</u>     | <u>20.24</u>     |
| Diluted earning per share:   |                                |                  |                  |                  |                  |
| From continuing operations   | (5.73)                         | (21.62)          | (4.30)           | 20.18            | 18.83            |
| From discontinued operations   | 0.17                           | 0.65             | 0.19             | 0.40             | 1.41             |
|  | <u>(5.56)</u>                  | <u>(20.97)</u>   | <u>(4.11)</u>    | <u>20.58</u>     | <u>20.24</u>     |
| Dividend declared per share  | 0                              | 0                | 6.6              | 6.30             | 0                |

## SELECTED BALANCE SHEET DATA IN ACCORDANCE WITH IFRS

|                                       | DECEMBER 31             |           |            |           |           |
|---------------------------------------|-------------------------|-----------|------------|-----------|-----------|
|                                       | 2009                    | 2009      | 2008       | 2007      | 2006      |
|                                       | Convenience translation |           |            |           |           |
|                                       | (\$ '000)               |           | (NIS '000) |           |           |
| Current Assets                        | 1,795,369               | 6,777,519 | 6,076,928  | 5,808,346 | 3,671,977 |
| Non Current Assets                    | 685,133                 | 2,586,376 | 2,614,784  | 2,639,302 | 2,613,648 |
| Total                                 | 2,480,502               | 9,363,895 | 8,691,712  | 8,447,648 | 6,285,625 |
| Current Liabilities                   | 730,218                 | 2,756,575 | 2,018,741  | 935,311   | 1,101,684 |
| Non Current Liabilities               | 1,184,645               | 4,472,033 | 4,235,188  | 4,283,335 | 2,889,710 |
| Shareholders' equity Attributable to: |                         |           |            |           |           |
| Equity holders of the company         | 249,131                 | 940,467   | 1,373,692  | 2,035,438 | 1,644,716 |
| Minority interest                     | 316,508                 | 1,194,820 | 1,064,091  | 1,193,564 | 649,515   |
| Total                                 | 2,480,502               | 9,363,895 | 8,691,712  | 8,447,648 | 6,285,625 |

**TABLE II**

## CONSOLIDATED STATEMENTS OF OPERATIONS IN ACCORDANCE WITH ISRAELI GAAP

(in thousands, except share and per share data)

|   | FOR THE YEAR ENDED<br>DECEMBER 31, 2005<br>(NIS '000) |
|---|---|
| <b>REVENUES</b>   |   |
| Sale of real estate assets and investments, net                     | 281,661   |
| Commercial centers operations                                       | 142,957   |
| Hotels operations and management                                    | 270,057   |
| Sale of medical systems   | 75,713  |
| Realization of investments  | 1,958   |
| Other operational income  | 44,409  |
|   | 816,755   |
| <b>COSTS OF EXPENSES</b>  |   |
| Commercial centers operations                                       | 157,640   |
| Hotels operations and management                                    | 259,293   |
| Cost and expenses of medical systems operation                      | 50,374 <sup>(*)</sup>                                 |
| Other operational expenses  | 46,793  |
| Research and development expenses, net                              | 59,796 <sup>(*)</sup>                                 |
| General and administrative expenses                                 | 36,939  |
| Share in losses of associated companies, net                        | 12,028  |
| Financial expenses , net  | 122,321   |
| Other expenses, net   | 57,106  |
|   | 802,290   |
| <b>PROFIT BEFORE INCOME TAXES</b>                                   | 14,465  |
| Income taxes (tax benefits)   | 7,798   |
| <b>PROFIT AFTER INCOME TAXES</b>                                    | 6,667   |
| Minority-interest in results of subsidiaries, net                   | 73,795 <sup>(*)</sup>                                 |
| <b>PROFIT FROM CONTINUING OPERATIONS</b>                            | 80,462  |
| Profit from discontinued operations, net                            | 5,917   |
| Cumulative effect of accounting change at the beginning of the year | (622)   |

|   |        |
|---|--------|
| NET INCOME  | 85,757 |
| EARNINGS PER SHARE  |        |
| From continuing operations  | 3.70   |
| From discontinued operations  | 0.27   |
| Cumulative effect of accounting change at the beginning of the year | (0.03) |
| Basic earnings per share  | 3.94   |
| Dividend declared per share   | 12.39  |

(\*) We declared distribution of dividends twice during 2005.

### INCOME STATEMENT DATA IN ACCORDANCE WITH U.S. GAAP

|  | FOR THE YEAR ENDED<br>DECEMBER 31, 2005<br>(NIS '000) |
|--|---|
| NET INCOME AND COMPREHENSIVE INCOME:   |   |
| Net income according to U.S. GAAP  | 100,344   |
| Total comprehensive income according to U.S. GAAP                                      | 123,429   |
| Basic earning per ordinary share as per U.S. GAAP (NIS)                                | 3.98  |
| Diluted earning per ordinary share as per U.S. GAAP (NIS)                              | 4.53  |
| Weighted average of number of shares and share equivalents under U.S. GAAP (thousands) | 21,743  |

### SELECTED BALANCE SHEET DATA IN ACCORDANCE WITH ISRAELI GAAP AND U.S. GAAP

|   | DECEMBER 31, 2005<br>(NIS '000) |
|---|---------------------------------|
| Current Assets                                    | 1,448,733                       |
| Long-term investments and receivables             | 118,937                         |
| Hotels, commercial centers and other fixed assets | 2,175,364                       |
| Other assets and deferred expenses                | 30,476                          |
| Assets related to discontinued operations         | 12,607                          |
| Total   | 3,786,117                       |
| Current Liabilities                               | 887,415                         |
| Long-term liabilities                             | 1,707,254                       |
| Liabilities related to discontinued operations    | 62,430                          |
| Convertible debentures                            | 62,159                          |
| Minority interest                                 | 11,449                          |
| Options Issued by Subsidiaries                    | 1,186                           |
| Shareholders' equity                              | 1,054,224                       |
| Total   | 3,786,117                       |
| Total assets according to U.S. GAAP               | 3,846,427                       |
| Total liabilities according to U.S. GAAP          | 2,801,532                       |
| Total shareholders equity according to U.S. GAAP  | 1,044,894                       |

### B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

### C. REASONS FOR THE OFFER AND USE OF PROCEEDS



Not Applicable.

#### **D. RISK FACTORS**

The following is a list of the material risk factors that may affect our business and our results of operations. We cannot predict nor can we assess the impact, if any, of such risk factors on our business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those projected in any forward-looking statement. Furthermore, we cannot assess the occurrence, probability or likelihood of any such risk factor, or a combination of factors, to materialize.

##### **RISKS RELATING TO THE SHOPPING AND ENTERTAINMENT CENTERS BUSINESS**

##### **Suitable locations are critical to the success of a shopping and entertainment center.**

The choice of suitable locations for the development of shopping and entertainment center projects is an important factor in the success of the individual projects. Ideally, these sites should be located: (i) within, or near, the city center, with well-developed transportation infrastructure (road and rail) located in close proximity to facilitate customer access; and (ii) in areas with sufficient population to support the centers. If we are not able to find sites in the target cities which meet these criteria or which meet our price range, this may materially adversely affect our business and results of operation.

##### **Zoning restriction and local opposition can delay or prevent construction of a center.**

Sites which meet our criteria must be zoned for commercial activities of the type common in shopping and entertainment centers and other developments. Where the existing zoning is not suitable or has yet to be determined, we apply for the required zoning classifications. This procedure may be protracted, particularly in countries where the bureaucracy is cumbersome and inefficient, and we cannot be certain that the process of obtaining proper zoning will be completed with sufficient speed to enable the centers to open ahead of the competition or at all.

Opposition by local residents to zoning and/or building permit applications may also cause considerable delays. In addition, arbitrary changes to applicable zoning may jeopardize projects that have already commenced. Therefore, if we cannot receive zoning approvals or if the procedures for the receipt of such zoning approvals are delayed, our costs will increase and competition may strengthen, which will have an adverse effect on our business.

Building permits may contain conditions that we must satisfy in order to develop a shopping and entertainment center. Such conditions may require us to contribute to local infrastructure or alter a planned development to include additional landscaping or planted areas. If we are obligated to maintain certain areas of the project site as "green areas" this may reduce leasable areas, which in turn may reduce potential rental revenues while increasing development costs.

Certain zoning permits are granted for limited time periods and if the term is not extended the rights revert back to the local government. Furthermore, these rights may be subject to termination under certain circumstances by the government and any termination prior to the expiration of such rights could have a material adverse effect on our business, prospects and results of operations or financial condition.

##### **We depend on contractors and subcontractors to construct our centers, which may lead to increased development and construction costs and the loss of our competitive advantage.**

We rely on subcontractors for all of our construction and development activities. If we cannot enter into subcontracting arrangements on terms acceptable to us or at all, we will incur additional costs which will have an adverse effect on our business. The competition for the services of quality contractors and subcontractors may cause delays in construction, thus exposing us to a loss of our competitive advantage. Subcontracting arrangements may be on less favorable terms than would otherwise be available, which may result in increased development and construction costs. By relying on subcontractors, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, performance delays, construction defects and

the financial stability of the subcontractors. A shortage of workers would have a detrimental effect on us and our subcontractors and, as a result, on our ability to conclude construction phases on time and within budget. We generally require our subcontractors to provide bank guarantees in our favor to financially secure their performance. In the event the subcontractor fails to perform, the bank guarantees provide for a monetary payment to us. The guarantees do not, however, obligate the subcontractors to complete the project and may not adequately cover our costs of completing the project or our lost profits during the period while alternative means of completing the project are sought.

#### **Delays in the completion of construction projects could affect our success.**

An important element in the success of the construction process of our shopping and entertainment center projects is the short construction time (generally 8 to 18 months from the receipt of building permits, depending on the size of the project and location), and our ability to open centers ahead of our competitors, particularly in cities which do not have shopping and entertainment centers of the type constructed by us.

This makes us subject to a number of risks relating to these activities, including:

- delays in obtaining zoning and other approvals;
- the unavailability of materials and labor;
- the abilities of subcontractors to complete work competently and on schedule;
- the surface and subsurface condition of the land underlying the project;
- environmental uncertainties;
- extraordinary circumstances or “acts of god”; and
- ordinary risks of construction that may hinder or delay the successful completion of a particular project.

In addition, under our development contracts with local municipalities, we have deadlines for several of our projects (subject to limited exceptions). If construction of a project does not proceed in accordance with our schedule, we may in some instances be required to pay penalties to the vendor (usually local municipalities) based on the extent of the delay and in rare cases to forfeit rights in the land. The failure to complete a particular project on schedule or on budget may have a material adverse effect on our business, prospects and results of operations or financial condition.

#### **We are dependent on attracting third parties to enter into lease agreements, and in particular on anchor tenants.**

We are dependent on our ability to enter into new leases on favorable terms with third parties, including anchor tenants (such as the operators of cinemas, supermarkets, department stores and electrical appliances stores) in order to receive a profitable price for each shopping and entertainment center or other development. Anchor stores in shopping and entertainment centers play an important part in generating customer traffic and making a center a desirable location for other tenants. We may find it more difficult to engage tenants to enter into leases during periods when market rents are increasing, or when general consumer activity is decreasing, or if there is competition for tenants from competing centers. The recent global economic recession, pressures that affect consumer confidence, job growth, energy costs and income gains can affect retail sales growth, and a continuing soft economic cycle may impact our ability to find tenants for our shopping and entertainment centers. Failure to attract tenants, the termination of a tenant’s lease, or the bankruptcy or economic decline of a tenant may adversely affect the price obtainable for the shopping and entertainment center and adversely affect our financial condition and results of operations. The failure of tenants to abide by the terms of their agreements may cause delays or result in a temporary or long term decline in rental income, the effects of which we may not be able to offset due to difficulties in finding a suitable replacement anchor tenant. Furthermore, the tenants or operators of units comprising part of a development may be unable to obtain the necessary governmental permits or licenses which are necessary for the operation of their respective businesses (for example, the inability of the operator of the

proposed casino to be constructed as part of the Dream Island development to maintain a gaming license due to its failure to qualify or comply with the applicant legal requirements). Where such operations are delayed or not permitted due to lack of necessary permits, a negative impact on the attractiveness of the project and on revenues and cash flows may result.

**We may lease developed shopping and entertainment centers or other developments at below expected rental rates or sell at a price which is below what was expected.**

Our current strategy is to dispose of a shopping and entertainment center upon completion. If rental leases decrease below our expectations or if circumstances arise beyond our control, such as market prices, market demand and negative trends, we may have to sell a shopping and entertainment center at a price below our projections.

**Competition is becoming more aggressive in certain Central and Eastern European countries which may adversely affect our results of operations.**

The shopping and entertainment centers business in Central and Eastern Europe ("CEE") is rapidly becoming more competitive with a number of developers becoming active in our target areas, such as Globe Trade Centre SA, ECE Projektmanagement GmbH and TriGranit Holding Limited. The shopping and entertainment centers concept we promote is gaining increasing popularity due to its potentially high yields. Developers compete not only for patrons, but also for desirable properties, financing, raw materials, qualified contractors, experienced system consultants, expert marketing agents and skilled labor. The public bidding process (the process through which we often acquire new properties) is subject to intense competition and some of our competitors have longer operating histories and greater resources than us, all of which may limit our ability to obtain such projects. There can be no assurance that we will be successful in winning projects that we bid for or which are awarded pursuant to fixed price tenders or that we will otherwise continue to be successful in competing in CEE.

If we find and acquire a location that is suitable for the development of a shopping and entertainment center, the suitability of that location may be adversely affected by external factors such as a competing shopping center opening in the same area. In the event that the suitability of a location is adversely affected, the development of our shopping and entertainment center may be delayed or abandoned. In such circumstances, there is no guarantee that we will be able to use the site for an alternative development or be able to sell the site.

**We may be required to make payments to tenants in occupations who enjoy enhanced occupational rights in order to vacate the premises which may result in budget overruns.**

We may acquire development sites or existing shopping and entertainment centers that have existing tenants. In so doing, we may acquire lease liabilities and obligations in connection with such acquisitions. As a consequence, our earnings may be affected to the extent that we are obliged to give continued occupation to tenants with lease payments below market rates for the refurbished or redeveloped center. In addition, we may incur costs in obtaining vacant possession of a site where there are existing tenants who have protected occupation rights. We may be required to make additional *ex gratia* payments to such tenants in order to obtain vacant possession before the contractual expiration of such occupational tenants' lease terms. Such payments may result in budget overruns for the project. We may also be obliged to relocate existing tenants, which could delay the development of the site and add to the cost of development.

**There is no assurance that we will successfully implement our construct and dispose strategy on the shopping and entertainment business and in such event our results may be materially adversely affected.**

Our strategy in the shopping and entertainment centers business is to dispose of centers upon completion or to retain and operate a shopping and entertainment center on completion, until economic conditions warrant a profitable sale, if that is likely to be more profitable to us than disposing of it. Our decision to sell properties is based on various factors, including market conditions, and we cannot predict when such sales will actually occur. There can be no assurance that we will be able to complete dispositions of commercially reasonable terms or at all. Accordingly, our results of operation can be materially adversely affected.

**Some of our shopping and entertainment centers are co-owned and control of such investments are shared with third parties.**

Some of our projects are held through joint venture arrangements with third parties with whom we share ownership and control of such assets. As a result, these arrangements entail risks that do not affect projects in which we own a controlling interest, including the possibility that: (i) our joint venture partner might, at any time, have economic or other business interests that are inconsistent with ours; (ii) our joint venture partner may be in a position to take action contrary to our instructions or requests, or contrary to our policies or objectives, or frustrate the execution of acts which we believe to be in the interests of any particular project; (iii) our joint venture partner may have different objectives than us, including with respect to the appropriate timing and pricing of any sale or refinancing of a development and whether to enter into agreements with potential contractors, tenants or purchasers; (iv) our joint venture partner might become bankrupt or insolvent; and (v) we may be required to provide financing to make up any shortfall due to our joint venture partner failing to provide such equity finance or to furnish collaterals to the financing banks.

Disputes or disagreements with any of our joint venture partners could result in significant delays and increased costs associated with the development of our properties. Even when we have a controlling interest, certain major decisions (such as whether to sell, refinance or enter into a lease or contractor agreement and the terms on which to do so) may require approval from a joint venture partner or other third party. If we are unable to reach or maintain agreement with a joint venture partner or other third party on matters relating to the business operations, our financial condition and results of operations may be materially adversely affected.

#### **RISKS RELATING TO THE HOTEL BUSINESS**

**The hotel industry may be affected by economic conditions, oversupply, travel patterns, weather and other conditions beyond our control which may adversely affect our business and results of operations.**

The hotel industry may be adversely affected by changes in national or local economic conditions and other local market conditions, especially in times of economic crisis. Our hotels, and particularly our hotels in London, Amsterdam and Bucharest, may be subject to the risk of oversupply of hotel rooms. Other general risks that may affect our hotel business are changes in travel patterns, extreme weather conditions, changes in governmental regulations which influence or determine wages, workers' union activities, increases in land acquisition prices or construction costs, changes in interest rates, the availability of financing for operating or capital needs, and changes in real estate tax rates and other current operating expenses. Unforeseen events, such as terrorist attacks, volcanic eruptions, outbreaks of epidemics and health concerns (such as SARS, avian flu, swine flu) and the economic recession had, and may continue to have, an adverse effect on local and international travel patterns and, as a result, on occupancy rates and prices in our hotels. Downturns or prolonged adverse conditions in the real estate or capital markets or in national or local economies and difficulties in securing financing for the development of hotels could have a material adverse effect on our business, results of operations, ability to develop new projects and the attainment of our strategic goals.

**Competition in the hotels industry could have an adverse effect on our business and results of operations.**

The hotel business is highly competitive. This is particularly the case in those areas where there is an oversupply of rooms, such as in London, Amsterdam and Bucharest. Competitive factors within the industry include: (i) convenience of location and accessibility to business centers; (ii) room rates; (iii) quality of accommodations; (iv) brand name recognition; (v) quality and nature of service and guest facilities provided; (vi) reputation; (vii) convenience and ease of reservation systems; and (viii) the supply and availability of alternative lodging.

We operate, and intend to develop or acquire, most of our hotels in geographic locations where other hotels are or may be located. We expect to compete for guests and development sites with national chains, large franchisees and independent operators. Many of these competitors have greater financial resources and better brand name recognition than we do, and may have more established relationships with prospective franchisers, representatives in the construction industry and other parties engaged in the lodging industry. The number of competitive lodging facilities in a particular area could have a material adverse effect on our hotel occupancy and rates and, therefore, revenues of our hotels. We believe that competition within the lodging market may increase in

the foreseeable future especially for our hotels located in Eastern Europe. New or existing competitors may significantly reduce their rates or offer greater convenience, services or amenities or significantly expand or improve hotels in the markets in which we currently or may subsequently compete, thereby materially adversely affecting our business and results of operations.

**Acquiring, developing and renovating hotels involve substantial risks, and we cannot be certain of the success of any future projects.**

Part of our strategy is to develop new hotels and to acquire and redevelop old or under-performing hotels. Acquiring, developing and renovating hotels involves substantial risks, including: (i) costs exceeding budget or amounts agreed upon with contractors, because of various factors, such as delays in completion of construction; (ii) competition for acquisition of suitable development sites from competitors, who may have greater financial resources; (iii) the failure to obtain zoning and construction permits; (iv) unavailability of financing on favorable terms, if at all; (v) the failure of hotels to earn profits sufficient to service debt incurred in construction or renovation, or at all; (vi) the failure to comply with labor and workers' union legal requirements; (vii) relationships with and quality and timely performance by contractors; and (viii) compliance with changes in governmental rules, regulations, planning and interpretations.

We cannot be certain that present or future development or renovation will be successful. If we are not successful in future projects, it will have a material adverse effect on our business. For successful growth, we must be able to develop or acquire hotels on attractive terms and integrate such hotels into our existing operations. For acquired hotels, we must consolidate management, operations, systems, personnel and procedures, which may not be immediately possible due to collective labor agreements or other legal or operational obstacles. Any substantial delays or unexpected costs in this integration process could materially affect our business, financial condition or results of operations. We cannot be certain that newly acquired (or constructed or refurbished) hotels will perform as we expect or that we will be able to realize projected cost savings for acquired hotels.

**We depend on partners in our joint ventures and collaborative arrangements.**

The majority of operational hotels in which we own interests are held by us in partnership with other entities, including in particular, Park Plaza Hotels Limited ("Park Plaza"), a public company whose shares are listed for trade on the Alternative Investment Market of the London Stock Exchange ("AIM"). Park Plaza is engaged in ownership, co-ownership, lease, franchising and management of full service four star deluxe hotels and trendy boutique hotels in major gateway cities and regional centers in Europe, the Middle East and North Africa. (For additional information regarding our partnership with Park Plaza, see "Item 4.B. Business Overview - Hotels" below). We may in the future enter into joint ventures or other collaborative arrangements with Park Plaza or with other third parties. Our investments in these joint ventures, including in particular our numerous partnerships with Park Plaza, may, under certain circumstances, be subject to (i) the risk that one of our partners may become bankrupt or insolvent, which may cause us to be unable to fulfill our financial obligations, may trigger a default under our bank financing agreements or, in the event of a liquidation, may prevent us from managing or administering our business or entail a compulsory sale of the hotel at less favorable terms; (ii) the risk that one of our partners may have economic or other interests or goals that are inconsistent with our interests and goals, and that such partner may be in a position to veto actions which may be in our best interests; and (iii) the possibility that disputes may arise regarding the continued operational requirements of our hotels that are jointly owned, all of which may materially adversely affect our financial condition and results of operations.

**We rely on management agreements with Park Plaza which may not provide the intended benefits, and may be terminated. Significant decline in the reputation of Park Plaza or in the performance of our hotels could adversely affect our results of operation.**

Five of the hotels in which we have an interest are either directly or indirectly operated under long-term management agreements with Park Plaza. Park Plaza is the franchisee for certain territories under territorial license and franchise agreements with Carlson, a leading travel and hospitality company which entitles Park Plaza to use the "Park Plaza" trademark. Any significant decline in the reputation of Park Plaza or in its ability to ensure the performance of our hotels at anticipated levels could adversely affect our results of operations. If for any reason Park Plaza loses its principal franchise, we will automatically lose our ability to use the Park Plaza trademark and

other benefits, and suffer in the areas of brand name recognition, marketing, and centralized reservations systems provided by Park Plaza, which, in turn, could materially affect our operations. If our agreement with Park Plaza is terminated, we cannot be certain that we would be able to obtain alternative management services of the same standard on similar or better terms.

**Our agreements with Park Plaza and the Rezidor Hotel Group impose obligations on us that may force us to incur significant costs.**

Our agreements with Park Plaza and the Rezidor Hotel Group, the management companies of the majority of our operating hotels, contain specific standards for, and restrictions and limitations on, hotel operation and maintenance. These standards, restrictions and limitations may conflict with our priorities, and impose capital demands upon us. In addition, Park Plaza and the Rezidor Hotel Group may alter their standards or hinder our ability to improve or modify our hotels. We may be forced to incur significant costs or make capital improvements in order to comply with the requirements of Park Plaza or the Rezidor Hotel Group and, if our relationship with either of these parties is terminated, to change the franchise affiliation of our affected hotels.

**The value of our investment in our hotel properties is subject to various risks related to ownership and operation of real property.**

Our investment in hotel properties is subject to varying degrees of risk related to the ownership and operation of real property. The intrinsic value of our hotels and income from the hotels may be materially adversely affected by:

- changes in global and national economic conditions, including global or national recession, such as those triggered by the recent economic crisis;
- a general or local slowdown in the real property market which may make it difficult to sell a property, such as the recent global slowdown;
- political events that may have a material adverse effect on the hotel industry;
- competition from other lodging facilities, and oversupply of hotel rooms in a specific location;
- material changes in operating expenses, including as a result of changes in real property tax systems or rates or labor laws;
- changes in the availability, cost and terms of financing;
- the effect of present or future environmental laws;
- our ongoing need for capital improvements and refurbishments; and
- material changes in governmental rules and policies.

**Our ownership rights in and to our hotel complex in Bucharest, Romania, have been challenged. If such challenges succeed, our results of operations and financial position will be materially adversely affected.**

Since we acquired a controlling interest in our hotel complex in Bucharest, Romania (which includes the Radisson Blu Bucharest Hotel and the Centerville Apartment Hotel) in 2000, we have encountered a number of attempts to challenge both the validity of the acquisition of the complex and our control over the company owning the rights to the hotel. If any such challenge succeeds, our results of operation and financial position will be materially adversely affected.

**RISKS RELATING TO RESIDENTIAL PROJECTS**

**The homebuilding industry continues to be cyclical and affected by changes in general economic, real estate or other business conditions that could adversely affect our business or financial results.**

The homebuilding industry has been cyclical historically and continues to be significantly affected by changes in industry conditions, as well as in general and local economic conditions, such as:

- employment levels;
- availability of financing for homebuyers;
- interest rates;
- consumer confidence;
- levels of new and existing homes for sale;
- demographic trends;
- housing demand;
- local laws and regulations; and
- acts of terror, floods or earthquakes.

These may occur on a global scale, like the recent housing downturn, or may affect some of the regions or markets in which we operate more than others. When adverse conditions affect any of our larger markets, they could have a proportionately greater impact on us than on some other homebuilding companies. Our operations where we have significant inventory will more adversely affect our financial results than our other markets. An oversupply of alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, other existing homes and rental properties, can also reduce our ability to sell new homes and depress new home prices and reduce our margins on the sales of new homes.

As a result of the foregoing matters, potential customers may be less able or willing to buy our homes, or we may need longer periods of time or incur more costs to build them. Because of current market conditions, we may not be able to recapture any increased costs by raising prices and our ability to do so may also be limited by market conditions or because we fix our prices in advance of delivery by signing home sales contracts. We may be unable to change the mix of our home offerings or the affordability of our homes to maintain our margins or satisfactorily address changing market conditions in other ways. In addition, cancellations of home sales contracts in backlog may increase as homebuyers cancel or do not honor their contracts.

**If prospective home buyers are not able to obtain suitable financing, our results of operations may decline.**

Our results of operations depend on the ability of prospective home buyers to obtain mortgages for the purchase of our homes. The uncertainties created by recent events in the mortgage markets and their impact on the overall mortgage market, including the tightening of credit standards, could adversely affect the ability of our prospective customers to obtain financing for a home purchase, thus preventing prospective home buyers from purchasing our homes. Moreover, increases in the cost of home mortgage financing could prevent prospective home buyers from purchasing our homes. In addition, where prospective customers must sell their existing homes in order to buy a new home from us, increases in mortgage costs and/or lack of availability of mortgages could prevent the buyers of our prospective customers' existing homes from obtaining the mortgages they need to complete the purchase, which would result in our prospective customers' inability to buy a home from us. Similar risks apply to those buyers who are in our backlog of homes to be delivered. If our home buyers, potential buyers or buyers of our home buyers' current homes cannot obtain suitable financing, our sales and results of operations would be adversely affected.

**We may have excess land inventory if we are not successful in completing housing projects and selling homes profitably.**

Inventory risks are substantial for our homebuilding business. The risks inherent in controlling or purchasing and developing land increase as consumer demand for housing decreases. Thus, we may have provided

conditional undertakings to purchase land or bought and developed land at a cost we will not be able to recover fully or on which we cannot build and sell homes profitably. Our deposits for building lots controlled under option or similar contracts may be put at risk. The value of undeveloped land, building lots and housing inventories can also fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant and can result in reduced margins or losses in a poorly performing project or market. In the present weak market conditions, we may have to sell homes and land for lower margins or at a loss and we may record significant inventory impairment charges.

Our goals for years of supply for ownership and control of land and building lots are based on management's expectations for future volume growth. In light of the weaker market conditions currently prevailing, we might have to significantly slow our purchases of land and lots and make substantial land and lot sales as part of our strategy to reduce our inventory to better match our reduced rate of production. Because future market conditions are uncertain, we cannot provide assurance that these measures would be successful in managing our future inventory risks.

**We may not be able to achieve ample supply levels in order to meet schedules for housing projects.**

The homebuilding industry has from time to time experienced significant difficulties that can affect the cost or timing of construction, including:

- difficulty in acquiring land suitable for residential building at affordable prices in locations where our potential customers want to live;
- shortages of qualified trades people;
- reliance on local subcontractors, who may be inadequately capitalized;
- shortages of materials; and
- volatile increases in the cost of materials, particularly increases in the price of lumber, drywall and cement, which are significant components of home construction costs.

The failure to complete a particular project on schedule or on budget may have a material adverse effect on our business, prospects and results of operations or financial condition.

**RISKS RELATING TO THE SHOPPING AND ENTERTAINMENT CENTERS BUSINESS, TO THE HOTEL BUSINESS AND TO THE RESIDENTIAL PROJECTS BUSINESS**

**The failure to comply with government regulation may adversely affect our business and results of operations.**

The shopping and entertainment centers business, the hotel business and the residential projects business, are subject to numerous national and local government regulations, including those relating to acquisition of real estate properties, building and zoning requirements and fire safety control. In addition, we are subject to laws governing our relationships with employees, including minimum wage requirements, overtime, working conditions, and work permit requirements, and in some localities to collective labor agreements. A determination that we are not in compliance with these regulations could result in the imposition of fines, an award of damages to private litigants and significant expenses in bringing our shopping and entertainment centers and hotels into compliance with such regulations. In addition, our ability to dismiss unneeded staff may be hampered by local labor laws and courts which traditionally favor employees in disputes with former employers, particularly in countries with strong socialist histories such as those in Eastern Europe.

**We may be held liable for design or construction defects of third-party contractors.**

We rely on the quality and timely performance of construction activities by third-party contractors. Claims may be asserted against us by local government and zoning authorities or by third parties for personal injury and design or construction defects. These claims may not be covered by the professional liability insurance of the



contractors or of the architects and consultants. These claims may give rise to significant liabilities.

**Shortages in raw materials and employees may have a material adverse effect on our results of operations.**

The building industry may from time to time experience fluctuating prices and shortages in the supply of raw materials as well as shortages of labor and other materials. The inability to obtain sufficient amounts of raw materials and to retain efficient employees on terms acceptable to us may delay construction and increase the budget of our projects and, as a result, have a material adverse effect on the results of our operations.

**Mixed-use projects combine versatile factors affecting individual components, failure of any of which may affect other components and may be detrimental to the mixed-use project.**

Our shopping and entertainment centers business and the residential projects, include the construction of mixed-use projects. Materialization of a risk specific to an individual component may affect other components of such mixed-use project and thereby the project as a whole.

**The fair value of our real estate assets may be harmed by certain factors, which may entail impairment losses not previously recorded which, in turn, will affect our financial results.**

Certain circumstances may affect the fair value of our real estate assets (operating or under construction), including, among other things, (i) the absence of or modifications to permits or approvals required for the construction and/or operation of any real estate asset; (ii) in shopping and entertainment centers - where a significant part of the rental areas is subject to long-term leases with a small group of retailers which is distinguished from other lessees, we may be exposed to a risk of rental fees rates being significantly lower than originally anticipated. A material long term decline in the business operations of such retailers may therefore have an adverse effect on the real estate assets recoverable amount and their final sale prices; (iii) delays in completion of works, beyond the anticipated target, may adversely affect our results of operations; (iv) lawsuits that are pending, whether or not we are a party thereto, may have a significant impact on our real estate assets and/or on certain of our shareholding rights in the companies owning such assets. In addition, certain laws and regulations, applicable to our business in certain countries where the legislation process undergoes constant changes, may be subject to frequent and substantially different interpretations; agreements which may be interpreted by governmental authorities so as to shorten the term of use of real estate, and which may be accompanied with a demolition order with or without compensation, may significantly affect the value of such real estate asset. The fair value of our real estate assets may be significantly decreased, thereby resulting in potential impairment losses not previously recorded in our financial results.

Since market conditions and other parameters (such as macroeconomic environment trends, and others), which affect the fair value of our real estate and investments, vary from time to time, the fair value may not be adequate on a date other than the date the measurement was executed (in general, immediately after the balance sheet date). In the event the projected forecasts regarding the future cash flows generated by those assets are not met, we may have to record an additional impairment loss not previously recorded.

**Environmental discoveries may have a significant impact on the budget, schedule, viability and marketability of a shopping and entertainment center.**

We may encounter unforeseen construction delays due to factors beyond our control such as delays caused by previously unknown soil contamination or the discovery of archeological findings which may have a significant impact on development budget and schedules and which may, in turn, have a detrimental effect on the viability or marketability of the development. We may be liable for the costs of removal, investigation or remedy of hazardous or toxic substances located on or in a site owned or leased by us, regardless of whether we were responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remedy of such substances may be substantial and/or may result in significant budget overruns and critical delays in construction schedules. The presence of such substances, or the failure to remedy such substances properly, may also adversely affect our ability to sell or lease the development or to obtain financing using the real estate as security. Additionally, any future sale of the development will be generally subject to indemnities to be provided by us to the purchaser against such environmental liabilities. Accordingly, we may

continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Laws and regulations may also impose liability for the release of certain materials into the air or water from a property, and such release can form the basis for liability to third persons for personal injury or other damages. Other laws and regulations can limit the development of, and impose liability for, the disturbance of wetlands or the habitats of threatened or endangered species. Any environmental issue may significantly increase the cost of a development and/or cause delays, which could have a material adverse effect on the profitability of that development and our results of operations and cash flows.

There is an increasing awareness of environmental issues in CEE. This may be of critical importance in areas where soil pollution may be prevalent. If a property that we acquire turns out to be polluted, such a finding will adversely affect our ability to construct, develop and operate a shopping and entertainment center, a hotel or a residential project on such property, and may cause us to suffer expenses incurred in cleaning up the polluted site which may be significant.

### **RISKS RELATING TO THE IMAGE GUIDED TREATMENT BUSINESS**

**InSightec Ltd., our subsidiary, is currently dependent on sales of the ExAblate for the treatment of uterine fibroids and the sale of research systems for its clinical research. Inability to sell the ExAblate at appropriate prices will result in an adverse effect on our results of operations.**

Our subsidiary, InSightec Ltd. ("InSightec"), received FDA approval in October 2004 to market the ExAblate in the United States only for the treatment of uterine fibroids. InSightec expects sales of the ExAblate to come from this application and from sales of research systems for the foreseeable future, depending upon the timing of regulatory approval of additional applications for the ExAblate. As a result, factors adversely affecting InSightec's ability to sell, or pricing of or demand for, InSightec's product would have a material adverse effect on InSightec's financial condition and results of operations, which would, in turn, adversely affect our results of operations.

**If the ExAblate does not achieve broad market acceptance for the treatment of uterine fibroids, InSightec will not be able to generate sufficient sales to support its business.**

InSightec must achieve broad market acceptance of the ExAblate for the treatment of uterine fibroids among physicians, patients and third-party payors in order to generate sufficient sales to support its business. Physicians will not recommend the use of the ExAblate unless InSightec can demonstrate that it produces results comparable or superior to existing treatments for uterine fibroids. If long-term patient studies do not support InSightec's existing clinical results, or if they indicate that the use of the ExAblate has negative side effects on patients, physicians may not adopt or not continue to use the ExAblate. Even if InSightec demonstrates the effectiveness of the ExAblate, physicians may still not use the system for a number of other reasons. Physicians may continue to recommend traditional uterine fibroid treatment options simply because those methods are already widely accepted and are based on established technologies. Patients may also be reluctant to undergo new, less established treatments for uterine fibroids. If, due to any of these factors, the ExAblate does not receive broad market acceptance among physicians or patients, InSightec will not generate significant sales. In this event, InSightec's business, financial condition and results of operations would be seriously harmed, and InSightec's ability to develop additional treatment applications for the ExAblate would be adversely affected.

**If physicians, hospitals and other healthcare providers are unable to obtain coverage and sufficient reimbursement from third-party healthcare payors for treatment procedures using the ExAblate, InSightec may be unable to generate sufficient sales to support its business.**

Demand for the ExAblate, for commercial use, is likely to depend substantially on the extent to which sufficient reimbursement for treatment procedures using InSightec's system will be available from third-party payors, such as private health insurance plans and health maintenance organizations and, to a lesser degree, government payor programs, such as Medicare and Medicaid. Reimbursement practices vary significantly from country to country and within some countries, by region. InSightec believes that third-party payors will not provide reimbursement on a national basis for treatments using the ExAblate, unless InSightec can generate a sufficient amount of data through long-term patient studies to demonstrate that such treatments produce favorable results in a cost-effective manner relative to other treatments. Furthermore, InSightec could be adversely affected by changes in reimbursement

policies of private healthcare or governmental payors to the extent any such changes affect reimbursement for treatment procedures using the ExAblate. If physicians, hospitals and other healthcare providers are unable to obtain sufficient coverage and reimbursement from third-party payors for treatment procedures using the ExAblate, InSightec may be unable to generate sufficient sales to support its business.

**InSightec's future growth substantially depends on its ability to develop and obtain regulatory clearance for additional treatment applications for the ExAblate.**

InSightec has received regulatory approvals to market the ExAblate in the United States, Israel, Canada, Russia, Brazil, Mexico, Korea, Taiwan, Australia, New Zealand, Singapore, Japan and the European Union Economic Area ("EEA"), which is comprised of the member nations of the European Union and certain additional European nations, solely for the treatment of uterine fibroids. In addition, in May 2007 InSightec received CE-marking (approval to market in the EEA) and in January 2008 it received Israeli approval for pain palliation of bone metastases. However, clinical experience for the bone metastases application is still in early stages and therefore commercial acceptance is expected to take some time. InSightec's objective is to expand the use of the ExAblate by developing and introducing new treatment applications. InSightec is currently in various stages of product development and clinical studies for a number of new treatment applications for the ExAblate. It will be required to obtain FDA approval in the United States and other regulatory approvals outside of the United States before marketing the ExAblate for these additional treatment applications. InSightec cannot guarantee that InSightec's product development activities for these other applications will be successful and in such event, InSightec's future growth will be harmed. In particular, InSightec's future curative oncology treatment applications are subject to significant risks since these applications must be able to demonstrate complete ablation of malignant tumors, or meet or exceed the current medical standard related to the oncology application in question. If InSightec is unable to demonstrate this degree of efficacy, its future curative oncology treatment applications may not prove to be successful. In addition, assuming product development is successful, the regulatory processes can be lengthy, lasting many years in some cases, and expensive. We cannot assure that FDA approval or other regulatory approvals will be granted.

In order to obtain FDA clearance and other regulatory approvals, and to obtain reimbursement coverage for use of the ExAblate treatment for additional applications, InSightec is required to conduct extensive clinical studies which may take several years to demonstrate the therapeutic benefits and cost-effectiveness of these new treatment applications and products. Clinical trials are expensive and may take several years to complete. If future clinical trials indicate that the ExAblate is not as beneficial or cost-effective as existing treatment methods, or that such products cause unexpected complications or other unforeseen adverse events, InSightec may not obtain regulatory clearance to market and sell the ExAblate for these additional treatment applications or obtain reimbursement coverage, and InSightec's long-term growth would be seriously harmed.

**InSightec is dependent on General Electric.**

The ExAblate is compatible only with certain Magnetic Resonance Imaging (MRI) systems of GE Healthcare, a division of the General Electric Company ("GE"), which may limit InSightec's potential market. A significant portion of the MRI systems in use in the United States and elsewhere are not GE MRI systems. InSightec has no current plans to develop a system that would be compatible with MRI systems manufactured by companies other than GE and is, therefore, limited in its target market to potential customers who already own or otherwise have access to a compatible GE MRI system, or are willing to purchase such a system in order to use the ExAblate. In addition, in the event that GE is unable to effectively market its MRI systems, InSightec's ability to generate additional sales of the ExAblate may be adversely affected.

InSightec depends on its collaboration with GE to ensure the compatibility of the ExAblate with new models of GE MRI systems and upgrades to existing GE MRI systems. GE regularly develops new models of its MRI systems, as well as new capabilities for its existing MRI systems, which could affect their compatibility with the ExAblate. If InSightec is unable to receive information regarding new models of the GE MRI systems or upgrades to existing GE MRI systems, and coordinate corresponding upgrades to the ExAblate to ensure continued compatibility with new and existing GE MRI systems, its ability to generate sales of its system will be adversely affected. In addition, if InSightec is unable to coordinate new applications or upgrades with GE's research and development team, it may be unable to develop such applications or upgrades in a timely manner and its future revenue growth may be

seriously harmed.

In addition, GE is not prohibited from marketing or manufacturing other focused ultrasound-based products that may compete with the ExAblate. In the event that GE chooses to distribute or manufacture medical devices that may compete with the ExAblate or other products based on the magnetic resonance guided focused ultrasound surgery ("MRgFUS") technology, InSightec's sales may be adversely affected.

**If InSightec is unable to protect its intellectual property rights, its competitive position could be harmed. Third-party claims of infringement could require InSightec to redesign its products, seek licenses, or engage in future costly intellectual property litigation, which could impact InSightec's future business and financial performance.**

InSightec's success and ability to compete depends in large part upon its ability to protect its proprietary technology. InSightec relies on a combination of patent, copyright, trademark and trade secret laws, and on confidentiality and invention assignment agreements, in order to protect its intellectual property rights. A few of InSightec's patents were transferred to InSightec from GE at the time of its formation, and GE retains a non-exclusive license to make, use and sell products covered under these patents in the imaging field only without InSightec's permission. Prior to the transfer, GE had entered into cross-license agreements with respect to these patents with a number of companies, including some that may be potential competitors of InSightec. As a result of these cross license agreements, InSightec may not be able to enforce these patents against one or more of these companies.

The process of seeking patent protection can be long and expensive, and there can be no assurance that InSightec's existing or future patent applications will result in patents being issued, or that InSightec's existing patents, or any patents, which may be issued as a result of existing or future applications, will provide meaningful protection or commercial advantage to InSightec.

Claims by competitors and other third parties that InSightec products allegedly infringe the patent rights of others could have a material adverse effect on InSightec's business. Any future litigation, regardless of outcome, could result in substantial expense and significant diversion of the efforts of InSightec's technical and management personnel. An adverse determination in any such proceeding could subject InSightec to significant liabilities or require InSightec to seek licenses from third parties or pay royalties that may be substantial.

## **RISKS RELATING TO THE FASHION APPAREL BUSINESS**

**Each of our fashion retail brands is dependent on one single franchise and supplier which could cause delays or disruptions in the delivery of products, which may harm our business and results of operations.**

Elbit Trade & Retail Ltd. ("Elbit Trade"), our wholly owned subsidiary, depends on franchises and supply of products from individual suppliers for each of its brands. If such franchises end their relationship with Elbit Trade or enter into liquidation, Elbit Trade's business in Israel with respect to the products supplied by such supplier will be terminated. In addition, Elbit Trade relies on the supply of its products from such supplier and may face a shortage of inventory if there is a worldwide excess demand for a specific brand's products. If either of these events occurs, our results of operations may be adversely affected.

**A rise in wage levels in Israel could adversely affect Elbit Trade's financial results.**

Elbit Trade relies mainly on minimum wage employees. From time to time, the Israeli government increases the statutory minimum wage. If wage levels generally, and particularly the minimum wage in Israel, increase, Elbit Trade's results of operations could be harmed.

**The apparel industry is subject to changes in fashion preferences. If the manufacturer of products marketed by Elbit Trade misjudges fashion trends, or if Elbit Trade fails to choose from its suppliers' inventory design products that appeal to our customers, our sales could decline and our results of operations could be adversely affected.**

Neither our suppliers, nor Elbit Trade may be successful in anticipating and responding to fashion trends in the future. Customer tastes and fashion trends change rapidly. Our success depends in part on the ability of our international suppliers to effectively anticipate and respond to changing fashion tastes and consumer demands and to translate market trends into appropriate, saleable product offerings far in advance. If they are unable to successfully anticipate, identify or react to changing styles or trends and misjudge the market or any new product lines, or if we fail to choose from design products from our suppliers inventory that appeal to our customers' changing fashion preferences, Elbit Trade's sales will be lower and we may be faced with a significant amount of unsold inventory. As a result, we may be forced to increase our marketing promotions or price markdowns, which could have an adverse effect on our business. Our brand names may also suffer if customers believe merchandise misjudgments indicate that Mango, G-Star, GAP or Banana Republic no longer offer the latest fashions.

**A change in customs rates and custom and harbor strikes could adversely affect Elbit Trade's financial results.**

Elbit Trade is subject to Israeli customs since all of its products are imported. An increase in customs rates on Elbit Trade's products could adversely affect Elbit Trade's ability to compete against local manufacturers or with products from countries which enjoy more favorable customs rates in Israel. On the other hand, a reduction in customs rates may encourage entrance penetration of new competitors to the market. In addition, since most of Elbit Trade's products are imported, custom and harbor strikes and delays could adversely affect Elbit Trade's ability to meet customer demands in a timely manner and adversely affect Elbit Trade's financial results.

**Elbit Trade may be unable to compete favorably in the highly competitive fashion retail industry, and Elbit Trade's competitors may have greater financial, geographic and other resources.**

The sale of fashion retail is highly competitive. Elbit Trade competes directly with a number of Israeli and international brands some of which have longer operating histories and enjoy greater financial and marketing resources than Elbit Trade. For example, as a result of their greater financial and marketing resources, Elbit Trade's competitors may have the ability to obtain better geographic locations for their stores in shopping and entertainment centers, with better traffic flow and access to customers, which would have a positive impact on their sales.

Increased competition could result in pricing pressure, increased marketing expenditures or loss of market share to Elbit Trade and adversely affect Elbit Trade's revenues and profitability. There can be no assurance that Elbit Trade will be able to compete successfully against existing or new competitors.

**Elbit Trade relies on its ability to maintain its existing spread of stores and to expand to new locations.**

Elbit Trade's ability to open new stores depends on the availability of real estate that meets its financial targets. Elbit Trade must also be able to effectively renew its existing store leases in order to maintain its existing footprint in the Israeli market. Failure to secure adequate new locations or to successfully renew existing leases could affect Elbit Trade's profitability, operational results and its financial condition.

**Elbit Trade has no control over fluctuations in the cost of the raw materials it uses and a rise in costs could harm Elbit Trade profitability.**

Elbit Trade buys its inventory from international suppliers, which are responsible for the design and manufacturing of all of Elbit Trade's products. The prices of the inventory that Elbit Trade purchases from such suppliers are dependent on their manufacturing costs. Manufacturing costs are substantially dependent on the prices of raw materials and level of wages in the countries where the products are manufactured. Therefore, an increase in the manufacturing costs will cause an increase in Elbit Trade's cost of goods sold and Elbit Trade may not be able to pass on the increased costs to its customers. Such increased costs would likely adversely affect Elbit Trade's profitability, operational results and its financial condition.

**A devaluation of the NIS against foreign currencies could harm Elbit Trade's profitability.**

Elbit Trade buys its entire inventory for each of the brands it markets and sells from international suppliers.

The price of this inventory is denominated in foreign currencies. Therefore, a devaluation of the NIS against such foreign currencies will cause an increase in Elbit Trade's cost of goods sold expressed in NIS, and Elbit Trade may not be able to pass the increased costs to its customers. This would likely adversely affect Elbit Trade's profitability, operational results and its financial conditions.

## **RISKS RELATING TO OUR OTHER ACTIVITIES**

**Our venture capital investments are speculative in nature and we may never realize any revenues or profits from these investments.**

We cannot be certain that our venture capital investments will result in revenues or profits. Economic, governmental, regulatory and industry factors outside our control affect our venture capital investments. If any one of our venture capital investee companies will not successfully implement its business plan we will not be able to realize any profits from it. Our ability to realize profits from these investments will be dependent upon the management of these companies, the success of its research and development activities, the timing of the marketing of its products and numerous other factors beyond our control.

**Our operations and investment in shopping and entertainment centers in the United States have only recently commenced and may not succeed.**

In February 2010 Elbit Plaza USA, L.P., our new subsidiary formed jointly with PC entered into a co-investment agreement with a third party to jointly form and invest in a U.S. real estate investment fund that will focus on investments in the U.S. retail and commercial real estate sectors (the "U.S. Fund"). Elbit Plaza USA, L.P. has undertaken to invest up to an amount of \$100 million, which shall be financed by PC and us in equal shares. For additional information regarding the U.S. Fund and recent developments, see "Item 4.B. Business Overview – Other Activities - Shopping and entertainment centers in the United States" below. The U.S. Fund has no operating history upon which investors can evaluate the anticipated performance of the U.S. Fund. Further, the principals of the U.S. Fund have a limited history in managing investments in the U.S. real estate market. We cannot assure that the U.S. Fund's investments will be successful, that the investment objectives of the U.S. Fund will be realized or that any benefits or advantages to investors will be available or accomplished.

There are risks and uncertainties regarding the selection of investments. The business of identifying and structuring real estate transactions is highly competitive and involves a high degree of uncertainty. We cannot assure that the U.S. Fund will be successful in obtaining suitable investments.

**The U.S. Fund may invest in distressed level projects which could impose high risks upon the U.S. Fund.**

The U.S. Fund may invest in low grade real estate projects in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These projects are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such companies. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transactions and other voidable transactions or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' assets may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting the retail real estate market or specific developments within such companies. Any one or all of the projects in which the U.S. Fund may invest may be unsuccessful or not show any returns for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the U.S. Funds' advisors will correctly evaluate the value of such projects or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the U.S. Fund invests, the U.S. Fund may lose its entire investment, may be required to accept cash or securities with a value less than the U.S. Fund's original investment and/or may be required to accept payment over an extended

period of time. Under such circumstances, the returns generated from the U.S. Fund's investments may not compensate us adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the U.S. Fund of the security in respect to which such distribution was made. In certain transactions, the U.S. Fund may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

**The U.S. Fund intends to be highly leveraged and may as a result incur high financing risks.**

The U.S. Fund intends to borrow funds to increase its buying power and potential returns to investors. Market conditions may decrease significantly the availability and increase the cost of real estate mortgage loans or other forms of finance. In addition, although leverage will increase the investment return of the U.S. Fund if an investment purchased with borrowed funds earns a greater return than the amount that the U.S. Fund is charged for the use of those funds, the use of leverage will decrease the investment return if the U.S. Fund fails to earn as much on investments purchased with borrowed funds as it is charged for the use of those funds. The use of leverage will also allow the U.S. Fund to borrow in order to make additional investments, thereby increasing its exposure to assets, such that its total assets are greater than the aggregate amount of the commitments to the U.S. Fund. The use of leverage will, therefore, magnify the volatility of changes in the value of the investments of the U.S. Fund.

Borrowings by the U.S. Fund will be secured by the U.S. Fund's investment portfolio. If the U.S. Fund defaults on indebtedness secured by any or all of the U.S. Fund's property, the financing party may foreclose and the U.S. Fund may lose its entire investment in such property. Under certain circumstances pursuant to the conditions of a loan, the U.S. Fund may be required to liquidate all or a portion of its investments to pay off the loan. Liquidation under those circumstances could have adverse consequences. Funds borrowed for leveraging will be subject to interest costs that may or may not be recovered by the return on the investment portfolio.

**The U.S. Fund's investment in Macquarie DDR Trust ("MDT"), an Australian publicly traded trust which holds and manages two U.S. REIT portfolios, is dependent on MDT's successful entitlement offer and other events.**

As of May 6, 2010, the U.S. Fund has concluded the first two stages in an investment transaction in MDT, namely, a private placement of 141.48 million new units representing 15% pre-placement, and the purchase of 2.6% principal unitholding in MDT. The successful completion of the transaction is dependent on the success of MDT's entitlement offer and the successful refinancing of MDT's debt. If these events do not occur on time or in a manner that is satisfactory to us, we may not be able to obtain significant holdings and/or assure the successful refinancing of MDT's debt, which may have an effect on the financial and operational results of the U.S. Fund. For additional information, see "Item 4.B. Business Overview – Other Activities - Shopping and entertainment centers in the United States."

**Failure to qualify as a REIT could adversely affect a portfolio company's operations and its ability to make distributions.**

The advisor of the U.S. Fund intends to operate each portfolio company in a manner designed to permit it to qualify as a real estate investment trust (a "REIT") for U.S. federal income tax purposes, commencing with the taxable year in which an election to be taxable as a REIT is made. The advisor of the U.S. Fund does not intend to request a ruling from the Internal Revenue Service as to the REIT status of each portfolio company. A portfolio company's qualification as a REIT will depend on its satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code") for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within a portfolio company's control. The complexity of these provisions and of the applicable income tax regulations that have been promulgated under the Code is greater in the case of a REIT that holds its assets through operating entities, as the

U.S. Fund's portfolio companies may hold. Moreover, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not change the tax laws with respect to qualification as a REIT or the U.S. federal income tax consequences of that qualification.

If a portfolio company of the U.S. Fund were to fail to qualify as a REIT for any taxable year, it would be subject to U.S. federal income tax on a portfolio company's taxable income at corporate rates. In addition, a portfolio company would generally be disqualified from treatment as a REIT for the four taxable years following the year in which it loses its REIT status. A loss of a portfolio company's REIT status would mean a reduction in its net earnings available for investment or distribution to us because of the additional tax liability. Additionally, distributions to investors of the U.S. Fund would no longer be deductible in computing a portfolio company's taxable income and it would no longer be required to make distributions. To the extent that distributions had been made in anticipation of a portfolio company's qualifying as a REIT, a portfolio company may be required to borrow funds or liquidate some investments in order to pay the applicable corporate income tax. Furthermore, although a portfolio company intends to operate in a manner intended to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause a portfolio company's board of directors to recommend that a portfolio company revoke its REIT election.

### **Statutory and regulatory requirements in the United States may limit or impose restrictions on our investment opportunities in the United States.**

Local laws and regulations in the United States will require the consultation of U.S. legal experts, often at considerable expense. The governmental bodies and bureaucracy that exists in the United States (e.g., various authorizations and permits required for building and zoning, length of time for processing applications and filings, etc.) may impose regulatory and operational difficulties affecting the real estate projects in which the U.S. Fund invests.

The shopping and entertainment centers business is subject to heavy regulation, including with respect to acquisition of real estate properties, building and zoning requirements and fire safety control. In addition, the U.S. Fund will be subject to laws governing its relationships with employees, including minimum wage requirements, overtime, working conditions, and work permit requirements and possibly collective labor agreements. A determination that the U.S. Fund or its portfolio companies are not in compliance with these regulations could result in the imposition of fines, an award of damages to private litigants and significant expenses in bringing the U.S. Fund's shopping and entertainment centers into compliance with the regulations. In addition, the U.S. Fund's ability to make headcount reductions may be hampered by labor laws and courts which traditionally favor employees in disputes with former employers.

### **RISKS RELATING TO ISRAEL**

#### **Security and economic conditions in Israel may affect our operations.**

We are incorporated under Israeli law and our principal offices are located in Israel. In addition, our operations in our other lines of business, such as Elbit Trade and venture capital investments operate in Israel. Political, economic and security conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, various armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between Israel and the Palestinians. Hamas, an Islamist movement responsible for many attacks, including missile strikes, against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip by force in June 2007. Further, in the summer of 2006, Israel engaged in a war with Hezbollah, a Lebanese Islamist Shiite militia group, which involved thousands of missile strikes and disrupted most day-to-day civilian activity in northern Israel. Rocket strikes from Gaza have increased since June 2007, and thousands of rockets have been fired at population centers in southern Israel, leading to an armed conflict between Israel and Hamas in January 2009. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect local business conditions and harm our results of operations. We cannot predict the effect on the region of any diplomatic initiatives or political developments involving Israel or the Palestinians or other countries in the Middle East.



Furthermore, some neighboring countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business. In addition, we could be adversely affected by the interruption or curtailment of trade between Israel and its trading partners, a significant increase in the rate of inflation, or a significant downturn in the economic or financial condition of Israel.

**Many of our directors, officers and employees are obligated to perform military reserve duty in Israel. We cannot assess the potential impact of these obligations on our business.**

Our directors, officers and employees who are male adult citizens and permanent residents of Israel under the age of 45 are, unless exempt, obligated to perform annual military reserve duty and are subject to being called to active duty at any time under emergency circumstances. The deteriorating security situation in the Middle East has caused, and will continue to cause, a sharp increase in the army reserve obligations of our directors, officers and employees who are subject to such reserve duty obligations. We cannot assess the full impact of these requirements on our workforce or business if conditions should change, and we cannot predict the effect of any increase or reduction of these requirements on us.

**Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.**

Service of process upon our directors and officers, all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since the majority of our assets and all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States. Additionally, it may be difficult to enforce civil liabilities under U.S. federal securities law in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

However, subject to time limitations, Israeli courts may enforce a U.S. judgment in a civil matter, if:

- adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was rendered by a court of competent jurisdiction, in compliance with due process and the rules of private international law prevailing in Israel;
- the judgment was not obtained by fraudulent means and does not conflict with any other valid judgment in the same matter between the same parties;
- no action between the same parties in the same matter is pending in any Israeli court at the time the lawsuit is instituted in a U.S. court; and
- the U.S. courts are not prohibited from enforcing judgments of the Israeli courts.

**Provisions of Israeli law may delay, prevent or make more difficult a merger or other business combination, which may depress our share price.**

Provisions of Israeli corporate law may have the effect of delaying, preventing or making more difficult a merger with, or acquisition of, us. The Israeli Companies Law, 5759-1999 (the "Companies Law") generally provides that a merger be approved by the board of directors and a majority of the shares present and voting on the proposed merger. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be

deemed approved if a majority of the shares not held by the other party to the merger (or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party or its general manager) have voted against the merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the surviving company. Finally, a merger may not be completed unless at least (i) 50 days have passed since the filing of a merger proposal signed by both parties with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each merging company.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company, unless there is already another 25% or greater shareholder of the company. Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. In any event, if as a result of an acquisition of shares the acquirer will hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares.

Finally, Israel tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation, to taxation prior to the sale of the shares received in such stock-for-stock swap.

The described restrictions could prevent or make more difficult an acquisition of us, which could depress our share price.

## **RISKS RELATING TO EASTERN EUROPE**

**We are subject to various risks related to our operations in Eastern Europe, including economic and political instability, political and criminal corruption and the lack of experience and unpredictability of the civil justice system.**

Many of the Eastern European countries in which we operate are countries which were allied with the former Soviet Union under a communist economic system, and they are still subject to various risks. Certain Eastern European countries, in particular those countries that are not expected to join the European Union in the near future, are still economically and politically unstable and suffer from political and criminal corruption, lack of commercial experience, unpredictability of the civil justice system, land expropriation, changes in taxation legislation or regulation, changes to business practices or customs, changes to laws and regulations relating to currency repatriation and limitations on the level of foreign investment or development. Certain Eastern European countries also continue to suffer from high unemployment, low wages and low literacy rates. These risks could be harmful to us and are very difficult to quantify or predict. Although many governments of Eastern European countries have liberalized policies on international trade, foreign ownership and development, investment, and currency repatriation to increase international trade and investment, such policies might change unexpectedly. We will be affected by the rules and regulations regarding foreign ownership of real and personal property. Such rules may change quickly and dramatically and thus may have an adverse impact on ownership and may result in a loss without recourse of our property or assets. Domestic and international laws and regulations, whether existing today or in the future, could adversely affect our ability to market and sell our products and could impair our profitability.

Certain Eastern European countries may regulate or require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad. Any such restrictions may adversely affect our ability to repatriate investment loans or to remit dividends. Many emerging countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain emerging countries. In addition, in an attempt to control inflation, price controls at our hotels have been imposed at times in certain countries, which may affect our ability to increase our room rates.

While we make 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, we 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 our title to the land and our ability to develop the land.

## **RISKS RELATING TO INDIA**

### **Hostilities in India and other countries in Asia could have a material adverse effect on our financial conditions and results of operations.**

India has from time to time experienced instances of internal terror attacks and hostilities with neighboring countries, including Pakistan and China. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and such political tensions could create a greater perception that companies operating in India are usually involved in higher degrees of risk. Events of this nature in the future, as well as social and civil unrest within other countries in Asia or within India, could influence the Indian economy and could have a material adverse effect on our financial condition and results of operations. In addition, India has from time to time experienced social and civil unrest due to religious strife.

### **Changes in the economic policies of the Government of India or political instability could have a material adverse effect on our business.**

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector and significantly reducing the roles of the state governments in the Indian economy as producers, consumers and regulators. The Indian Government has announced policies and taken initiatives that support the continued economic liberalization pursued by previous governments. However, this trend of liberalization may not continue in the future. The rate of economic liberalization could change, and specific laws and policies generally affecting foreign investments, currency exchange, repatriation of profits and other matters affecting our investments, as well as specifically affecting the sectors of commercial activity in which we operate, could also change. A significant shift in India's economic liberalization and deregulation policies could materially adversely affect business and economic conditions in India generally, as well as our business operations in particular. In addition to potential economical instability, the Indian economy and business practices are relatively new and evolving, and there have been some instances of political and criminal corruption. Furthermore, India continues to suffer from high unemployment, low wages and low literacy rates. These risks could be harmful to us and are very difficult to quantify or predict.

Indian governments are democratically elected, but are invariably comprised of a coalition of several political parties. The withdrawal of one or more of these parties from the coalition could cause the government to fall, resulting in political instability or stagnation pending new elections. Such events could delay or even halt the progress and development of the Indian economy and its receptiveness to foreign investment, and may have a material adverse effect on our business.

### **Operations in India are a relatively new venue to us and there is no assurance that our skills and experience can be applied successfully in these regions.**

While we believe that the skills and experiences that we have acquired through sourcing sites and developing and selling shopping and entertainment centers in the emerging markets in CEE can be applied successfully to projects in India or in other countries, this cannot be guaranteed. The differences between emerging markets in CEE and emerging markets in India or other countries, such as differing mentalities, social and business cultures, legal structures and systems, integrity of the courts, and restrictions on foreign ownership of real estate, may mean that our success in developing and selling shopping and entertainment centers in CEE may not be replicated in India or in other countries.

### **Limitations by the Indian government to invest in India may adversely affect our business and results of operations.**

Under the Indian government's policy on Foreign Direct Investment ("FDI Policy"), an acquisition or investment by us 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 governmental approval. With respect to the real estate sector, these limitations include, among other things, a minimum investment and minimum size of built-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 we 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 us to receive governmental approvals which we 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 our business and results of operations.

**Uncertainty regarding the ownership of land in India may expose us to third party claims in connection with the purchase of land by us which may have a material adverse effect on our financial performance and results of operations.**

Under the laws of India, the registration of ownership in land with the land registration offices does not automatically guarantee lack of third party rights to such land, particularly with respect of rights which are transferred by inheritance. While we go to considerable lengths to ensure integrity of title in the real estate properties acquired by us, the system of recording ownership and rights in and to immovable property is not conclusive, which may expose us to third party claims in connection with such land.

**Restrictions on the repatriation of capital in India may adversely affect our cash flows and results of operations.**

Pursuant to regulations promulgated under the FDI Policy and by the central bank of India, the repatriation of capital with regard to investments made in the real estate sector is subject to strict regulatory procedures, and is restricted during three years commencing on the date of such investment. If we are unable to repatriate capital from our investments in India, in whole or in part, this may have an adverse effect on our cash flows and our results of operations.

**GENERAL RISKS**

**Conditions and changes in the local and global economic environments may adversely affect our business and financial results.**

Adverse economic conditions in markets in which we operate can harm our business. Recently, global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. These economic factors include diminished liquidity and tighter credit conditions, leading to decreased credit availability, as well as declines in economic growth and employment levels. Although there are currently signs of improvement in the global economy and in the countries in which we operate, the recession may return. In addition, the scope and effects of the recent economic instability in Europe cannot yet be determined. Partly as a result, entire industries have faced and may be facing extreme contraction and even the prospect of collapse. The credit crisis could have a number of follow-on effects on our business, including a possible: (i) slow-down in our business, resulting from lower consumer expenditure, inability of consumers to pay for products and services, insolvency of consumers or insolvency of key partners, (ii) negative impact on our liquidity, financial condition and share price, which may impact our ability to raise capital in the market, obtain financing and other sources of funding in the future on terms favorable to us, and (iii) decrease in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, it may materially adversely affect our results of operations and may increase the difficulty for us to accurately forecast and plan future business.

**If we are characterized as a passive foreign investment company for U.S. federal income tax purpose, holders of ordinary shares may suffer adverse tax consequences.**

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the value of our assets, averaged quarterly, are held for the production of, or produce, passive income, we will be characterized as a passive foreign investment company ("PFIC"), for U.S. federal income tax purposes. A determination that we are a PFIC could cause our U.S. shareholders to suffer adverse tax consequences, including having gains realized on the sale of our shares taxed at ordinary income rates, rather than capital gains rates, and being subject to an interest charge on gain from the sale or other disposition of our ordinary shares, and on certain "excess distributions" with respect to our ordinary shares and could have an adverse effect on the price and marketability of our shares. If we are a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. See "Item 10.E. Taxation - Tax consequences if we are a Passive Foreign Investment Company" below.

**We are subject to various legal proceedings that may have a material adverse effect on our results of operations.**

Certain legal proceedings have been initiated against us, including litigation in connection with the change of control of us and our subsidiary Elscint Ltd. ("Elscint") in May 1999 and the acquisition of the hotel businesses by Elscint in September 1999, as well as motions to certify certain of such claims as class actions and litigation by an individual who claims to have rights to a percentage in us and certain of our subsidiaries. For details refer to note 23B(3) in our annual consolidated financial statements included in this annual report. A determination against us in some or all of these proceedings, mainly those related to class actions, may materially adversely affect our results of operations.

**We have significant capital needs and additional financing may not be available.**

The sectors in which we compete are capital intensive. We require substantial up-front expenditures for land acquisition, development and construction costs, certain investments in research and development as well as for the ongoing maintenance of our hotels or operation of our centers. In addition, following construction, additional financing is necessary to maintain the centers in good condition until they are sold. Accordingly, we require substantial amounts of cash and financing for our operations. We cannot be certain that such external financing would be available on favorable terms, on a timely basis or at all. During 2008, the world markets experienced a financial crisis, which resulted in lower liquidity in the capital markets. Lower liquidity may result in difficulties to raise additional debt or less favorable interest rates for such debt. In addition, construction loan agreements generally permit the draw down of the loan funds against the achievement of pre-determined construction and space leasing milestones. If we fail to achieve these milestones, the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule. If we are not successful in obtaining financing to fund our planned projects and other expenditures, our ability to undertake additional development projects may be limited and our future results of operations could be materially adversely affected. Our inability to obtain financing may affect our ability to construct or acquire additional shopping centers and hotels, and we may experience delays in planned renovation or maintenance of our hotels that could have a material adverse effect on our results of operations.

In addition, our quarterly and annual operating results have, and may in the future, fluctuate significantly. These fluctuations may be caused by various factors, particularly due to significant sales of our properties and the frequency of such transactions. As a result of our disposition and acquisition or development of centers, we may experience significant fluctuations in our annual and quarterly results. If we were in need of cash and financing for our operations at a time when our results were low, this may also have an impact on our ability to fund or successfully obtain financing to fund our planned projects and other expenditures.

**Our high leverage could adversely affect our ability to operate our business.**

We are highly leveraged and have significant debt service obligations, including bank debt and notes issued in public offerings to investors in Israel. In addition, we and our subsidiaries may incur additional debt from time to time to finance acquisitions or capital expenditures or for other purposes. We will have substantial debt service obligations, consisting of required cash payments of principal and interest, for the foreseeable future.

Our lenders require us to maintain and comply with certain financial and operational covenants. Our ability to comply with these covenants may be affected by events beyond our control. A breach of any of the covenants in our debt instruments or our inability to comply with the required covenants could result in an event of default, which, if not cured or waived in a timely manner, could have a material adverse effect on us. In the event of any default under the loan agreements, the lenders thereunder could elect to declare all outstanding borrowings immediately due together with accrued and unpaid interest and other fees. Furthermore, in the event of any default under the loan agreements, such loans could be reclassified as short-term debt. Such classification in our financial statements may improperly reflect our working capital ratio as well as other financial indicators since the assets which were financed by these loans are classified as non-current assets.

As a result of our substantial indebtedness:

- we could be more vulnerable to general adverse economic and industry conditions;
- we may find it more difficult to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;
- we will be required to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our debt, reducing the available cash flow to fund other projects;
- we may have limited flexibility in planning for, or reacting to, changes in our business and in the industry; and
- we may have a competitive disadvantage relative to other companies in our business segments with less debt.

We cannot guarantee that we will be able to generate enough cash flow from operations or that we will be able to obtain sufficient capital to service our debt or fund our planned capital expenditures. In addition, we may need to refinance some or all of our indebtedness on or before maturity. We cannot guarantee that we will be able to refinance our indebtedness on commercially reasonable terms or at all. We have the ability under our debt instruments to incur substantial additional indebtedness and any additional indebtedness we incur could exacerbate the risks described above. If we are subject to a rating downgrade, or a suspension or withdrawal of the rating assigned by a rating agency to our publicly held notes, we may experience increased difficulty in raising debt financing in the future or in refinancing our indebtedness.

**Our results of operations fluctuate due to the seasonality of our various businesses.**

Our annual revenues and earnings are substantially dependent upon general business activity, vacation and holiday seasons and the influence of weather conditions. As a result, changes in any of the above have a disproportionate effect on the annual results of operations of our hotels and fashion retail businesses.

**One of our shareholders beneficially owns a substantial amount of our ordinary shares and, therefore, effectively controls our affairs.**

As of March 31, 2010, Mordechay Zisser, our Executive President and a director, held, directly and indirectly, approximately 49.55% of our issued share capital. For additional information, see "Item 7.A. Major Shareholders." As a result of such holdings, Mr. Zisser has the ability, in effect, to elect the members of our board of directors and to effectively control our business.

**A loss of the services of members of our senior management, including in particular, that of Mr. Mordechay Zisser, could materially adversely affect our business and results of operations**

We depend on the continued services of the members of our senior management team, including in particular that of Mr. Mordechay Zisser, our Executive President and a director. Any loss of the services of Mr. Mordechay Zisser or any other member of our senior management team could result in the loss of expertise necessary for us to succeed, which could cause our revenues to decline and impair our ability to meet our

objectives, see "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers – Services of Mr. Mordechay Zisser."

**Our annual and quarterly results may fluctuate, which may cause the market price of our ordinary shares to decline.**

We have experienced at times in the past, and may in the future experience, significant fluctuations in our quarterly and annual operating results which may cause the market price of our ordinary shares to decline. These fluctuations may be caused by various factors, particularly due to significant sales of our properties and the frequency of such transactions. We periodically review our business to identify opportunities for the acquisition, development or sale of new centers and/or hotels. As a result of our disposition and acquisition or development of centers, we may experience significant fluctuations in our annual and quarterly results. As a result, we believe that period-to-period comparisons of our historical results of operations may not necessarily be meaningful and that investors should not rely on them as an indication for future performance. It is likely that in some future periods, our operating results may be below expectations of public market analysts or investors. If this occurs, our share price may drop.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

Elbit Imaging Ltd. was incorporated in 1996 under the laws of the State of Israel. Our shares are listed on the NASDAQ Global Select Market (ticker symbol: EMITF) and on the Tel Aviv Stock Exchange ("TASE"). Our executive offices are located at 2 Weitzman Street, Tel-Aviv 64239, Israel. You may reach us by telephone at (972-3) 608-6000 or by fax at (972-3) 608-6050. Our address in the U.S. is c/o Elscint, Inc., 747 Third Avenue, 4th Floor, New York, NY 10017-2803.

For a summary of our recent acquisitions, dispositions and other activities and of our capital expenditures and divestitures during the years 2007, 2008 and 2009 and that are currently in progress, see "Item 5. Operating and Financial Review and Prospects - Overview."

##### **B. BUSINESS OVERVIEW**

We operate in the following principal fields of business:

- Commercial and Entertainment Centers - Initiation, construction, and sale of commercial and entertainment centers and other mixed-use real property projects, predominantly in the retail sector, located in CEE and in India. In certain circumstances and depending on market conditions, we may operate and manage a commercial and entertainment center prior to its sale.
- Hotels - Hotels operation and management, primarily in major European cities.
- Image Guided Treatment - Investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment.
- Residential Projects - Initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India and in Eastern Europe.
- Fashion Apparel - distribution and marketing of fashion apparel and accessories in Israel.
- Other Activities - (i) venture capital investments; (ii) investments in hospitals and farm and dairy plants in India, which are in preliminary stages; and (iii) wholesale trade of home applications in India.

##### **Shopping and Entertainment Centers**

This business includes mainly shopping and entertainment centers which are currently under construction and/or development in capital cities and important regional areas in various countries in CEE and India. In addition to the shopping and entertainment centers business, our real estate portfolio includes certain mixed-use real estate projects which include predominantly shopping and entertainment combined with other elements of operations, including offices, residential units, conference centers and leisure facilities. In this segment, we also include other real estate projects, such as office buildings. In this annual report, we refer to all projects mentioned above, as "shopping and entertainment centers." Construction or development of each such project is generally conducted through a special purpose project corporation, owned by our 67.5% subsidiary, Plaza Centers N.V. (LSE: PLAZ) (WSE: PLAZ/PLAZACNTR) ("PC") (63% on a fully diluted basis). In certain cases, such special purpose corporation is held as a joint venture with project partners.

As at the date of this annual report, our shopping and entertainment segment of operations includes a total of 3 operating projects, 31 projects in various stages of planning, development and construction, including 16 shopping and entertainment centers, 11 mixed-use projects, one office building and 3 offices. Our projects are located in Romania, Poland, India, the Czech Republic, Serbia, Hungary, Bulgaria, Latvia and Greece.

### ***Business Concept and Strategy***

Our main focus in this field of operations is development and construction of new shopping and entertainment centers and redeveloping existing centers, where there are significant redevelopment potential, in both capital cities and important regional centers.

Our shopping and entertainment centers vary in size and may range between 8,000 m<sup>2</sup> and 70,000 m<sup>2</sup> gross lettable area ("GLA"), but we may develop larger shopping and entertainment centers if our development criteria are met. We develop shopping and entertainment centers whose size, tenant mix and design are dictated by market demand, and that take into account particular factors such as the size of the local population (generally a minimum of 50,000 people), the socio-economic status of the population, any competing shopping and entertainment centers in the locality, local retail demand (whether for fashion, grocery, local convenience stores or entertainment) and the location of the site (whether city center or suburban).

Our centers are principally comprised of two elements: shopping and entertainment.

The shopping element is comprised of large retail anchor tenants (such as Tesco, Match, Peek&Cloppenburg, New Yorker, H&M, Zara and C&A). These anchor tenants form the basis of the shopping areas around which smaller boutiques, international brands (such as Hugo Boss, Mango, Aldo, Sephora, Reserved, House and Esprit) and local retailers create a carefully balanced tenant mix to meet local demand. Leases with anchor tenants generally run for a term of ten to fifteen years, with an option to extend. Leases with semi-anchor tenants are usually for a term of five to ten years, while standard units are usually leased for three to five years.

The entertainment facilities typically include a multiplex cinema complex of between four and twelve screens, depending on the size of the center, and, where appropriate, an IMAX auditorium. The entertainment areas also include gaming areas comprising of video game arcades, bowling alleys, electronic gaming machines, billiards, discotheques, bars and a children's playgrounds. PC's subsidiary Mulan B.V. operates our "Fantasy Park" gaming areas and Cinema City International N.V. operates most of the multiplex cinemas. Each entertainment area also includes a food court offering a wide range of food outlets, coffee shops and restaurants.

Our business concept and strategy for our shopping and entertainment centers includes the following elements:

*Development:* develop modern western-style shopping and entertainment centers and mixed-use developments in the capital and regional cities of selected countries, primarily in CEE and India, for the medium and long term.

*Acquisitions:* acquire operating shopping centers that show significant redevelopment potential (either as individual assets or as portfolios) for refurbishment and subsequent re-sale.



Although the above criteria relate to the selection of target countries and potential development sites, we also apply these criteria to existing shopping centers which we identify as having redevelopment potential, either for the expansion of an existing project, or, where it becomes no longer possible or feasible to develop a shopping and entertainment center in the site, consider developing the site for alternative uses, such as office or residential use.

*Pre-sale:* Where prevailing market and economic conditions are favorable, we may pre-sell the centers prior to, or after, commencement of construction or redevelopment.

Where the opportunity exists in CEE and India, we may extend developments beyond shopping and entertainment centers by leveraging our strengths and drawing upon our experience and skills to participate in residential, hotel, office and other development schemes where such developments form part of integrated large scale business and leisure developments.

We also continually assess and consider specific development opportunities that satisfy our development parameters and investment criteria in countries not previously targeted by us. We constantly seek to acquire high yielding mature assets or invest in interesting new markets, where clear and, sometimes, exceptional opportunities may arise to enhance capital and income.

Depending on economic conditions and property yields, our strategy in CEE is to either dispose of a shopping and entertainment center upon completion, or retain and operate a shopping and entertainment center on completion, until economic conditions warrant a profitable sale, if that is likely to be more profitable to us than disposing of it. Currently, under the existing market conditions in India, our strategy in relation to our investments in this region is initially to hold and operate, rather than dispose upon completion. We estimate the holding and operating period of our investments in India to be between three to five years.

During the last few months of 2008 there was extraordinary turbulence in economic and financial markets worldwide which impacted considerably on activity in real estate markets worldwide, with the lack of availability of financing being a key factor behind the dramatic slowdown in investment transactions. Although debt market conditions slightly improved in 2009, the repercussions of the global recession are still very strong and PC's management estimates that it will continue to have an impact on current and potential tenants for some time.

During 2009 PC commenced the construction of two developments in Suwalki and Zgorzelec, in Poland, with the latter being completed and opened in March 2010. The remainder of PC's development pipeline projects are in various stages of design, awaiting to receive permits or under construction. Commencement of these projects will depend, amongst other things, on the availability of external financing. Our projects in the shopping and entertainment centers business are divided into four principal project categories: (i) operating projects; (ii) shopping and entertainment centers under development; (iii) mixed-use projects with predominant retail characteristics, under development; and (iv) other projects (offices and other yielding real estate projects). Set forth below is information with respect to the projects in each category.

### ***Operating Projects***

#### *Riga Plaza - Riga, Latvia*

In March 2009, PC opened the Riga Plaza in Latvia. This shopping and entertainment center is located on the west coast of the Daugava River, and is comprised of a three-floor shopping and entertainment center with a GLA of approximately 49,000 m<sup>2</sup> and over 1,500 parking spaces. It houses over 140 stores, anchored by a supermarket on the ground floor, an eight-screen multiplex cinema and 2,000 m<sup>2</sup> Fantasy Park.

This project is held by PC and an unrelated third party in equal parts through a special purpose company. The agreement between the parties provides for a buy-out mechanism in the event of certain deadlocks and for certain limitations on the sale of each party's holdings in such company, including a right of first offer and a tag along right to all of each party's shares. Management of the Riga Plaza is conducted by a third party management company.

### *Liberec Plaza - Liberec, Czech Republic*

In March 2009, PC opened the Liberec Plaza, in the center of Liberec, a city in the north of the Czech Republic. This shopping and entertainment center has a GLA of approximately 17,000 m<sup>2</sup> and includes an anchor supermarket, fashion retailers, a Fantasy Park, a food court and restaurants. The center also includes a residential area of 850 m<sup>2</sup> and 800 m<sup>2</sup> of office space. This center is 100% owned by PC. Management of the Liberec Plaza is conducted by a third party management company.

### *Zgorzelec Plaza - Zgorzelec, Poland*

In March 2010, PC opened the Zgorzelec Plaza in Zgorzelec, Poland, a town in south-western Poland. This shopping and entertainment center has a GLA of approximately 13,000 m<sup>2</sup>. It houses over 60 stores, anchored by a supermarket and brand name fashion retailers and has 450 parking spaces. This center is 100% owned by PC. Certain management services of the Zgorzelec Plaza are conducted by a third party management company.

### ***Shopping and Entertainment Centers under Development***

| <b>Name of Project</b>       | <b>Location</b>         | <b>Title</b>                    | <b>PC Share %<sup>1</sup></b> | <b>Approximate Land Area (m<sup>2</sup>)</b> | <b>Approximate Gross Lettable Area (m<sup>2</sup>)</b> | <b>Estimated Completion</b> | <b>Status</b>   |
|------------------------------|-------------------------|---------------------------------|-------------------------------|--|--|-----------------------------|---|
| <b>Suwałki Plaza</b>         | Suwałki, Poland         | Ownership                       | 100                           | 21,000                                       | 20,000   | 2010                        | Under construction  |
| <b>Lodz Plaza</b>            | Lodz, Poland            | Ownership / perpetual usufruct  | 100                           | 50,000                                       | 45,000   | 2012-2013                   | Planning and development stage                                    |
| <b>Csiki Plaza</b>           | Miercurea Ciuc, Romania | Ownership                       | 100                           | 33,000                                       | 14,000   | 2011                        | Construction commenced awaiting external financing for completion |
| <b>Kragujevac Plaza</b>      | Kragujevac, Serbia      | Leasing for 99 years until 2106 | 100                           | 24,500                                       | 22,000   | 2012                        | Planning and development stage                                    |
| <b>Uj Udvar <sup>2</sup></b> | Budapest, Hungary       | Ownership                       | 35                            | 8,700  | 16,000   | 2012                        | Planning and development stage                                    |
| <b>Timisoara Plaza</b>       | Timisoara, Romania      | Ownership                       | 100                           | 32,000                                       | 43,000   | 2012-2013                   | Planning and development stage                                    |
| <b>Toruń Plaza</b>           | Toruń, Poland           | Perpetual leasehold             | 100                           | 62,800                                       | 39,000   | 2012                        | Planning and development stage                                    |
| <b>Kielce Plaza</b>          | Kielce, Poland          | Perpetual leasehold             | 100                           | 30,000                                       | 33,000   | 2013-2014                   | Planning and development stage                                    |
| <b>Leszno Plaza</b>          | Leszno, Poland          | Perpetual leasehold             | 100                           | 17,000                                       | 16,000   | 2013-2014                   | Planning and development stage                                    |
| <b>Sport Star Plaza</b>      | Belgrade, Serbia        | Leasing for 99 years until 2106 | 100                           | 30,000                                       | 45,000   | 2013-2014                   | Planning and development stage                                    |
| <b>Shumen Plaza</b>          | Shumen, Bulgaria        | Ownership                       | 100                           | 17,000                                       | 20,000   | 2013-2014                   | Planning and development stage                                    |
| <b>Slatina Plaza</b>         | Slatina, Romania        | Ownership                       | 100                           | 20,000                                       | 17,000   | 2012-2013                   | Planning and development stage                                    |

| Name of Project          | Location             | Title     | PC Share % <sup>1</sup> | Approximate Land Area (m <sup>2</sup> ) | Approximate Gross Lettable Area (m <sup>2</sup> ) | Estimated Completion | Status                         |
|--------------------------|----------------------|-----------|-------------------------|---|---|----------------------|--------------------------------|
| <b>Constanta Plaza</b>   | Constanta, Romania   | Ownership | 100                     | 26,000                                  | 18,000  | 2012                 | Planning and development stage |
| <b>Hunedoara Plaza</b>   | Hunedoara, Romania   | Ownership | 100                     | 41,000                                  | 13,000  | 2012-2013            | Planning and development stage |
| <b>Targu Mures Plaza</b> | Targu Mures, Romania | Ownership | 100                     | 31,000                                  | 30,000  | 2012-2013            | Planning and development stage |
| <b>Helios Plaza</b>      | Athens, Greece       | Ownership | 100                     | 15,000                                  | 26,000  | 2012                 | Planning and development stage |

<sup>1</sup> Directly or indirectly.

<sup>2</sup> Uj Udvar is currently active and has an approximate GLA of 12,000 m<sup>2</sup> and approximately 14,000 m<sup>2</sup> of parking areas.

Total additional estimated costs of construction, required for completion of all of the above projects and the percentage of pre-leased areas are presented in the following table:

| Country  | Estimated cost of completion               | Percentage Pre-leased * |
|----------|--|-------------------------|
| Poland   | €254 million (approximately \$365 million) | 60%                     |
| Romania  | €187 million (approximately \$269 million) | -                       |
| Hungary  | €75 million (approximately \$108 million)  | -                       |
| Serbia   | €22 million (approximately \$32 million)   | -                       |
| Bulgaria | €36 million (approximately \$52 million)   | -                       |
| Greece   | €70 million (approximately \$101 million)  | -                       |

\* In respect of those projects that are under construction

### ***Mixed-use Projects - Predominantly Retail Projects, Under Development***

| Name of Project         | Location           | Title                            | PC Share %        | Approximate Land Area (m <sup>2</sup> ) | Approximate Gross Lettable Area (m <sup>2</sup> ) | Estimated Completion | Status  |
|-------------------------|--------------------|----------------------------------|-------------------|---|---|----------------------|---|
| <b>The Dream Island</b> | Budapest, Hungary  | Ownership / land use rights      | 43.5 <sup>1</sup> | 320,000                                 | 350,000 <sup>2, 3</sup>                           | 2013-2015            | Initial excavation and archeological works commenced. An exclusive casino license has been awarded. |
| <b>Casa Radio</b>       | Bucharest, Romania | Leasing for 49 years ending 2056 | 75 <sup>4</sup>   | 102,000                                 | 600,000 <sup>2, 5</sup>                           | 2013-2015            | Initial construction commenced. Approval of the Urban technical commission has been obtained        |
| <b>Iasi Plaza</b>       | Iasi, Romania      | Ownership                        | 100               | 46,500                                  | 62,000  | 2012-2013            | planning and development stage  |

| Name of Project                    | Location                        | Title                            | PC Share %       | Approximate Land Area (m <sup>2</sup> ) | Approximate Gross Lettable Area (m <sup>2</sup> ) | Estimated Completion       | Status                         |
|------------------------------------|---------------------------------|----------------------------------|------------------|---|---|----------------------------|--------------------------------|
| <b>Belgrade Plaza</b>              | Belgrade, Serbia                | Leasing for 99 years ending 2106 | 100              | 9,000                                   | 70,000 <sup>2</sup>                               | 2013-2014                  | Planning and development stage |
| <b>Sofia Plaza Business Center</b> | Sofia, Bulgaria                 | ownership                        | 51               | 75,000                                  | 44,000  | 2013-2014                  | Planning and development stage |
| <b>Koregaon Park</b>               | Pune, Maharashtra State, India  | Ownership                        | 100 <sup>6</sup> | 24,000                                  | 111,000 <sup>2, 7</sup>                           | 2011 (Mall) 2012 (offices) | Under construction             |
| <b>Kharadi</b>                     | Kharadi, Pune, India            | Ownership                        | 50 <sup>6</sup>  | 56,000                                  | 205,000 <sup>2, 8</sup>                           | 2014                       | Planning and development stage |
| <b>Trivandrum</b>                  | Trivandrum, Kerala State, India | Ownership                        | 50 <sup>6</sup>  | 43,500                                  | 195,000 <sup>2, 9</sup>                           | -                          | Planning stage                 |

<sup>1</sup> Indirectly (PC has a 50% shareholding in a company which has a 87% interest in the consortium which owns the project. The remaining interests are 10% held by a company controlled by the managing director of the consortium and a further 3% is owned by minority shareholders).

<sup>2</sup> GBA.

<sup>3</sup> This project is expected to include approximately 3,000 hotel rooms in several hotels of different categories as well as approximately 1,000 leisure apartments, a 3,500 seat convention center, a 1,500 seat opera house, a 3,500 seat multi-purpose theater, a marina with anchorage capacity for 300 vessels, a shopping and entertainment center including a prestigious 'Designer avenue', a Roman cultural museum, and parking facilities for approximately 5,500 vehicles, as well as a casino of 40,000 m<sup>2</sup>.

<sup>4</sup> Other investors in the project include the Government of Romania, which will procure that the project company is granted the necessary development and exploitation rights in relation to the site for a 49-year period in consideration for a 15% interest in the project and an additional developer which holds 10%.

<sup>5</sup> The project will consist of a complex with a planned GBA of approximately 600,000 m<sup>2</sup> (including parking), and will include a shopping and entertainment center of approximately 170,000m<sup>2</sup>, with a hypermarket of approximately 6,500m<sup>2</sup>, a hotel of 35,000m<sup>2</sup> (320 rooms), an apartment hotel of 18,000m<sup>2</sup>, a ferris wheel, a conference center of 14,000m<sup>2</sup> and 130,000m<sup>2</sup> of offices.

<sup>6</sup> For information regarding the rights of Mr. Abraham (Rami) Goren, our Executive Vice Chairman of the board of directors, in the projects, see "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers - Agreements with our Executive Vice Chairman."

<sup>7</sup> This project is expected to include a shopping and entertainment center with an estimated GBA of approximately 83,500 m<sup>2</sup> and an office building with an estimated GBA of approximately 27,500 m<sup>2</sup> (including underground parking).

<sup>8</sup> This project is expected to include a shopping and entertainment center with an estimated GBA of approximately 150,000 m<sup>2</sup> and an office complex of approximately 55,000 m<sup>2</sup>.

<sup>9</sup> This project is expected to include a shopping and entertainment center of approximately 67,000 m<sup>2</sup>, office space of approximately 90,500 m<sup>2</sup> and an apartment hotel of approximately 37,500 m<sup>2</sup>.

Total additional estimated costs of construction, required for completion of all of the above projects and the percentage of pre-leased areas are presented in the following table:

| Country  | Estimated cost of completion                   | Percentage Pre-leased * ** |
|----------|--|----------------------------|
| Hungary  | €1,070 million (approximately \$1,541 million) | -                          |
| Romania  | €683 million (approximately \$984 million)     | -                          |
| Serbia   | €100 million (approximately \$144 million)     | -                          |
| Bulgaria | €72 million (approximately \$104 million)      | -                          |
| India    | €333 million (approximately \$480 million)     | 30%                        |

\* In respect of the commercial part of the mixed-use project.

\*\* In respect of those projects that are under construction.

### **Other Projects (Offices and Other Yielding Real Estate Projects)**

#### *Arena Plaza Extension, Budapest, Hungary*

The Arena Plaza extension is a planned office addition of approximately 40,000 m<sup>2</sup> GLA to the Arena Plaza in Budapest, Hungary (a shopping and entertainment center of 66,000 m<sup>2</sup> sold to aAIM). The project is in the preliminary phase and is scheduled to open in 2013.

#### *Plaza-BAS. B.V, Romania.*

Within the framework of a joint venture partnership with BAS Development ("BAS"), PC is developing residential and office projects in Romania. BAS is a private company which is active in the Romanian property market. Plaza-Bas B.V. a company established by the joint venture partners, ("Plaza Bas"), acquired the shares then held by BAS in seven residential and office development projects. Plaza Bas is 50.1% owned by PC and the remaining 49.9% is owned by BAS. PC has the power to appoint 60% of the board members in Plaza Bas.

Out of the seven existing BAS projects, the following are for office development:

- Brashov - PC owns a 25% share in an office development project known as the Primavera Tower Brasov with a planned GBA of approximately 12,000 m<sup>2</sup>. It is anticipated that the project will be completed in 2013.
- Ploiesti - PC owns a 25% share in an office development project known as the Primavera Tower Ploiest, with an expected GBA of approximately 10,000 m<sup>2</sup>. It is anticipated that the project will be completed in 2012.

Total additional estimated costs of construction, required for completion of all of the above projects and the percentage of pre-leased areas are presented in the following table:

| Country | Estimated cost of completion             | Percentage Pre-leased * |
|---------|--|-------------------------|
| Hungary | €48 million (approximately \$69 million) | -                       |
| Romania | €47 million (approximately \$68 million) | -                       |

\* In respect of those projects that are under construction.

### **Hotels**

#### **General**

The goal of our hotel business is to acquire and manage, generally via management companies, four-star hotel properties, that are conveniently located near major transportation stations which provide the business and vacation traveler with upscale quality accommodation.

In addition to our operational hotels, we develop hotels within our mixed-use projects (both commercial and residential) and furthermore, hold interests in certain plots and properties intended to be developed or refurbished into hotels, see " - Hotels under development or renovation" below.

#### **Ownership Structure of Hotels**

Our ownership percentage in our hotels varies, and the remaining interests in those hotels that are not owned by us are owned by various unrelated third parties, including, with respect to five of our hotels (two in the Netherland and three in the United Kingdom), by Park Plaza. Park Plaza is engaged in ownership, co-ownership, lease, franchising and management of full service four star deluxe hotels and trendy boutique hotels in major gateway cities and regional centers in Europe, the Middle-East and North Africa.

We are party to shareholder agreements with Park Plaza with respect to these five hotels. In accordance

with the terms of these agreements, we and Park Plaza have equal representation in the board of directors of each hotel company. The agreements also provide for rights of first refusal, tag along, drag along rights and that some shares (5%-10%) held by Park Plaza in the United Kingdom hotel companies, will not confer voting rights until such time as Park Plaza shall have provided and completed its full equity contribution (as defined in the agreements) in each respective hotel.

### ***Management of Hotels***

Park Plaza also serves as the management company of the five operating hotels mentioned above (two in the Netherlands and three in the United Kingdom). It is the franchisee for certain territories under territorial license and franchise agreements with Carlson, a leading travel and hospitality company, which entitles Park Plaza to use the "Park Plaza" trademark.

The Centerville Aparthotel is managed by us and the Rezidor Hotel Group manages three of our hotels (two hotels in Belgium and one in Romania) (Park Plaza and the Rezidor Hotel Group, together, the "Management Companies").

Under the respective management agreements signed with each Management Company, we undertook to pay the Management Companies certain agreed upon fees which will be calculated as percentage from the respective hotel's revenue as well as certain agreed upon percentage from the gross operating profit of each such relevant hotel. We also undertook to participate in certain portions of the expenses incurred by the Management Companies in the course of performance of their obligations (mainly marketing and advertising expenses), up to certain percentage of the gross operating profit.

Within the terms of the management agreements with Park Plaza we were granted a sub-franchise by Park Plaza granting us a license to use the "Park Plaza" name, in relation to the hotels owned and operated by Park Plaza, in consideration for royalties not to exceed certain percentage of the room revenues of such hotels.

We are entitled to terminate our Management Agreements (excluding the Radisson Blu Bucharest Hotel agreement), subject to payment of a termination fee to the Management Company. In the event of a sale of the Victoria Hotel in Amsterdam, Park Plaza is also entitled to receive 2.5% of any profit generated from such a sale.

Under the Radisson Blu Bucharest Hotel management agreement, the Rezidor Hotel Group undertook to guarantee that the adjusted operating income of such hotel, from the second year of operation, will not decrease below a fixed annual amount, subject to a cap payable from the total aggregate amount accumulated during the term of the agreement. The agreement also provides for minimum and maximum capped aggregate fees payable to the Rezidor Hotel Group.

### ***Business Concept and Strategy***

Our business concept and strategy for our hotels include the following elements:

*Location:* Our hotels are generally situated in close proximity to major railway links into cities, such as the central railway station in Amsterdam (situated across from our Park Plaza Victoria Amsterdam Hotel), the central railway station in Antwerp (situated opposite our Radisson Blu Astrid Antwerp Hotel) and the Victoria railway station in London (situated close to our Park Plaza Victoria London Hotel). The Amsterdam and Antwerp stations accommodate the services of the Train de Grand Vitesse (the "TGV").

*Service:* Our hotels make considerable efforts to offer personal services at an upscale level.

*Customer base:* Our hotels' principal target customer base is the business traveler and the tourist industry, both individuals and in groups.

*Management:* Our hotels focus on strategic cooperation and affiliation with management companies with know-how and expertise in hotel management, which enables optimal use of a centralized reservation system, and which provides the advantage of a unified management system that promotes the efficiency of the operation and control of hotels in diverse locations.

*Strategy:* Our strategy for our hotel business is to increase the number of hotel rooms in both Western and Eastern Europe, with emphasis on prime location, while contemplating expansion of our hotel operation into the Indian market and other venues, by incorporating the hotel business into mixed-use projects. The duration of our holding and managing of our hotel portfolio varies and is dependent upon business cycles, economic conditions, property yields, and trends affecting the hotel industry or capital market opportunities.

### **Operating Hotels**

The table below provides information with regard to our operating hotels:

| <b>Name and Rate of Hotel</b>  | <b>Title</b> | <b>Our Share As of December 31, 2009</b> | <b>Approximate Constructed Area (square feet)</b> | <b>Total Rooms and description</b>                                       | <b>Average Occupancy Rates During 2009 (%)</b> | <b>Additional information</b>   |
|--|--------------|--|---|--|--|---|
| <b>Park Plaza Victoria Amsterdam<sup>1</sup></b><br>Amsterdam, the Netherlands<br>Four Star Deluxe | Freehold     | 50%                                      | 220,000   | 306 including Executive rooms and Business and deluxe Suites             | 92%  | a business center and a health center, 10 conference rooms, bar and a restaurant  |
| <b>Park Plaza Utrecht</b><br>Utrecht, the Netherlands<br>Four Star                                 | Leasehold    | 50%                                      | 56,000  | 120 superior and executive rooms   | 73%  | includes 11 conference rooms, a business center a sauna, a gym, bar and a restaurant  |
| <b>Radisson Blu Astrid Antwerp</b><br>Antwerp, Belgium<br>Four Star Deluxe                         | Freehold     | 100%                                     | 223,000   | 247 rooms including business class suites & 19 new luxury apartments     | 57%  | Includes an oceanarium attraction, 18 conference rooms, a bar, a restaurant and a fully equipped health club with a pool                        |
| <b>Radisson Blu Bucharest</b><br>Bucharest, Romania<br>Five Star                                   | Freehold     | 77%                                      | 900,000   | 424 rooms suites, executive suites and one exclusive royal suite         | 47%  | The complex of both hotels includes several restaurants, a spa and a world class health academy, casino, shopping area and supermarket services |
| <b>Centerville</b><br>Aparthotel<br>Bucharest, Romania   | Freehold     | 77%                                      |   | 292 apartments   | 91%  |   |
| <b>Park Plaza Sherlock Holmes London</b><br>London, the United Kingdom<br>Four Star Deluxe         | Leasehold    | 45% equity and 50% voting                | 67,500  | 119 rooms and executive rooms  | 86%  | This boutique style hotel includes executive lounge, main meeting room and 7 board rooms, a bar and a restaurant                                |
| <b>Park Plaza Victoria London</b><br>London, the United Kingdom<br>Four Star Deluxe                | Freehold     | 50%                                      | 242,000   | 299 including guestrooms and suites plus 12 one & two bedroom apartments | 87%  | includes executive lounge, health center, main conference room and 13 additional conference rooms, a bar and a restaurant                       |
| <b>Park Plaza Riverbank London<sup>2</sup></b><br>London, the United Kingdom<br>Four Star Deluxe   | Leasehold    | 45% equity and 50% voting                | 337,000   | 394 rooms including superior and executive rooms and suites              | 83% together                                   | The complex also includes full leisure center, conference and business rooms, restaurant, brasserie, bar and lounge                             |
| <b>Plaza on the River London<sup>2</sup></b><br>London, the United Kingdom<br>Four Star Deluxe     |              |  |   | 65 luxury residential suites   |  |   |

| Name and Rate of Hotel                               | Title    | Our Share As of December 31, 2009 | Approximate Constructed Area (square feet) | Total Rooms and description                               | Average Occupancy Rates During 2009 (%) | Additional information                             |
|--|----------|-----------------------------------|--|---|---|--|
| <b>Park Inn Antwerp, Belgium Three star boutique</b> | Freehold | 100                               | 32,250                                     | 59 rooms going from standard to junior suite with terrace | 61%                                     | Includes a restaurant, a lounge and a fitness room |

<sup>1</sup> See also " - Hotels under Development or Renovation" below.

<sup>2</sup> Park Plaza Riverbank London Hotel and Plaza on the River London Hotel form part of the Riverbank complex.

Average room rate for 2009, for our hotels in the Netherlands was: €119 (approximately \$171); average room rate for 2009, for our hotels in Belgium was: €104 (approximately \$150); average room rate for 2009, for our hotels in United Kingdom (including the Plaza on the River) was: €129 (approximately \$185); and average room rate for 2009, for our hotels in Romania was: €82 (approximately \$118).

Revenue Per Available Room ("RevPar") for 2009, for our hotels in the Netherlands totaled: €103 (approximately \$149); RevPar for 2009, for our hotels in Belgium totaled: €60 (approximately \$87); RevPar for 2009, for our hotels in the United Kingdom (including the Plaza on the River) totaled: €109 (approximately \$157); and RevPar for 2009, for our hotels in Romania totaled: €53 (approximately \$76).

### ***Recently Acquired Hotels***

In April 2010, we, together with Park Plaza, acquired the Holiday Inn Schiphol Hotel located near the Amsterdam Schiphol Airport, for a purchase price of €30 million (approximately \$40 million). The acquisition was executed through Schiphol Victoria Hotel C.V., a partnership jointly and equally controlled by us and Park Plaza.

The purchase was financed mostly through a bank loan, with an equity contribution of the joint venture partners of €1 million (approximately \$1.44 million) each. The bank loan also provides for additional funds for a prospected refurbishment of this hotel as well as other hotels held by the joint venture partners in The Netherlands.

The hotel offers 342 rooms and over 1,800 square meters of flexible meeting space. The hotel is intended to operate under the "Park Plaza" brand name.

### ***Hotels under Development or Renovation***

#### *Victoria Monument, Amsterdam, the Netherlands*

We own together with Park Plaza, in equal parts, a joint venture company which purchased a historical office building with appurtenances and land, in Amsterdam, the Netherlands. The 75 year old office building, which is considered a historical building for preservation under local laws, is located in the heart of Amsterdam's business and entertainment center and resides next to our four-star Park Plaza Victoria Amsterdam Hotel. The joint venture company intends to convert this property into an approximately 100 room hotel as an extension to the Park Plaza Victoria Amsterdam Hotel, following restoration and an investment of approximately €10 million, and subject to receipt of all consents and permits. The purchase price of €14 million (of which our share is 50%) was fully financed through a bank loan.

#### *Plot in Tiberius, Israel*

In July 2007 we entered into an agreement with the Israel Land Administration, according to which we leased a plot of approximately 44,600 m<sup>2</sup> in Tiberius, Israel for a term of 49 years (through 2056) with an option to extend the lease term for an additional 49 years. The total consideration paid amounted to NIS 30.6 million. We intend to build a hotel on the site. Under the agreement, we undertook to complete the construction work of the hotel within a period not exceeding 36 months (July 2010). Also under the agreement, we provided the Israel Land Administration with two bank guarantees in the aggregate amount of NIS 10 million, linked to the Israeli Consumer



Price Index in order to secure our undertakings under the lease agreement.

### **The Image Guided Treatment Business**

All of our activities in the image guided treatment field are performed through our controlled subsidiary InSightec, in which we hold approximately 71.3% of the outstanding share capital (59.7% on a fully diluted basis).

Other shareholders of InSightec include GE (16.9% on a fully diluted basis) and MediTech Advisers LLC ("MTA"). Employees, directors, officers and other investors hold the remaining shares of InSightec. The fully diluted holdings in InSightec are calculated including options exercisable into InSightec's ordinary shares which start vesting upon the initial public offering of InSightec or upon the occurrence of certain other material changes to InSightec.

In February 2010, we announced our intention to restructure our bio-tech and medical holdings, under a new wholly owned subsidiary, Elbit Medical Ltd. ("EML"), and to offer shares of such subsidiary in a public offering on the Tel Aviv Stock Exchange. On April 28, 2010, we filed an initial draft prospectus with the Israel Securities Authority, in respect of the initial public offering of EML shares on the Tel Aviv Stock Exchange. The success of such offering is subject to general economic market conditions, the interest level of investors and the performance of EML's business.

In 2009, we invested a total of \$15 million in Series B Preferred Shares of InSightec. The Series B Preferred Shares of InSightec are senior to all other shares and subordinate to all creditors. Each Series B Preferred Share of InSightec may be converted at any time at the holder's option into ordinary shares, and will be automatically converted upon an initial public offering of InSightec's shares that meets certain criteria. In addition, upon the closing of our investment in Series B Preferred Shares mentioned above, all outstanding Series A Preferred Shares of InSightec and all convertible notes of InSightec were converted into Series B Preferred Shares and all contingent warrants granted by InSightec were exercised into ordinary shares.

Pursuant to the fifth amended and restated securityholders agreement entered into among us, InSightec, GE and MTA in January 2010, we are entitled, as long as we hold at least 50.01% of the outstanding share capital of InSightec on a fully diluted basis, to appoint three directors to serve on InSightec's board of directors as well as the CEO, subject to the consent of InSightec's board of directors. We will be entitled to appoint two directors to InSightec's board of directors as long as we hold less than 50.01% but more than 30% of the outstanding share capital of InSightec on a fully diluted basis, and in the event our holdings range between 5% and 30% of the outstanding share capital of InSightec on a fully diluted basis, we will have the right to appoint one director to InSightec's board of directors.

GE has a right, as long as it holds at least 5% of the outstanding share capital of InSightec on a fully diluted basis, to appoint one director and one observer (with no voting rights) to serve on InSightec's board of directors.

The agreement also imposes certain limitations and rights on share transactions and a right for us and GE, in case one party fundamentally breaches the agreement, to acquire the other's stake in InSightec, at certain penalty values.

Certain decisions of InSightec are required to be approved by a vote of 70% of the holders of the issued and outstanding Series B Preferred Shares. In addition, GE has certain veto rights with regard to the execution of certain significant transactions or activities not in the ordinary course of business, as long as GE continues to hold at least 5% of the outstanding share capital of InSightec.

In February and April 2010 we undertook to provide InSightec with financial support up to an aggregate amount of NIS 15 million, on terms to be agreed upon between the parties according to market conditions, in order to enable InSightec to continue its operations until the end of its current fiscal year. For this purpose we have provided InSightec with a credit line that is linked to the Israeli consumer price index. In addition, in April 2010 EML undertook to provide InSightec with financial support, starting June 2010, up to an aggregate amount of NIS 7.6 million, on terms to be agreed upon between the parties according to market conditions.

## ***Business description***

InSightec has developed and markets the ExAblate - the first FDA-approved system for MRgFUS. InSightec's objective is to transform the surgical environment for the treatment of a limited number of forms of benign and malignant tumors by replacing invasive and minimally invasive surgical procedures with an incision-less surgical treatment solution. The system is designed to deliver safe and effective non-invasive treatments while reducing the risk of disease and potential complications, as well as the direct and indirect costs associated with conventional surgery. In October 2004, InSightec received FDA approval to market the ExAblate in the United States for the treatment of uterine fibroids, a type of benign tumor of the uterus. Prior to that, in October 2002, InSightec received authorization to affix the CE mark to the ExAblate, enabling it to market the system in the European Economic Area, and certain Asian countries, for the treatment of uterine fibroids. InSightec also has regulatory approval for the ExAblate for uterine fibroids in Canada, Russia, Brazil, Mexico, Korea, Taiwan, Australia, New Zealand and Singapore, as well as for the treatment of breast cancer in Korea. In May 2007, InSightec also received CE-marking (marketing approval in the EEA), and in January 2008 it received approval from the Israeli health ministry for the pain palliation of bone metastases. In April 2009, the FDA approved expanded guidelines for the uterine fibroid application. InSightec is also in various stages of development and clinical research for the application of its MRgFUS technology to the treatment of other types of benign and malignant tumors. These additional applications are being developed to take advantage of the modular design of the ExAblate, which enables it to function as a common platform for multiple MRgFUS-based surgical applications. Currently, InSightec has an installed base of 68 units in academic hospitals, community hospitals, MRI clinics and physician-formed joint ventures. The ExAblate is operable only with certain MRI systems manufactured by GE.

In January 2010, Japan's Ministry of Health, Labor and Welfare (MHLW) approved InSightec's MRgFUS system for the treatment of women with uterine fibroids. ExAblate is currently the only non-invasive treatment for uterine fibroids approved for use in Japan. InSightec's MRgFUS technology integrates the therapeutic effects of focused ultrasound energy with the precision guidance and treatment outcome monitoring provided by MRI systems. Ultrasound is a form of energy that can pass harmlessly through skin, muscle, fat and other soft tissue, and is widely used in diagnostic applications. The ExAblate uses a phased-array transducer that generates a high intensity, focused beam of ultrasound energy, or a sonication, aimed at a small volume of targeted tissue. The focused ultrasound energy provides an incision-less therapeutic effect by raising the temperature of the targeted tissue mass high enough to ablate, or destroy it, while minimizing the risk of damage to overlaying and surrounding tissue.

InSightec believes that by combining the non-invasive therapeutic effects of focused ultrasound energy and the precise "real-time" data provided by the MRI system, it has developed an effective, non-invasive treatment solution for uterine fibroids.

InSightec also believes that its MRgFUS technology can be applied to the treatment of other medical conditions, providing similar advantages by presenting both physicians and patients with a safe and effective incision-less surgical treatment option for several medical conditions, including a number of indications for which there are currently few effective treatment options.

In July 2009, a team at the University Children's Hospital in Zurich completed a feasibility study testing the use of non-invasive transcranial MR-guided focused ultrasound surgery (TcMRgFUS) for the treatment of neuropathic pain. Ten adult patients diagnosed with chronic neuropathic pain successfully underwent non-invasive deep brain ablation surgery (central lateral thalamotomy) with TcMRgFUS and showed improvement in pain scores and reduction of pain medication with no adverse effects at three months follow-up. This was the first study in the world to test non-invasive transcranial focused ultrasound as a treatment modality for functional brain disorders.

## ***Distribution and Marketing***

InSightec distributes and markets its products directly and through the entering into distribution agreements with third parties. Distribution agreements are generally for a term of between one and five years, with an option to extend the agreement based on the performance of the distributor.

InSightec has contracted with several distributors in Europe and Asia who market and sell its systems.

InSightec has entered into exclusive distribution agreements with GE, for exclusivity in the United States and Canada, and with Rosslyn Medical Ltd., for exclusivity in Russia.

### ***Business Concept and Strategy***

InSightec's strategic objective is to continue to expand its uterine fibroid application, as well as the product development efforts and clinical studies for additional applications. If the results of its clinical studies are positive, InSightec intends to pursue regulatory approval in the United States and other targeted jurisdictions to market the ExAblate for these additional treatment applications.

In addition, InSightec aims to become the market leader in MRgFUS systems and to achieve a significant improvement in the quality and efficacy of the treatment while demonstrating cost effectiveness. To that effect, InSightec is developing the ExAblate®4000, a unique system targeted at non-invasive treatment of brain tumors and central nervous system targets. As of May 2010, six systems were installed, one in Israel, one in Europe, one in Canada, and three in the United States. In addition, research and development activities have been initiated towards implementing new product derivatives for treating bone and prostate cancer tumors. These new systems exploit InSightec's new and proprietary dense acoustic array technology for better tumor control and treatment flexibility.

### **Residential Projects**

Under our residential sector we initiate, construct and sell residential projects and other mixed-use real property projects predominantly residential, located in Eastern Europe and in India.

#### ***Joint Venture with PC to Develop Mixed-Use Projects in India***

In August 2008 we signed a joint venture agreement with PC for the development of major mixed-use projects in India (except for projects which are only or mainly shopping and entertainment centers, which will be developed only by PC and are excluded from the framework of this joint venture). Under this agreement, PC acquired from us a 47.5% stake in our subsidiary Elbit Plaza India Real Estate Holdings Limited ("EPI"). We, directly and through EPI own two mixed-use projects in India in conjunction with local Indian partners, namely the Bangalore and the Chennai projects, and have engaged with certain third parties with the intent to develop an additional project on the Kochi Island. EPI will also look for further development opportunities for large scale mixed-use projects in India, predominantly led by either residential, office or hotel schemes (the "EPI Agreement"). Under the EPI Agreement, we are to hold in trust 50% of our rights in the Kochi Island project in favor of PC. We undertook to transfer our right and holdings in the Kochi project to EPI within 12 months following the execution of the EPI Agreement, or alternatively transfer 50% of such rights directly to PC. We furnished PC with a guarantee for the fulfillment of this undertaking. This undertaking and guarantee have since been extended until August 25, 2010.

Consideration paid by PC for the acquisition of the stake in EPI was the nominal amount for the 47.5% shareholding, plus approximately \$126 million, reflecting 50% of all loans and financing invested by us in the Bangalore, Chennai and Kochi projects. The loans and financing were used to, or designated to be used for, the purchase of the plots of land and for other associated costs related to EPI's real estate activities.

Following the execution of the EPI Agreement, PC and us each hold 50% of the voting rights in EPI and 47.5% of the equity. The additional 5% of the equity rights will be held by our Executive Vice Chairman in accordance with the agreement executed by us and our Executive Vice Chairman in January 2008. For additional information, see "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers - Agreements with our Executive Vice Chairman."

Under the EPI Agreement, we and PC each have the right to appoint 50% of the board members in EPI and the shareholders have agreed on rights of first refusal for transfer of shares, tag along rights, and assignment of voting power of our Executive Vice Chairman to us and PC in equal parts. Future issuances of shares by EPI are subject to pro-rata preemptive rights.

The EPI Agreement terminated, by mutual consent, a previous sourcing agreement signed and executed between us and PC in October 2006, under which we undertook to offer PC potential real estate development sites

sourced by us in India, suitable for shopping and entertainment center development projects as well as mixed-use projects (the "Sourcing Agreement"). Our undertakings in the Sourcing Agreement were reflected in the EPI Agreement.

The original term of the Sourcing Agreement was for a period of 15 years. The EPI Agreement provides that in the event the latter is terminated prior to the lapse of the 15 year term of the Sourcing Agreement, then under such circumstances we and PC will re-execute a project sourcing agreement in identical form to the Sourcing Agreement for the remainder of the 15 year term.

### ***Residential Projects***

As at the date of this annual report, our Residential Project segment of operations includes a total of 11 projects in various stages of planning, development and construction, including 8 residential projects and 3 mixed-use real property projects which are predominantly residential. Our projects are located in the Czech Republic, Poland, Romania and India.

| Name of Project                |                        | Location               | Title                          | Share % | Approximate Land Area (m <sup>2</sup> ) | Approximate Gross Built Area (m <sup>2</sup> )  | Estimated Completion |
|--------------------------------|------------------------|------------------------|--------------------------------|---------|---|---|----------------------|
| <b>Prague III *</b>            |                        | Prague, Czech Republic | Ownership                      | 100     | 46,500                                  | 44,300 (potential 61,600 for future apartments) | - *                  |
| <b>Roztoky</b>                 |                        | Prague, Czech Republic | Ownership                      | 100     | 39,000                                  | 14,000  | 2013                 |
| <b>Łódź</b>                    |                        | Łódź, Poland           | Ownership / perpetual usufruct | 100     | 33,500                                  | 80,000  | -                    |
| <b>Plaza BAS Joint Venture</b> | <b>Fountain Park</b>   | Bucharest, Romania     | Ownership                      | 12.5    | 14,000                                  | 18,000  | 2012-2013            |
|                                | <b>Acacia Park</b>     | Ploiest, Romania       | Ownership                      | 25      | 12,500                                  | 32,000  | 2012-2013            |
|                                | <b>Green Land</b>      | Ploiest, Romania       | Ownership                      | 25      | 18,400                                  | 37,000  | 2013-2014            |
|                                | <b>Valley View</b>     | Brasov, Romania        | Ownership                      | 25      | 73,000                                  | 140,000   | 2014-2016            |
|                                | <b>Pine Tree Glade</b> | Brasov, Romania        | Ownership                      | 25      | 28,300                                  | 50,000  | 2013-2014            |

\* Currently operates as a logistics and commercial center and an office building used by PC. Due to planning difficulties, it is not possible to develop a shopping and entertainment center on this site. Accordingly, PC is examining the possibilities of developing this site as a residential complex.

Total additional costs of construction required for completion of all of the above projects is estimated at:

- With respect to the projects developed in Romania - €14 million (approximately \$20 million);
- With respect to the projects developed in Poland - €183 million (approximately \$264 million);
- With respect to the projects developed in the Czech Republic - €104 million (approximately \$150 million);

### ***Mixed-Use / Residential Projects***

| Name of Project |  | Location | Title | Share % | Approximate Land Area (m <sup>2</sup> ) | Approximate Gross Built Area (m <sup>2</sup> ) | Estimated Completion |
|-----------------|--|----------|-------|---------|---|--|----------------------|
|-----------------|--|----------|-------|---------|---|--|----------------------|

| Name of Project          | Location                          | Title                           | Share %               | Approximate Land Area (m <sup>2</sup> )                   | Approximate Gross Built Area (m <sup>2</sup> ) | Estimated Completion                     |
|--------------------------|-----------------------------------|---------------------------------|-----------------------|---|--|--|
| <b>Bangalore Project</b> | Bangalore, Karnataka State, India | Freehold and Development Rights | 50 <sup>1, 2, 3</sup> | 1,780,000<br>(of which rights to 218,500 obtained so far) | Exceeding 2 million                            | Preliminary stage - cannot be estimated. |
| <b>Chennai</b>           | Chennai, Tamil Nadu State, India  | Freehold and Development Rights | 80 <sup>1, 2</sup>    | 546,000<br>(of which rights to 255,000 obtained so far)   | Exceeding 1 million                            | 2012-2015                                |
| <b>Kochi</b>             | Kochi, Kerala State, India        | Freehold and Development Rights | 50 <sup>1, 2</sup>    | 166,000<br>(of which rights to 52,600 obtained so far)    | 575,000  | Preliminary stage - cannot be estimated. |

<sup>1</sup> For information regarding the EPI Agreement, a joint venture agreement signed with PC in respect to our India operations, see " - joint venture with PC to Develop Mixed-Use Projects in India" above.

<sup>2</sup> For information regarding the rights of Mr. Abraham (Rami) Goren, our Executive Vice Chairman of the board of directors, in the projects, see "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers - Agreements with our Executive Vice Chairman."

<sup>3</sup> As of the date of this annual report, we hold 100% in this project and we have an obligation to issue, subject to certain conditions, up to 50% holdings in the project to our joint venture partner.

Total additional costs of construction required for completion of all of the above projects in India is estimated at €1,900 million (approximately \$2,736 million).

Set forth below is certain additional information with respect to our mixed-use projects which are predominantly residential:

*Bangalore, Karnataka State, India*

In March 2008, EPI entered into definitive agreements with one of the leading developers in Bangalore, India for the joint development of a large scale mixed-use project located in Bangalore, Karnataka, India which will include villas (bungalows) and high-rise buildings, office complexes, a major retail facility, hotel complex, a hospital along with services and amenities, a golf course, club houses and more. Under the agreements, EPI and the local partner will acquire through a joint venture company (which will be held, subject to certain conditions in equal parts by EPI and such local partner the "Joint Venture Company"), up to 440 acres of land in Bangalore, India ("Project Land"). The total built up area of the entire planned project will exceed 2 million m<sup>2</sup>, subject to obtaining the requisite permits and approvals under applicable law. Construction of the first stages of the project will be executed in stages and is expected to last 3 to 5 years. The project is the largest development project undertaken in the Bangalore area to date.

Under the agreement, the Joint Venture Company is to acquire, subject to certain conditions, ownership and development rights in respect of up to approximately 230 acres of the total Project Land. The total consideration anticipated to be paid by us with respect to the purchase of such land is INR 10,500 million (approximately \$213.4 million).

As of the date of this annual report, the Joint Venture Company (which at this stage is our wholly owned subsidiary) has secured rights over approximately 54 acres of such 230 acres and EPI paid approximately INR 2,840 million (approximately \$133 million) (out of which PC's share is 50%). In addition, EPI paid to the local partner an interest bearing refundable advance of INR 2,536 million (approximately \$54 million) (the "Refundable Advance") on account of the future acquisition by the Joint Venture Company of a further 51.6 acres of such 230 acres (the "Additional Land"), which was scheduled to occur until March 13, 2009.

In respect of the remaining approximate 210 acres of land (approximately 850,000 m<sup>2</sup>) (out of the Project Land), it is intended that the Joint Venture Company will enter into joint development agreements, under which the

Joint Venture Company will be entitled to develop the entire area of such lands. In consideration, the Joint Venture Company will pay between 38% and 53% (depending on the specific plot) of the built up area of such lands and in some instances, refundable deposits on account of such future consideration will also be paid. EPI's 50% share (through the Joint Venture Company) in rights under such development agreements, will require it to pay up to INR 750 million (approximately \$15.2 million) of such deposits.

The agreement provides for additional portions of the Project Land to be acquired in stages, through local third parties, on behalf of the Joint Venture Company and, subject to certain conditions, EPI will make advances on account of such acquisitions.

The closing of the final stage of the transaction was scheduled to be held no later than March 13, 2009. At such stage, subject to certain conditions, the ownership and/or development rights in respect of all additional portions of the Project Land, that have been acquired by our partner and/or its business partners and that comply with certain regulatory requirements and our due diligence requirements, will be transferred to the Joint Venture Company. Concurrently, our partner will be issued, subject to certain conditions, up to 50% holdings in the Joint Venture Company, which prior to such date shall be wholly owned by EPI. As of the date of this annual report, the transaction has not been consummated and it is expected that the contractual timetable will not be met by the local partner.

EPI and the local partner have also entered into a shareholders agreement in respect of the future management of the Joint Venture Company following the closing of the final stage. The shareholders agreement also includes certain restrictions and pre-emptive rights pertaining to transferring of securities in the Joint Venture Company. Profits from the Joint Venture Company will be distributed in accordance with the parties' proportionate shareholdings, subject to our entitlement to receive preferential payment of profit distribution in the amounts and on the terms specified in the agreement.

As of the date of this annual report, the Additional Land has not been purchased. On May 27, 2009, we and PC asked the third party partner for the immediate repayment of the Refundable Advance in accordance with the terms of the agreement, which has not been repaid. Due to changes in market conditions, negotiations are currently being held between the parties, EPI, the Joint Venture Company and the local partner to establish new commercial understandings regarding the joint development of the Project Land, the financing, commercial relationship and working methods between the parties and the mechanism for distribution of the revenues from the Project Land.

#### *Chennai, Tamil Nadu State, India*

In December 2007 EPI, executed agreements for the establishment of a special purpose vehicle ("Chennai SPV Company") together with one of the leading real estate developers in Chennai. Subject to the fulfillment of certain conditions, the Chennai SPV Company will acquire the ownership and development rights in and to approximately 135 acres of land situated in the Sipcot Hi-Tech Park in the Siruseri District of Chennai, India. Under these agreements, EPI is to hold 80% of the equity and voting rights in the Chennai SPV Company, while the Local Partner will retain the remaining 20% are held by a local partner.

Under the agreement, EPI's investment in the Chennai SPV Company will be a combination of investment in shares and compulsory convertible debentures.

The total investment which we anticipate will be made by us by virtue of our 80% interest in this project is in the aggregate amount of INR 4,277 million (approximately \$92 million), assuming that the entire area of 135 acres is acquired by the Chennai SPV Company.

The consummation of the agreements will be accomplished in stages, and is subject to the fulfillment of certain regulatory requirements, as well as to our satisfactory due diligence investigations, in respect of each stage.

As at the date of this annual report, EPI has completed the purchase of approximately 62.7 acres out of the total 135 for consideration of approximately INR 1,986 million (approximately \$43 million). An additional amount of

INR 217 million (approximately \$5 million) was paid in advance in order to secure the acquisition of an additional 7 acres.

A shareholders agreement in respect of the management of the Chennai SPV Company provides for a five member board of directors, four of whom are appointed by EPI. The shareholders agreement also includes certain pre-emptive rights and restrictions on transferring securities in the Chennai SPV Company. Profit distributions declared by the Chennai SPV Company will be distributed in accordance with the shareholders' proportionate shareholdings in that company, subject to EPI's entitlement to receive certain preferential payments out of the Chennai SPV Company's cash flow on the terms specified in the agreements.

We intend to develop a mixed-use project on this land, which will consist of exclusive residential units (in both high rise buildings and villas), ancillary amenities such as club houses, swimming pools and sport facilities, a local retail facility and an office complex with a total built area exceeding 1 million m<sup>2</sup>, all subject to approval of the building permits by the competent authorities. It is anticipated that construction of this project, which will be executed in stages, will last 3 to 7 years.

#### *Kochi, Kerala State, India*

We have invested in a real estate project located in Kochi, a site located on a backwater island adjacent to the administrative, commercial and retail hub of the city of Kochi, in the Kerala State of India, for the construction and development on an area of land measuring 41 acres, of a project comprised of high end residential apartment buildings, a hotel, office space and a serviced apartment complex, retail area and a marina, with approximately 575,000 m<sup>2</sup> GBA.

As part of this project, in September 2006, we, together with an Indian corporation ("Project SPV") (the "Third-Party Shareholder"), entered into an agreement (as subsequently amended in January 2007) for the purchase by us and the Project SPV of an area of land measuring 13 acres (approximately 52,600 m<sup>2</sup>) ("Property A") for a total consideration of INR 1,495 million (approximately \$32 million), payable subject to fulfillment of certain obligations and conditions by the seller in respect of Property A, principally the obtaining all permissions required for construction thereon and making good and marketable title with regard to Property A.

Additionally, an area of 28 acres (approximately 113,300 m<sup>2</sup>) ("Property B") will be transferred by the seller to the Project SPV without any consideration, and the seller will be entitled to receive 40% of the constructed area which will be built by the Project SPV on Property B. It was further agreed that all fees, costs and expenses for construction on Property B will be borne by the Project SPV, and that the Project SPV will have the sole control over the construction as well as the marketing of the entire project.

The agreement also provides that if the seller fails to comply with the aforementioned conditions precedent by an agreed date, then the Project SPV and ourselves will have the right to terminate the agreement, and in that event the seller will be obliged to refund all amounts paid to him under the agreement, plus interest accruing at the rate of LIBOR +1% per year.

On September 29, 2006, we, the Third-Party Shareholder and the Project SPV entered into a share subscription agreement according to which we undertook to transfer to the Project SPV all of our right in Property A in consideration for the allotment to us of 50% of the equity and voting rights in the Project SPV. The allotment of shares is subject to the fulfillment of certain regulatory conditions, in respect of the land and the securing of sanctioned plans.

Under the EPI Agreement (joint venture with PC), we undertook to transfer all our rights to the Kochi Project to EPI, or transfer 50% of such rights to PC. We have furnished PC with a corporate guarantee for the fulfillment of such undertaking.

#### **Fashion Apparel**

Our fashion businesses are operated through our wholly owned subsidiary Elbit Trade.

We believe that accumulating international leading brands, and developing them in Israel, will provide us with a competitive advantage in the Israeli market. Our strategy is to utilize our expertise in real estate and retail to localize international leading brands, making them accessible to the Israeli consumer, while providing competitive pricing. As a result, we hope to obtain a significant market share of the fashion retail industry in Israel. In order to maximize each of our brands' market share potential, we expand our market with new store launches according to our long term deployment plan and study the sales growth of comparable stores in Israel.

As at the date of this annual report, our retail and fashion operations consist of the following international brands:

#### Mango-MNG™

Elbit Trade is the exclusive Israeli distributor and retailer of the internationally renowned retail brand name MANGO-MNG™. The exclusive distribution rights for Mango products in Israel were granted to us by Punto FA S.L. for a ten-year period ending in 2015. Under the agreement with Punto FA, Elbit Trade has agreed to guarantee annual minimum purchases at rates and subject to terms and conditions specified in the agreement, and has undertaken to pay Punto FA seasonal marketing, public relations, and store-support fees. Elbit Trade currently operates 25 Mango stores in Israel.

#### G-Star™

Since 2007, Elbit Trade is the exclusive Israeli distributor and retailer in Israel of products of G-Star International B.V., an apparel and accessories company, subject to certain conditions. The franchise is valid for a period of 5 years with an automatic renewal of an additional 5 year term (ending in 2017). Elbit Trade currently operates two G-Star locations in Israel and is examining alternative distribution options.

#### GAP™ & Banana Republic™

In February 2009, Elbit Trade signed a franchise agreement with GPS Strategic Alliances LLC., to open and operate GAP and Banana Republic stores in Israel. Under the agreement, Elbit Trade has been granted the right to use the brands' trade mark names and has undertaken to uphold certain financial covenants. We have guaranteed all of Elbit Trade's monetary obligations under the agreement, and we have agreed to make a line of credit available to Elbit Trade, should it fail to secure credit from a financing bank. The term of the franchise agreement is for 5 years with an extension of an additional 5 year term, subject to fulfillment of certain conditions. The first GAP store opened in Jerusalem in August 2009 and the second store opened in Tel Aviv in February 2010.

#### **Other Activities**

Our other activities consist of (i) venture capital investments; (ii) investments in hospitals and farm and dairy plants in India, which are in preliminary stages; and (iii) wholesale trade of home applications in India.

Set forth below is information with respect to our operations in each of the above businesses and in certain other new business activities:

#### ***Venture Capital Investments***

In addition to our core operations, we hold interests in the following companies.

| Company Name               | Areas of expertise   | % of investment as of March 31, 2010        |
|----------------------------|--|---|
| <b>Gamida Cell Ltd.</b>    | Expansion of hematopoietic (blood) stem cells therapeutics in clinical development for cancer and autoimmune diseases, as well as future regenerative cell-based medicines including cardiac and pancreatic repair.      | 31.64%<br>27.25% (on a fully diluted basis) |
| <b>Olive Software Inc.</b> | Development and marketing of products that enable a transparent link between the newspapers' traditional printing systems and the world of e-publishing. These products enable newspapers and magazines to automatically | 24.44%<br>16.23% (on a fully diluted basis) |



| Company Name        | Areas of expertise   | % of investment as of March 31, 2010  |
|---------------------|--|---------------------------------------|
|                     | present their printed edition on the Internet, while supporting e-commerce applications, personalization and interactive advertising. Also develops and markets digital archive services for newspapers and libraries. |                                       |
| <b>Varcode Ltd.</b> | Developing labels for improving logistical chain ("cold chain") of manufacturers. Varcode uses the FresCode products that monitor anomalies and improve the shelf life of perishables.                                 | 52.2% (non-diluted and fully diluted) |

### ***Elbit India Healthcare***

Since early 2007 we have been planning and developing a chain of multi-specialty tertiary hospitals in India in order to address the local emerging and current needs for a specialized medical care centers. It is anticipated that the chain will include hospitals in several major metropolitan areas in India.

We are in advanced stages of planning a 150 bed hospital in Goa, following the award of a long-term agreement for the development and operation of such a hospital, by the Government of Goa. In addition, we are exploring the development of additional hospitals in other metropolitan areas across India, in the framework of which we are currently planning to develop 300 bed multi-specialty tertiary hospitals in each of Bangalore, Kolkata and Pune. Those projects will be developed by us either alone or together with local Indian partners.

Our headquarters for all the healthcare activities is located in Bangalore and comprised of a professional team, headed by a medical doctor who specializes in healthcare management. Additionally, through our various activities in the field of medical devices and biotechnology, we have ongoing relationships with numerous medical centers in Israel and abroad which enable us to build an advisory and support team to assist us in this venture. We anticipate that the new hospital chain in India will closely collaborate with both InSightec and Gamida Cell Ltd. ("Gamida Cell") in the field of clinical trials and research and will have close ties with several medical centers in Israel and abroad for telemedicine, specialty treatments, exchange programs and training of personnel.

### ***Dairy Farm and Dairy Plant, India***

In February 2008, we executed a Memorandum of Agreement with the Government of the State of Gujarat, India pursuant to which we, through a local subsidiary, will be entitled to establish a modern dairy farm with approximately 10,000 dairy cows and an ultra-modern dairy plant that will produce basic and premium dairy products. The Government of Gujarat has issued us an allotment letter with respect to land measuring approximately 500 acres (approximately 2,000,000 m<sup>2</sup>), which, upon exercise, will award us the land for a long term lease ending in 2038, for the purpose of establishing the dairy farm and dairy plant. The project has not commenced due to physical obstacles which require investigating the possibility to obtain an alternative location. Advancement in other projects may result in us deciding to divert our efforts and resources to other projects in order to accelerate the development of such other projects.

On July 22, 2009, the Government of Andhra Pradesh through the Andhra Pradesh Industrial Infrastructure Corporation Ltd. ("APIIC") issued allotment letters to our local subsidiaries with respect to the allotment of two adjacent plots of approximately 50 acres and 150 acres of land at Pulivendula, Kadapa District, Andhra Pradesh, and on August 13, 2009, an additional allotment letter with respect to the allotment of approximately 300 acres in Palamaneru, Chittoor District, Andhra Pradesh. Our local subsidiaries and APIIC intend to enter into a lease / sale development agreement on the basis of the allotment letters, for the development of a modern dairy farm and an ultra-modern dairy plant that will produce basic and premium dairy products, and was awarded a long term lease agreement with respect to facilities for research and development activities with respect to cattle breeding, high quality semen production, artificial insemination technologies etc.

In addition, we are contemplating the possibilities to initiate similar projects in other locations in India, and are examining some further potential areas suitable for the establishment of dairy farms and plants. We are also examining the option to start with a smaller dairy farm that may be expanded in the future at the same site or within a defined area, as shall be more suitable to our needs.

The project in Andhra Pradesh is expected to be executed in several phases with commencement of work being subject to completion of land allotment procedures, obtaining the necessary building permits and regulatory approvals.

The total investment in the project is anticipated to be approximately \$100 million. As of March 2010, no material investments have been made in this project.

It is intended that the planned dairy farm will make use of the advanced technology and expertise developed in Israel, and will also include modernized contract-farming activities for the production of the food materials required for the dairy farm. Our local subsidiaries are in the process of investigating such technologies as well as possible cooperation and joint venture possibilities.

### ***Shopping and entertainment centers in the United States***

In February 2010, Elbit Plaza USA, L.P. ("Elbit Plaza USA"), a real estate investment venture jointly formed by us and Plaza Centers, entered into a framework and co-investment agreement with Eastgate Property LLC, an affiliate of NCH Capital Inc., an established U.S. based international real estate fund manager ("Eastgate").

Under the agreement each party has committed to invest \$100 million (for a combined total of \$200 million) into a U.S. real estate investment fund that will be jointly established by the parties with outside investors and which will focus on investments in the U.S. retail and commercial real estate sectors (the "U.S. Fund"). Eastgate shall take an active role in the joint management of the U.S. Fund, utilizing its long-standing experience in fund management activities in the United States. The parties intend to take advantage of real estate opportunities in the United States, primarily in the retail and commercial sectors. The agreement provides that the parties will identify and locate potential investments during a two-year period in which the U.S. Fund together with the co-investment facility will acquire assets or enter into joint ventures with owners of relevant assets or portfolios, with the objective of selling the U.S. Fund's assets or holdings and dissolving the U.S. Fund within a five-to-seven-year period of the initial closing of the U.S. Fund.

The agreement is part of Elbit Plaza USA's efforts of securing capital commitments totaling approximately \$400 million, together with Elbit Plaza USA's and Eastgate's investments, to be utilized in pursuit of the U.S. Fund's investment program, enabling the funding of property acquisitions valued at up to \$1 billion, taking into account potential leverage.

On April 22, 2010, the U.S. Fund entered into a series of agreements for investment in Macquarie DDR Trust ("MDT"), an Australian publicly traded trust, which holds and manages two U.S. REIT portfolios (Macquarie DDR US Trust Inc. ("REIT I") and Macquarie DDR US Trust II Inc. ("REIT II")) with 41 operating retail properties in REIT I and 37 operating retail properties in REIT II, which altogether total approximately 13.3 million square feet of leasable area, mainly of community shopping centers throughout the United States (the "Investment Agreements").

Under the Investment Agreements:

- MDT completed a 9.5 million Australian Dollar (approximately \$8.8 million) private placement ("Placement") to the U.S. Fund in which it issued to the U.S. Fund 141.48 million new units, representing 15% pre-placement. The units issued in the Placement will rank equally with existing MDT units;
- The U.S. Fund has acquired from Macquarie Group Limited a 2.6% principal unitholding in MDT;
- MDT shall initiate a proposed recapitalization of MDT by way of a pro rata entitlement offer which will be sub-underwritten by the U.S. Fund ("Entitlement Offer") to raise approximately 200 million Australian Dollars (approximately \$185.5 million) ("Proposed Recapitalization"). Other substantial unitholders of MDT will be offered the opportunity to participate in the sub-underwriting of the offer. The U.S. Fund's final ownership level in MDT will depend on the participation level of MDT's other unitholders in the offer and the extent of other unitholders participation in the sub-underwriting of the offer. The Entitlement Offer was conditional on MDT entering into definitive

underwriting agreements with professional underwriters and receiving acceptable standstill agreements from MDT's head lenders and derivative counterparties, which have since been executed; and

- Following the completion of the Entitlement Offer, the U.S. Fund shall acquire from Macquarie Group its 50% interest in the management company of MDT ("U.S. Manager") which is responsible for the day-to-day management of MDT, including its investments and investments strategy management, financing, etc. 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 U.S. Manager and continue to act as property manager for MDT's assets. Upon completion of the U.S. Fund's acquisition of the U.S. Manager, the composition of the board of the company owning the U.S. Manager will change such that the U.S. Fund will appoint at least half the board members and Macquarie Group will have no representatives.

It is intended that the proceeds of the Placement and Proposed Recapitalization will be used for the repayment of the amounts outstanding under MDT's unsecured debt and derivative liabilities and other senior debt, and provide enhanced balance sheet stability to MDT.

Following the Placement and acquisition of Macquarie's interest in MDT, the U.S. Fund's holding in MDT is approximately 15.3%. This holding may increase as a result of the Proposed Recapitalization.

Half of the U.S. Fund's investment under the Investment Agreements shall be financed by Eastgate and half by us and PC. PC and we shall finance our portion in the investments in equal shares.

#### **Revenues classified by geographical markets and by business segments**

The following table sets forth our breakdown of revenues by each geographic market in which we operate, for each of the last three years (in NIS thousands):

|                            | <b>2009</b>    | <b>2008</b>      | <b>2007</b>      | <b>Convenience<br/>Translation in U.S.<br/>Dollars for<br/>2009</b> |
|----------------------------|----------------|------------------|------------------|---|
| Israel                     | 132,021        | 102,736          | 96,875           | 34,972  |
| Western Europe             | 293,921        | 305,660          | 353,245          | 77,860  |
| Central and Eastern Europe | 238,443        | 669,740          | 3,006,192        | 63,164  |
| Others                     | 28,992         | 20,181           | 42,249           | 7,680   |
| <b>Total Revenues</b>      | <b>693,377</b> | <b>1,098,317</b> | <b>3,498,561</b> | <b>183,676</b>  |

The following table sets forth our breakdown of revenue by business segments for each of the last three years (in NIS thousands):

|                                    | <b>2009</b>    | <b>2008</b>      | <b>2007</b>      | <b>Convenience<br/>Translation in U.S.<br/>Dollars for<br/>2009</b> |
|------------------------------------|----------------|------------------|------------------|---|
| Shopping and Entertainment centers | 102,937        | 568,895          | 2,935,416        | 27,268  |
| Hotels                             | 396,736        | 387,776          | 440,048          | 105,096   |
| Image Guided Treatment             | 75,318         | 38,076           | 54,958           | 19,952  |
| Residential Projects               | -              | 834              | -                | -   |
| Fashion Apparel                    | 118,386        | 102,736          | 68,139           | 31,360  |
| <b>Total Revenues</b>              | <b>693,377</b> | <b>1,098,317</b> | <b>3,498,561</b> | <b>183,676</b>  |

## **Seasonality**

### ***Hotels***

The business activities of our hotels, especially in Western Europe, are influenced by several factors that affect our revenues and gross operating profit. These factors include (i) fluctuations in business activity in certain seasons, which affects the volume of traffic in the business community, (ii) holiday seasons, such as Christmas and Easter and (iii) weather conditions. In Western Europe, these factors generally cause the first and third quarters to be weaker than the second and fourth quarters.

The first quarter, which is the period immediately following the Christmas season and the height of the European winter, is traditionally characterized by lower revenues and gross operating profit resulting from lower occupancy rates and reduced room rates. During the third quarter, there is generally a decrease in local business activities due to the summer holidays, which, together with a tendency for local tourist traffic to seek out resort destinations, also generates slower results. This is offset somewhat by increase in international tourism, but the impact of this increase is, in turn, offset by lower room rates, particularly for groups.

However, during the second quarter, there is generally a marked increase due to more favorable weather conditions (spring to early summer), the Easter holiday and the corresponding revival of both business and tourist activity. The fourth quarter is usually the strongest period due to the Christmas and New Year's holiday season and a significant year-end increase in business activities.

### ***Fashion Apparel***

Elbit Trade's business is influenced by seasonal shifts in the apparel market. During the winter season (December - February) and summer season (June - August), the apparel market, including Elbit Trade, commences discount sales to the public, which consequently increases Elbit Trade's revenues and causes a decrease in the gross profit margin for such periods. In addition, Elbit Trade's revenues may fluctuate due to seasonal purchasing by consumers, especially around holidays, such as Passover, which usually falls in the second quarter, and the Jewish New Year and other holidays, in the third and fourth quarters.

## **Patents and Proprietary Rights; Licenses**

PC is the registered owner of a European Community trademark "Plaza Centers + figures." During 2008, both we and PC have applied to the Trade Mark Registry in India, for the registration of trademarks for our Indian operations. The Indian applications are still pending.

Pursuant to our agreements with Park Plaza and the Rezidor Hotel Group, our hotels are managed under the names: "Park Plaza", "Radisson Blu" and "Park Inn." We have also registered our CenterVille operations as a trademark in Romania.

InSightec's intellectual property includes ownership of 95 patents, out of which 33 are registered in the United States, 43 in various European countries, three in Japan, six in China and 10 under the Patent Cooperation Treaty (PCT). In addition, InSightec has submitted 55 patent applications, which remain pending and in process.

InSightec has registered trademarks for "ExAblate," ExAblate 2000" and "InSightec" in the United States, European Union, Canada and Israel.

In our fashion and retail operations, our products are traded under the following trademarks: MANGO-MNG™ - pursuant to a license granted by Punto-FA; G-STAR™ - pursuant to a license granted by G-STAR International B.V.; and GAP™, GAP Kids™, Baby GAP™ and Banana Republic™ - pursuant to a license granted under a franchise agreement between Elbit Trade and GPS Strategic Alliances LLC, GAP (ITM) Inc., and Banana Republic (ITM) Inc.

## **Competition**

### ***Shopping and entertainment centers***

We have been active in emerging markets since 1996, when we opened the first western-style shopping and entertainment center in Hungary and began to implement our vision of offering western-style retail and entertainment facilities to a growing middle class and an increasingly affluent consumer base. Over the past 14 years, we have expanded our operations in Central Europe and eastward into Poland, Greece, the Czech Republic, Latvia, Serbia, Romania, Bulgaria and India, and have proven our ability to anticipate and adapt to market trends and deliver innovative large-scale projects.

We have a number of competitors in CEE countries in which we operate or intend to operate in the shopping and entertainment centers business, particularly in the larger capital cities. The following factors, however, should be noted:

- shopping centers which are not in close proximity and which do not draw their clientele from the same population areas are not considered as being competitive;
- we believe that large retail centers (known as "power centers"), even if they compete with our centers directly merely by virtue of their proximity to our shopping and entertainment centers, are at a disadvantage because they do not offer the entertainment facilities that are offered at our shopping and entertainment centers, and which we consider to be a significant element in the attraction of our patrons; and
- in the regional cities of our targeted countries, competitive activity is more limited. In these cities, we compete with traditional shopping outlets. These outlets lack the added benefit of the entertainment activities that our centers offer and, accordingly, we believe that they have difficulty competing with us.

In addition to several ad hoc entrepreneurial projects, there are a number of significant groups operating shopping and entertainment centers in CEE with whom we compete directly, namely Globe Trade Centre SA, ECE Projektmanagement GmbH and TriGranit Holding Limited. We compete with these chains, and with other developers, in the pre-development stage, in the cost of acquisition of such sites, in the development stage (in retaining suitably qualified architects, consultants and contractors) and in the operational stage, if the centers compete for the patronage of the same population. We also compete for quality "brand name" tenants to occupy rental units. In locations where competing centers are being constructed simultaneously, the first center to open generally enjoys an advantage over its competitor, which is the reason behind our emphasis on the expeditious completion of construction operations.

In Pune, India, our main competitors in mixed-use projects and shopping and entertainment centers are Kalyani Nagar Mall developed by Mariplex, Bund Garden Mall developed by Central Mall, Camp Mall developed by SGS Mall, Camp mall and offices developed by Nucleus and a mall developed by Ishanya.

### ***Hotels***

The lodging industry in Europe has traditionally been classified on a grading system, with five-stars representing a luxury hotel and one-star a budget hotel. Most of our hotels enjoy a four-star grading, or qualify as four-star establishments, while some are designated as "Four Star Deluxe" establishments. Our Radisson Blu Bucharest Hotel is rated as a five-star hotel.

Each of our hotels competes with other hotels in its geographic area for clientele, including hotels associated with franchisers, which may have more extensive reservation networks than those that may be available to us. We compete with other facilities on various bases, including room prices, quality, service, location and amenities customarily offered to the traveling public. Levels of demand are dependent upon many factors, including general and local economic conditions and changes in levels of tourism and business-related travel. Our hotels depend upon both business and tourist travelers for revenues.

Many of these other companies are larger than us. However, we believe that our hotels nevertheless offer quality and value for competitive prices.

### ***The Image Guided Treatment Business***

The competition in the MRgFUS products field can be divided into two main categories: alternative minimally invasive surgery, or MIS, methods and competing image guided high intensity focused ultrasound, or HIFU, systems.

With respect to MIS methods, in general, there are already tissue ablation methods in various MIS versions (e.g., radio frequency electromagnetic energy inserted into the body by a special needle, microwave ablation, laser and cryoablation, embolization, and irreversible electroporation), which are potential competitors of InSightec. Several of these are still undergoing clinical studies for various applications and are not FDA approved for certain or any applications. InSightec is not presently aware of any FDA (or other international regulatory agency) approved non-invasive treatment method in the clinical applications of breast tumors, uterine fibroids or brain tumors.

InSightec faces competition from both traditional and minimally invasive solutions for the treatment of uterine fibroids and the other medical conditions that InSightec has targeted for its future applications. Traditional treatment methods for uterine fibroids and other medical conditions that InSightec has targeted for product development are more established, accepted and practiced widely among physicians, and reimbursed by healthcare insurance. In addition, there are potential competitors developing alternative treatment options for various medical indications, some of which may be relevant for the treatment of uterine fibroids. However, we are not aware of any MRI-guided treatments, or completely non-invasive procedures for that matter, for uterine fibroids or other medical conditions that are approved for commercial use or are in advanced stages of clinical trials. Potentially competitive technologies include laser therapies, radio frequency therapies, microwave therapies, cryogenic surgery, external beam radiation therapy, brachytherapy and radiation surgery.

Recently, GE's main competitors in magnetic resonance imaging, namely Philips and Siemens, have developed MRgFUS devices; Philips manufactures their own system whereas Siemens has partnered with Chongqing Haifu, a Chinese manufacturer of therapeutic ultrasound systems. As of May 2009, Philips has three systems currently installed in sites. These sites are participating in an FDA Phase I study for the treatment of uterine fibroids. This validates the uterine fibroid application for which InSightec's ExAblate received FDA approval in 2004. Siemens and Chongqing Haifu have treated 23 patients in a Chinese study, and one paper has been published on this data. Siemens/Chongqing has no systems installed outside of China.

We are currently aware of two Chinese companies (YDME and Chongqing Haifu) that have developed ultrasound guided HIFU devices to treat cancer. In 2008, YDME received FDA approval to start a phase I pancreatic cancer study in the United States but terminated that study due to its own financial reasons. The Chongqing Haifu system is used for initial clinical trials in China, including uterine fibroids as mentioned above. There are two HIFU companies that have developed devices specific for the treatment of prostate cancer. A French company called EDAP TMS and a U.S. company called USHIFU LLC offer ultrasound-guided focused ultrasound devices for treating prostate cancer.

At present, to our knowledge, the Chinese ULgFUS companies have focused their marketing efforts in Asia, and have not received any regulatory approvals outside of Asia. Chongqing HAIFU has placed a system in the United Kingdom and obtained a CE mark for treating liver and kidney cancer. The French (EDAP TMS) and U.S. (Focus Surgery Inc. and Misonix, Inc.) FUS companies focus on ultrasound-guided treatment of prostate cancer disease. To the extent InSightec enters the U.S. or European markets for the treatment of prostate cancer, it may face competition from both of these companies.

### ***Residential Projects***

In Bangalore, India, our main competitors in residential buildings are Salarpuria Group, Mantri, SJR Group, Purvankara and Vasvani Astoria.

In Chennai, India, our main competitors are the Gold City Project developed by Dugar, the Cosom City

Project developed by Purvankara, the Neel Kamal project developed by Real Value, the Lotus Pond Project developed by Vijay Shanthi, the Serenity Project developed by Sabari and the Unihomes Project developed by Unitech.

### ***Fashion Apparel***

Elbit Trade operates in a competitive market characterized by a large and increasing number of international and local brand stores and independent stores in Israel. Elbit Trade's direct competitors include brand stores such as H&M, Zara, Castro, Fox, H&O, Honigman, Renuar and Golf which are located in the vast majority of the shopping centers in Israel. Increased competition could result in pricing pressure or loss of market share and adversely affect Elbit Trade's revenues and profitability. Elbit Trade's competition strategy includes: bringing in major international leading brands, localizing them, investing in branding, maintaining a compatible pricing strategy, spreading chains and making them accessible to the Israeli consumer.

### **Governmental Regulation**

#### ***Shopping and entertainment centers***

The development, construction and operation of shopping and entertainment centers are subject to various regulatory controls, which vary according to the country of activity. Some countries require that a developer provide an environmental report on the land before building permit applications are considered, while in other countries we usually have direct contact with the local authorities to receive basic information on environmental issues. In certain European countries, antitrust permits must be obtained before a foreign investor is allowed to acquire shares of a local entity. In most Eastern European countries, construction work may only begin after the lapse of the objection period provided for third parties whose interests may be affected by such permits, at which time the contestation permit becomes final. Generally, construction must commence within a specified period following issuance of the permit, otherwise, the construction permit may expire.

Generally, the approval process for construction projects requires compliance with local zoning plans which state the conditions for construction and development and the designated permitted uses for the property. After review by the relevant authorities to verify that the developer complies with the local zoning plan, the developer must apply for a building permit, which includes the building design, permits, utility plans, surveys, environmental reports and any other documentation required by applicable law. Construction may commence upon receipt of a final valid building permit. Building permits are usually limited in time, and if construction does not commence before the expiration of the building permit, a developer will have to obtain a new building permit prior to construction. After completion, finished buildings are subject to operational inspection by environmental, sanitation, labor, utility and fire authorities. Once all approvals are obtained, an occupancy permit can be obtained for the building.

In India, the term "real estate" has not been formally defined. A reference to this term is found in the National Industrial Classification Code, 1987 ("NIC Code") under Group 820, which deals with the purchase, sale, letting and operating of real estate such as residential and non-residential buildings, developing and sub-dividing real estate into lots, lessor of real property, real estate agents, brokers and managers engaged in renting, buying and selling, managing and appraising real estate on a contract or fee basis. The FDI Policy (as hereinafter defined) refers to the term "real estate business", which includes dealing in land and immovable property with a view to earning profit or income therefrom. Foreign direct investment ("FDI") in the real estate sector in India is governed by provisions of the Foreign Exchange Management Regulation and the consolidated FDI policy issued by the Department of Industrial Policy and Promotion of the Indian Ministry of Commerce and Industry, through various Press Notes ("FDI Policy"). The last release with respect to the FDI Policy was a Consolidated FDI Policy circular issued by the Department of Industrial Policy and Promotion (DIPP) of the Indian Ministry of Commerce and Industry, made with effect from April 1, 2010. FDI in real estate business is restricted under the FDI Policy, as stipulated in Press Note 2 (2005 Series) and Press Note 2 (2009 Series) and the Consolidated FDI Policy issued by the Department of Industrial Policy and Promotion of the Indian Ministry of Commerce and Industry. As per the FDI Policy, FDI is allowed up to 100% under the automatic route in townships, housing, built-up infrastructure and construction-development projects (which includes, but is not restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure), subject to restrictions

pertaining, inter alia, to the following matters: (a) Minimum Area to be developed under each project; (b) Minimum Capitalization for each project; (c) Non-Repatriation of Original Investment (Lock-in period); (d) Project Completion Schedule; (e) Conformance with Local laws and Applicable Standards; (f) Obtaining Necessary Approvals; (g) Supervision by the state government/ municipal/local body concerned.

Under the Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2000, as amended from time to time, we cannot acquire any agricultural land without a prior approval of the Reserve Bank of India ("RBI") and the proposals relating to acquisition of agricultural land are considered in consultation with the Government of India. The Process of such RBI approval in consultation with the Government of India could be time consuming.

Due to the urbanization process in India, former agricultural lands and villages were merged into the expanding urban areas, and as a result, those lands and the buildings that were built thereupon, became subject to various municipal regimes, some of which that were legislated by municipal authorities that no longer exist. As a result, in certain locations throughout India, it is impossible to initiate rezoning activities and/or obtain building permits from the currently governing municipal authorities, with respect to lands and buildings that were handled by the former municipal authorities. Those problems are being solved either by specific legislation or by other solutions, such as municipal tax assessments that define the new land usage. The solutions may vary from state to state within India. There is no assurance that those solutions will be validated by future legislations or recognized by the respective authorities, at any time in the future.

Certain Shopping and Entertainment Centers projects, as well as other projects of the Company in India, are being carried out through joint ventures with Indian partners. The Reserve Bank of India (RBI) has amended certain provisions under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations (2000), relating to the pricing norms for issuance of shares by an Indian company to persons resident outside India. These regulations include provisions stipulating that the shares of an unlisted company have to be issued at a price not less than the fair valuation, and in case of issuance on preferential allotment, the issuance price cannot be less than the price as applicable to transfer of shares from resident to non-resident as per the pricing guidelines laid down by RBI from time to time, being as of date, the fair valuation of shares.

### ***Residential Projects***

For information regarding governmental regulation applicable to our residential and mixed-use real estate projects, see "Governmental Regulations - Shopping and Entertainment Centers" above.

### ***Hotels***

The development, construction and operation of hotels and leisure facilities, including advertising tariffs and hotels, health safety issues, activities conducted within the premises of the hotels (such as restaurants, bars, shops, health clubs, and in particular the sale of alcohol, food and beverage to the public), installations and systems operating within the hotel (elevators, sprinkler systems, sanitation, fire department etc.), terms of employing personnel, as well as methods of rating the hotels, are all subject to various regulatory controls, which vary according to the country of activity.

In all the countries in which we operate, the operation of hotels requires licenses for the operation of the building as a hotel and the obtaining of local municipal and police approvals for the means of access to and egress from the hotel for motor vehicles. In addition, in most countries we are required to obtain licenses for the sale of alcohol on the premises and the operation of a restaurant and tourism services. Our hotels are also required to comply with regulations regarding food, hygiene, the operation and maintenance of the swimming pool, casino, elevators, health, sanitation, electricity and fire hazards prevention.

In most of the countries in which we operate hotels, we are required to comply with various regulations in connection with employees, in particular working hours' regulations. For example: the hotel and restaurant industry in The Netherlands has a collective labor agreement which provides a grading system for employees in the hotel and restaurant industry. For each grade there is a minimum wage mandated. Among other things, the provisions of the collective labor agreement obligate the employer to provide money for employees for a number of funds. Also, the



total obligations of companies that might arise from the termination of employees cannot be predicted.

In India, under the FDI Policy, 100% foreign investment is allowed under the automatic route for hotels sector. The term "hotel" includes restaurants, beach resorts and other tourism complexes providing accommodation and/or catering and food facilities to tourists.

### ***The Image Guided Treatment Business***

The testing, manufacture and sale of InSightec's products are subject to regulation by numerous governmental authorities, principally the FDA, the European Economic Community (the "EEC"), and corresponding state and foreign regulatory agencies.

The U.S. Safe Medical Devices ACT OF 1990 (the "SMDA") includes various provisions which are applicable to each of the existing products of InSightec and may result in the pre-market approval process (a process whereby the FDA approves a new system that has no predicate devices that have been approved in the past) for such products becoming lengthier and more costly. Under the SMDA, the FDA can impose new special controls on medical products. These include the promulgation of performance standards, post-market surveillance requirements, patient registries, and the development and dissemination of guidelines and other actions as the FDA may deem necessary to provide a reasonable assurance and effectiveness.

In June 1993, directive 93/42/EEC for medical devices was adopted by the EEC. In June 1998, this directive replaced the local regulation and ensured free transfer of qualified medical equipment among member states. Medical devices that meet the established standards, receive certification represented by the symbol "CE". There are two types of certifications that are granted: (1) general certification of a company and (2) certification for a specific product. Instead of choosing to comply with directive 93/42/EEC, InSightec decided to comply with international Standard ISO 9001 (European standard EN 290001) ENTITLED "Model for Quality Assurance in Design, Development, Production, Installation and Servicing", and its extension to medical products, EN 46001, satisfies the medical device directive. On May 10, 2001, InSightec obtained a certification by the European Notified Body that it complies with the requirements of ISO 9001 and EN 46001. ISO 9001 and EN 46001 have been replaced by international standard ISO 13485 entitled "Medical Devices - Quality management systems - requirements for regulatory purposes". InSightec obtained a certification of compliance with the new standard in March 2004, and is subject to annual audits by the European Notified Body to renew the certification in accordance with all applicable updates of the standard.

### ***Fashion Apparel***

The principal regulatory requirements for our Fashion Retail operations in Israel include: (i) compliance with the Israeli Consumer Protection Law, 5741-1981; (ii) maintaining various licenses and permits issued by governmental authorities (including receiving applicable standards from the Israeli consumer standard institute for certain imported accessories); (iii) compliance with employment regulations; (iv) compliance with customs and other importing regulations; and (v) non-infringement of intellectual property rights of any party.

### ***Other Activities***

#### ***Hospital Sector***

There are currently no pre-conditions or requirements to be fulfilled by an investor for investing in the hospital sector, health and medical services in India, so that under the FDI Policy 100% FDI under the automatic route is permitted in these sectors, in order to give a boost to the health care industry in India.

Necessary approvals, registration or licenses have to be obtained by a hospital under the by-laws, rules, and other regulations of the concerned state government, municipal or local body. In addition, each hospital must adhere to the rules, regulation and other instruction issued from time to time by the Indian Ministry of Health, as well as common standards and practices in the healthcare industry.

#### ***Dairy Farming***

In India, non-residents, non-resident Indians ("NRIs") and overseas corporate bodies ("OCBs") are prohibited from investing in agricultural or plantation activities in India. However, 100% FDI is permitted under the automatic route in floriculture, horticulture, development of seeds, animal husbandry, pisciculture, aqua-culture, cultivation of vegetables, mushrooms under controlled conditions and services related to agro and related allied sectors by non-residents, NRIs and OCBs. Besides the above, FDI is not permitted in any other agricultural sector or activity. The exact definition or scope of activities that are covered under animal husbandry are not provided for in the FDI Policy. The National Industrial Classification Code, 1987 provides under the broad head of "Raising of Livestock" (under Division 02) to include sub heads such as cattle breeding, raising or production of livestock, goat breeding and other livestock products etc. Milk products and milk are included in the definition of livestock products. Thus, activities related to dairy farming fall under the category of "raising of livestock." Further, registration is required under the municipal or by-laws of the concerned state for dairy farming business.

In this regard, the Department of Industrial Policy and Promotion in India has clarified that a foreign company which proposes to set up a subsidiary in India to engage in Animal Husbandry can acquire and hold agricultural land to be used for such activity.

Dairy farming activities involve the importation into India of cows' embryos and frozen semen, which requires the obtaining of an import license from the Indian Ministry of Commerce and Industry. The establishment of dairy farms and dairy plants involve obtaining of veterinary approvals of the respective Indian administrations. The agricultural sector in India enjoys governmental support under subsidy schemes initiated by the Indian Ministry of Agriculture, Department of Animal Husbandry Dairying & Fisheries (DADF). The financing of the subsidies (grants and low-interest loans) is made by the National Bank for Agriculture and Rural Development (NABARD). Although the subsidy schemes are not aimed to support NRIs and OCBs, various related activities may enjoy the benefits of such schemes.

### C. ORGANIZATIONAL STRUCTURE

We are a subsidiary of Europe-Israel (M.M.S.) Ltd. ("Europe-Israel"), which holds approximately 47.71% of our ordinary shares. See "Item 7.A. Major Shareholders" below. Europe-Israel is wholly owned by Control Centers Ltd., a privately held Israeli company, which is controlled by Mr. Mordechai Zisser, who serves as our Executive President and a director. Our significant subsidiaries and companies in which we have a significant interest as of the date of this annual report are as follows:

| NAME OF COMPANY                                | ABBREVIATED NAME | COUNTRY OF ORGANIZATION | THE COMPANY'S DIRECT/INDIRECT OWNERSHIP PERCENTAGE |
|--|------------------|-------------------------|--|
| Elscint Ltd.                                   | Elscint          | Israel                  | 100%   |
| BEA Hotels NV                                  | BEA              | The Netherlands         | 100%   |
| Elbit Ultrasound (Netherlands) BV              | EUBV             | The Netherlands         | 100%   |
| Elbit Plaza India Real Estate Holdings Limited | EPI              | Cyprus                  | 50% <sup>(1)(2)</sup>                              |
| InSightec Ltd.                                 | InSightec        | Israel                  | 71.2% <sup>(3)</sup>                               |
| Plaza Centers N.V.                             | PC               | The Netherlands         | 67.5% <sup>(4)</sup>                               |
| Elbit Trade & Retail Ltd.                      | Elbit Trade      | Israel                  | 100%   |
| Elbit Plaza USA, L.P.                          | Elbit Plaza USA  | USA                     | 100% <sup>(5)</sup>                                |

- (1) We hold 47.5% of the shares in EPI directly, and an additional 47.5% through PC. For additional information as to the joint venture signed between us and PC regarding EPI, see "Item 4.B Business Overview - Residential Projects."
- (2) For details as to the grant of 5% of EPI's equity to Mr. Abraham (Rami) Goren, our Executive Vice Chairman of the board of directors. See "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers - Agreements with our Executive Vice Chairman."
- (3) Approximately 60% on a fully diluted basis, including warrants granted by InSightec contingent upon certain rates of return as well as 2,000,000 options exercisable into InSightec's ordinary shares which vest upon the initial public offering of InSightec.
- (4) Approximately 63% on a fully diluted basis.

- (5) We hold 50% in Elbit Plaza USA directly, and an additional 50% through PC.

## **D. PROPERTY, PLANTS AND EQUIPMENT**

Our operational portfolio consists of various freeholds, leaseholds and other tangible assets. For details as to such real estate portfolio, see "Item 4.B Business Overview." Hereunder, we present information regarding certain tangible fixed assets including leasehold properties that do not form part of our operational portfolio, but rather serve as basis for our and our subsidiaries' offices and management.

We lease approximately 1,997 m<sup>2</sup> including warehouse area (not including parking places of 50 m<sup>2</sup>) for management and administration purposes in an office building in Tel-Aviv, Israel, until September 2016 with an option to extend the lease for a 10-year period. Aggregate rental fees (excluding VAT) paid by us in 2009, with respect to such lease were approximately NIS 1,670,805 (approximately \$428,412).

In addition thereto, we lease approximately 240 m<sup>2</sup> (not including parking area) in an office building in Herzliya, Israel for an annual rental fee of NIS 133,600 (approximately \$34,270).

PC's headquarters are located in an office building located on Andrassy Boulevard, Budapest, Hungary. The building is located on an 800 m<sup>2</sup> plot and consists of four floors, an atrium and a basement, with a total built area of approximately 2,000 m<sup>2</sup>.

PC also owns a villa converted into an office building, located in the center of Bucharest. The total office area is approximately 700 m<sup>2</sup> build on a plot of approximately 600 m<sup>2</sup> and consists of three floors, a basement and a garage.

Elbit Trade leases approximately 550 m<sup>2</sup> of office space in Tel Aviv, Israel, for its management and administration activities (not including stores) until June 2013 with an option to extend the lease for a 10-year period. Monthly rental and management fees payable by Elbit Trade are NIS 42,850 (approximately \$10,850).

InSightec leases its main office and research and development facilities, located in Tirat Carmel, Israel, pursuant to a lease that expires in August 2013, with an option to renew the lease for up to five years. Pursuant to such agreement, InSightec occupies approximately 6,011 m<sup>2</sup> in Tirat Carmel and Or-Yehuda. Total annual rental expenses under these leases are approximately \$1.2 million. InSightec also leases offices in Dallas, Texas for an annual rental fee of approximately \$130,000.

## **ITEM 4.A. UNRESOLVED STAFF COMMENTS.**

Not applicable.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.**

### **Overview**

We operate in the following principal fields of business:

- Commercial and Entertainment Centers - Initiation, construction, and sale of commercial and entertainment centers and other mixed-use real property projects, predominantly in the retail sector, located in CEE and in India. In certain circumstances and depending on market conditions, we may operate and manage a commercial and entertainment center prior to its sale.
- Hotels - Hotels operation and management, primarily in major European cities.
- Image Guided Treatment - Investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment.

- Residential Projects - Initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India and in Eastern Europe.
- Fashion Apparel - distribution and marketing of fashion apparel and accessories in Israel.
- Other Activities - (i) venture capital investments; (ii) investments in hospitals and farm and dairy plants in India, which are in preliminary stages; and (iii) wholesale trade of home applications in India.

Our revenues from the sale of real estate and trading property are subject to the execution and consummation of sale agreements with potential purchasers. In periods when we consummate a sale of a real estate asset we record revenues in substantial amounts and as a result we may experience significant fluctuations in our annual and quarterly results. We believe that period-to-period comparisons of our historical results of operations may not necessarily be meaningful or indicative and that investors should not rely on them as a basis for future performance.

Our functional currency is NIS. Our consolidated financial statements are also presented in NIS. Since our revenues and expenses are recorded in various currencies, our results of operations are affected by several inter-related factors, including the fluctuations of the NIS compared to other currencies at the time we prepare our financial statements.

Financial data included in this discussion were derived from our consolidated financial statements and the analysis herein is based on our general accounting records and published statistical data. Such financial data have been rounded to the nearest thousand or million.

The following acquisitions and other activities affected our operational results for 2007, 2008, 2009 and 2010 (to date) and may continue to affect our operational results in the coming years. For additional information, see "Item 4. Information on the Company."

## **2010**

- On April 28, 2010, our newly formed wholly-owned subsidiary, Elbit Medical Ltd., filed an initial draft prospectus with the Israel Securities Authority, in respect of its proposed initial public offering of shares on the Tel Aviv Stock Exchange. If the offering is consummated, we will hold our medical and bio-tech holdings (InSightec - approximately 62%, and Gamida Cell - approximately 27%; both on a fully diluted basis) through Elbit Medical Ltd., which was formed as part of our ongoing restructuring and streamlining of business activities.
- In April 2010, we, together with Park Plaza, acquired the Holiday Inn Schiphol Hotel located near the Amsterdam Schiphol Airport, for a purchase price of €30 million (approximately \$40 million). The hotel is intended to operate under the "Park Plaza" brand name. For additional information, see "Item 4.B. Business Overview – Hotels – Recently Acquired Hotels."
- On April 22, 2010, the U.S. Fund, a real estate investment venture jointly formed by Elbit Plaza USA and Eastgate entered into a series of agreements for investment in MDT, an Australian publicly traded trust, which holds and manages two U.S. REIT portfolios. For additional information, see "Item 4.B. Business Overview – Other Activities - Shopping and entertainment centers in the United States."
- In March 2010 we issued unsecured non-convertible Series G Notes to investors in Israel in an aggregate principal amount of approximately NIS 100 million (approximately \$26 million) for gross proceeds of approximately NIS 100 million (approximately \$26 million).
- On February 9, 2010, Elbit Plaza USA entered into the framework and co-investment agreement with Eastgate. For additional information, see "Item 4.B. Business Overview – Other Activities - Shopping and entertainment centers in the United States."

- Effective as of January 1, 2010, we appointed Messrs. Ran Shtarkman and Dudi Machluf as our Co-Chief Executive Officers, replacing Mr. Shimon Yitzhaki, who was promoted to Chairman of the Board of Directors. Mr. Mordechai Zisser, our Executive Chairman of the Board, was appointed our Executive President and continues to serve on our board of directors.
- Between January and March 2010, PC issued additional unsecured non-convertible Series B Notes to investors in Israel in an aggregate principal amount of approximately NIS 308 million (approximately \$81.6 million) for gross proceeds of approximately NIS 330 million (approximately \$87.4 million).
- In February 2010 we opened one GAP store.
- Between January and May 2010, we invested an aggregate of \$0.46 million in our venture capital companies.

## 2009

- In 2009 we issued additional unsecured non-convertible Series F Notes to investors in Israel in an aggregate principal amount of approximately NIS 141.6 million (approximately \$37.5 million) for gross proceeds of approximately NIS 155.1 million (approximately \$41 million).
- In 2009 we issued Series 1 Convertible Notes to investors in Israel in an aggregate principal amount of approximately NIS 112 million (approximately \$30 million) for net proceeds of approximately NIS 118.8 million (approximately \$31.5 million).
- In 2009 PC issued additional unsecured non-convertible Series B Notes to investors in Israel in an aggregate principal amount of approximately NIS 144.5 million (approximately \$38.3 million) for net proceeds of approximately NIS 152 million.
- On October 9, 2009, we sold 4,794,292 ordinary shares of PC to a number of Polish institutional investors, for an aggregate consideration of approximately £6.7 million (approximately \$10.6 million). As result of this transaction, we generated a net cash flow of approximately £3.8 million (approximately \$6.0 million). In addition, PC sold 14,500,000 of its shares to such Polish institutional investors, for an aggregate consideration of approximately £20.5 million (approximately \$32.5 million). As a result of this transaction, PC generated a net cash flow of approximately £12.8 million (approximately \$20.3 million). These shares were originally purchased by PC as part of its share repurchase program announced in October 2008 which was executed between October 2008 and January 2009. Following these transactions we currently own approximately 68.3% of PC's share capital.
- On June 19, 2009, we completed a private placement of approximately \$7.6 million principal amount of our Series A Notes. These notes mature in 2014, are linked to the Israeli consumer price index and make semi-annual payments of principal and interest at the rate of 6% per annum, linked to the Israeli consumer price index. The notes were approved for listing on the Tel Aviv Stock Exchange, but initial re-sales are restricted by applicable securities laws until June 2011.
- During 2009, we invested an aggregate amount of \$15 million in Insightec, for which we were issued Series B Preferred Shares of Insightec. In addition, all the outstanding Series A Preferred shares of InSightec were converted into Series B Preferred shares, all convertible notes of InSightec were converted into Series B Preferred shares and all contingent warrants granted by InSightec were converted into ordinary shares.
- In February 2009, Elbit Trade signed a franchise agreement with GAP Inc. to open and operate GAP and Banana Republic stores in Israel.

- During 2009 we opened one additional G-STAR store and one GAP store. Our aggregate investment in such stores totaled approximately NIS 8 million (approximately \$2.1 million).
- During 2009 we invested an aggregate of \$1.5 million in our venture capital companies.

## 2008

- In 2008 PC issued additional unsecured non-convertible series B notes to investors in Israel in an aggregate principal amount of approximately NIS 798.5 million. These Series B Notes were listed for trade on the TASE and bear annual interest of 5.4%. In addition, in 2008 PC executed several cross currency interest rate swap transactions with Israeli banks in the total principal amount equal to the amount of the Series B Notes.
- In 2008, we opened our 424 room Radisson Blu Bucharest Hotel, in Bucharest, Romania. Our Radisson Blu Bucharest Hotel is an integrated part of our Centerville complex. The hotel is managed by the Rezidor Hotel Group under the "Radisson Blu" brand name. During 2008 and through the opening of the Radisson Blu Bucharest Hotel, we have invested in this project a total of €20 million.
- During 2008 the Radisson Blu Astrid Antwerp Hotel renovated its third floor to include 19 brand-new luxury apartment suites. Our investment in such renovation costs, including the rebranding of the hotel under the "Radisson Blu" brand, totaled €10 million.
- In November 2008, PC bought the 50% interest of its joint venture partner in its Koregaon Park development, for a total consideration of approximately \$20 million, which includes all of the cost invested by such partner.
- In October 2008, we and PC commenced a share repurchase scheme of PC's shares, through a series of on market purchases. As of December 31, 2008, we purchased PC's shares for an amount of approximately €0.12 million and PC repurchased its shares for an amount of approximately €5.5 million.
- In August 2008, we signed a joint venture agreement with PC, for the development of mixed-use projects in India. Under the agreement, PC acquired from us a 47.5% stake in our subsidiary EPI. Consideration for the 47.5% acquisition was approximately \$126 million, reflecting 50% of loans and financing invested by us in respect of three mixed-use projects in India. For additional information on the three mixed-use projects, see "Item 4.B. Business Overview - Residential Projects."
- In July 2008, PC completed the handover of Plzen Plaza to Klepierre SA, a leading French property group ("Klepierre"). Plzen Plaza Shopping and Entertainment Center is located in the city of Plzen, the Czech Republic, and was pre-sold to Klepierre in 2005. The asset value of the Plzen Plaza amounted to approximately €61.4 million and the cash consideration paid to PC amounted to €54.6 million.
- In May 2008, the Dream Island consortium won, via a competitive tender, the first ever major casino license to be awarded in Hungary for its planned entertainment and mixed-use Dream Island Project, intended to be developed in central Budapest. The exclusive casino license has been granted for 20 years from the date of opening of the casino, with a ten-year extension option, during which time no further major casino licenses will be granted by the Hungarian government in the area of Budapest. The grant of this license will enable the consortium to commence construction of this major mixed-use project.
- In March 2008, we entered into definitive agreements with one of the leading developers in Bangalore, India, for the joint development of the Bangalore Project. During 2008 we paid an amount of INR 284.8million in consideration of a 50% share of the first 54 Acres, and an amount of

INR 2,536 million as an interest bearing advance payment on account of future acquisition of 50% of the next 51.6 acres, and all in addition to amounts paid in respect of this project in 2007.

- In January 2008, PC entered into a joint venture partnership with BAS to develop residential and office projects in Romania. The newly established company, Plaza-Bas B.V. acquired the shares currently held by BAS in seven residential and office development projects. Plaza Bas is 50.1% owned by PC and the remaining 49.9% is owned by BAS.
- In January 2008, we acquired the Park Inn Hotel in Antwerp, Belgium, for a purchase price (including certain acquisition expenses) of €4.7 million. During 2008 we completed the renovation and refurbishing of the hotel and in December 2008 it commenced its operation under the "Park Inn" brand name. Our additional investment in the renovation and refurbishing of the Park Inn Hotel totaled €5.3 million (approximately \$7.4 million).
- During 2008, we opened seven additional MANGO stores and one additional G-STAR store. Our aggregate investment in such stores totaled approximately NIS 22.5 million (approximately \$6 million).
- During 2008, we invested an aggregate of \$1.6 million in our venture capital companies.
- In 2008 we acquired an airplane to serve for our Indian operations. Acquisition costs amounted to \$13.7 million.

## **2007**

- During 2007 we issued three series of unsecured non-convertible notes (Series D, E and F) in an aggregate principal amount of approximately NIS 1,034.2 million. The notes are linked to the increase in the Israeli consumer price index (the "CPI"). The notes were listed for trade on the TASE and bear annual interest of 5% to 6.3%.
- During 2007 PC issued unsecured non-convertible Series A notes in an aggregate principal amount of approximately NIS 305 million. The notes were listed for trade on the TASE and bear annual interest of 4.5%. In addition, in 2007 PC had executed a cross currency interest rate swap transaction with an Israeli bank in a total principal amount equal to amount of the Series A Notes.
- In December 2007, we entered into an agreement for the acquisition of an 80% stake in a joint venture company which will purchase up to 135 acres (approximately 546,000 square meters of land in Chennai (formerly Madras), India. For further information about this project, see "Item 4.B - Business Overview - Mixed-Use / Residential Projects - Chennai, Tamil Nadu State, India."
- In December 2007, PC completed the sale of its Arena Plaza shopping and entertainment center in Budapest, Hungary, to United Kingdom based active Asset Investment Management ("aAIM"), with effect from November 30, 2007. The asset value at the closing was determined to be €381 million. The net cash consideration received by PC in January 2008 was €254.8 million. In addition, during 2008 PC received an additional cash consideration amounting to €5.6 million (approximately \$7.8 million) from aAIM as a result of purchase price adjustments of the transaction.
- In November 2007, InSightec completed an internal round of financing of \$30 million from its existing investors. The investment is in the form of Series A Preferred convertible shares, which are convertible to InSightec's ordinary shares subject to the fulfillment of certain conditions stipulated in the agreement. We invested \$19.8 million in the Series A Preferred convertible shares.
- In July 2007, the Lublin Plaza shopping and entertainment center in Lublin, Poland, in which PC holds a 50% stake, was sold to Klépierre. The asset value (100%) of the Lublin Plaza shopping and entertainment center totaled approximately €78 million. The net cash consideration received by PC in respect of its 50% holding was €27.3 million.

- In July 2007, Elscint completed a transaction for the sale of the "Arena" shopping and entertainment center, located at the Herzliya Marina in Israel ("Arena Center"), pursuant to which, the buyer acquired all rights in and to the Arena Center reflecting an asset value of NIS 538 million. The net consideration received by us was NIS 335.2 million. Following purchase price adjustments, to be calculated based on Arena Center's adjusted rent revenues (as this term is defined in the agreement) an additional amount may be paid to us.
- In June 2007, Elscint completed a sale of its 50% interest in a company ("Andrassy") which owns the building known as the "Ballet Institute Building" located in Budapest, Hungary. The net cash consideration was €29.8 million of which Elscint's share was €14.9 million.
- In June 2007, PC completed the sale of the Duna Plaza offices in Budapest, Hungary, to Klepierre for €14.2 million.
- In May 2007, PC completed the delivery of two shopping and entertainment centers in Poland, the Rybnik Plaza and the Sosnowiec Plaza to Klepierre, (see also "Item 10.C. Material Contracts - Shopping and Entertainment Centers" below), reflecting a total asset value of €89.3 million. The net cash consideration received by PC was €48.2 million.
- In July 2007, we entered into an agreement with the Israel Land Administration, according to which we leased a plot of approximately 44,600 m<sup>2</sup> in Tiberius, Israel for a term of 49 years (through 2056) with an option to extend the lease term for an additional 49 years. The total consideration paid for this land, on which we intend to construct a hotel, amounted to NIS 30.6 million.
- In 2007, we paid an amount of INR 2,000 million as a refundable advance payment in respect of the Bangalore Project in India. For additional information, see "Item 4.B - Business Overview – Mixed-Use / Residential Projects - Bangalore, Karnataka State, India."
- During 2007 we invested an amount of €21.7 million in the construction of the Radisson Blu Bucharest Hotel in Romania.
- During 2007 we invested in our venture capital companies a total aggregate amount of \$2.5 million.

## **Critical Accounting Policies and Estimates**

### ***General***

A "critical accounting policy" is one that (i) is important to the portrayal of an entity's financial condition and results of operations and (ii) requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

In the application of our accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In addition, in the process of applying our accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in our consolidated financial statements.

The following are the critical judgments and key sources of estimation uncertainty, that management has made in the process of applying our accounting policies and that have the most significant effect on the amounts recognized in our consolidated financial statements.

### ***Use of estimates***



### *Impairment/write down of real estate properties*

The recognition of an impairment/write down to our real estate assets is subject to a considerable degree of estimation, the results of which, when applied under different principles, conditions and assumptions, are likely to result in materially different amounts and could have a material adverse effect on our consolidated financial statements.

For our property, plant and equipment (mainly hotels) and investment property, we evaluate the existence of any decline, and hence, the need for an impairment loss on our real estate assets (operating or under construction), when indicators of impairment are present. Such evaluation is based, on the higher of (i) estimated selling price in the open market or (ii) the estimated value-in-use, based on discounted operational cash flows (before interest and income tax charges), expected to be generated by those assets ("Recoverable Amounts").

For our trading property (commercial centers designated for sale and residential), such evaluation is based on the estimated selling price in the ordinary course of business less all estimated costs of completion and cost necessary to make the sale ("Net Realizable Value"). See note 8H to our annual consolidated financial statements included in this annual report.

Estimations of the Recoverable Amount and/or Net Realizable Value involve, in general, critical estimation in respect of the future operational cash flows expected to be generated from the real estate asset and the yield rate which will be applied for each real estate asset.

Determination of the operational cash flow expected to be generated from the real estate asset is based on reasonable and supportable assumptions as well as on historical results adjusted to reflect our best estimate of future market and economic conditions that management believes will exist during the remaining useful life of the asset. Such determination is subject to significant uncertainties. In preparing these projections, we make assumptions, most of which relate to market share of the real estate asset, benchmark operating figures such as occupancy rates and average room rates (in respect of hotels) rental and management fee rates (in respect of shopping and entertainment centers), sale prices of apartments (in respect of residential units), time period to complete each real estate asset under construction, costs to complete the establishment of the real estate asset, expected operational expenses and others.

The yield rate reflects economic environment risks, current market assessments regarding the time value of money, industry risks as a whole and risks specific to each asset, and it also reflects the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that we expect to derive from each asset. Such rate is generally estimated from the rate implied in current market transactions for similar assets.

### *Litigation and other contingent liabilities*

We are involved in litigation and other contingent liabilities in substantial amounts including certification requests for class actions. See note 23B to our annual consolidated financial statements included in this annual report. We recognize a provision for such litigation when it is probable that we will be required to settle the obligation and the amount of the obligation can be reliably estimated. We evaluate the probability and outcome of these litigations based on, among other factors, legal opinions and consultations as well as past experience. The outcome of such contingent liabilities may differ materially from management's assessment. We periodically evaluate these assessments and make appropriate adjustments to the consolidated financial statements. In addition, as facts concerning contingencies become known, we will reassess our position and make appropriate adjustments to the consolidated financial statements.

### *Accounting for income taxes*

The calculation of our tax liabilities involves uncertainties in the application and/or interpretation of complex tax laws, tax regulations and tax treaties, in respect of various jurisdictions in which we operate and which vary from time to time. In addition, tax authorities may interpret certain tax issues in a manner other than that which we have adopted. Should such contrary interpretive principles be adopted upon adjudication of such cases, our tax burden

may be significantly increased. In calculating our deferred taxes, we are required to evaluate (i) the probability of the realization of our deferred income tax assets against future taxable income and (ii) the anticipated tax rates in which our deferred taxes would be utilized.

#### *Potential penalties, guarantees issued and expired building permits*

Penalties and guaranties are part of our ongoing construction activities, and result from obligations we have towards third parties, such as banks and municipalities. Our management is required to provide estimations regarding risks evolving from such potential guarantees or penalties that we may have to pay. In addition, our operations in the construction area are subject to valid authorizations and building permits from local authorities. Under certain circumstances we are required to determine whether the building permits we obtained are still in effect. It may occur that building permits have expired which may result in additional costs and expenses to us, or delays and even abandonment of projects currently under construction.

#### *Valuation of notes measured at FVTPL*

The fair value of notes issued by PC is generally determined with reference to price quotation in an active market, as the notes are traded on the TASE. Notwithstanding the aforesaid, as a result of the worldwide finance and real estate crisis that placed the markets in turmoil mainly during the fourth quarter of 2008, PC's notes were characterized by a significant decrease in the volume of trading, a significant increase in the spread between the BID and the ASK prices and a significant increase in the risk premium attributable to PC's notes as of December 31, 2008. Consequently, and based on professional advice from a third party, PC's management was of the opinion, that there were significant indications that the trade in the notes as of the end of 2008 pointed to the existence of an inefficient market and that the market for PC's notes was no longer active as of December 31, 2008. PC received valuation reports from three different external appraisals having appropriate and recognized qualifications as well as experience in evaluating fair value of notes. While performing their valuations, each of the appraisers used observable inputs developed on the basis of market data. Two of the appraisers used the discounted cash flow method taking into consideration the terms and maturity of PC's notes as well as market interest rates and PC's estimated credit risk as of December 31, 2008. The third appraiser used the Merton model, taking into consideration PC's asset value, risk free interest, standard deviation of assets and exercise price as of December 31, 2008. Based on all the above mentioned, PC's management was of the opinion that the quoted market prices of the notes in the TASE as of December 31, 2008 should not have been used as evidence of fair value.

Accordingly, the fair value of PC's notes as of December 31, 2008 was determined based on the average values of the notes as determined by the three external appraisals as reported in their valuation reports.

The quoted market price, as of December 31, 2008, of PC's Series A Notes was NIS 0.563 as opposed to an average of NIS 0.812 using the valuation techniques described above. The quoted market price of PC's Series B Notes was NIS 0.679 as opposed to an average of NIS 0.852 using the valuation techniques described above.

As of December 31, 2009, PC's notes are measured according to their quoted market price on the TASE.

#### *Valuation of derivatives, embedded derivatives and share based payment arrangements*

We are involved in derivative transactions (mainly PC's swaps transactions, see note 9A (iv) to our annual consolidated financial statements included in this annual report), embedded derivative transactions (see note 20A (iii) to our annual consolidated financial statements included in this annual report), and share based payment arrangements adopted by us and our subsidiaries (see note 25 to our annual consolidated financial statements included in this annual report). The derivatives, embedded derivatives and the cash settled share based payment arrangements are measured at fair value as of each balance sheet date. Equity settled share based payment arrangements are measured at fair value as of the grant date. The fair value of the abovementioned instruments is determined using valuation techniques which require management to make judgments and assumptions regarding the following variables in respect of each instrument:

- Derivatives (mainly PC's swap transactions): interest rate yield curves of the adjusted NIS and Euro.

- Embedded derivatives: the fair value of the underlying assets (i.e. our hotels in London); the expected volatility of the hotels; and the probability and the term for a "Transaction" (as defined in the relevant agreement) to occur.
- Share based payment arrangements: the share price in respect of option plans adopted by our private investees which has no quoted market price; the expected stock price volatility over the term of the option plans; and actual and projected employee stock option exercise behaviors.

The fair value of these instruments was generally computed based on reports of third party experts.

### ***Critical judgment in applying accounting policies***

#### *Capitalization of financing costs*

We capitalize finance costs of real estate assets under construction from commencement of activities for the preparation of the assets for their intended use or sale. Such determination requires management to use critical estimations and assumptions as well as judgment to determine whether a specific asset under construction or development is qualified for capitalization. Borrowing costs qualified for capitalization includes, inter-alia, foreign exchange differences on borrowing to the extent that they are considered as an adjustment to interest costs. In order to determine whether foreign exchange differences are considered as an adjustment to the interest expenses, management is required, for each specific loan, to evaluate the alternative borrowing cost for a loan that would have been provided in the functional currency of the borrower under the same terms and conditions as the actual loan. Such determination requires management to use a considerable degree of judgment and estimations. Further, additional critical judgment is required to capitalize non-specific borrowing costs to qualified assets, in cases in which our relevant entity that raised the borrowing is not the one that owns the qualified asset.

#### *Classification of investment as held to maturity*

As of December 31, 2009, we had investments in the amount of NIS 315 million in financial notes (the "Notes"), as compared to NIS 386 million as of December 31, 2008 (see note 9A.(ii) to our annual consolidated financial statements included in this annual report). We considered our capital management policy and our liquidity requirement for operational activities, and decided that we have the positive intent and ability to hold these Notes to maturity. Accordingly, the investment in the Notes is presented in our financial statements as held to maturity. We examined if there was objective evidence for impairment loss for the Notes which mainly includes the decrease in the quoted market value of the Notes (which was provided to us by the issuing bank as of the balance sheet date) by approximately 22.5% (NIS 71 million) below their cost. Following this examination we concluded that, as of the balance sheet date, there is no objective evidence which should lead to impairment of the Notes.

#### *Transfer of real estate assets from investment property to trading property*

During 2007 and 2008 we acquired plots of land in India (see note 8D to our annual consolidated financial statements included in this annual report). At the initial recognition, we classified the cost of acquisitions of these plots as an investment property (or payment on account of investment property in case of advance payment to secure the land acquisitions) since as of the acquisition date, we did not have a defined and final designated use for these plots. At the end of 2008, we examined the designated use of these plots and transferred an amount of NIS 425.7 million (which reflect the cost of acquisitions of these plots) to trading property. A transfer of real estate assets from investment property to trading property is done when there has been a change in the use of the real estate asset, which is supported by evidence as to the beginning of development of the real estate asset for its intended use or sale. A significant judgment is required to be made in order to determine whether, as of the balance sheet date, the aforementioned criteria has been met for each plot. Such determination is generally based on current achievable plans of our management for each real estate asset as well as the actual steps executed by us in order to implement this plan.

#### *Revenue recognition from sale of trading property*

Revenues from sale of real estate assets are recognized when all the criteria mentioned in note 2 AB to our annual consolidated financial statements included in this annual report are met. The determination whether or not these criteria have been met, for each sale transaction, requires significant judgment by our management. Significant judgment is made in determining whether, as of the balance sheet date, we have transferred to the buyer the significant risks and rewards associated with the real estate assets sold. Such determination is based on an analysis of the terms included in the sale agreement executed with the buyer as well as an analysis of other commercial understandings with the buyer in respect of the real estate sold. Generally, the sale agreement with the buyer is signed during the construction period and the consummation of the transaction is subject to certain conditions precedent which have to be fulfilled prior to delivery of the real estate asset. Revenues are, therefore, recognized when all the significant conditions precedent included in the agreement have been fulfilled by us and/or waived by the buyer prior to the balance sheet date.

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

As for critical judgment in respect of inactive market for PC's notes, see " - Valuation of notes measured at FVTPL" above.

According to our management's judgment, the rights specified in InSightec's shareholders agreement (see note 11 A (2) to our annual consolidated financial statements included in this annual report) do not confer rights to the minority shareholders of InSightec to participate in operational and financial decisions of InSightec in the ordinary course of business and therefore would not overcome the presumption of our control in InSightec.

### ***Recently issued accounting standards***

For information on recently issued accounting standards under IFRS, see note 2AJ to our consolidated financial statements included in this annual report.

## **A. Operating Results**

### ***Presentation method of financial statements***

We are involved in investments in a wide range of different activities. Accordingly, management believes that its income statements should be presented in the "single - step form." According to this form, all costs and expenses (including general and administrative and financial expenses) should be considered as continuously contributing to the generation of overall income and gains. We also believe that our operating expenses should be classified by function to: (i) those directly related to each revenue source (including general and administrative expenses and selling and marketing expenses relating directly to each operation); and (ii) overhead expenses which serve the business as a whole and are to be determined as general and administrative expenses.

Our strategy in respect of PC's shopping and entertainment centers is to dispose of shopping and entertainment centers upon completion, subject to certain exceptions (see "Item 4.B. Business Overview - Shopping and Entertainment Centers - Business Concept Strategy"). Therefore, PC's shopping and entertainment centers are presented within current assets as trading property and our revenues from these shopping and entertainment centers are derived from their disposal to third parties.

Our policy in respect of the hotels segment is to designate the hotels to be managed and operated by our management companies. Consequently, our hotel assets are presented as part of our property, plant and equipment in the financial statements.

### ***Translation of statements of income of foreign operations***

The majority of our businesses, which operate in various countries, report their operational results in their respective functional currency which differs from the NIS (our reporting and functional currency). We translate our

subsidiaries' result of operations into NIS based on the average exchange rate of the functional currency against the NIS. Therefore, a devaluation of the NIS against each functional currency would cause an increase in our reported revenues and the costs related to such revenues in NIS while an increase in the valuation of the NIS against each functional currency would cause a decrease in our revenues and costs related to such revenues in NIS.

The following table presents our statements of income for each of the three years ended December 31, 2009, 2008 and 2007:

|  | December 31                 |                  |                  |                         |
|--|-----------------------------|------------------|------------------|-------------------------|
|  | 2009                        | 2008             | 2007             | 2009                    |
|  | (in NIS thousands)          |                  |                  | Convenience translation |
|  | (Except for per-share data) |                  |                  | (in \$ thousands)       |
| <b>Revenues and gains</b>  |                             |                  |                  |                         |
| Commercial centers operation   | 85,466                      | 524,163          | 2,917,616        | 22,640                  |
| Hotels operations and management   | 396,736                     | 384,220          | 395,227          | 105,096                 |
| Gains from sale of real estate assets  | -                           | -                | 62,621           | -                       |
| Sale of medical systems  | 61,683                      | 38,076           | 49,648           | 16,340                  |
| Gains from change of shareholding in subsidiaries  | 31,106                      | 49,122           | 5,310            | 8,240                   |
| Sale of fashion merchandise  | 118,386                     | 102,736          | 68,139           | 31,360                  |
|  | <u>693,377</u>              | <u>1,098,317</u> | <u>3,498,561</u> | <u>183,676</u>          |
| <b>Expenses and losses</b>   |                             |                  |                  |                         |
| Commercial centers   | 169,253                     | 432,760          | 1,714,253        | 44,835                  |
| Hotels operations and management   | 353,229                     | 354,850          | 330,063          | 93,571                  |
| Cost and expenses of medical systems operation   | 67,403                      | 55,469           | 69,953           | 17,855                  |
| Cost of fashion merchandise  | 134,142                     | 118,040          | 80,308           | 35,534                  |
| Research and development expenses  | 73,959                      | 68,759           | 69,559           | 19,592                  |
| General and administrative expenses  | 66,153                      | 54,944           | 116,992          | 17,524                  |
| Share in losses of associates, net   | 14,039                      | 12,952           | 12,667           | 3,719                   |
| Financial expenses   | 283,546                     | 296,527          | 232,566          | 75,112                  |
| Financial income   | (92,725)                    | (135,278)        | (73,293)         | (24,563)                |
| Change in fair value of financial instruments measured at fair value through profit and loss | 70,702                      | (225,244)        | (18,347)         | 18,729                  |
| Impairment, charges and other expenses, net  | 260,225                     | 68,797           | 38,233           | 68,934                  |
|  | <u>1,399,926</u>            | <u>1,102,576</u> | <u>2,572,954</u> | <u>370,842</u>          |
| <b>Profit (loss) before income taxes</b>   | (706,549)                   | (4,259)          | 925,607          | (187,166)               |
| Income taxes (tax benefit)   | (35,571)                    | 24,736           | 16,288           | (9,423)                 |
| <b>Profit (loss) from continuing operations</b>  | (670,978)                   | (28,995)         | 909,319          | (177,743)               |
| Profit from discontinued operation, net  | 16,550                      | 4,934            | 10,289           | 4,384                   |
| <b>Profit (loss) for the year</b>  | <u>(654,428)</u>            | <u>(24,061)</u>  | <u>919,608</u>   | <u>(173,359)</u>        |
| <b>Attributable to:</b>  |                             |                  |                  |                         |
| Equity holders of the Company  | (533,269)                   | (103,714)        | 539,749          | (141,263)               |
| Minority interest  | (121,159)                   | 79,653           | 379,859          | (32,096)                |
|  | <u>(654,428)</u>            | <u>(24,061)</u>  | <u>919,608</u>   | <u>(173,359)</u>        |

**Earnings per share - (in NIS)**

Basic earnings per share:

|                             |                |               |              |               |
|-----------------------------|----------------|---------------|--------------|---------------|
| From continuing operation   | (21.60)        | (4.27)        | 20.80        | (5.72)        |
| From discontinued operation | 0.65           | 0.19          | 0.40         | 0.17          |
|                             | <u>(20.95)</u> | <u>(4.08)</u> | <u>21.20</u> | <u>(5.55)</u> |

Diluted earnings per share:

|                             |                |               |              |               |
|-----------------------------|----------------|---------------|--------------|---------------|
| From continuing operation   | (21.62)        | (4.30)        | 20.18        | (5.73)        |
| From discontinued operation | 0.65           | 0.19          | 0.40         | 0.17          |
|                             | <u>(20.97)</u> | <u>(4.11)</u> | <u>20.58</u> | <u>(5.56)</u> |

**2009 compared to 2008***Revenues and Gains*

Total revenues and gains decreased to NIS 693 million (\$184 million) in 2009 compared to NIS 1,098 million in 2008. Set forth below is an analysis of our revenues and gains:

(I) Revenues from shopping and entertainment centers decreased to NIS 85 million (\$23 million) in 2009 compared to NIS 524 million in 2008. This revenue is derived from:

- (i) Revenues from the sale of trading property in the amount of NIS 439 million in 2008 compared to no such revenue in 2009. The revenues generated in 2008 were attributable to the sale of the Plzen Plaza commercial center in the Czech Republic in July 2008 and a price adjustment in respect of the sale of the Arena Plaza in Hungary which was sold at the end of 2007; and
- (ii) Revenues from the operations of shopping and entertainment centers in the amount of NIS 85 million (\$23 million) in 2009 compared to NIS 85 million in 2008. The revenues in 2009 are attributable mainly to the operation of the Riga Plaza commercial center in Latvia and the Liberec Plaza commercial center in the Czech Republic as compared mainly to the operations of the Plzen Plaza commercial center in the Czech Republic in the first half of 2008.

(II) Revenues from hotels' operations and management increased to NIS 397 million (\$105 million) in 2009 compared to NIS 384 million in 2008.

This increase is attributable to: (i) an increase in the revenues from the Radisson Blu Bucharest Hotel in Romania which was partially opened in the second half of 2008 and was fully operational in 2009, offset by; (ii) a decrease in the revenues from all other hotels as a result of the global economic slowdown, which mainly affected the revenues for the first half of 2009; and (iii) a devaluation of the average rate of the Great British Pound (our UK hotels' functional currency) against the NIS (our reporting currency).

(III) Revenues from the sale of medical systems increased to NIS 62 million (\$16 million) in 2009 compared to NIS 38 million in 2008. This increase is mainly attributable to an increase in the number of "ExAblate " systems sold in 2009 to 14 systems as compared to 10 systems sold in 2008.

(IV) Changes in our shareholdings in our subsidiaries in 2009 amounted to a gain of NIS 31 million (\$8 million) compared to NIS 49 million in 2008. The gain is attributable to the following transactions:

- (i) in the end of 2008 and the beginning of 2009, we and PC purchased PC's shares from PC's minority shareholders. As result of these transactions, we recorded in 2008 and 2009 gains from the increase in shareholding of PC in the amount of NIS 49.1 million and NIS 63.6 million, respectively. In the fourth quarter of 2009, we and PC sold the shares and as a

result we recorded a loss of NIS 44 million, which offset part of the gain we recorded in the beginning of 2009. The total overall gain we generated from the purchase and sale of the PC shares in 2008 and 2009 amounted to NIS 69 million; and

- (ii) in March 2009, we and the minority shareholders of Insightec converted Insightec's convertible notes into InSightec's preferred shares. As a result of the conversion, we recorded a gain of NIS 14.6 million, reflecting the change in our shareholding in InSightec.

(V) Revenues from the sale of fashion retail increased to NIS 118 million (\$31 million) in 2009 compared to NIS 103 million in 2008. The increase is mainly attributable to:

- (i) the opening of the first GAP store in Israel;
- (ii) the full operation in 2009 of eight Mango stores which opened during 2008 as compared to only partial operation in 2008;
- (iii) (i) and (ii) above were offset by the decrease in sales of Mango's existing stores during 2009, as compared to 2008.

#### *Expenses and losses*

Our expenses and losses increased to NIS 1,400 million (\$371 million) in 2009 compared to NIS 1,103 million in 2008. Set forth below is an analysis of our expenses and losses:

(I) Expenses of commercial centers decreased to NIS 169 million (\$45 million) in 2009 compared to NIS 433 million in 2008. This decrease is attributable to:

- (i) In 2009 there was a decrease of NIS 2 million (\$0.5 million) in cost of trading property sold compared to NIS 233 million in 2008. Such costs in 2008 are attributable to the sale of one commercial center (Plzen Plaza in the Czech Republic) as compared to no sales of commercial centers in 2009; and
- (ii) a decrease in other operating expenses in respect of our commercial centers to NIS 167 million (\$44 million) in 2009 from NIS 200 million in 2008. This decrease is mainly attributable to: (i) a decrease of NIS 20 million in share-based payment expenses in respect of PC's options plan adopted at the end of October 2006 mainly due to the cost recorded in 2008 as a result of re-pricing of options in PC; (ii) a decrease in employee and management salaries in the amount of NIS 8 million; (iii) a decrease in other expenses in the amount of NIS 16 million, of which NIS 15 million is attributable to the write off of deferred initiation expenses accrued in real estate projects in previous years for which PC has decided to cease its investment at the end of 2008. The decrease is offset by an increase of NIS 12 million in the direct costs related to the operation of two commercial centers in 2009 as compared to one in 2008.

(II) Cost of hotel operations and management decreased to NIS 353 million (\$94 million) in 2009 compared to NIS 355 million in 2008. This decrease is attributable mainly to pre-opening expenses related to the opening of the Radisson Blu Bucharest Hotel in Romania at the end of 2008 as compared to no new openings in 2009, and was offset by a full operation of Radisson Blu Bucharest Hotel in 2009 compared to partial operation in 2008.

(III) Cost and expenses of medical systems increased to NIS 67 million (\$17.7 million) in 2009 compared to NIS 55 million in 2008. This increase is mainly attributable to (i) an increase in sales of "ExAblate " systems in 2009 to 14 systems sold in 2009 as compared to 10 systems sold in 2008, with an equivalent increase in InSightec's direct costs relating to the sale of the systems; and (ii) an increase in general and administrative expenses and sale and marketing expenses mainly as a result of stock based compensation expenses recorded as a result of re-pricing of options in InSightec.

(IV) Cost of fashion merchandise increased to NIS 134 million (\$36 million) in 2009 compared to NIS 118

million in 2008. The increase is mainly attributable to: (i) expenses related to the opening of the first GAP store in Israel; and (ii) the full operation in 2009 of eight Mango stores which opened during 2008, as compared to only partial operation in 2008.

(V) Research and development expenses decreased to NIS 74 million (\$20 million) in 2009 compared to NIS 69 million in 2008. These expenses are attributable to InSightec's research and development activity.

(VI) General and administrative expenses increased to NIS 66 million (\$18 million) in 2009 compared to NIS 55 million in 2008. The increase is attributable mainly to: (i) an increase in stock based compensation expenses in the amount of NIS 3 million (ii) reverse in 2008 of bonuses provisions accrued in 2007 to our directors in the amount of NIS 8 million and an increase in other expenses of NIS 5 million; offset by (iii) reduction in salaries in the amount of NIS 5 million.

(VII) Financial expenses decreased to NIS 284 million (\$75 million) in 2009 compared to NIS 297 million in 2008. Such decrease is attributable to the following:

- (i) Total interest expenses in respect of our bank loans and notes issued (including linkage differences in respect of bonds which are linked to the Israeli consumer price index) amounted to NIS 430 million in 2009 compared to NIS 445 million in 2008. From these amounts we have capitalized financial costs to our real estate under construction and development in the amount of NIS 155 million and NIS 192 million in 2009 and 2008, respectively. Accordingly, the net financial expenses in respect of our borrowings which were recorded in our consolidated income statements amounted to NIS 275 million in 2009 compared to NIS 253 million in 2008. Such increase is attributable to (i) a decrease in capitalized financial costs in the amount of NIS 37 million; offset by; (ii) a 3.8% increase in the Israeli CPI, to which our notes are linked, in 2009 compared to a 4.51% increase in 2008, which resulted in a decrease of NIS 8 million; and (iii) a decrease of NIS 7 million in interest expenses as a result of a decrease in the interest rates on our loans.
- (ii) We recorded a loss from exchange rate differences in respect of our borrowings in the amount of NIS 2 million in 2009 compared to NIS 26 million in 2008. Such decrease is attributable mainly to a decrease in the devaluation of the Romanian Lei (the functional currency of our hotel in Romania) against the Euro and the U.S. dollar (the linkage currency of the bank loans provided to our subsidiaries in Romania); and
- (iii) Other financial expenses decreased to NIS 7 million in 2009 compared to NIS 15 million in 2008.

(VIII) Financial income decreased to NIS 93 million (\$25 million) in 2009 compared to NIS 135 million in 2008. Such decrease is attributable to the following:

- (i) A decrease of NIS 59 million related to interest income from bank deposits from NIS 145 million in 2008 to NIS 86 million in 2009. Such decrease is attributable mainly to a decrease in our cash balances and to the decrease in the interest rate on such cash balances; and
- (ii) We recorded a gain from exchange rate differences of NIS 7 million in 2009 compared to a loss from exchange rate differences of NIS 9 million in 2008. The gain in 2009 is mainly attributable to exchange differences from PC's deposits in different currencies than the EURO, the functional currency of PC (such as the Polish Zloty, Czech Koruna and U.S. dollar). The losses from exchange rate differences in 2008 are attributable mainly to a decrease in our cash and deposits linked to the U.S. dollar as a result of a devaluation of the NIS against the U.S. dollar.

(IX) Loss from change in fair value of financial instruments increased to NIS 71 million (\$19 million) in 2009 compared to income of NIS 225 million in 2008. This increase is mainly attributable to the following:



- (i) Loss from change in fair value of financial instruments (measured at fair value through profit and loss (mainly PC's notes)) amounted to NIS 240 million (\$63.6 million) in 2009 compared to a gain of NIS 170 million in 2008;
- (ii) Profit from change in fair value of swap transactions executed by PC in respect of its notes amounted to NIS 73 million (\$19.3 million) in 2009 compared to NIS 96 million in 2008;
- (iii) Profit from change in fair value of embedded derivatives related to our hotel segment was NIS 17 million (\$4.5 million) in 2009 compared to NIS 3 million in 2008; and
- (iv) Profit from marketable securities amounted to NIS 79 million (\$21 million) in 2009 compared to a loss of NIS 43 million in 2008.

(X) Other expenses, net, totaled NIS 260 million (\$69 million) in 2009 compared to NIS 69 million in 2008. Our other expenses in 2009 mainly include the following:

- (i) Impairment of PC trading property in the amount of NIS 216 million (\$57.2 million) which was affected by the real estate market conditions in Eastern Europe which was expressed by an increase in the sales yields and the expectations for decreases in rental income;
- (ii) Impairment loss in the amount of NIS 16 million (\$4.2 million) attributable to property, plant and equipment (mainly hotels and other property); and
- (iii) Initiation expenses related to our activities in India in the amount of NIS 30 million (\$8 million).

As a result of the foregoing factors, we incurred loss before income tax in the total amount of NIS 707 million (\$187 million) in 2009 compared to a loss of NIS 4 million in 2008.

Tax benefits, attributable mainly to PC's notes, totaled NIS 36 million (\$9 million) in 2009 compared to income taxes of NIS 25 million in 2008.

The above resulted in losses from continuing operations totaling NIS 671 million (\$178 million) in 2009 compared to NIS 29 million in 2008.

Profit from discontinued operations, net, totaled NIS 17 million (\$4 million) in 2009 compared to NIS 5 million in 2008. Our discontinued operations consist mainly of medical imaging operations and the sub-assemblies and component segment which were sold in previous years. This profit resulted mainly from the collection of receivables previously written off, income from royalties on patents rights and exchange rate differences attributable to monetary assets and liabilities pertaining to discontinued operations.

The above resulted in losses of NIS 654 million (\$173 million) in 2009, of which NIS 533 million (\$141 million) is attributable to our equity holders and NIS 121 million (\$32 million) is attributable to the minority interest. The loss in 2008 includes NIS 104 million attributable to our equity holders and income of NIS 80 million attributable to the minority interest.

## ***2008 compared to 2007***

### ***Revenues and Gains***

Total revenues and gains decreased to NIS 1,098 million in 2008 compared to NIS 3,498.5 million in 2007. Set forth below is an analysis of our revenues and gains:

(I) Revenues from shopping and entertainment centers decreased to NIS 524.2 million in 2008 compared to NIS 2,917.6 million in 2007. This revenue is derived from:

- (i) Revenues from the sale of trading property in the amount of NIS 439.3 million in 2008 compared to NIS 2,819.8 million in 2007. This decrease is attributable to the sale of one commercial center in 2008 (Plzen Plaza in the Czech Republic) compared to sale of four commercial centers in 2007 (Arena Plaza in Hungary, and Rybnik Plaza, Sosnowiec Plaza and Lublin Plaza in Poland); and
- (ii) Revenues from the operations of shopping and entertainment centers in the amount of NIS 84.8 million in 2008 compared to NIS 97.8 million in 2007. This decrease is mainly attributable to the sale of the Arena Herzliya shopping and entertainment center in Israel in mid 2007, offset in part by an increase in entertainment operations within the commercial centers, and from the operations of the Plzen Plaza commercial center in the first half of 2008.

(II) Revenues from hotels' operations and management decreased to NIS 384.2 million in 2008 compared to NIS 395.2 million in 2007. This decrease is attributable to the devaluation of the average exchange rates of the British Pound and the Euro (which are the functional currencies of our hotels in the United Kingdom and in Benelux) against the NIS, offset by an increase in revenues mainly due to the opening of the Radisson Blu Bucharest Hotel in Romania in the second half of 2008.

(III) Gains from the sale of real estate assets and investments, net, are in respect of transaction for the sale of investment property and property, plants and equipment (mainly hotels). In 2008 we did not execute any such transaction and therefore we did not record any gain in this year. In 2007 we recorded gains from such transactions amounting to NIS 62.6 million, as a result of the sale of the Ballet Institute Building and the Duna Plaza Offices, both in Budapest, Hungary.

(IV) Revenues from the sale of medical systems decreased to NIS 38.1 million in 2008 compared to NIS 49.6 million in 2007. This decrease is mainly attributable to a decrease in the number of " ExAblate " systems sold to 10 systems in 2008 compared to sales of 12 systems in 2007, and to the devaluation of the average U.S. dollar exchange rate (the functional currency of InSightec) against the NIS.

(V) Change in shareholding of subsidiaries in 2008 amounted to a gain of NIS 49.1 million compared to NIS 5.3 million in 2007. The gain in 2008 is attributable mainly to an increase in our shareholding in PC as a result of the repurchasing of PC shares on the market. The gain in 2007 is attributable to a decrease in our shareholding in InSightec as a result of the issuance of Preferred A Shares by InSightec in November 2007.

(VI) Revenues from sale of fashion retail increased to NIS 102.7 million in 2008 compared to NIS 68.1 million in 2007. This increase is attributed mainly to the opening of eight new stores during 2008.

#### *Expenses and losses*

Our expenses and losses were NIS 1,102.6 million in 2008 compared to NIS 2,573 million in 2007. Set forth below is an analysis of our expenses and losses:

(I) Expenses of commercial centers decreased to NIS 432.7 million in 2008 compared to NIS 1,714.3 million in 2007. This decrease is attributable to:

- (i) A decrease in cost of trading property sold in 2008 in the amount of NIS 232.7 million in 2008 compared to NIS 1,492 million in 2007. Such costs in 2008 are attributable to the sale of one commercial center (Plzen Plaza in the Czech Republic) as compared to the sale of four commercial centers during 2007 (Arena Plaza in Hungary, and Rybnik Plaza, Sosnowiec Plaza and Lublin Plaza in Poland); and
- (ii) A decrease in other operating expenses to NIS 200 million in 2008 from NIS 222.2 million in 2007. This decrease is mainly attributable to: (i) a decrease of NIS 9.1 million in direct costs related to the operations of the commercial centers, mainly attributable to the sale of the Arena Herzliya shopping and entertainment center in Israel in mid 2007; (ii) a decrease of

NIS 7.8 million in share-based payment expenses in respect of PC's options plan adopted at the end of October 2006; (iii) a decrease in employees and management salaries of NIS 2.6 million; (iv) a decrease of NIS 14.6 million in depreciation expenses mainly attributable to the sale of the Arena Herzliya shopping and entertainment center in Israel in mid 2007. The decrease was offset by increases in other general and administrative expenses of NIS 17.2 million, of which NIS 15.6 million are attributable to write off of deferred initiation expenses accrued in real estate projects in previous years for which PC has decided to cease its investment at the end of 2008.

(II) Cost of hotel operations and management increased to NIS 354.8 million in 2008 compared to NIS 330 million in 2007. This increase is attributable mainly to: (i) an increase in the direct costs of NIS 13.6 million mainly attributed to commencement of operations of the Radisson Blu Bucharest Hotel in Romania (ii) an increase of NIS 11.2 million in other operational expenses and depreciation expenses, mainly due to the pre-operating and pre-opening expenses related to the opening of the Radisson Blu Bucharest Hotel in Romania. The increase was offset by the devaluation of the average exchange rate of the British Pound and Euro (which are the functional currencies of our hotels in the United Kingdom and Benelux) against the NIS.

(III) Cost and expenses of medical systems decreased to NIS 55.5 million in 2008 compared to NIS 69.9 million in 2007. This decrease is mainly attributable to a decrease in sales of systems in 2008 and represents sales of 10 systems as compared to 12 systems sold in 2007, with an equivalent decrease in InSightec's direct costs relating to the sale of the systems, general and administrative expenses and sale and marketing expenses.

(IV) Cost of fashion merchandise increased to NIS 118 million in 2008 compared to NIS 80.3 million in 2007. The operations of Elbit Trade were mainly characterized in opening of new stores which caused a significant increase in operating expenses. In addition, Elbit Trade expanded its marketing efforts during 2008 in order to support the opening of its new stores.

(V) Research and development expenses decreased to NIS 68.7 million in 2008 compared to NIS 69.5 million in 2007. The decrease is mainly attributed to the devaluation of the NIS (our reporting currency) against the average of the U.S. dollar (InSightec's functional currency) offset by an increase in research and development cost during 2008.

(VI) General and administrative expenses decreased to NIS 55 million in 2008 compared to NIS 117 million in 2007. This decrease is attributable mainly to: (i) the lack of a provision for bonus payments to our directors in 2008 (since we did not generate "Profit" as defined in the bonus arrangements of our directors, upon which the bonus is calculated), compared to bonus payments in the amount of NIS 35.7 million in 2007 in respect of 2007 "Profit" and additional bonus payments in the amount of NIS 14.3 million recorded in 2007 in respect of "Profit" generated in 2006; (ii) reverse of bonuses provisions accrued in 2007 to our directors in the amount of NIS 6.1 million as approved in May 2008; and (iii) a decrease in stock based compensation expenses in the amount of NIS 9.7 million. The decrease was offset by an increase of NIS 3.9 million in other general and administrative expenses.

(VII) Financial expenses increased to NIS 296.5 million in 2008 compared to NIS 232.6 million in 2007. Such increase is attributable to the following:

- (i) Total interest expenses in respect of our bank loans and notes issued (including linkage differences in respect of bonds which are linked to the Israeli CPI) amounted to NIS 444.8 million in 2008 compared to NIS 325.3 million in 2007. From these amounts we have capitalized financial costs attributed to our real estate under construction amounts of NIS 191.6 million and NIS 104.8 million in 2008 and 2007, respectively. Accordingly, the net financial expenses in respect of our borrowings which were recorded in our consolidated income statements, amounted to NIS 253.2 million in 2008 compared to NIS 220.5 million in 2007. Such Increase is attributable to (i) an increase in the notes raised by us and PC during 2008; (ii) a 4.51% increase in the Israeli CPI, to which our notes are linked, in 2008 compared to a 2.79% increase in 2007; and (iii) an increase in the scope of loans provided to our investees in the hotel segment. The increase was offset by an increase in capitalized financial costs as a result of an increase in our assets qualified for capitalization;

- (ii) We suffered a loss from exchange rate differences in respect of our borrowings of NIS 25.8 million in 2008 compared to NIS 1.3 million in 2007. The losses from exchange rate differences in 2008 and 2007 are attributable mainly to devaluation of the Romanian Lei (the functional currency of our hotel in Romania) against the Euro and the U.S. dollar (the linkage currency of the bank loans provided to our subsidiaries in Romania); and
- (iii) Other financial expenses increased to NIS 15.0 million in 2008 compared to NIS 1.4 million in 2007.

(VIII) Financial income increased to NIS 135.3 million in 2008 compared to NIS 73.3 million in 2007. Such increase is attributable to the following:

- (i) We incurred an increase of NIS 42.7 million from interest income from bank deposits of NIS 144.5 million in 2008 compared to NIS 101.8 million in 2007. Such increase is attributable mainly to the increase in our cash balances as a result of the sale of four commercial centers in 2007 (mainly from the sale of Arena Plaza in Hungary in the end of 2007) and an issuance of notes by us and PC in the beginning of 2008; and
- (ii) We suffered a loss from exchange rate differences of NIS 9.2 million in 2008 compared to NIS 28.5 million in 2007. The losses from exchange rate differences in 2008 and 2007 are attributable mainly to decrease in our cash and deposits linked to the U.S. dollar as a result of a revaluation of the NIS against the U.S. dollar.

(IX) Income from change in fair value of financial instruments increased to NIS 225.2 million in 2008 compared to NIS 18.3 million in 2007. This increase is mainly attributable to the following:

- (i) Income from change in fair value of financial instruments (measured at fair value through profit and loss) amounted to NIS 170 million in 2008 compared to a loss of NIS 17.3 million in 2007; and
- (ii) Income from change in fair value of swap transaction executed by PC in respect of its notes was NIS 95.6 million in 2008 compared to 12.5 million in 2007.

This income was offset by losses from marketable securities which amounted to NIS 43.3 million in 2008 compared to gains of NIS 17.8 million in 2007.

(X) Other expenses, net, totaled NIS 68.8 million in 2008 compared to NIS 38.2 million in 2007. Our other expenses in 2008 mainly include the following:

- (i) Impairment loss in the amount of NIS 50.6 million which is attributed to (i) impairment of property, plant and equipment (mainly hotels and other property) as well as our trading property and investment property in the amount of NIS 36.8 million; and (ii) provision for doubtful debts in the amount of NIS 13.8 million in respect of long term loans provided to third parties;
- (ii) Initiation expenses related to our activities in India in the amount of NIS 21.3 million; and
- (iii) Income in the amount of NIS 7.0 million which is attributable to collection of doubtful debt from third parties.

As a result of the foregoing factors, we incurred losses before income tax in the total amount of NIS 4.3 million in 2008 compared to gains of NIS 925.6 million in 2007.

Income taxes totaled NIS 24.7 million in 2008 compared to NIS 16.3 million in 2007.

The above resulted in losses from continuing operations totaling NIS 29 million in 2008 compared to profit from continuing operations of NIS 909.3 million in 2007.

Profit from discontinued operations, net, totaled NIS 4.9 million in 2008 compared to NIS 10.3 million in 2007. Our discontinued operation is attributable mainly to medical imaging operations and the sub-assemblies and component segment which were sold in previous years. This profit resulted mainly from the collection of receivables previously written off, income from royalties on patents rights and exchange rate differences attributable to monetary assets and liabilities pertaining to discontinued operations.

The above resulted in losses of NIS 24.1 million in 2008, of which NIS 103.7 million is attributable to the equity holders of the Company and an income of NIS 79.6 million is attributable to the minority interest. The net profit in 2007 includes NIS 539.7 million attributable to the equity holders of the Company and NIS 379.9 million attributable to the minority interest.

## **B. Liquidity and Capital Resources**

### **General**

Our capital resources include the following: (a) public issuances of unsecured non-convertible and convertible notes by us and PC; (b) lines of credit obtained from banks and financial institutions; (c) proceeds from sales of trading property and real estate assets; (d) issuance of shares to the minority shareholders in InSightec; and (e) available cash and cash equivalents. See " - Overview" above for information on the major transactions and events carried out by us in 2007, 2008 and 2009, which resulted in material changes in our liquidity and capital resources. Such resources are used for the following purposes:

- (i) Equity investments in our shopping and entertainment centers, our hotels and our residential projects, are constructed by our wholly owned and jointly, controlled subsidiaries (special purpose entities that are formed for the construction of our real estate projects (a "Project Company")). We generally finance approximately 25%-30% of such projects through equity investments in the Project Companies, while the remaining 70%-75% is generally financed through a credit facility secured by a mortgage on the project constructed by the respective Project Company, registered in favor of the financial institution that provides such financing. The equity investments in the Project Companies are typically provided by us through shareholder loans that are subordinated to the credit facilities provided to the Project Company;
- (ii) Additional investments in InSightec, if necessary. InSightec's capital resources are obtained primarily from additional investments in equity or in convertible notes by its shareholders and from its revenues from sales of medical systems. Such amounts are used for research and development activities aimed at obtaining FDA approvals for further treatments and other general corporate expenses such as cost of revenues, marketing and selling and general and administrative expenses;
- (iii) Additional investments in order to expand Elbit Trade's operations by opening new Mango stores in Israel as well as to expand its activities in other brands, such as G-Star, GAP and Banana Republic;
- (iv) Additional investment in our associates (mainly venture capital investments);
- (v) Interest and principal payments on our notes and loans; and
- (vi) Payment of general and administrative expenses.

### **Investment Policy in Marketable Securities**

In accordance with the investment policy adopted by our investment committee, we may invest up to NIS 500 million (\$130 million) through several Israeli investment firms. Our investment portfolio is divided as follows: up to 15% in shares and 85% in government and corporate bonds with a rating of at least A on a domestic scale. The portfolio may not include investment in derivative instruments and trust funds.

Our investments in marketable securities are classified as trading securities and therefore are exposed to market-price fluctuations which are recorded as gains or losses in our financial statements. Capital markets are

subject to fluctuations in respect of events over which we have no control. Such changes may have an impact on the value of these investments upon realization.

## **Liquidity**

The sectors in which we compete are capital intensive. We require substantial up-front expenditures for land acquisition, development and construction costs, certain investments in research and development as well as for the ongoing maintenance of our hotels and retail segments. Accordingly, we require substantial amounts of cash and financing for our operations. We cannot be certain that such external financing will be available on favorable terms, on a timely basis or at all.

During 2008, the world markets underwent a financial crisis which continued through 2009, resulting in lower liquidity in the capital markets. Lower liquidity may result in difficulties in raising additional debt or less favorable interest rates for such debt. In addition, construction loan agreements generally permit the drawdown of the loan funds against the achievement of pre-determined construction and space leasing milestones. If we fail to achieve these milestones, the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule. If we are not successful in obtaining financing to fund our planned projects and other expenditures, our ability to undertake additional development projects may be limited and our future profits and results of operations could be materially adversely affected. Our inability to obtain financing may affect our ability to construct or acquire additional land plots, shopping centers and hotels, and we may experience delays in planned renovation or maintenance of our hotels, or in completion of the construction of our trading property that could have a material adverse effect on our results of operations. We believe that, based on our current operating forecast, the combination of existing working capital and expected cash flows from operations will be sufficient to finance our ongoing operations for the next twelve months. The followings items elaborate on the major transactions and events carried out by us in 2009, 2008 and 2007, which resulted in material changes in our liquidity:

### *Sources of Cash from Major Transactions and Events:*

#### **2009**

- During 2009 we issued unsecured non-convertible Series A Notes and Series F Notes to investors in Israel in an aggregate principal amount of approximately NIS 187 million. For interest rates and rating of our notes, see " - Other Loans" below.
- During 2009 we issued unsecured Series 1 Convertible Notes to investors in Israel in an aggregate principal amount of approximately NIS 112 million. For interest rates and rating of our notes, see " - Other Loans" below.
- In 2009 PC issued unsecured non-convertible Series B Notes to investors in Israel in an aggregate principal amount of approximately NIS 152 million. For interest rates and rating of PC's notes, see " - Other Loans" below.
- During 2009 PC signed several credit facility agreements with financial institutions in the total aggregate amount of €106 million. As of December 31, 2009, PC executed drawdowns from credit facilities in the amount of €44 million (of which €16 million was from the 2007 credit facility).
- In 2009 we and PC received proceeds from sales of derivatives in the amount of NIS 154 million.
- In 2009 we and PC received proceeds from the sale of PC shares in the amount of NIS 162 million.

#### **2008**

- During 2008 we raised a total of NIS 31 million aggregate principal amount of unsecured non-convertible Series F notes. For interest rates and rating our notes see "Other Loans" below.
- In 2008 PC issued unsecured non-convertible series B notes to investors in Israel in an aggregate

principal amount of approximately NIS 798.5 million. For interest rates, the rating of PC notes and other terms, see "Other Loans" below.

- During 2008 PC signed several credit facility agreements with financial institutions in the total aggregate amount of €181 million. As of December 31, 2008, PC executed draw downs from such credit facilities in the amount of €80.6 million.
- In July 2008, PC completed the handover of Plzen Plaza to Klepierre. The total consideration received from this sale by PC amounted to €54.6 million.

## **2007**

- During 2007 we raised a total of NIS 1,034.2 million aggregate principal amounts of unsecured non-convertible Series D through F Notes. For interest rates and rating of our notes see " - Other Loans" below.
- In 2007 PC issued unsecured non-convertible Series A Notes to investors in Israel in an aggregate principal amount of approximately NIS 305 million. For interest rates, the rating of PC notes and other terms, see " - Other Loans" below.
- In December 2007 PC completed the sale of the Arena Plaza shopping and entertainment center in Budapest to aAIM. The net cash consideration received by PC in January 2008 was €254.8 million. In addition, during 2008 PC received an additional cash consideration amounting to €5.6 million from aAIM as a result of purchase price adjustments of the transaction.
- In November 2007, InSightec completed an internal round of financing of \$30 million from its existing investors. The investment is in the form of Series A Preferred Shares. We invested \$19.8 million in the Series A Preferred Shares.
- In July 2007, PC sold its 50% stake in the Lublin Plaza project to Klepierre. The asset value (100%) of the Lublin Plaza at closing amounted to €78 million and the net cash consideration paid to PC amounted to €27.3 million.
- In July 2007, Elscint completed the sale of the Arena Center located in the Herzliya Marina in Israel, pursuant to which, the buyer acquired all rights in and to the Arena Center reflecting an asset value of NIS 538 million. The net consideration received by us was NIS 335.2 million. Following purchase price adjustments, to be calculated based on Arena Center's adjusted rent revenues (as this term is defined in the agreement), additional amounts may be paid to us.
- In June 2007, Elscint completed a sale of its 50% interest in a company ("Andrassy") which owns the building known as the "Ballet Institute Building" located in Budapest, Hungary. The net cash consideration was €29.8 million of which Elscint's share was €14.9 million.
- In May 2007, PC executed a transaction for the sale of the Duna Plaza offices ("DPO") in Budapest, Hungary, to Klepierre for a cash consideration of €14.2 million.
- In May 2007, PC completed the delivery of two shopping and entertainment centers in Poland, the Rybnik Plaza and the Sosnowiec Plaza to Klepierre, reflecting a total asset value of €89.3 million. The net cash consideration received by PC was €48.2 million.

The following is the use of cash for major transactions and events, other than those general purposes as described in " - Liquidity and Capital Resources - General" above:

- At the end of 2008 and the beginning of 2009 we and PC purchased PC's shares from PC's minority shareholders for a total consideration of NIS €12 million. Such shares were sold in October 2009 as described below.

- In May 2008, PC distributed to its shareholders a dividend of €57 million (\$83.8 million) out of which approximately €38.7 million was distributed to us and €18.2 million was distributed to PC's minority shareholders.
- In June 2008, we distributed to our shareholders a dividend of NIS 168.0 million.
- In April 2007, we distributed to our shareholders dividend of NIS 160.4 million.

The following table sets forth the components of our cash flows statements for the periods indicated:

|   | Year ended December 31,                 |               |               |               |
|---|---|---------------|---------------|---------------|
|   | 2009                                    | 2009          | 2008          | 2007          |
|   | Convenience translation in \$ thousands | NIS Thousands | NIS Thousands | NIS Thousands |
| Net cash provided by (used in) operating activities | (199,823)                               | (754,331)     | 220,656       | (853,463)     |
| Net cash provided by (used in) investing activities | 57,043                                  | 215,335       | (825,046)     | (534,923)     |
| Net cash provided by financing activities           | 81,829                                  | 308,907       | 964,912       | 699,542       |
| Increase (decrease) in cash and cash equivalents    | (60,951)                                | (230,089)     | 360,522       | (688,844)     |

#### *Cash flow from operating activities*

Our cash flow from operating activities is affected by our policy in respect of PC's shopping and entertainment centers which are classified as trading property since it is PC's management goal to sell these shopping and entertainment centers following their development. Accordingly, our cash flow from operating activities includes all the costs of acquisition and construction of a trading property and also the proceeds from sale of trading properties after their disposition. Therefore, in periods in which our investments in construction and/or acquisition of trading properties are higher than the proceeds from the sale of trading properties, we will have a negative cash flow from operating activities.

Net cash used in operating activities was NIS 754 million (approximately \$200 million) in 2009 compared to net cash of NIS 221 million provided by operating activities in 2008 and net cash used in operating activities in the amount of NIS 853 million in 2007.

Our cash flow from operating activities in 2009, 2008 and 2007 was influenced by the following significant factors:

- Cash flow from operating activities in 2009 included negative cash flow resulting from the cost of purchase of trading properties and payments on the account of trading properties of NIS 673.6 million. Most of the acquisitions and investments in trading properties in 2009 were: (i) Romania (the Casa Radio), Bulgaria (Sophia project), Poland, Czech Republic (Liberec project), Latvia (Riga project) and India (Bangalore, Koragon Park and Chennai projects); and (ii) the first time consolidation of the Obuda project in Hungary in mid 2009.
- Cash flow from operating activities in 2008 included negative cash flow resulting from the cost of purchase of trading properties net of trading properties disposed of in the amount of NIS 826.4 million and payments on the account of purchase of trading properties of NIS 141.9 million in 2008. Most of the acquisitions and investments in trading properties in 2008 were in Romania (the Casa Radio and Plaza BAS projects), Serbia (Belgrade project), the Czech Republic (Liberec project), and India (Bangalore and Chennai projects).



- (iii) During 2007 we completed several transaction for the sale of trading properties which generated revenues of NIS 2,820 million, however a significant part of the proceeds from such sales were collected by us in the beginning of 2008 (mainly the proceeds from the sale of the Arena Plaza shopping and entertainment center to aAIM which was collected in January 2008). Accordingly, our cash flow from operating activities in 2007 includes a significant increase in trade accounts receivable to NIS 1,442 million which caused negative cash flow from operations in 2007, however, in 2008 it positively contribute to cash flow from operations when the proceeds were actually collected.
- (iv) Operating activities in 2009, 2008 and 2007 also included the proceeds from operations of our hotel, retail and image guided segments less operating expenses of those segments (including research and development expenses, sales and marketing and general and administrative expenses attributable directly to those segments) as well as general and administrative expenses of our headquarters.

#### *Cash flow from investing activities*

Cash flow provided by investing activities amounted to NIS 215 million (approximately \$57 million) in 2009 compared to cash flow used in investing activities in the amount of NIS 825 million in 2008 and NIS 535 million in 2007.

Our cash flow from investing activities in 2009, 2008 and 2007 was influenced by the following factors:

#### **2009**

- (i) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 107 million (\$28 million) mainly attributable to the renovation of the Radisson Blu Bucharest Hotel in Romania, the lease hold improvements of Elbit Trade's new stores and our hospital and agriculture activities in India.
- (ii) Proceeds from realization of property, plant and equipment, investments and loans in the amount of NIS 3 million.
- (iii) Proceeds from long-term deposits and long-term loans in the amount of NIS 111 million mainly due to: (a) proceeds from realization of financial instrument by us in the amount of NIS 82 million; and (b) proceeds from realization of long term deposits by PC in the amount of NIS 28 million.
- (iv) Investments in long-term deposits and long term loans in the amount of NIS 11 million.
- (v) Proceeds from interest received from deposits in the amount of NIS 91 million.
- (vi) Sales of a subsidiary's shares to such subsidiary's minority shareholders in the amount of NIS 160 million which is attributable to the resale of PC shares by PC and us.
- (vii) Purchase of minority shares in subsidiaries in the amount of NIS 44 million, mainly related to repurchase of PC shares by PC and us.
- (viii) Purchase of available for sale marketable securities net of proceeds from available for sale marketable securities amounted to NIS 24 million.
- (ix) Proceeds from the sale of deposits and marketable securities in the amount of NIS 42 million executed by us.

#### **2008**

- (i) Investment in long-term deposits and long-term loans in the amount of NIS 588 million mainly due to: (a) investments in financial notes by us and by PC in the amount of NIS 386 million; (b) Investment in long term deposits of NIS 181 million. Such deposits are used as a security for swap transactions executed by PC and for loans granted to us.

- (ii) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 534.8 million mainly attributable to the renovation of the Radisson Blu Bucharest Hotel in Romania and acquisition of the land in the Bangalore project in India.
- (iii) Proceeds from interest received from deposits in the amount of NIS 133.7 million.
- (iv) Purchase of minority shares in subsidiaries in the amount of NIS 51.3 million, mainly related to repurchase of PC shares in the market by PC.
- (v) Proceeds from the sale of deposits and marketable securities in the amount of NIS 183.5 million executed by us.

## **2007**

- (i) Investment in a company that was initially consolidated in the amount of NIS 135.1 million in 2007 attributable to our investments in the Chennai Project in India.
- (ii) Purchase of property, plants and equipment, investment property and other assets in 2007 in the amount of NIS 339 million mainly attributable to the renovation of the Radisson Blu Bucharest Hotel in Romania and the acquisition of the Kochi project in India.
- (iii) Payment on account of land in 2007 in the amount of NIS 203 million related to an advance payment on account of the acquisition of land in the Bangalore project in India.
- (iv) Purchase of deposits and marketable securities in 2007 in the amount of NIS 422.8 million executed by us in 2007.
- (v) Proceeds from realization of investments in subsidiaries of NIS 483.7 million in 2007 attributable mainly from the sale of the "Ballet Institute Building" located in Budapest, Hungary and the sale of the Arena Herzliya shopping and entertainment center located in Israel.

### *Cash flow from financing activities*

Cash flow provided by financing activities decreased to NIS 308.9 million (\$81.8 million) in 2009 compared to NIS 965 million in 2008 and NIS 700 million in 2007.

Our cash flow provided by financing activities in 2009, 2008 and 2007 was influenced by the following factors:

## **2009**

- (i) Interest paid in cash by us in the amount of NIS 320 million (approximately \$85 million) on our borrowings (mainly notes issued by us and PC and loans provided to our hotels).
- (ii) Proceeds from borrowings, net, of repayment of loans in the amount of NIS 368 million (approximately \$98 million), mainly attributable to the funds raised by PC and us from unsecured non-convertible and convertible notes issued during 2009.
- (iii) Proceeds from short-term credit in the amount of NIS 272 million (approximately \$72 million), mainly attributable to new loans raised by PC during 2009 in order to finance the construction of its trading property.
- (iv) Repayment by us of short-term credit in the amount of NIS 83 million (approximately \$22 million) related to financial instrument.
- (v) Proceeds from selling derivatives in the amount of NIS 72 million (approximately \$19 million).

## **2008**

- (i) Proceeds from borrowings, net, of repayment of loans in the amount of NIS 1,034 million, mainly attributable to the funds raised by PC and us from unsecured non-convertible notes issued during 2008.
- (ii) A dividend payment by us to our shareholders in the amount of NIS 168 million.
- (iii) A dividend payment to minority shareholders of PC in the amount of NIS 97.8 million.
- (iv) Proceeds from short-term credit in the amount of NIS 526.7 million, mainly attributable to new loans raised by PC during 2008 in order to finance the construction of its trading property.
- (v) Interest paid in cash by us in the amount of NIS 333.3 million on our borrowings (mainly notes issued by us and PC and loans provided to our investees in the hotel segment).

## **2007**

- (i) Proceeds from borrowings net of repayment of loans were NIS 1432.7 which are mainly attributable to the funds raised by us and PC from unsecured non-convertible notes issued during 2007.
- (ii) A dividend payment in 2007 of NIS 160.4 million.
- (iii) Repayment of short-term credit in the amount of NIS 323.7 million mainly related to repayment of short-term credit as a result of disposal of PC's project companies during 2007.

### *Major balance sheet changes*

The following table discloses the balance sheet balances in NIS million and major balance sheet items as a percentage of total assets as of December 31, 2009, 2008 and 2007:

|   | <b>2009</b>        |          | <b>2008</b>          |          | <b>2007</b>            |          |
|---|--------------------|----------|----------------------|----------|------------------------|----------|
|   | <b>NIS million</b> | <b>%</b> | <b>NIS million</b>   | <b>%</b> | <b>NIS million</b>     | <b>%</b> |
| Current assets                                | 6,778              | 72.4%    | 6,077 <sup>(*)</sup> | 70%      | 5,808 <sup>(*)</sup>   | 68.6%    |
| Current liabilities                           | 2,757              | 29.4%    | 2,019 <sup>(*)</sup> | 23%      | 935.3                  | 11%      |
| Non-current assets                            | 2,586              | 27.6%    | 2,615 <sup>(*)</sup> | 30 %     | 2,639.3 <sup>(*)</sup> | 31.2%    |
| Non-current liabilities                       | 4,472              | 47.8%    | 4,235 <sup>(*)</sup> | 48.7%    | 4,283.3                | 50.7%    |
| <b>Shareholders' equity:</b>                  |                    |          |                      |          |                        |          |
| Attributable to equity holders of the Company | 940                | 10%      | 1,373.7              | 15.8%    | 2,035.4                | 24%      |
| Minority interest                             | 1,195              | 12.8%    | 1,064                | 12.2%    | 1,193.6                | 14.1%    |

(\*) reclassified

### **2009 compared to 2008**

The increase in current assets of NIS 701 million (approximately \$186 million) in 2009 is mainly attributable to an increase in our trading property mainly in Romania (the Casa Radio and Plaza BAS projects), Bulgaria (Sophia project), Czech Republic (Liberec project), Latvia (Riga project), India (Bangalore, Koragon Park and Chennai projects) and initial consolidation of the "Dream Island" project in Hungary in mid 2009.

The increase in current liabilities of NIS 738 million (approximately \$196 million) in 2009, was mainly due to: (i) an increase in current maturity of long-term loans and notes in the amount of NIS 476 million (approximately \$126 million) mainly attributable to non-compliance of our subsidiaries with the financial covenants included in the long term loan agreement; (ii) long-term loans provided to PC for construction of commercial centers, which are classified as short term credit in parallel to the classification of the shopping centers assets as trading property within the current assets; and (iii) an increase in principal payment of loans and notes expected to be executed in 2009.

#### 2008 compared to 2007

The increase in current liabilities of NIS 1,084 million in 2008, was mainly due to: (i) an increase in current maturity of long-term loans in the amount of NIS 573 million (\$150.6 million), mainly attributable to non-compliance of our subsidiaries with the financial covenants included in the long term loan agreement; (ii) long-term loans provided to PC for construction of commercial centers and which are classified as short term credit in parallel to the classification of the shopping centers assets as trading property within the current assets; and (iii) principal payment of loans and notes expected to be executed in 2009.

#### *Concentration of Credit Risk*

We hold cash and cash equivalents, short term investments and other long-term investments in financial instruments (mainly investments in notes of foreign financial institutions - see note 9A. to our annual consolidated financial statements included in this annual report) in various reputable banks and financial institutions. These banks and financial institutions are located in different geographical regions, and it is our policy to disperse our investments among different banks and financial institutions. Our maximum credit risk exposure is equal to the financial assets presented in the balance sheet.

Due to the nature of their activity, our subsidiaries operating in the hotel, image guided treatment and fashion merchandise segments, are not materially exposed to credit risks stemming from dependence on a given customer. Our subsidiaries examine the credit amounts extended to their customers on an ongoing basis and, accordingly, record a provision for doubtful debts based on factors they believe to have an effect on specific customers. As of December 31, 2009 and 2008 our trade receivables do not include any significant amounts due from buyers of trading property.

#### **Derivative Instruments**

For information on financial instruments used, profile of debt, currencies and interest rate structure, see "Item 11. Quantitative and Qualitative Disclosure about Market Risks" below.

#### **Other Loans**

We have entered into or assumed liability for various financing agreements, either directly or indirectly through our subsidiaries, to provide capital for the purchase, construction, and renovation and operation of shopping and entertainment centers and hotels as well as for various investments in our other operations. In our opinion, our working capital is sufficient for our current requirements; however, our subsidiaries will continue to borrow funds from time to time to finance their various projects. Set forth below is certain material information with respect to material loans extended to us, our subsidiaries and our jointly controlled companies as of December 31, 2009.

The loans granted to our jointly controlled companies are presented in the table at their 100% amount, unless otherwise specified:

| Borrower                         | Lender   | Original Amount                    | Amount Outstanding on Dec. 31, 2009 | Interest                                 | Payment Terms  |
|----------------------------------|--|------------------------------------|-------------------------------------|--|--|
| <b>EI</b>                        | Series A Notes issued to the public  | NIS 567.6 million + NIS 30 million | NIS 600 million                     | 6% per annum, linked to the Israeli CPI. | 10 semi-annual installments commencing August 2009 through 2014<br>Interest payable by semi-annual installments commencing 2006 through 2014 |
| Principal Security and Covenants | Unsecured  |                                    |                                     |  |  |
| Other Information                | <p>The notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>The notes were rated, as of December 31, 2009, by Midroog Ltd. an affiliate of Moody's Investors Services ("Midroog") at an A2/Stable rating and by Maalot, the Israel Securities Rating Company Ltd. an affiliate of Standard and Poors ("Maalot") at A/Stable rating, on a local scale.</p> <p>Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market.</p> <p>In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. As at December 31, 2009, no such repurchases were made.</p> |                                    |                                     |  |  |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest      | Payment Terms  |
|----------------------------------|---|-----------------|-------------------------------------|---------------|--|
| <b>EI</b>                        | Series B Notes issued to the public   | \$14.8 million  | \$ 13.2 million                     | Libor + 2.65% | 10 semi-annual installments commencing August 2009 through 2014<br>Interest payable by semi-annual installments commencing 2006 through 2014 |
| Principal Security and Covenants | Unsecured   |                 |                                     |               |  |
| Other Information                | <p>The Notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>The notes were rated, as of December 31, 2009, by Midroog at an A2/Stable rating and by Maalot, at A/Stable rating, on a local scale.</p> <p>Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market. In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. As at December 31, 2009, no such repurchases were made.</p> |                 |                                     |               |  |

| Borrower                         | Lender  | Original Amount   | Amount Outstanding on Dec. 31, 2009 | Interest                                   | Payment Terms  |
|----------------------------------|---|-------------------|-------------------------------------|--|--|
| <b>EI</b>                        | Series C Notes issued to the public   | NIS 458.6 million | NIS 447.2 million                   | 5.3% per annum, linked to the Israeli CPI. | 10 annual installments commencing September 2009 through 2018<br>Interest payable by semi-annual installments commencing 2007 through 2014 |
| Principal Security and Covenants | Unsecured   |                   |                                     |  |  |
| Other Information                | <p>The Notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>The notes were rated, as of December 31, 2009, by Midroog at an A2/Stable rating and by Maalot, at A/Stable rating, on a local scale.</p> <p>Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market. In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. As at December 31, 2009, no such repurchases were made.</p> |                   |                                     |  |  |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest                                 | Payment Terms   |
|----------------------------------|---|-----------------|-------------------------------------|--|---|
| <b>EI</b>                        | Series D Notes issued to the public   | NIS 620 million | NIS 698.8 million                   | 5% per annum, linked to the Israeli CPI. | 8 annual installments commencing April 2013 through 2020<br>Interest payable by semi-annual installments commencing 2007 through 2020 |
| Principal Security and Covenants | Unsecured   |                 |                                     |  |   |
| Other Information                | <p>The Notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>The notes were rated, as of December 31, 2009, by Midroog at an A2/Stable rating and by Maalot, at A/Stable rating, on a local scale. Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market.</p> <p>In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. As at December 31, 2009, no such repurchases were made.</p> |                 |                                     |  |   |

| Borrower  | Lender                | Original Amount  | Amount Outstanding on Dec. 31, 2009 | Interest        | Payment Terms                               |
|-----------|-----------------------|------------------|-------------------------------------|-----------------|---|
| <b>EI</b> | Series E Notes issued | NIS 66.3 million | NIS 71.7 million                    | 6.3% per annum, | 10 annual installments commencing July 2012 |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest                   | Payment Terms   |
|----------------------------------|---|-----------------|-------------------------------------|----------------------------|---|
|                                  | to the public   |                 |                                     | linked to the Israeli CPI. | through 2021<br>Interest payable by semi-annual installments commencing 2007 through 2021 |
| Principal Security and Covenants | Unsecured   |                 |                                     |                            |   |
| Other Information                | <p>The Notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>The notes were rated, as of December 31, 2009, by Midroog at an A2/Stable rating and by Maalot, at A/Stable rating, on a local scale.</p> <p>In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. As at December 31, 2009, no such repurchases were made.</p> |                 |                                     |                            |   |

| Borrower                         | Lender  | Original Amount  | Amount Outstanding on Dec. 31, 2009 | Interest                                   | Payment Terms   |
|----------------------------------|---|--|-------------------------------------|--|---|
| <b>ET</b>                        | Series F Notes issued to the public   | NIS 336.2 million and NIS 30 million + NIS 141.6 million | NIS 549.5 million                   | 5.7% per annum, linked to the Israeli CPI. | 6 annual installments commencing October 2010 through 2015<br>Interest payable by semi-annual installments commencing 2008 through 2015 |
| Principal Security and Covenants | Unsecured   |  |                                     |  |   |
| Other Information                | <p>The Notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>The notes were rated, as of December 31, 2009, by Midroog at an A2/Stable rating and by Maalot, at A/Stable rating, on a local scale.</p> <p>In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. As at December 31, 2009, no such repurchases were made.</p> |  |                                     |  |   |

| Borrower  | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest         | Payment Terms  |
|-----------|---|-----------------|-------------------------------------|------------------|--|
| <b>ET</b> | Series 1 Convertible Notes issued to the public | NIS 112 million | NIS 99 million                      | 6.25% per annum. | First half to be paid on December 31, 2013, and second half on December 31, 2014 |

| Borrower                         | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest | Payment Terms |
|----------------------------------|--|-----------------|-------------------------------------|----------|---------------|
| Principal Security and Covenants | Unsecured.   |                 |                                     |          |               |
| Other Information                | The Series 1 Convertible Notes are convertible into our shares at the price of NIS 128 per share until July 31, 2013 and at the price of NIS 200 per share thereafter. |                 |                                     |          |               |

| Borrower                         | Lender  | Original Amount               | Amount Outstanding on Dec. 31, 2009 | Interest      | Payment Terms  |
|----------------------------------|---|-------------------------------|-------------------------------------|---------------|--|
| <b>El</b>                        | Bank Hapoalim B.M.  | €33.4 million<br>\$20 million | €33.4 million<br>\$20 million       | Libor + 1.75% | Loan for 10 years to be repaid by December 2012.<br>Repayment is affected by semi-annual installments of principal and interest. |
| Principal Security and Covenants | <p>Proceeds received from (i) public or private offerings of our securities (and/or of our subsidiaries financed by this loan); (ii) a business merger; (iii) realization of assets and/or investments; (iv) refinancing or any other receipt of capital by us (and/or our subsidiaries, as detailed above); - such proceeds, if in respect will be used first to repay the loan;</p> <p>Net amounts received from realization of the shares of PC or its subsidiaries, by means of sale or issuance to a third party or the sale of a project owned thereby (in full or in part), will serve to repay those parts of the loan which were utilized to finance same investment;</p> <p>Part of the net amounts to be received from refinancing will be used initially for repayment of this loan, as long as the total balance of the loans exceeds \$40 million.</p> <p>Maintain a minimum rate of Adjusted Shareholder's Equity to Adjusted Balance Sheet Value.</p> <p>Net Operating Profit (before deductions for depreciation and amortization relating to net operating profit) shall be at each June 30 of every year no less than a prescribed amount.</p> <p>The above covenants do not apply in circumstances where (i) the net loan amount is less than \$30 million; and (ii) the total amount outstanding under a loan granted by Bank Hapoalim to our parent company - Europe Israel - is less than \$30 million; and (iii) no event of default has occurred under the loan agreement.</p> |                               |                                     |               |  |
| Other Information                | We are conducting negotiations with Bank Hapoalim with the view of mutually reschedule the rate and scope of repayments and the other terms of credit, and all following the transactions for the sale of shopping and entertainment centers, our issuance of Notes, and PC's initial public offering of shares.<br>Under our negotiations with the bank, we have agreed that, neither accelerated repayment nor compliance with financial covenants shall be required until January 1, 2011, save for the covenant in respect of the Adjusted Shareholder's Equity over Adjusted Balance Sheet Value with which we comply. Also in accordance with the understanding with the bank, the latter will not demand payment of principal amounts under the loan agreement until January 1, 2011.  |                               |                                     |               |  |



| Borrower                         | Lender   | Original Amount                | Amount Outstanding on Dec. 31, 2009 | Interest   | Payment Terms                        |
|----------------------------------|--|--------------------------------|-------------------------------------|------------|--------------------------------------|
| <b>EI</b>                        | Bank Leumi Le-Israel B.M.  | \$19.1 million<br>\$11 million | \$24.2 million<br>(aggregate)       | Libor + 2% | Short term revolving credit facility |
| Principal Security and Covenants |  |                                |                                     |            |                                      |
| Other Information                | Negative pledge provided in respect of the majority shares in Elscint. |                                |                                     |            |                                      |

| Borrower                         | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest | Payment Terms                             |
|----------------------------------|--|-----------------|-------------------------------------|----------|---|
| <b>EUBV</b>                      | BHF-Bank                                       | €15 million     | €15 million                         | 1.76%    | This loan was fully repaid in early 2010. |
| Principal Security and Covenants |  |                 |                                     |          |   |
| Other Information                | Loan was used for purchase of financial notes. |                 |                                     |          |   |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest                                   | Payment Terms   |
|----------------------------------|---|-----------------|-------------------------------------|--|---|
| <b>PC</b>                        | Series A Notes issued to the public   | NIS 305 million | NIS 323.1 million *                 | 4.5% per annum, linked to the Israeli CPI. | 8 equal annual installments commencing December 31, 2010 through December 31, 2017.<br>Interest payable by semi-annual installments commencing 31 December, 2007 through 31 December, 2017. |
| Principal Security and Covenants | Unsecured   |                 |                                     |  |   |
| Other Information                | The Notes have been registered for trade on the TASE.<br>The Notes are not registered under the Securities Act. |                 |                                     |  |   |

| Borrower | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest | Payment Terms |
|----------|--|-----------------|-------------------------------------|----------|---------------|
|          | <p>The notes were rated, as of December 31, 2009, at A2/Stable by Midroog on a local scale, and IIA/Stable by Maalot on a local scale.</p> <p>* presented at fair value through profit and loss.</p> <p>PC has executed forward transactions with Israeli banks in order to hedge the currency risk associated with these NIS denominated notes.</p> |                 |                                     |          |               |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest                                  | Payment Terms  |
|----------------------------------|---|-----------------|-------------------------------------|---|--|
| <b>PC</b>                        | Series B Notes issued to the public   | NIS 943 million | NIS 1,021.8 million *               | 5.4% per annum, linked to the Israeli CPI | 5 equal annual installments commencing July 2011 through July 2015.<br>Interest payable by semi-annual installments commencing July 2008 through July 2015 |
| Principal Security and Covenants | Unsecured   |                 |                                     |   |  |
| Other Information                | <p>The Notes have been registered for trade on the TASE.</p> <p>The Notes are not registered under the Securities Act.</p> <p>The notes were rated, as of December 31, 2009 at A2/Stable by Midroog on a local scale.</p> <p>* NIS 870.6 million are presented at fair value through profit and loss and NIS 151.2 million are presented at amortized cost.</p> <p>PC has executed forward transactions with Israeli banks in order to hedge the currency risk associated with these NIS denominated notes.</p> |                 |                                     |   |  |

| Borrower                         | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest       | Payment Terms   |
|----------------------------------|--|-----------------|-------------------------------------|----------------|---|
| <b>PC</b>                        | Merrill Lynch  | €37 million     | €36.2 million                       | Euribor + 0.4% | €26.2 million to be repaid in 2023 and €10 million in 2018. |
| Principal Security and Covenants | <p>a pledge on financial notes and deposits.</p> <p>Comply with certain covenants stipulated in the loan agreement including a minimum value of collateral. Failing to comply with the said covenants shall oblige the borrower to provide an additional cash collateral. As of December 31, 2009, PC has provided the bank with additional cash collateral of €9.5 million.</p> |                 |                                     |                |   |
| Other Information                | Loan was used for purchase of financial notes.   |                 |                                     |                |   |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest       | Payment Terms              |
|----------------------------------|---|-----------------|-------------------------------------|----------------|----------------------------|
| <b>PC</b>                        | FIBI Bank   | €7 million      | €7 million                          | Euribor + 0.5% | Revolving credit facility. |
| Principal Security and Covenants | Floating charge over PC's assets with the bank, including securities. |                 |                                     |                |                            |
| Other Information                |   |                 |                                     |                |                            |

| Borrower                         | Lender  | Facility Amount | Amount Outstanding on Dec. 31, 2009 | Interest       | Payment Terms  |
|----------------------------------|---|-----------------|-------------------------------------|----------------|--|
| <b>Riga Plaza</b>                | MKB BANK ZRT, SEB UNIBANKA, AS "UNICREDIT BANK"   | €36.4 million   | €36.4 million                       | Euribor + 2.5% | Expires on 2014 June 30. Quarterly annuity payments calculated according to 25 years amortization, with balloon payment. |
| Principal Security and Covenants | <p>registered first ranking mortgage on the real estate;<br/> assignment of all rights under relevant valid insurance policies;<br/> charges over each quota owned by PC in the borrower or share pledge agreement;<br/> assignment of all rights and claims under the construction agreements and construction warranties;<br/> first ranking pledges on the borrowers' accounts;<br/> prompt collection right to debit any of the bank accounts of the borrower;<br/> corporate guarantee of PC to invest equity up to a prescribed debt service cover ratio, in the event Riga Plaza is not sold 6 months following opening or the proceeds of such sale do not cover the repayment of the loan balance;</p> |                 |                                     |                |  |
| Other Information                |   |                 |                                     |                |  |

| Borrower           | Lender        | Original Amount * | Amount Outstanding on Dec. 31, 2009 | Interest        | Payment Terms   |
|--------------------|---------------|-------------------|-------------------------------------|-----------------|---|
| <b>Sofia Plaza</b> | Investec Bank | €8.2 million      | €8.2 million                        | Euribor + 2.25% | Only interest payments. Maturity of the loan is 26 April, |

| Borrower                         | Lender  | Original Amount * | Amount Outstanding on Dec. 31, 2009 | Interest | Payment Terms |
|----------------------------------|---|-------------------|-------------------------------------|----------|---------------|
|                                  |   |                   |                                     |          | 2011.         |
| Principal Security and Covenants | registered first ranking mortgage on the real estate. first ranking pledges on the borrowers' accounts. |                   |                                     |          |               |
| Other Information                | * amounts represent our share in such loans.  |                   |                                     |          |               |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest                    | Payment Terms  |
|----------------------------------|---|-----------------|-------------------------------------|-----------------------------|--|
| <b>Airplane loan</b>             | GEFA Germany  | €3.35 million   | €3.0 million                        | USD Libor + 1.65% per annum | Maturity of the loan is 5 March 2014, with a 75% balloon. Quarterly principle payments are \$60,500. |
| Principal Security and Covenants | first priority aircraft mortgage entered onto the Hungarian Aircraft Register at the CAA, Budapest. assignment of insurance proceeds. |                 |                                     |                             |  |
| Other Information                | Loan serves to finance the purchase of a company airplane.  |                 |                                     |                             |  |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest    | Payment Terms   |
|----------------------------------|---|-----------------|-------------------------------------|-------------|---|
| <b>Koregaon Park</b>             | SBM, SBI, SBH (India)   | €32.8 million   | €5.1 million                        | 12.25% p.a. | Part of the loan is to be repaid by October 2010 with the rest due in March 2021. |
| Principal Security and Covenants | assignment of insurance proceeds.                               |                 |                                     |             |   |
| Other Information                | Corporate guarantee of owners. Pledge on assets of the company. |                 |                                     |             |   |

| Borrower                         | Lender  | Facility amount | Amount Outstanding on Dec. 31, 2009 | Interest                | Payment Terms  |
|----------------------------------|---|-----------------|-------------------------------------|-------------------------|--|
| <b>Liberec Plaza</b>             | MKB BANK Zrt.,<br>ERSTE Bank AG   | €39.2 million   | €38.0 million                       | Euribor+ 3.5% per annum | Expires on December 31, 2014. Quarterly repayments according to 20 years fully pay out amortisation, with bullet payment |
| Principal Security and Covenants | <p>registered first ranking mortgage and purchase option right on the real estate;<br/> assignment of all rights under relevant valid insurance policies;<br/> share pledge agreement;<br/> assignment of all rights and claims under the construction agreements and construction warranties;<br/> first ranking pledges on the borrowers' accounts;<br/> prompt collection right to debit any of the bank accounts of the borrower;<br/> completion guarantee of PC for the term of the construction<br/> Debt service cover ratio as prescribed in the agreement.<br/> Corporate guarantee of PC for Debt Service.</p> |                 |                                     |                         |  |
| Other Information                | On March 19, 2010, the project company entered into an amended agreement with the two banks and reduced the amount of the loan to below €25 million with an increased interest margin.  |                 |                                     |                         |  |

| Borrower                         | Lender  | Original Amount *                                       | Amount Outstanding on Dec. 31, 2009                     | Interest   | Payment Terms   |
|----------------------------------|---|---|---|--|---|
| <b>Plaza BAS</b>                 | MKB Bank Zrt  | A: €3.63 million<br>B: €0.7 million<br>C: €0.75 million | A: €3.63 million<br>B: €0.7 million<br>C: €0.75 million | A: Euribor + 4.5% per annum<br>B: Euribor + 4.75% per annum<br>C: Euribor + 2.5% | A: October 2009;<br>B: Repayment of 50% over a ten year period commencing June 30, 2010 and the remaining 50% at the end of such term.<br>C: 24 months after the first drawdown of Facility B |
| Principal Security and Covenants | First ranking mortgage on the properties.<br>Corporate guarantee of Owners. |   |   |  |   |
| Other Information                | * amounts represent PC's share in such loans.                               |   |   |  |   |

| Borrower                           | Lender  | Original Amount                             | Amount Outstanding on Dec. 31, 2009         | Interest                      | Payment Terms   |
|------------------------------------|---|---|---|-------------------------------|---|
| <b>ProOne Kft (Buszsz Project)</b> | MKB Bank Zrt  | CHF 21 million (approximately \$19 million) | CHF 21 million (approximately \$19 million) | 3M CHF Libor + 1.9% per annum | Expires May 31, 2010. Quarterly interest payments balloon payment at the end. |
| Principal Security and Covenants   | Pledge on shares of borrower.<br>Loan to value ratio 70%. |   |   |                               |   |
| Other Information                  | Currently being renegotiated.                             |   |   |                               |   |

| Borrower                         | Lender  | Original Amount                            | Amount Outstanding on Dec. 31, 2009    | Interest  | Payment Terms   |
|----------------------------------|---|--|--|---|---|
| <b>Dream Island 2004 Kft</b>     | MKB Bank Zrt  | €54.1 million<br>€5 million<br>Frame loans | I - €39.5 million<br>II - €3.2 million | 3M Euribor + 3 % per annum<br>3M Euribor + 3.2% per annum | Expires December 31, 2010. Quarterly interest payments balloon payment at the end.<br>II- Expires December 31, 2010. Quarterly interest payments balloon payment at the end |
| Principal Security and Covenants | First ranking mortgage on the property;<br>Pledge on shares of borrower;<br>Assignment of income;<br>Recourse of €10 million (PCNV owners guarantee);<br>Floating charge over the assets;<br>Assignment of insurance;<br>Loan to value ratio 80%.     |  |  |   |   |
| Other Information                | PC has committed to repay 43.5% of the outstanding part of the Alom Sziget bank loan in the amount of €21 million in case Alom Sziget fails to do so. See note 8C (i) to our annual consolidated financial statements included in this annual report. |  |  |   |   |

| Borrower             | Lender              | Original Amount   | Amount Outstanding on Dec. 31, 2009 | Interest           | Payment Terms                                      |
|----------------------|---------------------|-------------------|-------------------------------------|--------------------|--|
| <b>Suwalki Plaza</b> | ING Bank Hipoteczny | I - €42.2 million | I - €6.4 million                    | Euribor + 1.8% per | Expires December 31, 2020. Quarterly payments with |

| Borrower                            | Lender  | Original Amount        | Amount Outstanding on Dec. 31, 2009 | Interest                                     | Payment Terms  |
|-------------------------------------|---|------------------------|-------------------------------------|--|--|
|                                     | S.A.<br>ING Bank Slaski S.A   | II - PLN 8.125 million | II - PLN 3.9 million                | annum<br>WIBOR (for PLN) +<br>1.5% per annum | fixed principle amounts and €33.3 million balloon<br>payment at the end.<br>II- September 2010 |
| Principal Security<br>and Covenants | First ranking mortgage on the property;<br>Pledge on shares of borrower;<br>Assignment of insurance;<br>Cost overrun guarantee of PC up to 10% of construction costs;<br>Loan to value ratio; |                        |                                     |  |  |
| Other<br>Information                |   |                        |                                     |  |  |

| Borrower                            | Lender   | Original Amount                            | Amount Outstanding on Dec. 31, 2009      | Interest   | Payment Terms   |
|-------------------------------------|--|--|--|--|---|
| <b>Zgorzelec Plaza</b>              | Bank Zachodni WBK<br>S.A.  | I - €35.1 million<br>II - PLN 24.3 million | I - €7.9 million<br>II - PLN 2.6 million | I - Euribor + 2.75%<br>per annum for<br>construction<br>period and Euribor<br>+ 2.5% per annum<br>thereafter<br>II - WIBOR (for<br>PLN) + 1.6% | I - Expires December 31, 2016.<br>II - End of construction. |
| Principal Security<br>and Covenants | A first ranking mortgage on the property;<br>Pledge on shares of borrower;<br>Assignment of insurance;<br>Completion and cost overrun guarantee of PC;<br>Maintain a debt service cover ratio;<br>Loan to construction cost ratio;<br>Loan to value ratio. |  |  |  |   |
| Other<br>Information                |  |  |  |  |   |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest        | Payment Terms  |
|----------------------------------|---|-----------------|-------------------------------------|-----------------|--|
| <b>Praha Plaza s.r.o</b>         | Erste Bank AG   | €7.5 million    | €5.04 million                       | Euribor + 1.75% | Quarterly payments of €117,200, beginning on December 31, 2004. The remaining amount will be paid in one installment on December 31, 2016. Quarterly payment of interest until 2016. |
| Principal Security and Covenants | First ranking pre-emption right regarding the property.<br>Pledge on shares of Borrower, on accounts, on receivables from the lease agreements.<br>Assignment of insurance.<br>Maintenance of Debt Service Cover Ratio. |                 |                                     |                 |  |
| Other Information                |   |                 |                                     |                 |  |

| Borrower                         | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest      | Payment Terms  |
|----------------------------------|--|-----------------|-------------------------------------|---------------|--|
| <b>Elscint Ltd.</b>              | Bank Hapoalim B.M.   | €9.6 million    | €9.6 million                        | Libor + 1.75% | 50% to be paid on December 31, 2010 and 50% on December 31, 2015. The agreement also provides accelerated prepayment of the loan in the event that the subsidiaries financed by such loan were disposed of, merged, executed a refinancing agreement or an IPO and the like. |
| Principal Security and Covenants | Principal Security:<br>First and second ranking pledges over certain shares of some of Elscint's subsidiaries, within its hotel operations and Mango.<br>Maintain a ratio of Adjusted Shareholder's Equity to Adjusted Balance Sheet Value;<br>Proceeds received from (i) public or private offerings of Elscint's securities (and/or of its subsidiaries financed by this loan); (ii) a business merger; (iii) realization of assets and/or investments; (iv) refinancing or any other receipt of capital by Elscint (and/or its subsidiaries, as detailed above); - such proceeds will be used first to repay the loans; |                 |                                     |               |  |
| Other                            | Under negotiations with Bank Hapoalim regarding re-examination of certain terms of the loan, the bank has furnished Elscint, on December 31, 2009, with a  |                 |                                     |               |  |



| Borrower    | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest | Payment Terms |
|-------------|--|-----------------|-------------------------------------|----------|---------------|
| Information | waiver, valid through January 1, 2011, in respect of repayment of a principal amount of € 9.6 million subject to repayment of all interest payment, and compliance of financial covenants, save for the Adjusted Shareholder's Equity over Adjusted Balance Sheet Value which Elscint maintains. |                 |                                     |          |               |

| Borrower  | Lender  | Original Amount * | Amount Outstanding on Dec. 31, 2009 * | Interest   | Payment Terms   |
|---|---|-------------------|---------------------------------------|--|---|
| <b>Riverbank Hotel Holding BV; Victoria Hotel holding BV; Grandis Hotel Holding BV;</b> | Goldman Sachs International   | £195 million      | £185.4 million                        | Libor + 3%. The interest was fixed under a swap transaction at a rate of 7.72% per annum | 0.375% of the principal is payable in quarterly installments throughout a period of 4 years commencing May 2007 and the remaining principal is due in 2011. The borrowers have an option to extend the term by two years, subject to certain terms. |
| Principal Security and Covenants  | First ranking mortgage over the properties; First ranking pledges over the entire share capital of the borrowers;<br>First ranking pledges over any companies owned by the borrowers;<br>An assignment of rent, insurance proceeds and the hedging agreements, as well as a fixed charge over specified bank accounts.<br>Undertaking to maintain net operating income to debt service.<br>Prohibition of dividend distribution.  |                   |                                       |  |   |
| Other Information   | In the event of any cash distribution deriving from the sale, disposal or refinancing of the hotels, or upon repayment of the loan at the end of term, (transactions), the borrowers shall pay to the financing bank an amount equivalent to 15% of the difference between the market value of the hotels as determined in such transaction and the value of the hotels as agreed upon, as at the grant of the current loan;<br>* our respective share in the such amount is 50%.<br>For information regarding our compliance with financial covenants, see note 23E.(3)(ii) to our annual consolidated financial statements included in this annual report |                   |                                       |  |   |

| Borrower   | Lender      | Original Amount **                                   | Amount Outstanding on Dec. 31, 2009 **                | Interest                                | Payment Terms  |
|--|-------------|--|---|---|--|
| <b>Victoria Hotel C.V., Utrecht Victoria Hotel B.V. Mandarin Hotel BV(*)</b> | Aareal Bank | Victoria: €56.35 million<br>Utrecht: €13.7 million * | Victoria: €54.9.8 million<br>Utrecht: €13.3 million * | fixed interest rate of 5.266% per annum | Quarterly repayments of a gradually increasing amount, commencing March 2010 ending with a Bullet repayment on September 30, 2014. |

| Borrower                         | Lender   | Original Amount<br>** | Amount Outstanding on<br>Dec. 31, 2009 ** | Interest | Payment Terms |
|----------------------------------|--|-----------------------|---|----------|---------------|
| Principal Security and Covenants | Mortgage on both hotels.<br>First ranking pledge on moveable assets, bank accounts, rights of the borrowers under their operating agreements and insurance receivables.<br>First ranking pledge on shares of borrowers.  |                       |   |          |               |
| Other Information                | <p>* Mandarin Hotel is wholly owned by Park Plaza. Total amount of the loan granted to all three parties was €78 million. The parties have executed an internal reimbursement agreement for liabilities borne by the joint hotels in respect of that part of the loans attributed to Mandarin, and vice versa;</p> <p>** our respective share in the such amounts is 50%</p> |                       |   |          |               |

| Borrower                         | Lender  | Original Amount | Amount Outstanding on<br>Dec. 31, 2009 * | Interest        | Payment Terms  |
|----------------------------------|---|-----------------|--|-----------------|--|
| <b>Victoria Monument BV</b>      | Bank Hapoalim B.M.  | €14 million     | €14 million                              | Euribor + 2.25% | Revolving credit facility. Interest is payable on a quarterly basis. |
| Principal Security and Covenants | <p>Fixed charge over account; Charge over the property; Charge over Purchase Agreement of the property; Charge over the shares held in the borrower; owners guarantee provided by us (in respect of our share in the property) and the partner;</p> <p>Each of the guarantors must beneficially own 50% of the share capital of the borrower.</p> <p>Prohibition on the distribution of dividends by the borrowers, in cash or in kind or making any other distribution without lender's prior consent.</p> |                 |  |                 |  |
| Other Information                | * our respective share in the such amounts is 50%   |                 |  |                 |  |

| Borrower                         | Lender   | Original Amount | Amount Outstanding on<br>Dec. 31, 2009 | Interest       | Payment Terms   |
|----------------------------------|--|-----------------|--|----------------|---|
| <b>Bucuresti Turism SA</b>       | Piraeus Bank   | €46 million     | €44.7 million                          | Euribor + 3.5% | The loan is being repaid in 30 quarterly installments of €1.3 million each, commencing December 2009 and the last installment of €6.9 million.. Interest is payable on a quarterly basis. |
| Principal Security and Covenants | <p>First rank mortgage on the Radisson Blu Bucharest Hotel and the Centerville Hotel;</p> <p>Future and existing cash flow through the bank accounts opened at Piraeus Bank;</p> <p>pledge of receivables arising from lease agreements and insurance policies concluded by the borrower;</p> <p>Cash deposit of approximately €0.5 million was deposited on March 31, 2009. Maintain a debt service cover ratio as prescribed in the agreement.</p> |                 |  |                |   |
| Other Information                | A guarantee from Elscint in maximum value of the total commitments plus any interest accruing and any other present and/or future debts relating the credit agreement.   |                 |  |                |   |

| Borrower                         | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest        | Payment Terms   |
|----------------------------------|--|-----------------|-------------------------------------|-----------------|---|
| <b>Astrid Plaza Hotel NV</b>     | Bank Hapoalim  | €24.4 million   | €21.25 million                      | Euribor + 1.75% | Semi-annual principal repayment of €625,000 to be paid at the end of each 6 months commencing December 31, 2007 and ending on December 31, 2016;<br>€12,500,000 to be paid at the end of the term (December 31, 2016);<br>Interest is payable on a semi-annual basis. |
| Principal Security and Covenants | <p>First ranking share pledge on Astrid Plaza shares;<br/>First ranking mortgage over Astrid Plaza's real estate;<br/>A mortgage mandate over Astrid Plaza's real estate;<br/>First ranking pledge on a reserve fund of €1 million which is blocked on a deposit account;<br/>Debt Service Cover Ratio;</p> <p>The Revenue per Total Available Rooms at the hotel shall not be less than prescribed rates for 2008 and 2009. As of December 31, 2009, the borrower is not in compliance with this covenant and therefore the loan is presented as a short term loan.</p> |                 |                                     |                 |   |
| Other Information                | We guaranty Astrid Plaza undertaking under the loan agreement. The guaranty is unlimited in amount.  |                 |                                     |                 |   |

| Borrower  | Lender  | Original Amount                  | Amount Outstanding on Dec. 31, 2009 | Interest             | Payment Terms                    |
|---|---|----------------------------------|-------------------------------------|----------------------|----------------------------------|
| <b>Astrid Plaza Hotel NV - for the Park Inn Hotel</b> | Fortis Bank   | A: €4 million<br>B: €3.5 million | A: €3.9 million<br>B: €3.4 million  | A: 5.56%<br>B: 4.66% | Repayment over a 15 year period. |
| Principal Security and Covenants                      | <p>A first ranking mortgage on the Park Inn hotel and its assets;<br/>subordination of loan granted by us to the borrower and undertaking not to reduce such loan below a given amount;<br/>compliance with certain financial and operational covenants;<br/>undertaking to maintain an equity/asset ratio.</p> <p>We have furnished the bank with a guarantee up to the amount of €1.37 million.</p> |                                  |                                     |                      |                                  |
| Other Information                                     |   |                                  |                                     |                      |                                  |

| Borrower                             | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest       | Payment Terms                        |
|--------------------------------------|--|-----------------|-------------------------------------|----------------|--------------------------------------|
| <b>Elbit Trade &amp; Retail Ltd.</b> | Bank Hapoalim  | NIS 33 million  | NIS 31.6 million                    | Prime + 1.25 % | Revolving short-term credit facility |
| Principal Security and Covenants     | Fixed mortgage on all Elbit Trade assets and a guaranty for the full amount from Elscint.  |                 |                                     |                |                                      |
| Other Information                    | An additional Stand By Letter of Credit has been provided by the Bank to Elbit Trade in the amount of €3.7 million in order to secure payment to third party suppliers |                 |                                     |                |                                      |

| Borrower                            | Lender   | Original Amount | Amount Outstanding on Dec. 31, 2009 | Interest      | Payment Terms                        |
|-------------------------------------|--|-----------------|-------------------------------------|---------------|--------------------------------------|
| <b>GB Brand Limited Partnership</b> | Bank Leumi   | NIS 7.7 million | NIS 7.7 million                     | Prime + 0.3 % | Revolving short-term credit facility |
| Principal Security and Covenants    | Fixed mortgage on all Elbit Trade assets and a guaranty for the full amount provided by us.  |                 |                                     |               |                                      |
| Other Information                   | An additional Stand By Letter of Credit has been provided by the Bank to GB in the amount of \$3.8 million in order to secure payment to third party suppliers |                 |                                     |               |                                      |

## Financial Instruments

For information on financial instruments used, profile of debt, currencies and interest rate structure, see "Item 11. Quantitative and Qualitative Disclosure about Market Risks" below.

## Material Commitments for Capital Expenditure

See " - Tabular Disclosure of Contractual Obligations" below.

## C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

The Israeli government encourages industrial companies by funding their research and development activities through grants by the Office of the Chief Scientist (the "OCS").

InSightec's research and development efforts have been financed, in part, through OCS grants. InSightec has received grants totaling \$21.4 million from the OCS since its inception in 1999 and is required to repay such grants through payment of royalties to the OCS at a rate of between 3% to 3.5% of its revenues until the entire amount is repaid.

InSightec's technology developed with OCS funding is subject to transfer restrictions, which may impair its ability to sell its technology assets or to outsource manufacturing. The restrictions continue to apply even after InSightec has paid the full amount of royalties payable for the grants. In addition, the restriction may impair InSightec's ability to consummate a merger or similar transactions in which the surviving entity is not an Israeli company.

In accordance with IFRS, such grants are recorded in the income statements if there is reasonable assurance that the grants will not be repaid. Otherwise, the grants are recorded as a liability and are measured at fair value at each balance sheet date. The fair value of the OCS grants as of December 31, 2009 and 2008 was NIS 31 million (approximately \$8.2 million) and NIS 31.4 million (approximately \$8.3 million), respectively.

Our total research and development expenses amounted to NIS 74 million (approximately \$20 million), NIS 68.7 million and NIS 69.5 million in the years ended December 31, 2009, 2008 and 2007, respectively.

The total OCS grants received by InSightec during 2009, 2008 and 2007 were \$2.9 million, \$2.6 million and \$1.5 million, respectively. These grants were recorded at fair value as part of our liabilities in our consolidated financial statements.

All research and development expenses included in our consolidated financial statements are attributed to InSightec.

## D. TREND INFORMATION

### *Shopping and Entertainment Centers*

Our shopping and entertainment business is affected by trends in each of the geographic areas in which we operate.

Over the past few years the retail market in CEE has experienced extraordinary growth. However, future growth may be affected by the recent decline in the global economy, which also influenced the European Union.

Until the recent global financial crisis, the **Czech** retail market was one of the most developed growing markets in CEE. Most of the leading retail groups operating in the Czech Republic are currently foreign-owned, as the local market has quickly adapted to the characteristics of Western markets. Consolidation in the market has already started and is gaining momentum, with developers and investors also turning to new shopping formats such as factory outlets, retail warehousing, urban shopping galleries and extensions of successful shopping centers. With the ongoing saturation of larger cities, the trend of regional retail development is continuing, with growing numbers of larger shopping projects such as shopping galleries, malls and retail parks being built in many regions.

Currently, the Czech Republic is very close to its economic cycle peak. The main limitations for the coming years will be the tightening labor market with a growing shortage of skilled workers and an accelerated price growth.

In **Hungary** the GDP is forecasted to be 6.3% lower in 2009 compared to growth of 0.6% in 2008. Stagflation fears are becoming evident as signs of rising inflation and a weak economy take effect. Economic growth however, is projected to resume in 2010 - 2011.

In **Poland** the GDP grew by 1.7% in 2009 and is forecast to increase by 3% in 2010, 4.5% in 2011 and 4.2% in 2012, although in recent years the Polish market has outperformed forecasts. Investment activities declined by 0.3% in 2009. Inflation increased by 3.9% in 2009. The National Polish Bank's projection of inflation is 1.3% to 2.2% for 2010, 1.7% to 3.1% for 2011 and 2.6% to 4.6% for 2012.

The **Romanian** economy over-performed in the first quarter of 2008, with higher than expected economic growth (8.2% compared to same period in the previous year) and an FDI volume in excess of approximately €1.7 billion. Although macroeconomic fundamentals remain strong in Romania, financial conditions are tightening as the National Bank of Romania (NBR) continues to raise interest rates, confirming concerns over higher than expected inflationary pressures. Sustainable economic growth, increasing revenues by the population and accelerated consumption in recent years were good incentives for retailers to expand their businesses firstly in Bucharest, with an estimated more than 30% of the total retail turnover in Romania; and then across the country. The supply of retail space in Bucharest is still exceeded by demand, and as a result the vacancy rate is close to zero.

The retail market in **Latvia** more than doubled in size over the last decade and in 2007 it was predicted to experience further growth over the following ten years. The chiefly consumption-driven growth in Latvia resulted in the collapse of the Latvian GDP in late 2008 and 2009, exacerbated by the global economic crisis and shortage of credit. The Latvian GDP declined by 16.9% in 2009. Latvia's economic situation was stabilized by international financial support, but a further decline of 2% is projected for 2010, with a continuing weak trend for the next two to three years. Inflation decreased from 15.4% in 2008 to 3.5% in 2009; however a deflation of 3.5% is projected in 2010. Inflation is expected to be 3.2% in 2011. At the same time Latvia continues to receive help from EC and IMF, this is seen as positive sign that costs reduction can be done effectively on the governmental level.

**Bulgaria** suffered a difficult year in 2009 due to the global financial crisis, which began affecting the Bulgarian market in the fourth quarter of 2008. Bulgaria recorded its worst economic results since 1997. GDP – declined by 5% annually to €33.899 billion, FDI decreased to €3.212 billion and the gross foreign debt reached €37.705 billion (111% of GDP). The slowdown in the country's business activity has led to a growing unemployment rate of 7.59%, which is likely to increase to in 2010. Inflation in 2009 was low, at a rate of 2.8%. The real estate market ground to a halt. At year end loan and credit interest rates started decreasing and positive expectations for economic growth in 2010 increased.

The **Indian** economy has recently experienced decline, as have other world economies. In 2009, India registered an average GDP growth rate of 6.25% with the help of fiscal stimulus by government comparing to 8.7% in 2008. Inflation in December 2009 reached a 12-month high and increased to 7.3%. Rising fuel and food costs are pushing inflation well above the government's target of between 5% and 5.5% for the year. GDP growth for 2009-2010 is projected at 7.75% a large factor for additional growth is the agricultural sector, which depends on having a good monsoon season in coming years. The FDI inflows of \$4.07 billion, have posted an impressive growth. Due to sustained domestic demand, India's industrial production grew at a better than expected 11.7%. Economic growth has declined since the early part of 2008 despite consistent farm output. The impact of an appreciating rupee coupled with relatively high and rising domestic inflation has resulted in some decline of export growth and a rise in imports. Domestic demand could suffer from a wave of aggressive interest rate hikes while investment, a vital driver of India's expansion in the past four years, may slow in the face of lower sales growth. India can only achieve strong and sustainable economic growth if it pursues a significant package of economic reforms.

### **Hotel Business**

Our hotel business is affected by trends in each of the geographic areas in which we operate.

The hotel industry was deeply affected by the recession and global financial crisis in 2009. Revpar declined sharply, in a way hardly seen before in Europe. All our hotels noted a drop in Revpar compared to previous years. The decline in occupancy that began in mid-2008, escalated during the first quarters of 2009. In the last quarter of 2009 occupancy level started to recover again. At the same time, the average rates started to decline in 2009. The cyclical effect of the economical downturn followed the same pattern as previous recessions, with an initial occupancy drop, later followed by decreases in average rates.

Throughout 2009 our hotels focused on controlling costs and cash preservation, and many cost saving programs were implemented. These efforts should contribute to improved results as the market recovers.

Forecasts for 2010 show mixed trends, with hoteliers suggesting decrease and others expecting a Revpar stabilization. In the first quarter of 2010 we mainly see an increase in occupancy but average rates are still low compared to the first quarter of 2009.

### ***Residential Projects***

The global economic crisis caused a slowdown in the residential market around mid-2008. In a bid to encourage sagging consumer confidence, private and nationalized banks lowered home loan rates during the last few months of 2008, although the impact was marginal. The reduced absorption in the residential market forced many developers to provide discounts in a bid to push sales. As a result of the slowdown most residential projects which were under development have either been deferred or stalled in lieu of the reduced demand for premium properties. This has shifted the focus from premium housing to affordable housing projects over the past year, primarily to target the end user driven middle class segment. The government on its part has facilitated the reduction of interest rates and lowered stamp duty charges to encourage residential buyers.

In India, the residential market in tier I cities like Mumbai, Bangalore, Chennai and Delhi has stabilized, and although some micro-markets are witnessing a price correction, it is less prominent now. In the aftermath of the slowdown, a limited amount of projects have been announced in urban areas and most of the projected supply results from the spillover from earlier residential developments. More mature residential markets are currently witnessing a revival with steady capital price appreciation since the last quarter whereas capital values in other residential markets have stabilized.

### ***Fashion Apparel***

The fashion apparel and accessories business in Israel is a highly competitive industry. Since we operating our business under franchise agreements of international brands, merchandising and inventory effectiveness are very challenging and require computerized supply chain management systems in order to succeed.

One of the trends that broadly affect the apparel retail market is the rising success of e-commerce, and it is expected that in future years revenues will increasingly be generated from internet sales.

Rising costs in many countries (other than China and the far east) and the continuing global economic crisis may challenge our revenues and profit margins.

## **E. OFF-BALANCE SHEET ARRANGEMENTS**

The following are our off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors:

- We furnished a local municipality a bank guarantee in an amount of approximately NIS 4.5 million to secure payment of certain land betterment tax by Marina Herzliya Limited Partnership Ltd. (a company controlled by Control Centers). Arbitration is currently being held as to such liability. We estimate that no significant costs will be incurred by us in respect of this guarantee.
- As part of the franchise and support agreements executed by our subsidiary, Elbit Trade with third parties, Elbit Trade has furnished such third parties with letters of credit in the aggregate amount of

€6.4 million (approximately \$9.2 million) in order to secure payments under the agreements.

- As part of a lease agreement executed in July 2007 between us and the Israel Land Administration for a long-term lease of land in Tiberius, Israel, we have provided the Israel Land Administration with two bank guarantees in the aggregate amount of NIS 10 million linked to the increase in the Israeli consumer price index in order to secure our undertakings included in the lease agreement. As a security for the guarantees, we pledged deposits in the same amount.
- As part of the transactions for the sale of our real estate assets, we have undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnification provisions usually include: (i) indemnifications in respect of integrity of title on the assets and/or the shares sold (*i.e.*: that the assets and/or the shares are wholly owned and are free and clear from any encumbrances and/or mortgage and the like). Such indemnification generally survives indefinitely and is capped at the purchase price in each respective transaction; and (ii) indemnifications in respect of other representations and warranties included in such sale agreements (*e.g.*: development of the project, responsibility for defects in the development project, tax matters and others). Such indemnifications are limited in time (generally three years from closing) and is generally capped at 25% to 50% of the purchase price. Our management estimates, based, *inter alia*, on a professional opinion and past experience, that no significant costs will be borne in respect of these indemnification provisions.
- A former subsidiary of PC incorporated in Prague ("Bestes"), which was sold in June 2006 is a party to an agreement with a third party ("Lessee"), for the lease of commercial areas in a center constructed on property owned by it, for a period of 30 years, with an option to extend the lease period by an additional 30 years, in consideration for €6.9 million (approximately \$9.6 million), which has been fully paid. According to the lease agreement, the Lessee has the right to terminate the lease, subject to fulfillment of certain conditions set forth in the agreement. As part of the agreement for the sale of Bestes to Klepierre in June 2006, it was agreed that PC will remain liable to Klepierre in case the Lessee terminates its contract. PC's management believes that this commitment will not result in any material amount due to be paid by it.

## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Our contractual obligations consist mainly of: (i) long-term borrowings (mainly loans from banks and financial institutions and non convertible and convertible notes); (ii) long-term operational leases; (iii) commitments towards suppliers, subcontractors and other third parties in respect of land acquisitions; and (iv) other long term liabilities reflected in the balance sheet. Our contractual obligations are generally linked to foreign currencies (mainly Euro, British Pound and U.S. dollar) and/or other indexes (such as the Israeli consumer price index). Below is a summary of our significant contractual obligations as of December 31, 2009 in NIS, based upon the representative exchange rate of the NIS as of the balance sheet date, against the currency in which the obligation is originally denominated or based on the respective index of the Israeli consumer price index as of December 31, 2009. Actual payments of these amounts (as will be presented in the financial statements of the Company when executed) are significantly dependent upon such exchange rates or indexes prevailing as at the date of execution of such obligation, and therefore may significantly differ from the amounts presented herein below.

| Contractual Obligations<br>as of December 31, 2009        | Payments due by Period<br>(in NIS millions) |                     |           |           |               |
|---|---|---------------------|-----------|-----------|---------------|
|   | Total                                       | Less than 1<br>Year | 2-3 Years | 4-5 Years | After 5 Years |
| Long-Term Debt <sup>(1)</sup>                             | 7,433,661                                   | 1,591,781           | 1,862,961 | 2,152,442 | 1,826,477     |
| Capital (Finance) Leases                                  | -   | -                   | -         | -         | -             |
| Operating Leases <sup>(2)</sup>                           | 794,560                                     | 39,740              | 78,383    | 70,411    | 606,025       |
| Purchase Obligations and<br>Commitments <sup>(3)</sup>    | 1,308,366                                   | 553,529             | 310,740   | 224,691   | 219,406       |
| Other Long-term Liabilities<br>Reflected on Balance Sheet | 96,686                                      | -                   | 74,863    | 12,429    | 9,393         |



|       |           |           |           |           |           |
|-------|-----------|-----------|-----------|-----------|-----------|
| (4)   |           |           |           |           |           |
| Total | 9,633,272 | 2,185,049 | 2,326,947 | 2,459,974 | 2,661,302 |

- (1) Long term debt includes interest that we will pay from January 1, 2010 through the loan maturity dates. Part of our loans bear variable interest rates and the interest presented in this table is based on the LIBOR rates known as of December 31, 2009. Actual payments of such interest (as presented in our financial statements) are significantly dependent upon the LIBOR rate prevailing as of the date of payment of such interest. For additional information in respect of the long term debt, see "Item 5.B. Liquidity and Capital Resources - Other Loans."
- (2) Our operating lease obligations are subject to periodic adjustment of the lease payments as stipulated in the agreements. In this table we included the lease obligation based on the most recent available information. For additional information in respect of our operating lease obligations see note 14B to our annual consolidated financial statements included in this annual report.
- (3) Includes mainly commitments for construction suppliers and subcontractors and amount payable to third parties in respect of land acquisitions. Such obligation were not recorded as liabilities in the balance sheet, since, as of the balance sheet date, the construction services were not yet provided and/or certain conditions precedent for the plot acquisitions have not yet been fulfilled.
- (4) Includes (i) fair value of royalty payments that InSightec may have to pay to the OCS. InSightec partially finances its research and development expenditures under programs sponsored by the OCS for the support of research and development activities conducted in Israel. In exchange for OCS participation in the programs, InSightec is obligated to pay 3.5% of total sales of products developed within the framework of these programs. At the time the OCS grants were received, successful development of the related projects was not assured. The obligation to pay these royalties is contingent on actual sales of the products; (ii) fair value of hedging transactions in respect of interest rates on long term loans; and (iii) fair value of the exit fee payable in certain events to a financial institution within the framework of long term credit facilities provided to our jointly controlled companies in the United Kingdom (see also "Item 5.B. Liquidity and Capital Resources - Other Loans").

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our directors, executive officers and other key employees as of the date of this annual report:

| NAME                                   | AGE | POSITION   |
|--|-----|--|
| Mordechay Zisser <sup>(1) (3)</sup>    | 55  | Executive President and Director                               |
| Shimon Yitzhaki <sup>(1) (3)</sup>     | 55  | Executive Chairman of the board of directors and Director      |
| Abraham (Rami) Goren                   | 50  | Executive Vice Chairman of the board of directors and Director |
| David Rubner <sup>(2)</sup>            | 70  | Director   |
| Zvi Tropp <sup>(1) (2) (3)</sup>       | 70  | External Director  |
| Moshe Lion                             | 49  | Director   |
| Shmuel Peretz                          | 70  | Director   |
| Elina Frenkel Ronen <sup>(1) (2)</sup> | 36  | External Director  |
| Dudi Machluf                           | 38  | co-CEO   |
| Ran Shtarkman                          | 42  | co-CEO and CEO of PC   |
| Doron Moshe                            | 39  | Chief Financial Officer  |
| Zvi Maayan                             | 42  | General Counsel  |

- (1) Member of the donation committee  
(2) Member of the audit committee  
(3) Member of the investment committee

Effective as of January 1, 2010, we appointed Messrs. Ran Shtarkman and Dudi Machluf as our Co-Chief Executive Officers, replacing Mr. Shimon Yitzhaki, who was promoted to Chairman of the Board of Directors. Mr. Mordechay Zisser, our Executive Chairman of the Board, was appointed our Executive President and continues to

serve on our board of directors. Mr. Doron Moshe was appointed Chief Financial Officer.

**MORDECHAY ZISSER.** On January 1, 2010, Mr. Zisser was appointed as our Executive President. Mr. Zisser continues to serve on our board of directors. From May 1999 until December 2009, Mr. Zisser served as our Executive Chairman of the board of directors. Mr. Zisser has served as President and Chairman of the board of directors of Europe-Israel since March 1998 and as President and Chairman of the board of directors of Control Centers since 1983. Mr. Zisser has developed major real estate development projects in Israel (including the city of Emmanuel, the Herzliya Marina, the Ashkelon Marina, and the Sea and Sun luxury residential project in north Tel Aviv), as well as large scale residential and hotel projects abroad. As our Executive Chairman, Mr. Zisser leads our core businesses, including: real estate investment, hotel ownership and management, development and operation of shopping and entertainment centers in CEE and in India, development of major residential projects and mixed-use complexes as well as venture capital investments in the hi-tech, medical and bio-technology industries. Mr. Zisser has also served as Executive Chairman of the board of directors of PC since October 2006. Mr. Zisser is active in charitable organizations and is a member of the management of the "Oranit" hostel.

**SHIMON YITZHAKI.** On January 1, 2010, Mr. Yitzhaki was appointed as our Executive Chairman of the board of directors. From May 1999 until December 2009, Mr. Yitzhaki served as our President, Chief Executive Officer and has served as a member of our board of directors since May 1999. From March 2005 until August 2006, Mr. Yitzhaki served as our Chief Financial Officer. Mr. Yitzhaki serves as a member of the board of directors of a number of our subsidiaries, including Elscint (since May 1999) and PC (since October 2006). Mr. Yitzhaki has served as a Vice President of Europe-Israel since March 1998 and since the mid-1980's as a Vice President of Control Centers. Mr. Yitzhaki holds a B.A. in accounting from Bar Ilan University and is a Certified Public Accountant.

**ABRAHAM (RAMI) GOREN.** Mr. Goren has served as a member of our board of directors since April 2006 and as Vice Chairman of our board of directors since September 2006. Mr. Goren has also served as the Executive Chairman of the board of directors of Elscint since July 1999. Until 2004, Mr. Goren served as the Executive Chairman of the board of directors of Nessuah Zannex Ltd., a leading Israeli investment house. Formerly, Mr. Goren was a partner at the law firm of Prof. Joseph Gross, Hodak, Greenberg & Co. (now known as Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co.) in Tel Aviv a leading Israeli securities and corporate law firm. From September 1989 until August 1992, Mr. Goren was an associate at the law firm of Weil, Gotshal & Manges LLP in New York. Mr. Goren also serves as a director of various private companies in Israel and abroad. Mr. Goren holds an L.L.B. from Bar Ilan University and an L.L.M. from New York University. Mr. Goren was admitted to the Israeli Bar in 1987 and to the New York State Bar in 1990.

**DAVID RUBNER.** Mr. Rubner has served as a member of our board of directors since July 2003. Mr. Rubner serves as Chairman of the board of directors and Chief Executive Officer of Rubner Technology Ventures Ltd. as well as the General Partner of Hyperion Israel Advisors Ltd., a venture capital firm. From 1991 until 2000, Mr. Rubner held various positions at ECI Telecom Ltd., including President, Chief Executive Officer, Chief Engineer, Vice President of operations and Executive Vice President and General Manager of the Telecommunications Division of ECI. Mr. Rubner serves on the boards of public companies including Check Point Software Ltd., Radware Ltd., as well as some privately held companies. Mr. Rubner serves on the boards of trustees of Bar Ilan University and Shaare Zedek Hospital. Mr. Rubner holds a B.S. in engineering from Queen Mary College, University of London and an M.S. from Carnegie Mellon University. Mr. Rubner was the recipient of the Israeli Industry Prize in 1995.

**ZVI TROPP.** Mr. Tropp has served as one of our external directors since September 2004. Since 2003, Mr. Tropp has been a senior consultant at Zenovar Consultant Ltd. From February 2006 until June 2007, Mr. Tropp served as the chairman of the board of Rafael Advanced Defense Systems Ltd. From 2000 until 2003, Mr. Tropp served as the Chief Financial Officer of Enavis Networks Ltd. Mr. Tropp has served as a board member of various companies, including Rafael (Armament Development Authority) Ltd., Beit Shemesh Engines Ltd., Rada - Electronic Industries Ltd. and has also served as the Chairman of the investment committee of Bank Leumi Le-Israel Trust Company Ltd. Mr. Tropp holds a B.Sc. in agriculture and an M.Sc. in agricultural economics and business administration from the Hebrew University in Jerusalem.

**MOSHE LION.** Mr. Lion has served as a member of our board of directors since April 2006. Mr. Lion is a senior partner at Lion, Orlitzky and Co., an accounting firm in Israel, Chairman of the Jerusalem Development Authority since June 2008 and a member of the board of directors of Brainstorm Cell Therapeutics since July 2007.

From April 2003 until April 2006, Mr. Lion was the Chairman of Israel Railways. From October 2000 until December 2005, Mr. Lion served as a director of Elscint. From December 1997 to July 1999, Mr. Lion served as Director General of the Israeli Prime Minister's Office and as an economic advisor to the Israeli Prime Minister. From January 1997 to November 1997, Mr. Lion served as the Head of the Bureau of the Israeli Prime Minister's Office and as an economic advisor to the Israeli Prime Minister. Mr. Lion served as a member of the board of directors of Bank Massad Ltd. from January 2000 until November 2006 and as a member of the board of directors of Bank Tefachot Ltd. from November 1999 until May 2004. Mr. Lion currently serves as a member of the board of directors of the Israel Council for Higher Education and of the Wingate Institute for Physical Education. Mr. Lion holds a B.A. in accounting and economics and an L.L.M., both from Bar Ilan University.

**SHMUEL PERETZ.** Mr. Peretz has served as a member of our board of directors since April 2006. Since 1997, Mr. Peretz has served as the President of the European Division of Israel Aerospace Industries Ltd. From March 2003 until December 2005, Mr. Peretz served as a member of the board of directors of Elscint. From 1991 until 1996, Mr. Peretz served as Vice President (Finance) of Israel Aerospace Industries Ltd. From 1980 until 2002, Mr. Peretz served as a member of the board of directors of numerous companies, including Elta Ltd., Magal Ltd., Medisel Technologies Inc. and Belgium Advanced Technologies. Mr. Peretz holds a B.A. in economics and political science from the Hebrew University in Jerusalem, as well as an M.B.A. from the New York Institute of Technology.

**ELINA FRENKEL RONEN.** Ms. Frenkel Ronen has served as one of our external directors since December 2008. Since 2008, Ms. Frenkel Ronen has served as the Chief Financial Officer of Orek Paper Ltd. Since 2005, Ms. Frenkel Ronen has headed her family's real estate business. Ms. Frenkel Ronen currently serves as a member of the board and as the Chair of the CEOs, CFOs and Controllers Committee of the Institute of CPAs in Israel, as an external director of Tao Tsuot Ltd. and as an external director of the Haifa Port Ltd. Ms. Frenkel Ronen served as the Public Representative for the Public Utility Authority - Electricity. From 2002 to 2007, Ms. Frenkel Ronen served as Chief Financial Officer of I.G.B. Group. From 1999 to 2002, Ms. Frenkel Ronen served as Chief Financial Officer of Sherutey Hashomrim Group. From 1993 to 1999, Ms. Frenkel Ronen served as the Chief Controller and Financial Reports Supervisor of the Tnuva Industry Group of Companies, including its 96 subsidiaries. Ms. Frenkel Ronen holds a B.A. in accounting and economics and an Executive M.B.A., both from Tel-Aviv University. Ms. Frenkel Ronen is a Certified Public Accountant.

**DUDI MACHLUF.** On January 1, 2010, Mr. Machluf was appointed as our co-CEO. From August 2006 until 2009, Mr. Machluf served as our Chief Financial Officer. From 2003 until 2005, Mr. Machluf was the head of our accounting department and managed the transaction department. Prior to joining us, Mr. Machluf was a manager at Deloitte & Touche, Certified Public Accountants. Mr. Machluf holds a B.A. in Economics and an L.L.M., both from Bar Ilan University and is a Certified Public Accountant.

**RAN SHTARKMAN.** On January 1, 2010, Mr. Shtarkman was appointed as our co-CEO. Mr. Shtarkman also serves as CEO of PC since September 2006, as Executive Director of PC since October 2006 and as President of PC since 2007. From 2004 until 2006 Mr. Shtarkman served as Chief Financial Officer of PC. Prior to that he served as Chief Financial Officer of SPL Software Ltd., Finance and Administration Manager for Continental Airlines' Israeli operations and Controller of Natour Ltd. Mr. Shtarkman holds an MBA from Ben Gurion University and is a Certified Public Accountant.

**DORON MOSHE.** On January 1, 2010, Mr. Moshe was appointed as our CFO. From January 2006 until January 2010, Mr. Moshe served as our Chief Controller. From 2001 until 2005, Mr. Moshe served as the Controller of our subsidiaries. From 2000 until 2001, he served as the Controller for a group of public companies in the fields of contracting, real estate, and technology, and from 1999 until 2000, he was a senior accountant at KPMG Israel. Mr. Moshe holds a B.A. in Accounting and Economics from the University of Haifa and is a Certified Public Accountant.

**ZVI MAAYAN.** Mr. Maayan has served as our General Counsel since October 2008. From 2007 until October 2008, Mr. Maayan served as our Assistant General Counsel. From 2000 until 2007 Mr. Maayan served as Assistant General Counsel for Israel Aerospace Industries Ltd. From 1996 until 2000, Mr. Maayan was in private practice as a senior associate in the law firm Shugol, Ketzeff, Ehrlich, Kerner & Co. which was a member of ACL (International Association of Commercial Lawyers) and the International Alliance of Law Firms, specializing in commercial and civil law, international commerce, banking and financing, bankruptcy, biopharmaceutical industry,

real estate and litigation. Mr. Maayan holds an LL.B. and an LL.M., *cum laude*, both from Bar-Ilan University and is a member of the Israeli Bar Association.

## **B. COMPENSATION OF DIRECTORS AND OFFICERS**

### **Aggregate 2009 Compensation of Directors and Officers**

The aggregate compensation paid to or accrued on behalf of all persons as a group (10 persons, including directors and officers whose service ended during 2009) who served in the capacity of director or executive officer in 2009 for the year ended December 31, 2009, was approximately NIS 11.201 million (approximately \$3 million). Such aggregate amount includes management fees, salaries and bonuses including certain fringe benefits and accrued amounts in respect of pensions and retirement benefits.

We did not grant any options to our directors and officers in 2009. In 2009, InSightec granted an aggregate of 265,000 options to our directors and officers, including options to purchase 250,000 ordinary shares of InSightec to our Executive President. For information regarding the terms of grant and exercise under InSightec's incentive plans, see "Item 6.E. Share Ownership - InSightec Incentive Plans."

In addition, our directors and officers participate in share or option allocations pursuant to various plans adopted by us, PC and InSightec.

For information regarding the terms of grant and exercise under all plans, see "Item 6.E. Share Ownership - 2006 Employees, Directors and Officers Incentive Plan."

The aggregate compensation amount set forth above does not include stock based compensation expenses recognized in accordance with applicable accounting rules in respect of options granted to directors and officers.

### **Independent Director Compensation**

Pursuant to the requirements of the Companies Law, remuneration of our directors requires shareholder approval. Compensation and reimbursement for external directors is governed by regulations promulgated under the Companies Law. Our external directors are compensated in the form of an annual fee in the amount of NIS 95,100 (approximately \$23,506) and a meeting attendance fee in the amount of NIS 4,880 (approximately \$1,293), payable in accordance with the regulations. Our other independent directors are compensated with an annual fee in the amount of NIS 58,500 (approximately \$15,497) and a meeting attendance fee in the amount of NIS 2,060 (approximately \$546), payable in accordance with the regulations. In 2009 our directors agreed to a reduction of 10% of their cash compensation, due to the economic situation.

We did not grant any options to our independent directors in 2009.

For further information, see "Item 6.E. Share Ownership - 2006 Employees, Directors and Officers Incentive Plan."

### **Services of Mr. Mordechay Zisser**

Pursuant to a management agreement approved by our shareholders on May 31, 2006, Mr. Mordechay Zisser, at that time our Executive Chairman, provides us with services via a management company controlled by him. The agreement provides that Mr. Zisser will devote at least 80% of his time, skills and efforts to his position as our Executive Chairman. In consideration for these services, we pay the management company a monthly fee of \$50,000, plus applicable value added tax, as well as reimbursement of expenses. In addition, the management company is entitled to other benefits, such as an appropriate vehicle, telephone, facsimile, mobile phone, computer, printer and modem, including installation costs and all reasonable expenses related thereto. The agreement has a five-year term commencing on August 1, 2005.

Termination of Mr. Zisser's service as Executive Chairman of the Board for any reason whatsoever will result in an immediate termination of the management agreement. Notwithstanding the above, at our request, Mr. Zisser

will serve (through the management company) in addition to or in lieu of his service as Executive Chairman as our director or officer, and in such event, the agreement will remain in effect with regard to such service.

In November 2007, our shareholders approved an annual bonus for the Executive Chairman, not to exceed NIS 18 million, calculated as follows: (i) 0% of the first NIS 100 million of profits (as defined below); (ii) 2.5% of profits between NIS 100 million and NIS 125 million; (iii) 3% of profits between NIS 125 million and NIS 150 million; and (iv) 3.5% of profits exceeding NIS 150 million. The annual bonus is payable with respect to the fiscal year ended December 31, 2006 and for each fiscal year thereafter for so long as the Executive Chairman serves as a director or officer of us or any of our subsidiaries. For the purpose of determining the annual bonus, in accordance with resolutions of our audit committee and board of directors of May 29, 2008 and also based on legal advice received, "profits" for any year shall mean our profit before taxes, as disclosed in our annual audited consolidated financial statements for that year minus profit (loss) before tax attributed to the minority shareholders and minus such loss (before taxes and after deduction of profit (loss) attributed to the minority shareholders) as disclosed in our annual consolidated audited financial statements for all years commencing 2007, that had not already been deducted for the purpose of calculating such annual bonus for any previous year. Such resolution shall be applied, retroactively, to bonuses payable in respect of the year 2007 and thereafter.

Effective January 1, 2010, Mr. Zisser was appointed our Executive President. Mr. Zisser's services and compensation, as detailed above, will remain unaffected by this new appointment. Mr. Zisser continues to serve on our board of directors.

In November 2007, our shareholders approved a service agreement between PC and Mr. Zisser for his services as the Executive Chairman of PC. In consideration for such services, Mr. Zisser receives a monthly salary of \$25,000, as well as reimbursement of his reasonable expenses incurred in the performance of his duties. Under the services agreement, the salary is to be reviewed by the board of directors of PC each year and may be increased, subject to applicable law. Mr. Zisser has waived his right to receive from PC any severance pay under the Israeli Severance Pay Law and social benefits.

Under Israeli law, however, a waiver of certain social benefits, including severance pay, has no effect, and therefore we may be exposed to potential additional payments to Mr. Zisser in an aggregate amount which we believe to be not material to us, should the agreement be regarded as an employment agreement. Each party may terminate the service agreement upon 12 months' prior notice.

### **Agreements with our Executive Vice Chairman**

Pursuant to an employment agreement approved by our shareholders on January 17, 2008, Mr. Abraham (Rami) Goren serves as our Executive Vice Chairman of the board of directors. Mr. Goren also had the responsibility of our business activities in Asia and in particular, India, until his resignation in December 2009. Our annual cost of Mr. Goren's salary shall not exceed NIS 2,134,000, linked to increases in the Israeli consumer price index.

Under this agreement, we provide Mr. Goren with a vehicle suitable to his position and bear all related expenses, including taxes and medical insurance.

Under an agreement between Mr. Goren and PC, dated October 26, 2006, which was approved by our shareholders meeting on January 17, 2008, Mr. Goren received options to acquire 5% of the holding company through which PC conducts its operations in India. The options were subject to vesting over a three-year period and became fully vested on March 31, 2009. Where considered appropriate, and by agreement, Mr. Goren will be entitled to receive a 5% interest in specific projects, in which case necessary adjustments will be made at the holding company level. The options may be exercised at any time, for cash or on a cashless basis, at a price based on PC's net equity investment made in the projects plus interest accrued at the rate of LIBOR plus 2% per annum from the date of investment until the date of exercise.

Mr. Goren has a put right to require PC to purchase shares held by him following exercise of the options, at a price to be determined by an independent appraiser. If PC sells its shares in the Indian holding company to a third party, Mr. Goren's options will not be affected. However, if a new investor is allotted shares in the holding company, Mr. Goren's options will be diluted pro-rata. The agreement includes tag-along rights and rights of first refusal.

Subject to the approval of the shareholders of PC, the foregoing agreement will be replaced with an agreement containing substantially similar terms and conditions to the agreement described below, which will apply to all projects in India.

Under an agreement between Mr. Goren and us, dated January 17, 2008, in consideration for services performed by Mr. Goren pertaining to the sourcing, initiation, operation or management of any business activities in India and other countries in Asia in which Mr. Goren renders such services for the benefit of the Company and its affiliates (excluding PC and its subsidiaries), as well as for the performance of other activities assigned to Mr. Goren by us, Mr. Goren is entitled to receive 5% of the outstanding share capital owned by us in each entity through which we conduct business activities initiated in such territory. This arrangement applies for so long as Mr. Goren devotes a substantial part of his time and attention to such sourcing activities and for 30 months thereafter.

Mr. Goren's right to receive shares in each investment vehicle is subject to vesting over a three-year period and became fully vested on March 31, 2009. The right to receive shares in any investment vehicle in which we obtain equity rights after March 31, 2009 will vest immediately. The shares issued to Mr. Goren under the agreement are not entitled to any type of distributions from the investment vehicle until our investments in such investment vehicle have been returned in full, with interest. The agreement includes tag-along rights, pre-emptive rights and registration rights in favor of Mr. Goren and transfer restrictions, rights of first refusal and drag-along rights in our favor.

On December 31, 2009, Mr. Goren informed us that he is resigning from his employment with us. This resignation will enter into effect on December 31, 2010.

#### **Employment Agreement with our Executive Chairman**

In December 2002, our shareholders approved the employment agreement of Mr. Shimon Yitzhaki, who then served as our President, Chief Executive Officer and a director, which provides for an aggregate monthly cost to us of NIS 164,734, linked to the Israeli consumer price index. Such cost includes customary social benefits and the use of a car fully maintained by us. In addition, Mr. Yitzhaki is entitled to reimbursement of expenses incurred in connection with his services in the foregoing capacities. The agreement requires Mr. Yitzhaki to devote at least 90% of his working time to us.

In addition, Mr. Yitzhaki is entitled to an annual bonus, calculated as follows: (i) 0.75% of the first NIS 125 million of profits; (ii) 0.875% of profits between NIS 125 million and NIS 150 million; and (iii) 1% of profits exceeding NIS 150 million. For the purpose of determining the annual bonus, in accordance with the resolutions of our audit committee and board of directors of May 29, 2008 and based on legal advice received, "profits" for any year shall mean our profit before taxes, as disclosed in our annual audited consolidated financial statements for that year minus profits (losses) before tax attributed to the minority shareholders.

Effective January 1, 2010, Mr. Yitzhaki was appointed our Executive Chairman of the board.

#### **Severance Agreement with the Former President of Elscint and Acting CEO of PC**

On November 1, 2007, our shareholders approved and ratified two separate agreements entered into between Ms. Rachel Lavine, who then served as President of Elscint and Acting Chief Executive Officer of PC, and each of us and Elscint, dated February 7, 2007, regarding Ms. Lavine's resignation from her employment by us and companies under our control. The agreement with Elscint provides that Ms. Lavine will resign from her positions effective February 7, 2007 and continue to enjoy the same payments and benefits until March 31, 2008, of which part constitutes unused vacation days and part an agreed adjustment period.

Ms. Lavine participated in the same annual bonus plan as Mr. Yitzhaki, as described above under " - Employment Agreement with our Executive Chairman" for the years 2007 and 2008 only. Elscint also undertook to pay the tuition fee of Ms. Lavine in the Kellogg-Recanati Executive MBA program in an aggregate amount of \$47,000 and to bear all tax expenses associated with such payment. We and Elscint each undertook to continue to purchase directors' and officers' liability insurance policy covering Ms. Lavine for a period of at least seven years following her resignation.

The agreement with us provides that, despite her resignation, Ms. Lavine shall be entitled to: (i) all of the 75,000 options exercisable into our ordinary shares in accordance with our incentive plan; and (ii) all of the 250,000 options exercisable into PC ordinary shares in accordance with PC incentive plan.

## **C. BOARD PRACTICES**

### **Corporate Governance Practices**

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Israeli Companies Law, relating to such matters as external directors, the audit committee, the internal auditor and approvals of interested-party transactions. These matters are in addition to the ongoing listing conditions of the Nasdaq Global Select Market and other relevant provisions of U.S. securities laws. Under the Nasdaq rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable Nasdaq requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. For further information, see "Item 16G. Corporate Governance."

Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations promulgated under the Companies Law, that our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that we require at least two directors with the requisite financial and accounting expertise and that two of our directors fulfill the requirements promulgated under the Companies Law.

### **Election of Directors**

Our directors are generally elected by our shareholders at the annual meeting of the shareholders by a simple majority. Generally, the nominees for a director's office are recommended by our audit committee which also acts as our nominating committee. The directors hold office until the next annual meeting of our shareholders. Our board of directors may appoint additional directors to our board of directors in the event of a vacancy on or an enlargement of the board of directors. Any director so appointed will hold office until the next annual meeting of the shareholders. Our board of directors currently consists of eight members.

### **Alternate Directors**

Our articles of association provide that any director may, by written notice to us, appoint another person who is not a director to serve as an alternate director, subject to the approval of the chairman of the board. In the case of an appointment made by the chairman, such appointment shall be valid unless objected to by the majority of other directors. The term of appointment of an alternate director is unlimited in time and scope unless otherwise specified in the appointment notice, or until notice is given of the termination of the appointment. No director currently has appointed any other person as an alternate director. The Companies Law stipulates that a person who serves as a director may not serve as an alternate director except under very limited circumstances. An alternate director has the same responsibility as a director.

### **External Directors; Independent Directors**

The Companies Law requires Israeli public companies (such as us) to appoint at least two external directors. The Companies Law provides for certain qualifications that a candidate for external directorship must comply with. Among such requirements, a person may not be appointed as an external director if such person or person's relative, partner or employer, or any entity controlled by such person, has, at the date of appointment, or had at any time during the two years preceding such date, any affiliation with the company, any entity controlling the company at the date of his appointment or any entity controlled by the company or by the entity controlling the company. The term "affiliation" is broadly defined in the Companies Law, including an employment relationship, a business or professional relationship maintained on a regular basis or control, service as a director or officer.

In addition, no person may serve as an external director if such person's position or other business creates, or may create, conflict of interest with the person's position as an external director, or if such position or other

business may impair such person's ability to serve as an external director. Until the lapse of two years from termination of office, a company may not engage an external director to serve as a director or officer and may not employ or receive paid services from that person, either directly or indirectly, including through a corporation controlled by that person.

External directors are to be elected by a majority vote at a general meeting of shareholders, provided that (i) such majority vote at the general meeting includes at least one third (1/3) of the total votes of non-controlling shareholders voted at such general meeting or (ii) the total number of votes of non-controlling shareholders that voted against such election does not exceed one percent (1%) of the total voting rights in the company.

The initial term of an external director is three years and such term may be extended for an additional three-year period. In addition, the service of an external director may be extended for additional terms of up to three years each, if both the audit committee and the board of directors confirm that, in light of the expertise and contribution of the external director, the extension of such external director's term would be in the interest of the company. External directors may be removed only in a general meeting, by the same percentage of shareholders as is required for their election, or by a court, and in both cases only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their fiduciary duty to us. Each committee of a company's board of directors that is authorized to exercise powers of the board of directors is required to include at least one external director, and all external directors must be members of the company's audit committee.

An external director is entitled to reimbursement of expenses and to monetary and other compensation as provided in regulations promulgated under the Companies Law, but is otherwise prohibited from receiving any other compensation, directly or indirectly, for his serving as a director of the company.

Mr. Zvi Tropp's second three-year term as an external director commenced on September 1, 2007, and Ms. Elina Frenkel Ronen's first three-year term as an external director commenced on December 25, 2008.

Under the Nasdaq rules, a majority of our directors are required to be "independent directors" as defined in Nasdaq's rules. The current composition of our board of directors consists of a majority of independent directors. Two of our independent directors also qualify as external directors as defined by the Companies Law.

### **Board Committees**

Our board of directors has established an audit committee, a donation committee and an investment committee, as described below.

*Audit committee.* The Companies Law requires public companies to appoint an audit committee. An audit committee must consist of at least three members, and include all of the company's external directors. However, the chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. The responsibilities of the audit committee include identifying and examining flaws in the business management of the company, in consultation with the internal auditor and the company's independent accountants, and suggesting appropriate course of actions. In addition, an audit committee recommends approval of transactions that are deemed interested party transactions, including directors compensation and transactions between a company and its controlling shareholder or transactions between a company and another person in which its controlling shareholder has a personal interest.

Our audit committee is comprised of three members, all of whom meet all requisite independence and other professional requirements. Our audit committee operates in accordance with a charter and written procedures governing approval of any proposed transactions with our external auditors. Within the framework of such governing documents, the audit committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on our financial statements. The audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and permitted non-audit services to be provided by the external auditor and quarterly review the firm's non-audit services and related fees.



Our audit committee is also authorized to act as our “qualified legal compliance committee”. As such, our audit committee will be responsible for investigating reports, made by attorneys appearing and practicing before the SEC in representing us, of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar material violations of U.S. law by us or any of our agents. Under Nasdaq rules, the approval of the audit committee is also required to effect related-party transactions that would be required to be disclosed in our annual report.

Nasdaq rules require that director nominees be selected or recommended for the board’s selection either by a committee composed solely of independent directors or by a majority of independent directors. The compensation of a company’s chief executive officer and other executive officers is required to be approved either by a majority of the independent directors on the board or a committee comprised solely of independent directors. Our audit committee also acts as our nominating committee and compensation committee. The audit committee is also authorized by our Board of Directors to establish the remuneration of our auditors for their auditing services.

Our audit committee has the authority to retain independent legal, accounting or other consultants as advisors, for which we will provide funding, and handle complaints relating to accounting, internal accounting controls or auditing matters.

*Donation committee.* Our articles of association authorize us, in accordance with the Companies Law, to donate reasonable amounts to any cause we deem worthy. Our donation committee is authorized to determine, in its discretion, with respect to any contribution, the amount thereof, its purpose, the entity to receive the contribution and any other term or condition relating thereto.

*Investment committee.* Our investment committee is responsible for developing and monitoring our financial risk management policies and determining our investments in short-term liquidity funds, all in order to preserve value of our cash.

### **Internal Auditor**

Under the Companies Law, our board of directors is required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our actions comply with the law and proper business procedure. The internal auditor may not be an interested party, an office holder, or a relative of any of the foregoing, nor may the internal auditor be our independent accountant or its representative. The Companies Law defines the term “interested party” to include a person who holds 5% or more of our outstanding share capital or voting rights, has the right to appoint one or more directors or the general manager or who serves as a director or as the general manager. Our internal auditor is Mr. Daniel Spira, a Certified Public Accountant in Israel.

For information on the duties of directors, officers and shareholders and requirements for the approval of related-party transactions, please see Item 10.B - “Memorandum and articles of association and General Provisions of Israeli Law.”

## **D. EMPLOYEES**

As of March 31, 2010, we employed 63 persons in investment, administration and managerial services, all of whom were employed in our headquarters in Israel. As of March 31, 2010, PC had 151 employees, 26 consultants and 4 part time employees in CEE, Russia, Greece and India. As of March 31, 2010, our Hotel division had 1,080 employees (including employees in proportionally consolidated companies in which we hold 50%). As of March 31, 2010, Elbit Trade and G.B. Brands, Limited Partnership had 595 employees.

As of May 31, 2009, we employed 37 persons in investment, administration and managerial services, all of whom were employed in our headquarters in Israel. As of May 31, 2009, PC had 110 employees, 34 consultants and 3 part time employees in CEE, Russia, Greece and India. As of May 31, 2009, our Hotel division had 1,087 employees (including employees in proportionally consolidated companies in which we hold 50%). As of May 31, 2009, Elscint Ltd. and Elbit Trade had 392 employees.

As of May 31, 2008, we employed 36 persons in investment, administration and managerial services, all of whom were employed in our headquarters in Israel. As of May 31, 2008, PC had 135 employees, 41 consultants and 15 part time employees in CEE, Russia, Greece and India. As of May 31, 2008, our Hotel division had 1,230 employees (including employees in proportionally consolidated companies in which we hold 50%). As of May 31, 2008, Elscint Ltd. and Elbit Trade had 426 employees. The increase in working power in PC during this period reflected the expansion of PC's operations and the additional obligations it assumed upon becoming a public company.

We are not party to any collective bargaining agreement with our employees or with any labor organization.

## **E. SHARE OWNERSHIP**

As of March 31, 2010, our directors and executive officers, excluding Mr. Mordechay Zisser, beneficially owned an aggregate of 314,594 of our ordinary shares, or approximately 1.2% of our outstanding ordinary shares. This figure includes options to purchase ordinary shares that were vested on such date or that were scheduled to vest within the following 60 days.

For information regarding the terms of grant and exercise under all plans, see " - 2006 Employees, Directors and Officers Incentive Plan" below.

For information on Mr. Mordechay Zisser's beneficial ownership of our ordinary shares, see "Item 7. Major Shareholders and Related Party Transactions - Major Shareholders" below. No other director or executive officer beneficially owns 1% or more of our outstanding ordinary shares.

The following is a description of each of our option plans, including the amount of options currently outstanding and the exercise prices of such options.

### ***2006 Employees, Directors and Officers Incentive Plan***

Our 2006 Employees, Directors and Officers Incentive Plan, as amended (the "2006 Plan"), provides for the grant of up to 2,300,000 options to employees, directors and officers of us and of companies controlled directly or indirectly by us. The exercise price per option is the average closing price of our ordinary shares on the TASE during the 30-trading day period preceding the date of grant of such options or as otherwise determined by the board of directors.

The options are exercisable pursuant to a "cashless" exercise mechanism whereby, in lieu of paying the exercise price of the option in exchange for all the ordinary shares subject to the option, the holder is issued such number of ordinary shares whose market value equals the excess of (i) the market value of all the ordinary shares subject to the option over (ii) the aggregate exercise price. In order to limit the potential dilution to shareholders that may be caused by the exercise of options under the 2006 Plan, on October 6, 2008, the audit committee and board of directors amended the 2006 Plan to limit the market price employed in such formula to a maximum price of NIS 200 per ordinary share or as otherwise determined by the board of directors.

Under the terms of the 2006 Plan, options vest over a period of three years, such that 33.33% of the options granted become exercisable on each of the first, second and third anniversaries of the date of grant. The options expire five years from the date of grant.

Pursuant to an amendment of the 2006 Plan in May 2009 regarding options granted in 2006 to offerees still employed by us (including directors and officers who still hold office), offerees were granted the option to choose that the exercise price per option be NIS 60, to limit the "cashless" exercise price to a maximum price of NIS 120 per ordinary share and to extend the expiration date of such options from five years to seven years or the option to only extend the expiration date of such options.

As of March 31, 2010, options to purchase 1,749,417 ordinary shares were outstanding under the 2006 Plan.

### ***2001 Employees, Directors and Officers Incentive Plan***

Our 2001 Employees, Directors and Officers Incentive Plan (the "2001 Plan") provides for the issuance of up to 626,900 of our ordinary shares to employees, directors and officers of us and of companies controlled by us, and of Europe-Israel and of companies controlled by Europe-Israel. The exercise price per share is NIS 24.1. All shares under the 2001 Plan are fully vested.

As of March 31, 2010, 58,265 shares were outstanding under the 2001 Plan.

#### ***Elscint's 2001 Employees, Directors and Officers Incentive Plan***

Elscint's 2001 Employees, Directors and Officers Incentive Plan (the "Elscint 2001 Plan") provided for the issuance of up to 850,000 ordinary shares of Elscint to employees, directors and officers of Elscint and its subsidiaries and to employees of Europe-Israel or other companies controlled by Europe-Israel. The exercise price per share is NIS 15.65. An amount of 81,000 shares remaining under this plan were transferred to Elscint's 2003 Employees, Directors and Officers Incentive Plan, which has since expired. Under the terms of the Elscint 2001 Plan, the right to retain the shares vests over a period of either two or three years, such that 50% or 33.33% (as the case may be) of the shares issued become available for purchase on each anniversary of the date of issuance. The Elscint 2001 Plan was terminated on November 27, 2003.

Upon the completion of our merger with Elscint in November 2005, the 522,500 shares that remained outstanding under the plan as of such date were exchanged for 276,925 of our ordinary shares.

As of March 31, 2010, 47,700 ordinary shares were outstanding under the Elscint 2001 Plan.

#### ***InSightec Incentive Plans***

InSightec's 1999 Employee Stock Ownership Plan (the "1999 Plan") provides for the grant of up to 2,650,000 options, at an exercise price of NIS 0.01 and \$3.33 per share. All options under the 1999 Plan are fully vested. The options generally expire following twelve years as of their date of grant.

InSightec's 2003 Employee Stock Ownership Plan (the "2003 Employee Plan") provides for the grant of up to 1,094,000 options (700,000 plus 394,000 that were transferred from the 1999 Plan), at an exercise price that varies from NIS 0.01 to \$6.00. All options under 2003 Employee Plan are fully vested. Under the 2003 Employee Plan, the options generally expire following seven years from the date of grant. On February 10, 2010, InSightec's board resolved to extend the expiration date of all options granted during 2003-2005 under 2003 Employee Plan by 3 years (subject to exceptions). On January 30, 2006, all outstanding options under the 2003 Employee Plan were transferred to the 2006 Plan (for additional information see below).

InSightec's 2003 Service Providers Plan (the "2003 Service Providers Plan") provides for the grant of up to 300,000 options, at an exercise price that varies from \$3.33 to \$6.60. The options generally expire following seven years as of their date of grant. On February 10, 2010 InSightec's board resolved to extend the expiration date of all options granted during 2003-2005 under the 2003 Service Providers Plan by 3 years (subject to exceptions). On January 30, 2006, all outstanding options under the 2003 Service Providers Plan were transferred to the 2006 Plan (for additional information see below).

InSightec's 2006 Stock Option Plan (the "2006 Plan") provides for the grant of up to 400,000 options, at an exercise price of \$6.00. On January 30, 2006, InSightec's board of directors resolved to transfer the balance of unallocated options from the 2003 Employee Plan and the 2003 Service Providers Plan to the 2006 Plan, in addition to the 400,000 options already existing under the plan. Options granted under the 2006 Plan generally vest over a four-year period from the grant date, 50% after two years and 25% after each of the third and the fourth years. The options generally expire following seven years as of their date of grant or, subject to certain criteria, following five years. On October 24, 2006, InSightec's board of directors approved an increase of the option pool by 300,000 options.

InSightec's 2007 Stock Option Plan (the "2007 Plan") provides for the grant of up to 2,000,000 options, at an exercise price of \$6.00. Options granted under the 2007 Plan generally vest over a four-year period from the earlier of (i) InSightec's initial public offering or (ii) a "material change" in InSightec (as defined in the 2007 Plan) (the "Commencement Date"), 50% after two years from the Commencement Date and 25% after each of the third

and the fourth years from the Commencement Date. The options generally expire following seven years as of the Commencement Date or, subject to certain criteria, following five years. On October 31, 2007, InSightec's board of directors approved that all the options granted under the 2007 Plan starting October 30, 2007, shall become fully vested and exercisable on the second anniversary of the Commencement Date and shall remain exercisable until the end of the term of the options, as defined in the 2007 Plan.

All options under InSightec's option plans automatically vest and become exercisable without any discretion on the part of InSightec's board of directors upon certain events that constitute a material change to InSightec as defined in the options plans, such as a change of control, a resolution of InSightec's shareholders or its board of directors for its dissolution or a distribution in kind of most of its assets, mergers etc. As of March 31, 2010, options to purchase an aggregate of 5,036,815 ordinary shares were outstanding under InSightec's option plans.

### ***2010 Elbit Incentive Plan and Conversion Plan for InSightec Shares***

Our 2010 Incentive Plan (the "2010 Incentive Plan for InSightec Shares") provides for the grant of options exercisable into up to 500,000 shares of InSightec to employees, directors and officers of us and of affiliate companies, at an exercise price per option to be determined by our board of directors.

Under the 2010 Incentive Plan for InSightec Shares, options vest gradually over a period of three years. The options expire seven years from the date of grant. Options are exercisable by payment of the exercise price in cash.

Prior to an IPO, the underlying shares are subject to certain "drag along" rights.

Prior to or after the consummation of a listing of securities of any parent company of InSightec, our board of directors may approve an exchange of options or underlying shares under the 2010 Incentive Plan for InSightec Shares with options or shares of such parent company, according to a formula set forth in the 2010 Incentive Plan for InSightec Shares.

As of March 31, 2010, options to purchase 400,000 shares are outstanding under the 2010 Incentive Plan for InSightec Shares.

In April 2010, EML adopted an incentive plan for the grant of options to participants who were granted options under the 2010 Incentive Plan for InSightec Shares, in exchange for options granted under the 2010 Incentive Plan for InSightec Shares (the "EML Conversion Plan"). The total number of options issuable under the EML Conversion Plan will be determined by EML's board of directors according to a formula set forth in the EML Conversion Plan. Options will vest and expire from their original grant date under the 2001 InSightec Incentive Plan.

The exercise price of the options shall be determined by EML's board of directors prior to EML's public offering of shares, and each option shall be converted into EML shares, in accordance with the conversion mechanism set forth in the EML Conversion Plan.

As of the date of this annual report, no options were granted under the EML Conversion Plan.

### ***2010 EML Plan***

In March 2010, EML adopted an incentive plan for the grant of options to officers and employees of EML and us and of affiliate companies (the "2010 EML Plan"). The total number of options to be granted under the 2010 EML Plan will be determined by EML's board of directors from time to time.

The exercise price of the options shall be as follows:

- For options granted prior to, or within 90 days of, EML's public offering – the exercise price will be determined by the price resulting from the tender conducted as part of EML's public offering;
- For options granted thereafter – the exercise price will be the average of the closing price of EML's shares in the Tel Aviv Stock Exchange during the 30 trading days preceding the date of grant.

Under the 2010 EML Plan, options vest gradually over a period of three years.

As of the date of this annual report, no options were granted under the 2010 EML Plan.

### **PC Share Option Scheme**

PC's 2006 Share Option Scheme, as amended in August 2007 and November 2008 (the "2006 Scheme") provides for the grant of up to 33,834,586 options to employees, directors, officers and other persons who provide services to PC, including our employees. The exercise price per option varies between £0.50 and £1.64.

The options are exercisable pursuant to a "cashless" exercise mechanism whereby, in lieu of paying the exercise price of the option in exchange for all the ordinary shares subject to the option, the holder is issued such number of ordinary shares whose market value equals the difference between (i) the opening price of the ordinary shares on the London Stock Exchange on the exercise date, provided that the market price will not exceed a maximum price of £3.24 per option; less (ii) the exercise price of the options, with the difference between (i) and (ii) divided by the opening price of the ordinary shares on the London Stock Exchange on the exercise date.

Under the terms of the 2006 Scheme, options vest over a period of three years, such that 33.33% of the options granted become exercisable on each of the first, second and third anniversaries of the date of grant. Pursuant to the amendment of the 2006 Scheme in November 2008, all options that were not vested on October 26, 2008 shall begin the three-year vesting cycle from the beginning, commencing as of October 25, 2008. The options expire seven years from the date of grant by the board of directors.

Upon the occurrence of an event of change of control in PC (as defined in the 2006 Scheme), the vesting of all the outstanding options granted by PC that were not exercised or did not expire by such date, shall be fully accelerated. As of March 31, 2010, options to purchase 21,021,349 ordinary shares were outstanding under the 2006 Scheme.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. MAJOR SHAREHOLDERS**

We had, as of March 31, 2010, 25,474,743 ordinary shares outstanding, excluding 2,800,000 shares held by us which do not have any voting and equity rights. The voting rights of all shareholders are the same. The following table sets forth certain information as of March 31, 2010 concerning: (i) persons or entities who, to our knowledge, beneficially own more than 5% of our outstanding ordinary shares; and (ii) the number of our ordinary shares beneficially owned by all of our directors and officers as a group:

| <b>Name and Address</b>   | <b>Number of Shares</b>   | <b>Percent of Shares Beneficially Owned <sup>(1)</sup></b> |
|---|---------------------------|--|
| Mordechay Zisser <sup>(2)</sup>                                   | 12,623,832 <sup>(3)</sup> | 49.55%   |
| Europe-Israel (M.M.S.) Ltd. <sup>(4)</sup>                        | 12,154,392                | 47.71%   |
| The Phoenix Holding Ltd. and Excellence Investments Ltd.          | 2,109,997 <sup>(5)</sup>  | 8.29%  |
| All officers and directors of the Company as a group (10 persons) | 12,938,429 <sup>(6)</sup> | 50.79%   |

(1) The number of shares and percentages of ownership are based on our shares outstanding as of March 31, 2010. Such number excludes 2,800,000 treasury shares. Beneficial ownership is determined in accordance with the rules of the SEC based on voting and investment power with respect to such ordinary shares. Shares subject to options that are currently exercisable or exercisable within 60 days of March 31, 2010 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder or is based on the most recent Schedule 13D or 13G filed with the SEC and, unless otherwise indicated

below, we believe that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable. The shares beneficially owned by our directors include shares owned by their family members, as to which such directors disclaim beneficial ownership. The information regarding the beneficial ownership of Europe-Israel and of Mr. Zisser is based on a Schedule 13D filed by them on January 10, 2008 and on information furnished by them to the Company.

- (2) Mr. Zisser is considered our indirect controlling shareholder by virtue of his control of Europe-Israel and serves as our Executive President and as a director. See footnote 4 below.
- (3) Includes (i) 12,154,392 of our shares held by Europe-Israel, which may be deemed to be beneficially owned by Mr. Mordechai Zisser, our Executive President and a director, by virtue of his control of Europe-Israel; (ii) 24,837 of our Shares held by Marina Herzelia (Limited Partnership) 1988, which may be deemed to be beneficially owned by Mr. Mordechai Zisser, by virtue of his control of Control Centers Ltd., which wholly owns Marina Herzliya (Limited Partnership) 1988; and (iii) 444,603 shares held by Mr. Zisser. See footnote 4 below.
- (4) Europe-Israel is an Israeli corporation wholly-owned by Control Centers, a private company controlled by Mr. Mordechai Zisser.
- (5) Includes shares held for members of the public through, among others, provident funds, pension funds and mutual funds, which are managed by subsidiaries of Excellence Investments Ltd. ("Excellence") or The Phoenix Holdings Ltd. ("Phoenix"), according to the following segmentation: (i) 160,330 shares held by provident funds and pension funds of Excellence; (ii) 251,530 shares held by mutual funds of Excellence; (iii) 461,324 shares held by other investment vehicles of Excellence; (iv) 44,702 shares held by provident funds and pension funds of Phoenix; and (v) 1,192,110 shares held by profit participating life assurance accounts of Phoenix. The information regarding the holdings of Phoenix and Excellence is based on a form of ownership report dated March 23, 2010, provided to us by Phoenix and Excellence, that it uses to report holdings under Israeli law. The method used to compute holdings under Israeli law does not necessarily bear the same result as the method used to compute beneficial ownership under SEC rules and regulations. Phoenix and Excellence are controlled by the Delek Group and Mr. Yitzhak Tshuva.
- (6) Includes: (i) 12,154,392 shares held by Europe-Israel, which may be deemed to be beneficially owned by Mr. Mordechai Zisser, (see footnote 4 above); (ii) 24,837 shares held by Marina Herzelia (Limited Partnership) 1988; (iii) 444,603 shares held by Mr. Zisser; (iv) 47,700 shares underlying options granted to our other directors and officers pursuant to our 2001 Employees, Directors and Officers Incentive Plan; and (v) 685,000 options exercisable into 266,897 shares as of March 31, 2010 and vesting within 60 days thereafter granted to our other directors and officers pursuant to our 2006 Employees, Directors and Officers Incentive Plan.

On February 14, 2008 Clal Insurance Enterprises Holdings Ltd., IDB Development Corporation Ltd., IDB Holding Corporation Ltd., Nochi Dankner, Shelly Bergman, Ruth Manor and Avraham Livnat filed a Schedule 13G/A in respect of 377,805 shares beneficially owned by each reporting person. Such respective holdings, excluded 21,797.51 ordinary shares which were held at that time for members of the public through, among others, provident funds and mutual funds, which are managed by companies controlled by Epsilon Investment House Ltd., an indirect subsidiary of IDB Development. Each reporting person's respective holdings, constituted at that date 1.48% of our outstanding share capital. The previous Schedule 13G/A filed by such reporting persons on February 5, 2007, indicated beneficial ownership of 5.9% of our outstanding share capital.

As of March 31, 2010, there were approximately 715 holders of record of our ordinary shares with addresses in the United States, holding approximately 24.74% of our issued and outstanding ordinary shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders reside since many of these ordinary shares are held of record by brokers or other nominees.

## **B. RELATED PARTY TRANSACTIONS**

### ***Relationship Agreement with PC***

On October 27, 2006, we entered into an agreement with PC pursuant to which we undertook, as long as we hold at least 30% of the issued share capital of PC, that neither we nor any person connected with us will compete with the business of PC related to the development of shopping and entertainment centers in Central and Eastern Europe or India or the development of the Dream Island or Casa Radio projects. The Relationship Agreement terminates in the event that PC's issued share capital ceases to be admitted to the main market of the London Stock Exchange.

### ***Guarantee Agreement with PC***

On October 27, 2006, PC agreed, with effect from January 1, 2006, to pay a commission to us in respect of any and all outstanding corporate and first demand guarantees which have been issued by us in favor of PC and which remain valid and outstanding ("EI Guarantees"). The amount of the commissions to be paid will be agreed upon between us and PC at the beginning of each fiscal year, and will apply to all EI Guarantees which remain outstanding during the course of that relevant fiscal year, subject to a cap of 0.5% of the amount or value of the relevant EI Guarantee, per annum. During 2009 no guarantees were provided by us to PC.

#### ***Transitional Services Agreement with PC***

In October 2006, we entered into a Transitional Services Agreement with PC, relating to the provision of legal and accountancy services by us to PC. The services are to be provided at a cost to be agreed between the parties from time to time, for a period of 24 months unless terminated earlier by PC on 60 days' notice. The term of the agreement expired in October 2008.

#### ***Agreement for Services for Construction Projects***

On May 31, 2006, our shareholders approved an agreement between us and Control Centers according to which we will receive from Control Centers (either directly or through its subsidiaries or affiliates, other than us) coordination, planning, execution and supervision services over our real estate projects and/or real estate projects of our subsidiaries and/or affiliates in consideration for a fee equal to 5% of the actual execution costs (excluding land acquisition costs, financing cost and the consideration for Control Centers under the agreement) of each such project. The agreement applies to real estate projects initiated following the approval of the agreement by our shareholders and to the following projects: (i) a shopping and entertainment center in Liberec, Czech Republic; (ii) a shopping and entertainment center in Kerepesi, Hungary; and (iii) a complex of shopping and entertainment center, hotels, congressional centers and other facilities in Obuda, Hungary, which were at that time in early stage of development.

Such fee will be paid in installments upon the meeting of milestones as stipulated in the agreement. In addition, we will reimburse Control Centers for all reasonable costs incurred in connection with the services rendered thereby, not to exceed a total of €75,000 (approximately \$104,500) per real estate project.

If the purpose of a real estate project is changed for any reason prior to the completion of the project or if the development of the real estate project is terminated for any reason (including the sale of the real estate project), the payment to Control Centers will be calculated as a percentage of the budget for the project, provided that such percentage shall not exceed the percentage determined for the next milestone of the project had it continued as planned. The calculation of such payments to Control Centers will be subject to the approval of an external accountant and the approval of our audit committee and board of directors.

In addition, we and/or our subsidiaries and/or affiliates may also purchase from Control Centers, our indirect parent, through Jet Link Ltd., an aviation company a wholly-owned subsidiary of Control Centers, up to 125 flight hours per calendar year in consideration for payments to Jet Link in accordance with its price list to unaffiliated companies, less a 5% discount. This agreement does not derogate from a previous agreement entered into between us and Jet Link for the purchase of aviation services which was approved by our shareholders on September 10, 2000, see " - Agreement for Aviation Service" below.

The agreement with Control Centers has a five-year term commencing May 31, 2006.

#### ***Agreement for Aviation Services***

Pursuant to an agreement between us and Jet Link, which was approved by our shareholders on September 10, 2000, we, or our subsidiaries, may purchase aviation services from Jet Link for our operations in the shopping and entertainment centers business for up to 150 hours per annum in consideration for payments in accordance with Jet Link's price list to unaffiliated companies, less a 5% discount.

#### ***Agreement for Services for the Hotel Complex in Bucharest, Romania***

In October 2001, an engagement between Bucuresti Turism S.A. and Control Centers (through its wholly owned subsidiary) was approved by Elscint's shareholders. In accordance with such engagement, Control Centers provides coordination, planning and supervision services with respect to the renovation works of the hotel complex in Bucharest, for a fee equal to the lower of (i) 5% of total actual costs of the renovation works (excluding general and administrative as well as financing costs) and (ii) 5% of \$30 million. A definitive agreement has not been executed in respect of such engagement although the parties perform their duties and obligations thereunder.

#### ***Guarantee Towards a Local Municipality***

We furnished a local municipality with a bank guarantee in an amount of approximately NIS 4.5 million to secure payment of certain land betterment tax by Marina Herzliya Limited Partnership Ltd. (a company controlled by Control Centers). Arbitration is currently being held as to this tax liability. We estimate that no significant costs will be incurred by us in respect of this guarantee.

#### ***Loan Agreement with Bank Hapoalim B.M.***

Within the framework of our loan agreements with Bank Hapoalim B.M., we undertook to maintain financial covenants for so long as the credit provided by the bank to us or to Europe Israel exceeds \$30 million.

See "Item 5.B. Liquidity and Capital Resources - Other Loans" above.

#### ***Appointment of Brand Manager in Our Retail Division***

In May 2009, our shareholder's approved the employment agreement of Ms. Hila Zisser-Bendet, the daughter of our Executive Chairman, Mr. Mordechai Zisser, as a brand manager in our retail division. Such employment agreement provides for a monthly gross salary of NIS 10,000, with an automatic annual increase of 2.5%, subject to the discretion of the chief executive officer of our retail division. Ms. Zisser-Bendet will be entitled to customary social benefits. In addition, Ms. Zisser-Bendet is entitled to an annual bonus not to exceed two months' salary, at the discretion of the chief executive officer of our retail division and reimbursement of business-related expenses. The employment agreement entered into effect on July 1, 2009.

#### ***Indemnification, Insurance and Exemption***

For information regarding the grant of insurance, exemption and indemnification to our directors and officers, by us or our subsidiaries, see "Item 10.B. Memorandum and Articles of Association and General Provisions of Israeli Law - Insurance, Indemnification and Exemption" below.

#### ***Inter-company Loans and Guarantees***

From time to time we invest in our subsidiaries and jointly controlled companies, by way of equity or capital investments, or otherwise provide loans or guarantees to such companies, in order to finance their operations and businesses. All such investments are eliminated in our consolidated financial statements. Details as to material guarantees are provided in "Item 5.B. Liquidity and Capital Resources - Loans" above.

For amounts paid under our related party transaction see note 27.C to our annual consolidated financial statements included in this annual report.

### **ITEM 8. FINANCIAL INFORMATION**

#### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See our annual consolidated financial statements included in this annual report.

#### **Legal Proceedings**

For information regarding the legal proceeding we are involved in see note 23B to our annual consolidated financial statements included in this annual report.



## Dividend Distribution Policy

On January 11, 2007, our board of directors, adopted a dividend distribution policy pursuant to which we will distribute a cash dividend of at least 50% of the surplus accrued by us every year, provided that such dividend does not exceed 50% of the cash flow accrued by us from dividends and repayment of owners' loans received by us from subsidiaries in that year, all determined in accordance with our consolidated audited annual financial statements. Any distribution of dividends under this policy is subject to a specific resolution of our board of directors determining our compliance with the distribution criteria prescribed in the Companies Law, and to any other applicable law. In making such determination, our board of directors' takes into account, *inter alia*, our liabilities and undertakings towards third parties, our cash flow needs and the financing resources available to us. Our board of directors is authorized in its sole discretion, to change or terminate our dividend policy at any time. The adoption of our dividend policy does not constitute any undertaking towards any third party.

### B. SIGNIFICANT CHANGES

There are no significant changes that occurred since December 31, 2009, except as otherwise disclosed in this annual report and in the annual consolidated financial statements included in this annual report.

## ITEM 9. THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

Our ordinary shares are listed on the NASDAQ Global Select Market under the symbol "EMITF" and on the TASE.

#### *Information regarding the price history of the stock listed*

The annual high and low sale prices for our ordinary shares for the five most recent full financial years are:

| <u>Year Ended December 31,</u> | <u>NASDAQ</u>    |                 | <u>TASE</u>      |                 |
|--------------------------------|------------------|-----------------|------------------|-----------------|
|                                | <u>High (\$)</u> | <u>Low (\$)</u> | <u>High (\$)</u> | <u>Low (\$)</u> |
| 2009                           | 28.09            | 9.3             | 28.75            | 10.03           |
| 2008                           | 56.09            | 7.58            | 56.55            | 7.1             |
| 2007                           | 57.43            | 31.30           | 58.51            | 33.16           |
| 2006                           | 34.54            | 15.28           | 34.82            | 15.37           |
| 2005                           | 19.54            | 8.9             | 19.18            | 9.01            |

The quarterly high and low sale prices for our ordinary shares for the two most recent full financial years and any subsequent period are:

| <u>Financial Quarter</u> | <u>NASDAQ</u>    |                 | <u>TASE</u>      |                 |
|--------------------------|------------------|-----------------|------------------|-----------------|
|                          | <u>High (\$)</u> | <u>Low (\$)</u> | <u>High (\$)</u> | <u>Low (\$)</u> |
| <b>2010</b>              |                  |                 |                  |                 |
| Q1                       | 24.76            | 21.91           | 22.21            | 19.32           |
| <b>2009</b>              |                  |                 |                  |                 |
| Q1                       | 15.02            | 9.3             | 14.9             | 9.77            |
| Q2                       | 22.43            | 15.24           | 22.24            | 16.21           |
| Q3                       | 28.09            | 18.87           | 28.95            | 20.04           |
| Q4                       | 26.68            | 20.05           | 25.94            | 20.54           |
| <b>2008</b>              |                  |                 |                  |                 |

|                          | <b>NASDAQ</b>    |                 | <b>TASE</b>      |                 |
|--------------------------|------------------|-----------------|------------------|-----------------|
| <b>Financial Quarter</b> | <b>High (\$)</b> | <b>Low (\$)</b> | <b>High (\$)</b> | <b>Low (\$)</b> |
| Q1                       | 52.54            | 36.63           | 56.55            | 37.87           |
| Q2                       | 56.09            | 40.01           | 56.1             | 41.83           |
| Q3                       | 42.94            | 16.38           | 39.74            | 16.19           |
| Q4                       | 19               | 7.58            | 15.64            | 7.1             |

The monthly high and low sale prices for our ordinary shares during the six months of November 2009 through April 2010 were:

|               | <b>NASDAQ</b>    |                 | <b>TASE</b>      |                 |
|---------------|------------------|-----------------|------------------|-----------------|
| <b>Month</b>  | <b>High (\$)</b> | <b>Low (\$)</b> | <b>High (\$)</b> | <b>Low (\$)</b> |
| April 2010    | 22.88            | 20.89           | 22.34            | 21.33           |
| March 2010    | 24.25            | 22.53           | 22.21            | 19.32           |
| February 2010 | 24.76            | 22.71           | 24.82            | 22.37           |
| January 2010  | 23.77            | 21.91           | 23.75            | 21.88           |
| December 2009 | 23.9             | 20.05           | 23.19            | 20.54           |
| November 2009 | 25.25            | 22.71           | 25.03            | 22.46           |

The closing prices of our ordinary shares listed on the TASE for each of the periods referred to in the tables above were originally denominated in NIS and were converted to U.S. dollars using the representative exchange rate between the U.S. dollar and the NIS published by the Bank of Israel for each applicable day in the presented period.

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

Since our initial public offering in November 1996, our ordinary shares have been listed on the NASDAQ Global Select Market (then known as the NASDAQ National Market) under the symbol "EMITF" and on the TASE.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

## Purposes and Objects of the Company

We are a public company registered under the Companies Law as Elbit Imaging Ltd., registration number 52-004303-5.

Pursuant to Section 2 of our memorandum of association, we are authorized to operate in any business or matter for profit purposes as shall be determined or defined by our board of directors from time to time. In addition, our articles of association authorize us to donate reasonable amounts to any cause we deem worthy.

## Approval of Certain Transactions

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of directors' and officers' insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of such director in other positions require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. In addition, under the Companies Law and our articles of association, transactions with our officers or directors or a transaction with another person in which such officer or director has a personal interest must be approved by our audit committee, board of directors or authorized non-interested signatories, and if such transaction is considered an extraordinary transaction (as defined below), the transaction must be approved by the audit committee and board of directors.

The Companies Law also requires that any extraordinary transaction between with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company, in that order. The shareholder approval must be by a simple majority, provided that (i) such majority vote includes at least one third of the total votes of shareholders having no personal interest in the transaction or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed 1% of the total voting rights in the company.

The Companies Law prohibits any director who has a personal interest in a matter from participating in the discussion and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances where the majority of the board of directors has a personal interest in the matter, in which case such matter must be approved by the company's shareholders.

For the purpose of this section:

An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability.

A "personal interest" is defined in the Companies Law as a personal interest of a person in an act or transaction of a company, including (i) a personal interest of that person's relative or (ii) a personal interest of an entity in which that person or his relative holds 5% or more of the issued shares or voting rights, has the right to appoint a director or the chief executive officer or serves as director or chief executive officer. A personal interest resulting merely from holding the company's shares will not be deemed a personal interest.

Under the Companies Law, a private placement of securities requires approval by the board of directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

- the securities issued amount to 20% or more of the company's outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital or voting rights or that will cause any person to become, as a

result of the issuance, a holder of more than 5% of the company's outstanding share capital or voting rights.

## **Fiduciary Duties of Directors and Officers**

The Companies Law imposes a duty of care and a duty of loyalty on the directors and officers of a company. The duty of care requires a director or officer holder to act with the level of care with which a reasonable director or officer in the same position would have acted under the same circumstances. It includes a duty to use reasonable means to obtain information on the advisability of a given action brought for his approval or performed by him by virtue of his position and all other important information pertaining to these actions.

The duty of loyalty of a director or officer includes a general duty to act in good faith for the benefit of the company, and particularly to:

- refrain from any conflict of interest between the performance of his duties for the company and the performance of his other duties or his personal affairs
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to a company's affairs which the director or officer has received due to his position as such.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

## **Duties of a Shareholder**

Under the Companies Law, a shareholder, in exercising his rights and fulfilling his obligations to the company and the other shareholders, must act in good faith and in a customary manner and refrain from improperly exploiting his power in the company, including when voting at general or class meetings of shareholders on: (a) any amendment to the articles of association; (b) an increase of the company's authorized share capital; (c) a merger; or (d) the approval of related party transactions. In addition, a shareholder must refrain from prejudicing the rights of other shareholders. Furthermore, any controlling shareholder, any shareholder who knows that he possesses power to determine the outcome of the shareholders' vote at a general or a class meeting, and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint or prevent the appointment of an officer in the company or possesses any other power towards the company, is subject to a duty to act in fairness towards the company. The Companies Law does not detail the substance of this duty.

## **Board of Directors**

In accordance with our articles of association, the board of directors may, from time to time, in its discretion, cause us to borrow or secure the payment of any sum or sums of money for the purposes of the Company and may cause us to secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it deems fit, and in particular by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of our property (both present and future), including its uncalled or called but unpaid share capital for the time being.

Neither our memorandum nor our articles of association, nor the laws of the State of Israel require retirement of directors at a certain age, or share ownership for director qualification, nor do they contain any restriction on the board of directors' borrowing powers.

## **Insurance, Indemnification and Exemption**

General - our articles of association set forth the following provisions regarding the grant of exemption, insurance and indemnification to any of our directors or officers, all subject to the provisions of the Companies Law. In accordance with such provisions and pursuant to the requisite approvals of our audit committee, board of directors and shareholders, we have obtained liability insurance covering our directors and officers, have granted indemnification undertakings to our directors and officers and have agreed to exempt our directors and officers (other than our Executive Chairman) from liability for breach of the duty of care. Elscint, PC, Insightec and Gamida Cell have also granted indemnification undertakings to their respective directors and officers.

Insurance - we may insure the liability of any director or officer to the fullest extent permitted by law. Without derogating from the aforesaid, we may enter into a contract to insure the liability of a director or officer for an obligation imposed on him in consequence of an act done in his capacity as such, in any of the following cases:

- (i) A breach of the duty of care via-a-vis us or via-a-vis another person;
- (ii) A breach of the duty of loyalty via-a-vis us, provided that the director or officer acted in good faith and had reasonable basis to believe that the act would not harm us;
- (iii) A monetary obligation imposed on him in favor of another person.
- (iv) Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of our directors or officers.

### Indemnification

We may indemnify a director or officer to the fullest extent permitted by law, either retroactively or pursuant to an undertaking given in advance. Without derogating from the aforesaid, we may indemnify our directors or officers for liability or expense imposed on him in consequence of an action taken by him in his capacity as such, as follows:

- (i) Any financial liability he incurs or imposed on him in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court, provided that any undertaking to indemnify be restricted to events that, in the opinion of the board of directors, are anticipated in light of our actual activity at the time of granting the undertaking to indemnify and be limited to a sum or measurement determined by the board of directors to be reasonable under the circumstances;
- (ii) Reasonable litigation expenses, including legal fees, incurred by the director or officer or which he was ordered to pay by a court, within the framework of proceedings filed against him by or on behalf of us, or by a third party, or in a criminal proceeding in which he was acquitted, or in a criminal proceeding in which he was convicted of a felony which does not require a criminal intent; and
- (iii) Reasonable litigation expenses, including legal fees he incurs due to an investigation or proceeding conducted against him by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offense which does not require criminal intent.

The aggregate indemnification amount payable by us pursuant to indemnification undertakings may not exceed the lower of (i) 25% of our shareholders' equity as of the date of actual payment by us of the indemnification amount (as set forth in our most recent consolidated financial statements prior to such payment) and (ii) \$40 million, in excess of any amounts paid (if paid) by insurance companies pursuant to insurance policies maintained by us, with respect to matters covered by such indemnification.

Exemption - we may exempt a director or officer in advance or retroactively for all or any of his liability for damage in consequence of a breach of the duty of care vis-a-vis us, to the fullest extent permitted by law.

Prohibition on the grant of exemption, insurance and indemnification - The Companies Law provides that a company may not give insurance, indemnification nor exempt its directors or officers from liability in the following events:

- (i) a breach of the duty of loyalty to the company, unless, with respect to insurance coverage or indemnification, the the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm us;
- (ii) an intentional or reckless breach of the duty of care;
- (iii) an act done with the intention of unduly deriving a personal profit; or
- (iv) a fine imposed on the officer or director.

### **Rights Attached to Shares**

Our registered share capital consists of a single class of 50,000,000 ordinary shares, par value NIS 1.00 per share, of which 25,474,743 ordinary shares were issued and outstanding as of March 31, 2010. Such number excludes 2,800,000 treasury shares held by us or for our benefit, which do not have any voting or equity rights.

### **Dividend and Liquidation Rights**

Our board of directors may declare a dividend to be paid to the holders of ordinary shares on a pro rata basis. Dividends may only be paid out of our profits and other surplus funds, as defined in the Companies Law, as of our most recent financial statement or as accrued over the past two years, whichever is higher, or, in the absence of such profits or surplus, with court approval. In any event, a dividend is permitted only if there is no reasonable concern that the payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares on a pro rata basis. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future, subject to applicable law. For information on our dividend policy, see "Item 8.A. Financial Information – Consolidated Statements and Other Financial Information - Dividend Distribution Policy."

### **Voting Rights**

Holders of ordinary shares have one vote for each ordinary share held by them on all matters submitted to a vote of the shareholders. Such voting rights may be affected by the creation of any special rights to the holders of a class of shares with preferential rights that may be authorized in the future in the manner provided for under the Companies Law and our articles of association. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least 33-1/3% of the issued voting share capital. In the event that a quorum is not present within half an hour of the scheduled time, the meeting shall be adjourned to the same day of the following week, at the same time and place, or to such other day, time and place as the board of directors shall determine by notice to the shareholders. If at such adjourned meeting a quorum is not present within half an hour of the scheduled time, the two members present in person or by proxy will constitute a quorum.

### **Modification of Class Rights Attached to Shares**

The rights attached to any class, such as voting, liquidation and dividend rights, may be amended by written consent of holders of a majority of the issued shares of that class, or by adoption of a resolution by a simple majority of the shares of that class represented at a separate class meeting.

### **Annual and Special Meetings**

In accordance with the Companies Law, the board of directors must convene an annual meeting of shareholders at least once every calendar year, and no later than within 15 months from the last annual meeting. Notice of at least 14 days prior to the date of the meeting is required, subject to applicable law, which often requires notice of at least 21 or 35 days. An extraordinary meeting may be convened by the board of directors, either at its discretion or upon a demand of (i) any two directors or 25% of the serving directors; or (ii) one shareholder or more holding in the aggregate at least 5% of our issued capital and at least 1% of the voting rights in the Company or one shareholder or more holding at least 5% of the voting rights in the Company.

### **Limitations on the Rights to own Securities**

Our memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents of Israel and neither the memorandum nor articles of association nor Israeli law restricts the voting rights of non-residents of Israel, except that under Israeli law, any transfer or issue of our shares to a resident of an enemy state of Israel is prohibited and shall have no effect.

### **Changes to our Capital**

Changes to our capital are subject to the approval of our shareholders by a simple majority.

### **Anti-Takeover Provisions**

The Companies Law prohibits the purchase of our shares if the purchaser's holding following such purchase increases above certain percentages without conducting a tender offer or obtaining shareholder approval. See "Item 3.D. Risk Factors - Risks Relating to Israel - Anti-takeover provisions could negatively impact our shareholders" above.

### **Amendment of Articles of Association**

Any amendment to our articles of association requires the approval of our shareholders by a simple majority.

### **Transfer Agent**

Our transfer agent in the United States is American Stock Transfer and Trust Company whose address is 59 Maiden Lane New York, New York 10038.

## **C. MATERIAL CONTRACTS**

The following is a list of material agreements entered into by us or any of our subsidiaries during the last two years prior to the filing of this annual report.

### **Shopping and Entertainment Centers**

#### ***Sale of shopping and entertainment centers to Klepierre***

On July 29, 2005, PC signed agreements with Klépierre for the sale of four operational shopping and entertainment centers in Poland and four shopping centers under development in Poland and in the Czech Republic upon their construction. In addition, PC awarded Klépierre an option to acquire an additional center under development in Poland (the Lublin Plaza in Poland, then under development), subject to certain conditions, which has since been exercised.

The operational shopping and entertainment centers were sold and delivered to Klepierre upon consummation of the agreement.

Within the framework of the transaction, the parties agreed on the future acquisition by Klepierre of all equity and voting rights (100%) in the companies, then developing two shopping centers in Poland (Rybnik Plaza and Sosnowiec Plaza), two companies developing shopping centers in the Czech Republic (Novo Plaza and Pilzen

Plaza) and an option under certain conditions, to acquire all equity and voting rights of a third company developing a shopping center in Poland (the Lublin Plaza). The purchase price of each specific center was set to be calculated based on gross rentals prevailing at a date close to delivery, capitalized at agreed yields. A final purchase price adjustment for each of these development centers was set to be conducted not later than 10 months following delivery, on the basis of actual gross rentals prevailing on their respective adjustment dates, discounted at the agreed yields.

In June 2006 PC completed the construction of the Novo Plaza shopping and entertainment center and in accordance with the terms of the agreement it was delivered to Klepierre. The asset value of the Novo Plaza, following execution of price adjustment, totaled €43.9 million and the net cash consideration paid to PC amounted to €5 million.

In May 2007 PC formally completed the delivery of the Rybnik Plaza and the Sosnowiec Plaza shopping and entertainment center to Klepierre. The asset value of such centers amounted to €89.3 million and the net cash consideration paid to PC for such transactions amounted to €48.2 million.

In July 2007 PC and its partner in the Lublin Plaza project executed an agreement with Klepierre for the sale of their respective interest in the joint venture company holding the Lublin Plaza shopping and entertainment center to Klepierre. The asset value (100%) as at closing of the Lublin Plaza amounted to €78 million and the cash consideration paid to PC amounted to €27.3 million.

In July 2008, PC completed the handover of Plzen Plaza to Klepierre. The asset value of the Plzen Plaza amounted to approximately €61.4 million and the cash consideration paid to PC amounted to € 54.6 million.

For information regarding indemnification undertakings by PC in favor of Klepierre see "Item 5.E. Off-Balance Sheet Arrangements."

#### ***Sale of Arena shopping and entertainment center in Herzliya, Israel***

In July 2007 Elscint completed a transaction for the sale of the "Arena" shopping and entertainment center, located at the Herzliya Marina in Israel ("Arena Center"), pursuant to which, the buyer has acquired all rights in and to the Arena Center reflecting an asset value of NIS 538 million. The net consideration received by us was NIS 335.2 million. Following purchase price adjustments, to be calculated based on Arena Center's adjusted rent revenues (as this term is defined in the agreement) as of June 30, 2009, an additional amount of up to NIS 10.5 million may be paid to us. As of the date of this annual report, such purchase price adjustment has not been made.

#### ***Agreement for Services for Construction Projects***

For information regarding the agreement for the provision of coordination, planning, execution and supervision services over construction projects to PC's subsidiaries see "Item 7.B. Related Party Transactions - Agreement for Services for Construction Projects."

### **Hotel Business**

#### ***Management agreement with respect of our hotel operations***

For information regarding the management agreement regarding our hotel operations, see "Item 4.B. Business Overview - Hotels - Management of Hotels - Management Agreement with Park Plaza."

### **General**

#### ***Issuance of Series B Notes by PC***

For information regarding the issuance of Series B Notes by PC see "Item 5.B. Liquidity and Capital Resources - Liquidity - Other Loans."



For information regarding the framework agreement entered into in connection with the MDT transaction, see "Item 4.B. Business Overview – Other Activities - Shopping and entertainment centers in the United States."

#### **D. EXCHANGE CONTROLS**

In 1998, the government of Israel promulgated a general permit under the Israeli Currency Control Law, 5738 - 1978. Pursuant to such permit, substantially all transactions in foreign currency are permitted.

Our Memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents and neither the Memorandum of Association nor Israeli law restricts the voting rights of non-residents.

#### **E. TAXATION**

The following is a discussion of certain tax laws that may be material to our shareholders, all as in effect as of the date of this report and all of which are subject to changes, possibly on a retroactive basis, to the extent that such laws are still subject to judicial or administrative interpretation in the future. This discussion is not intended, and should not be construed, as legal or professional tax advice and does not cover all possible tax considerations. For further information as to taxes that apply to us and our subsidiaries, see note 22 to our annual consolidated financial statements included in this annual report.

WE ENCOURAGE EACH INVESTOR TO CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH INVESTOR OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE ISRAELI, U.S. FEDERAL, STATE, AND LOCAL TAXES.

##### **Taxation in Israel**

The following is a summary of the material Israeli tax consequences to purchasers of our ordinary shares. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

##### ***Capital Gains Tax on Sales of Our Ordinary Shares***

Israeli law generally imposes a capital gains tax on the sale of capital assets by residents of Israel, and by non-residents of Israel if those assets either (i) are located in Israel; (ii) are shares or a right to a share in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a double tax convention concluded between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the purchase price of the relevant asset attributable solely to the increase in the Israeli CPI, or a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

As of January 1, 2006, capital gains derived by individuals from the sale of shares, whether listed on a stock market or not, purchased on or after January 1, 2003, will be taxed at the rate of 20%. However, if the individual shareholder is a "Significant Shareholder" (i.e., a person who holds, directly or indirectly, alone or jointly with others, 10% or more of one of the Israeli resident company's means of control) at the time of sale or at any time during the preceding 12 month period, such gains will be taxed at the rate of 25%. In addition, capital gains derived by an individual claiming a deduction of financing expenses in respect of such gains will be taxed at the rate of 25%. Israeli companies are subject to the corporate tax rate (26% for the 2009 tax year and 25% for the 2010 tax year) on capital gains derived from the sale of listed shares. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering.

The tax basis of our shares acquired prior to January 1, 2003, will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the Israeli tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Capital gains derived from the sale of our shares by a non-Israeli shareholder may be exempt under the Israeli Income Tax Ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the shares were purchased upon or after the registration of our shares on the stock exchange, (ii) the seller doesn't have a permanent establishment in Israel to which the derived capital gains are attributed, and (iii) if the seller is a corporation, less than 25% of (a) its means of control or (b) the beneficial rights to the revenues or profits of such corporation, whether directly or indirectly, are held by Israeli resident shareholders. In addition, the sale of our shares by a non-Israeli shareholder may be exempt from Israeli capital gain tax under an applicable tax treaty.

Pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended, or the U.S.- Israel Tax Treaty, the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty generally will not be subject to Israeli capital gains tax unless (i) either such resident holds, directly or indirectly, shares representing 10% or more of the voting power in the company during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment of the shareholder in Israel. If the above conditions are not met, the sale, exchange or disposition of ordinary shares would be subject to such Israeli capital gains tax to the extent applicable; however, under the U.S.- Israel Tax Treaty, such residents should be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to state or local taxes.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

### ***Taxation of Dividends Distribution***

A distribution of dividends to an Israeli resident individual will generally be subject to income tax at a rate of 20%. However, a 25% tax rate will apply if the dividend recipient is a Significant Shareholder at the time of distribution or at any time during the preceding 12 month period. If the recipient of the dividend is an Israeli resident company, such dividend will be exempt from income tax provided that the income from which such dividend is distributed was derived or accrued within Israel. A distribution of dividends from income attributable to an "Approved Enterprise" or "Benefited Enterprise" under the Israeli Law for the Encouragement of Capital Investments, 5719-1959 will generally be subject to tax in Israel at the rate of 15% (for Israeli individuals or companies).

Under the Israeli Income Tax Ordinance, a non-Israeli resident (either individual or company) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 20% (25% if the dividends recipient is a Significant Shareholder), unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.- Israel Tax Treaty, the following rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying company and not more than 25% of the gross income of the Israeli resident paying company for such prior taxable year (if any) consists of certain type of interest or dividends - the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate under the Israeli Law for the Encouragement of Capital Investments, 1959 - the tax rate is 15%, and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the U.S.- Israel Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

We are generally obligated to withhold Israeli tax at the source upon the distribution of a dividend, at the aforementioned rates.

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the shareholder.

## **U.S. Federal Income Tax Considerations**

Subject to the limitations described herein, this discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder. A U.S. holder is a holder of our ordinary shares who is:

- an individual citizen or resident of the U.S. for U.S. federal income tax purposes;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof or the District of Columbia;
- an estate, the income of which may be included in the gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if, in general, (i) a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (a "non-U.S. holder") and considers only U.S. holders that will own the ordinary shares as capital assets (generally, for investment).

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers; who have elected mark-to-market accounting; who own, directly, indirectly or constructively, 10% or more of our outstanding voting shares; U.S. holders that received ordinary shares as a result of exercising employee stock options or otherwise as compensation; U.S. holders holding our ordinary shares as part of a hedging, straddle or conversion transaction; U.S. holders whose functional currency is not the U.S. dollar, real estate investments trusts, regulated investment companies, insurance companies, tax-exempt organizations, financial institutions, grantor trusts, S Corporations; certain former citizens or long term residents of the United States; and persons subject to the alternative minimum tax, who may be subject to special rules not discussed below. Additionally, the tax treatment of persons who are, or hold our ordinary shares through, a partnership or other pass-through entity is not considered, nor is the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws.

**Each holder of our ordinary shares is advised to consult his or her tax advisor with respect to the specific U.S. federal, state, local and foreign tax consequences to him or her of purchasing, holding or disposing of our ordinary shares.**

## **Distributions**

Subject to the discussion below under "Tax Consequences if We are a Passive Foreign Investment Company," a distribution paid by us with respect to our ordinary shares to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution with respect to our ordinary shares will equal the amount of cash and the fair market value of any property distributed and will also include the amount

of any non-U.S. taxes withheld from such distribution. Dividends that are received by U.S. holders that are individuals, estates or trusts will be taxed at the rate applicable to long-term capital gains (a maximum rate of 15% for taxable years beginning on or before December 31, 2010), provided that such dividends meet the requirements of "qualified dividend income." For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (a) the stock of the non-U.S. corporation with respect to which the dividends are paid is "readily tradable" on an established securities market in the U.S. (e.g., the NASDAQ Global Select Market) or (b) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue Service ("IRS") has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (1) if the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (2) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a "passive foreign investment company" (as such term is defined in the Code) for any taxable year, dividends paid on our ordinary shares in such year or in the following taxable year would not be qualified dividends. See discussion below regarding our PFIC status at "Tax Consequences If We Are a Passive Foreign Income Company." In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income rates.

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its ordinary shares to the extent thereof, and then as capital gain from the deemed disposition of the ordinary shares. Corporate holders will not be allowed a deduction for dividends received in respect of the ordinary shares.

Dividends paid by us in NIS will be included in the income of U.S. holders at the dollar amount of the dividend (including any non-U.S. taxes withheld therefrom), based upon the spot rate of exchange in effect on the date the distribution is included in income. U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations will generally be taxable as U.S. source ordinary income or loss.

Subject to certain conditions and limitations set forth in the Code and the Treasury Regulations thereunder, including certain holding period requirements, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability the non-U.S. income taxes withheld from dividends received in respect of our ordinary shares. The limitations on claiming a foreign tax credit include, among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. In this regard, dividends paid by us generally will be foreign source "passive income" for U.S. foreign tax credit purposes. U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the non-U.S. income taxes withheld if they itemize deductions for U.S. federal income tax purposes. The rules relating to foreign tax credits are complex, and U.S. holders should consult their tax advisors to determine whether and to what extent they would be entitled to this credit.

## **Disposition of Ordinary Shares**

Subject to the discussion below under "Tax Consequences If We Are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in our ordinary shares. The gain or loss recognized on the disposition of the ordinary shares will be long-term capital gain or loss if the U.S. holder held our ordinary shares for more than one year at the time of

the disposition. Under current law, long-term capital gains are subject to a maximum rate of 15% for taxable years beginning on or before December 31, 2010 and subject to a maximum rate of 20% for taxable years thereafter. Capital gain from the sale, exchange or other disposition of our ordinary shares held for one year or less is short-term capital gain and taxed at ordinary income tax rates. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of our ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. A U.S. holder that receives foreign currency upon disposition of our ordinary shares and converts the foreign currency into dollars after the settlement date (in the case of a cash method taxpayer or an accrual method taxpayer that elects to use the settlement date) or trade date (in the case of an accrual method taxpayer) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

### **Tax Consequences if we are a Passive Foreign Investment Company**

We will be a passive foreign investment company, or PFIC, if either (1) 75% or more of our gross income in a taxable year is passive income or (2) 50% or more of the value, determined on the basis of a quarterly average, of our assets in a taxable year produce or are held for the production of passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of that other corporation's assets and as directly earning our proportionate share of that other corporation's income. If we are a PFIC, a U.S. holder must determine under which of three alternative taxing regimes it wishes to be taxed.

The "QEF" regime applies if the U.S. holder elects to treat us as a "qualified electing fund" ("QEF") for the first taxable year in which the U.S. holder owns our ordinary shares or in which we are a PFIC, whichever is later, and if we comply with certain reporting requirements. If the QEF regime applies, then for each taxable year that we are a PFIC, such U.S. holder will include in its gross income a proportionate share of our ordinary earnings (which is taxed as ordinary income) and net capital gain (which is taxed as long-term capital gain), subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. These amounts would be included in income by an electing U.S. holder for its taxable year in which our taxable year ends, whether or not such amounts are actually distributed to the U.S. holder. A U.S. holder's basis in our ordinary shares for which a QEF election has been made would be increased to reflect the amount of any taxed but undistributed income. Generally, a QEF election allows an electing U.S. holder to treat any gain realized on the disposition of its ordinary shares as capital gain.

Once made, the QEF election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC and can be revoked only with the consent of the IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the PFIC annual information statement, to a timely filed United States federal income tax return. Even if a QEF election is not made, a U.S. person who is a shareholder in a PFIC must file a completed IRS Form 8621 every year.

If a QEF election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply.

A second regime, the "mark-to-market" regime, may be elected so long as our ordinary shares are "marketable stock" (e.g., "regularly traded" on the NASDAQ Global Select Market). Pursuant to this regime, an electing U.S. holder's ordinary shares are marked-to-market each taxable year that we are a PFIC and the U.S. holder recognizes as ordinary income or loss an amount equal to the difference as of the close of the taxable year between the fair market value of our ordinary shares and the U.S. holder's adjusted tax basis in our ordinary shares. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. An electing U.S. holder's adjusted basis in our ordinary shares is increased by income recognized under the mark-to-market election and decreased by the deductions allowed under the election.

Under the mark-to-market election, in a taxable year that we are a PFIC, gain on the sale of our ordinary shares is treated as ordinary income, and loss on the sale of our ordinary shares, to the extent the amount of loss does not exceed the net mark-to-market gain previously included, is treated as ordinary loss. Any loss on the sale of our ordinary shares in excess of net mark-to-market gain previously included is generally treated as a capital loss.

The mark-to-market election applies to the taxable year for which the election is made and all later taxable years, unless the ordinary shares cease to be marketable stock or the IRS consents to the revocation of the election.

If the mark-to-market election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply.

A U.S. holder making neither the QEF election nor the mark-to-market election is subject to the "excess distribution" regime. Under this regime, "excess distributions" are subject to special tax rules. An excess distribution is either (1) a distribution with respect to our ordinary shares that is greater than 125% of the average distributions received by the U.S. holder from us over the shorter of either the preceding three taxable years or such U.S. holder's holding period for our ordinary shares prior to the distribution year, or (2) gain from the disposition of our ordinary shares (including gain deemed recognized if the ordinary shares are used as security for a loan).

Excess distributions must be allocated ratably to each day that a U.S. holder has held our ordinary shares. A U.S. holder must include amounts allocated to the current taxable year, as well as amounts allocated to taxable years prior to the first taxable year in which we were a PFIC, in its gross income as ordinary income for that year. All amounts allocated to other taxable years would be taxed at the highest tax rate for each such prior year applicable to ordinary income and the U.S. holder also would be liable for interest on the deferred tax liability for each such year calculated as if such liability had been due with respect to each such year. A U.S. holder who inherits shares in a non-U.S. corporation that was a PFIC in the hands of the decedent generally is denied the otherwise available step-up in the tax basis of such shares to fair market value at the date of death. Instead, such U.S. holder would generally have a tax basis equal to the lesser of the decedent's basis or the fair market value of the ordinary shares on the date of the decedent's death.

We believe that we were not a PFIC in 2009 or in prior taxable years. However, since the determination of whether we are a PFIC is based upon such factual matters as the valuation of our assets and, in certain cases, the assets of companies held by us, there can be no assurance that the IRS will agree with our position. In addition, there can be no assurance that we will not become a PFIC for the current taxable year ending December 31, 2010 or in a future taxable year. We will notify U.S. holders in the event we conclude that we will be treated as a PFIC for any taxable year to enable U.S. holders to consider whether or not to elect to treat us as a QEF for U.S. federal income tax purposes, or to "mark-to-market" the ordinary shares or to become subject to the "excess distribution" regime.

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making, the QEF election or the mark-to-market election.

### **Non-U.S. Holders**

Subject to the discussion below under "Information Reporting and Back-up Withholding," a non-U.S. holder of our ordinary shares generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares, unless, in the case of U.S. federal income taxes (i) the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment, or in the case of an individual, the item is attributable to a fixed place of business in the United States, or (ii) the non-U.S. holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

### **Information Reporting and Backup Withholding**

U.S. holders (other than exempt recipients such as corporations) generally are subject to information reporting requirements with respect to dividends paid on our ordinary shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from disposing of our ordinary shares. U.S. holders generally are also subject to backup withholding (currently 28% for taxable years through 2010) on dividends paid in the United States or by a U.S. payor or U.S. middleman on our ordinary shares and on the gross proceeds from disposing of our ordinary shares, unless the U.S. holder provides an IRS Form W-9 or is otherwise exempt from backup withholding.

Non-U.S. holders generally are not subject to information reporting or backup withholding with respect to dividends paid on our ordinary shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from the disposition of our ordinary shares, provided that such non-U.S. holder certifies to its foreign status, or is otherwise exempt from backup withholding or information reporting.

The amount of any backup withholding may be allowed as a credit against a holder's U.S. federal income tax liability and may entitle such holder to a refund provided that certain required information is timely furnished to the IRS.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

**G. STATEMENT BY EXPERTS**

Not applicable.

**H. DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Exchange Act that are applicable to a foreign private issuer. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

However, we file annual reports with, and furnish other information to, the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. Additionally, copies of the materials may be obtained from the SEC's website at <http://www.sec.gov>.

**I. SUBSIDIARY INFORMATION**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Management of financial risks**

Our operations expose us to risks that relate to various financial instruments, such as market risks (including currency risk, fair value risk with respect to interest rates, cash flow risk with respect to interest rates and other price risk), credit risk and liquidity risk.

*Market risk* is the risk that the fair value of future cash flow of financial instruments will fluctuate because of changes in market prices.

*Credit risk* is the risk of financial loss to us if a counterparty to a financial instrument fails to meet its contractual obligations.

*Liquidity risk* is the risk that we will not be able to meet our financial obligations as they become due.

Our comprehensive risk management program focuses on actions to minimize the possible negative effects on our financial performance. In certain cases we use derivatives and non-derivative financial instruments in order to hedge certain risk exposures.

Our board of directors has overall responsibility for the establishment and oversight of our risk management framework. Our board of directors has established a continuous process for identifying and managing the risks faced by us, and confirms that appropriate actions have been or are being taken to address any weaknesses. The board of directors has established an investment committee, which is responsible for developing and monitoring our financial risk management policies. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and our activities.

As of December 31, 2009, we had exposure to the following risks that are related to financial instruments:

### **Foreign currency risk**

We have international activities in many countries and, therefore, we are exposed to foreign currency risks as a result of fluctuations in the different exchange rates. Foreign currency risks are derived from transactions executed and/or financial assets and liabilities held in a currency which is different than the functional currency of our entity which executed the transaction or holds these financial assets and liabilities. In order to minimize such exposure, our policy is to hold financial assets and liabilities in a currency which is the functional currency of that entity. Our functional currency is the NIS and our investees use different functional currencies (mainly the Euro, GBP, Indian Rupee, U.S. dollar and the RON). In addition, part of our long-term loans (mainly Euro) are used to hedge our investments in foreign operations. As for foreign currency risk in respect of PC's notes, for which PC executed swap transaction in order to hedge such risk, see " - Interest Rate Risk" below.

The following table details sensitivity analysis to a change of 10% in our main foreign currencies, as of December 31, 2009, against the relevant functional currency and their effect on the statements of income and the shareholder's equity (before tax and before capitalizing any exchange results to qualified assets):

|                              | <b>Functional<br/>currency</b> | <b>Linkage<br/>currency</b> | <b>Change in the<br/>exchange rate<br/>(%)</b> | <b>Profit (loss)</b>     |
|------------------------------|--------------------------------|-----------------------------|--|--------------------------|
|                              | (in NIS thousands)             |                             |  |                          |
|                              |                                |                             |  |                          |
| <b>Financial assets</b>      |                                |                             |  |                          |
| Cash and deposits            | NIS                            | U.S. dollar                 | +10%   | 9,807                    |
| Cash and deposits            | Euro                           | PLN                         | +10%   | 4,757                    |
| Cash and deposits            | NIS                            | Euro                        | +10%   | 22,320                   |
|                              |                                |                             |  | 36,884                   |
|                              |                                |                             |  |                          |
| <b>Financial Liabilities</b> |                                |                             |  |                          |
| Loans at amortized cost      | NIS                            | U.S. dollar                 | +10%   | (16,702)                 |
| Loans at amortized cost      | NIS                            | Euro                        | +10%   | (23,367) <sup>(*)</sup>  |
| Debentures at amortized cost | NIS                            | U.S. dollar                 | +10%   | (4,984)                  |
| Debentures at amortized cost | Euro                           | NIS                         | +10%   | (15,123) <sup>(**)</sup> |
| Loans at amortized cost      | RON                            | Euro                        | +10%   | (24,323)                 |
| Loans at amortized cost      | Euro                           | CHF                         | +10%   | (1,929)                  |
|                              |                                |                             |  | (86,428)                 |

(\*) The effect of the exchange rates result in respect of these financial liabilities will be offset against the exchange rate resulting from investments in foreign operations which have the same functional currency.

(\*\*) In respect of PC's Series B Notes which are represented as amortized cost.

### **Forward transactions**



PC entered into two forward transactions to hedge its foreign currency exposure risk in respect of its Series A and B Notes. We settled the forward transaction in respect of the Series A Notes for a total consideration of NIS 14.5 million. In January 2010 we settled the forward transaction in respect of the Series B Notes for a total consideration of NIS 29.6 million.

### **Price risk**

#### *Marketable securities*

We invest in marketable securities based on the investment policy adopted by our investment committee. In accordance with this policy, we will invest up to NIS 500 million (\$132 million) through several Israeli investment institutions. The portfolio investment will be divided as follows: up to 15% in shares and at least 85% in government bonds and corporate bonds with a rating of at least A, on a local scale. In addition the portfolio may not include investment in derivative instruments and trust funds.

An increase of 10% in the prices of our marketable securities as of December 31, 2009, will increase our finance income by NIS 20.2 million.

#### *Embedded derivative*

We are committed to pay to a financing bank an additional exit fee in the event of cash distributions deriving from the sale, disposal, refinancing of the Park Plaza Victoria London, Park Plaza Riverbank and Park Plaza Sherlock Holmes hotels which were financed by the bank loan funds or in the event of other repayment of the loan. For more information, see "Item 5.B. Liquidity and Capital Resources - Other Loans." The exit fee will be calculated as the amount equivalent to 15% of the difference between the market value of the hotels as determined in such transaction and the current agreed value of the hotels. The embedded derivative is measured at fair value at each balance sheet date based on the Black-Scholes model. One of the most significant parameters which influence the fair value of the embedded derivative is the market value of the underlying assets (i.e.: the value of the hotels which were financed by the loan).

An increase of 5% in the fair value of the above-mentioned underlying assets will cause an increase in the fair value of the embedded derivative which will lead to a loss of NIS 3.5 million.

### **Credit risk**

We hold cash and cash equivalents, short-term investments and other long-term investments in financial instruments (mainly investments in notes of foreign financial institutions) in various reputable banks and financial institutions. These banks and financial institutions are located in different geographical regions, and it is our policy to disperse our investments among different banks and financial institutions. Our maximum credit risk exposure is approximately the financial assets presented in the balance sheet in our annual consolidated financial statements included in this annual report.

Our investment in HTM structures is concentrated mainly in one bank with a credit rate of A2 according to Moody's and a credit rate of A according to S&P. For additional information, see note AG (2) b to our annual consolidated financial statements included in this annual report.

Due to the nature of their activity, our companies which operate in the hotel, the image guided and the fashion and merchandise business, are not materially exposed to credit risks stemming from dependence on a given customer. Our companies examine on an ongoing basis the credit amounts extended to their customers and, accordingly, record a provision for doubtful debts based on those factors they consider having an effect on specific customers.

As of December 31, 2009, our trade receivables do not include any significant amounts due from buyers of trading property.

### **Interest rate risk**

### *Fair value risk*

A significant portion of our long-term loans and notes bear a fixed interest rate and are therefore, exposed to change in their fair value as a result of changes in the market interest rate. The vast majority of these loans and debentures are measured at amortized cost and therefore changes in the fair value will not have any effect on the statement of income. In addition, we have invested in financial notes which are classified as held to maturity, and therefore change in the fair value of these financial notes will not have any effect on our financial statements or income. The fair value of these financial instruments is presented in " - Fair value of financial instruments" below.

PC's Series A and B Notes are linked to the Israeli consumer price index and bear a fixed interest rate of 4.5% to 5.4% per annum. Consistent with its risk management policies, PC entered into cross currency interest rate swap transactions in respect of the entire amount of Series A Notes. Such swap transaction was settled in January 2009. In addition, PC entered into several swap transaction for its Series B Notes ("Series B at FVTPL"). PC did not execute swap transaction for the additional amount of Series B Notes. According to the swap transactions, PC will pay an interest equal to the Euribor plus a margin of 2.19% to 3.62% and will receive the same interest of the notes linked to the Israeli consumer price index with the same amortization schedule as the notes. The derivatives are measured at fair value with changes in the fair value charged to the statements of income. The notes (other than those for which a swap transaction were not executed) are designated at fair value through profit and loss since it significantly reduces a measurement inconsistency with the said derivative. The notes and the derivative swap transactions associated with them (i.e. the swap transactions) are mainly exposed to change in the Euro / NIS exchange rate, the Israeli consumer price index and the market interest rates.

The following table analyses the change in the fair value of the notes and the derivatives as of December 31, 2009. This analysis assumes that in each case all other parameters affecting the derivatives and the notes fair value remain constant:

|   | <b>Scope of<br/>Price change</b> | <b>Profit (loss)</b> |
|---|----------------------------------|----------------------|
|   | <b>%</b>                         | <b>NIS thousands</b> |
| Exchange rate of the Euro against the NIS | +12.27%                          | 39,224               |
| Change in the Israeli CPI                 | +2%                              | (4,196)              |
| Change in the interest rate of the notes  | +1%                              | 6,759                |

### *Cash flow risk*

Part of our long-term borrowings, as well as long-term loans receivable bear variable interest rates. Cash and cash equivalents, short-term deposits and short-term bank credits are mainly deposited in or obtained at variable interest rates. Changes in the market interest rate will affect our finance income and expenses and our cash flow.

In certain cases we use interest rate swap transaction in order to swap loans with a variable interest rate to fixed interest rate or alternatively entering into loans with a fixed interest rate.

The following table presents the effect of an increase of 2% in the LIBOR rate with respect to financial liabilities as of December 31, 2009, which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

|  | <b>Profit (loss)</b> |
|--|----------------------|
|  | <b>NIS thousands</b> |
| Loans, notes and convertible notes linked to the U.S. dollar | (4,342)              |
| Loans and notes linked to the Euro *                         | (48,984)             |
| Loans linked to the NIS                                      | (811)                |

\* In respect of PC's notes which are linked to the Israeli consumer price index and for which PC has executed swap transactions in order to exchange the interest to variable interest rate. See note 9A.(iv) to our annual consolidated financial statements included in this annual report.

As of December 31, 2009, we hold investments in financial notes in the amount of NIS 315 million which bear interest of 11.5% to 12% per annum, and which are payable only if the margin between the 30 year Euro swap interest rate and the 10 years Euro swap interest rate (measured on a daily basis) is higher than the accrual barrier as stipulated in the agreement. Therefore, we are exposed to non-payment of interest on these notes in the event that the aforementioned condition is not met. A decrease of 5% in the annual effective interest rate on the notes will lead to a decrease in our financing income and our cash flow for the year ended December 31, 2009, in the amount of NIS 15.8 million. After December 31, 2009, we settled additional financial notes in the amount of NIS 108 million.

The following table presents our long-term financial liabilities classified according to their interest rate and their contractual maturity date:

| Functional<br>Currency | Linkage<br>Currency       | Interest<br>Rate %     | Average<br>Interest<br>Rate % | Repayment Years |                       |       |       |       |                     |         |
|------------------------|---------------------------|------------------------|-------------------------------|-----------------|-----------------------|-------|-------|-------|---------------------|---------|
|                        |                           |                        |                               | 1               | 2                     | 3     | 4     | 5     | 6 and<br>thereafter | Total   |
|                        |                           |                        |                               | NIS million     |                       |       |       |       |                     |         |
| €                      | €                         | 4.7-5.6 <sup>(i)</sup> | 4.7-5.6                       | 4.8             | 5.9                   | 6.9   | 6.9   | 178   | 28.1                | 230.6   |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| €                      |                           | Libor+4                | 4.8                           |                 | 0.5                   |       | 0.5   | 15.6  |                     | 16.6    |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| €                      | €                         | Euribor +<br>0.4-3.66  | 4.9                           | 2.5             | 158.6                 | 158.6 | 158.6 | 158.6 | 170.7               | 807.6   |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| €                      | NIS<br>(linked to<br>CPI) | 4.5-5.5                | 4.5-5.5                       | 42.4            | 73.6                  | 73.6  | 73.6  | 73.6  | 158.5               | 495.3   |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| GBP                    | GBP                       | 7.3 <sup>(i)</sup>     | 7.7                           | 552.3           | -                     | -     | -     | -     | -                   | 552.3   |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| NIS                    | U.S.<br>dollar            | Libor +<br>1.75        | 2                             | -               | 75.8 <sup>(ii)</sup>  | -     | -     | -     | -                   | 75.8    |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| NIS                    | €                         | Euribor +<br>1.75      | 2.25                          | -               | 233.8 <sup>(ii)</sup> | -     | -     | -     | -                   | 233.8   |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| NIS                    | U.S.<br>dollar            | Libor +<br>2.65        | 4.4                           | 11.1            | 11.1                  | 11.1  | 11.1  | 5.6   | -                   | 50      |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| NIS                    | NIS<br>(linked to<br>CPI) | 5-6.3                  | 6.0                           | 275.6           | 275.7                 | 282.9 | 369.7 | 302.9 | 860.4               | 2,367.2 |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| RON                    | €                         | Euribor +<br>3.5       | 4.5                           | 28.3            | 28.3                  | 28.4  | 28.4  | 28.4  | 98.4                | 240.2   |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| NIS                    | NIS                       | 6.25                   | 6.25                          | -               | -                     | -     | 49.5  | 49.5  | -                   | 99      |
|                        |                           |                        |                               |                 |                       |       |       |       |                     |         |
| NIS                    | NIS                       | Prime<br>+0.5          | 4.5                           | -               | 1.2                   | -     | -     | -     | -                   | 1.2     |
|                        |                           |                        |                               | 917             | 864.5                 | 561.5 | 698.3 | 812.2 | 1,316.1             | 5,169.6 |

(i) The interest rates on these loans were fixed by swap transactions.

- (ii) See note 17D and 17E to our annual consolidated financial statements included in this annual report.

### ***Israeli consumer price index risk***

A significant part of our borrowing consists of notes raised by us on the TASE and which are linked to the increase in the Israeli consumer price index above the base index at the date of the notes issuance (excluding PC's notes for which PC has executed swap transactions against such linkage). An increase of 3% in the Israeli consumer price index will cause an increase in our finance expenses for the year ended December 31, 2009 (before tax and capitalizations of finance expenses to qualified assets) in the amount of NIS 75.8 million.

### **Fair value of financial instruments**

Our financial instruments primarily include cash and cash equivalents, short and long-term deposits, marketable securities, trade receivables, short and long-term other receivables, short-term banks credit, other current liabilities and long-term monetary liabilities.

### ***Fair value of financial instruments***

The fair value of traded financial instruments (such as marketable securities and debentures) is generally calculated according to quoted closing prices as of the balance sheet date, multiplied by the issued quantity of the traded financial instrument as of that date, except for instances in which the market for these traded financial instruments is considered an inactive market. The fair value of financial instruments that are not traded and financial instruments traded in an inactive market is estimated by means of accepted pricing models, such as present value of future cash flows which are discounted at a rate that, in our assessment, reflects the level of risk that is incorporated in the financial instrument. We rely, in part, on discount interest which is quoted in an active market, as well as on various techniques of approximation. Therefore, for most of the financial instruments, the estimation of fair value presented below is not necessarily an indication of the realization value of the financial instrument as of the balance sheet date. The estimation of fair value is carried out, as mentioned above, according to the discount rates in proximity to the date of the balance sheet and does not take into account the variability of the interest rates from the date of the computation through the date of issuance of the financial statements. Under an assumption of other discount rates, and/or other critical assumptions required for the estimation, different fair value assessments would be received which could be materially different from those estimated by us, mainly with respect to financial instruments at a fixed interest rate. Moreover, in determining the assessments of fair value, the commissions that could be payable at the time of repayment of the instrument have not been taken into account and they also do not include any tax effect. The difference between the balances of the financial instruments as of the balance sheet date and their fair value as estimated by us may not necessarily be realizable, in particular in respect of a financial instrument which will be held until redemption date.

Following are the principal methods and assumptions which served to compute the estimated fair value of the financial instruments:

- a) **Financial instruments included in current assets** - (cash and cash equivalents, deposits and marketable securities, trade receivables, other current assets and assets related to discontinue operation) - due to their nature, their fair values approximate to those presented in the balance sheet.
- b) **Financial instruments included in non-current assets** - the fair value of loans and deposits which bear variable interest rate is approximate to those presented in the balance sheet. The fair value of long term financial notes is determined using a price quotations provided to us by the issuer of the notes as of the balance sheet date. Such quotation is generally based on discounted expected cash flow from the notes, taking into consideration factors such as the credit rating of the issuer and the prevailing and the expected relevant interest rates. The fair value of derivatives (mainly swap transactions) is done by relying on third party professional advice, which takes into account the expected future cash flow based on the terms and maturity of each contract using market interest rates for a similar instrument prevailing at the measurement date.

- c) **Financial instruments included in current liabilities** - (short-term credit, suppliers, other current liabilities and liabilities related to discontinued operation) - due to their nature, their fair values approximate to those presented in the balance sheet.
- d) **Financial instruments included in long- term liabilities** - The fair value of the traded liabilities (debentures) is generally determined according to closing prices as of the balance sheet date quoted on the TASE, multiplied by the quantity of the marketable financial instrument issued as of that date, except for PC's traded notes for which it was determined that the trade in such notes as of the end of 2008 indicating the existence of an inefficient and inactive market and accordingly their fair value was determined using an alternative valuation technique (see "Item 5. critical accounting policies - valuation of notes measured at fair value through profit and loss"). The fair value of non-traded liabilities at a fixed rate interest is determined according to the present value of future cash flows, discounted at a rate which reflects, in our estimation, the level of risk embedded in the financial instrument. The fair value of liabilities which carried variable interest rate is approximately the amounts presented in the balance sheet.

The following table presents the book value and fair value of our financial assets (liabilities), which are presented in the financial statements at other than their fair value:

|   | <b>As of December 31, 2009</b> |                   |
|---|--------------------------------|-------------------|
|   | <b>Book Value</b>              | <b>Fair Value</b> |
| Financial Notes held to maturity        | 315,101                        | 244,436           |
| Long- term loans at fixed interest rate | (779,278)                      | (861,695)         |
| Series A, B, C, D, E and F Notes        | (2,568,276)                    | (2,625,528)       |
|   | (3,032,455)                    | (3,197,787)       |
|   |                                |                   |

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## **PART II**

## **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

## **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

## **ITEM 15. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures.**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2009. Based on this evaluation, our chief executive officer and chief financial

officer concluded that, as of December 31, 2009, our disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance to our management and the board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management evaluated the effectiveness of our internal control over financial reporting established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the above, our management has assessed and concluded that, as of December 31, 2009, our internal control over financial reporting is effective.

### **Attestation Report of the Independent Registered Public Accounting Firm**

Our independent registered public accounting firm independently assessed the effectiveness of our internal control over financial reporting and has issued an attestation report, which is included on pages 4 and 5 of our annual consolidated financial statements included in this annual report.

### **Changes in Internal Control Over Financial Reporting**

In March 2009 we appointed a Corporate IT Manager to implement effective controls in order to support our control objectives relating to information technology general controls. Other than the foregoing, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) identified with the evaluation thereof that occurred during the year ended December 31, 2009, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

In accordance with Nasdaq Corporate Governance Rules, our board of directors has determined that both Mr. Zvi Tropp and Ms. Elina Frenkel Ronen are "audit committee financial experts" as defined in the instructions to Item 16A. of Form 20-F and are independent in accordance with the Nasdaq listing standards for audit committees applicable to us.

## **ITEM 16B. CODE OF ETHICS**

Our principal executive officer, principal financial officer as well as all other directors, officers and employees are bound by a Code of Ethics and Business Conduct. Our Code of Ethics and Business Conduct is posted on and can be accessed via our web-site at [www.elbitimaging.com](http://www.elbitimaging.com). We will provide any person, without charge, upon request, a copy of our Code of Ethics. Such request should be submitted to our Corporate Secretary at 2 Weitzman Street, Tel Aviv 64239, Israel and should include a return mailing address.

## **ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Fees billed by Brightman Almagor Zohar & Co., a firm of certified public accountants in Israel and a member firm of Deloitte Touche Tohmatsu, and other Deloitte member firms ("Deloitte") for professional services for each of the last two fiscal years were as follows:

| <b>Services Rendered</b> | <b>2008 Fees</b> | <b>2009 Fees</b> |
|--------------------------|------------------|------------------|
| Audit (a)                | \$868,000        | \$888,980        |
| Audit-related (b)        | \$46,000         | \$30,864         |
| Tax (c)                  | \$48,000         | \$85,615         |
| All other fees (d)       | \$35,000         | -                |
| Total                    | \$978,000        | \$1,005,459      |

**(a) Audit Fees**

"Audit Fees" are the aggregate fees billed for the audit of our annual financial statements; audit in accordance with section 404 of the Sarbanes-Oxley Act of 2002, statutory audits and services that are normally provided in connection with statutory and regulatory filings or engagements.

**(b) Audit-Related Fees**

"Audit-Related Fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees.

In 2008 and 2009, Audit-Related Fees included mainly work related to our shelf prospectus filed in August 2009 in Israel.

**(c) Tax Fees**

"Tax Fees" are the aggregate fees billed for professional services rendered for tax compliance, tax advice on actual or contemplated transactions and tax consultations regarding tax audits, tax opinions and tax pre-rulings.

**(d) All Other Fees**

"All Other Fees" are the aggregate fees billed for products and services provided by Deloitte other than as described above. There were no such fees in 2009.

**(e) Pre-Approval Policies and Procedures**

Our audit committee oversees the appointment, compensation, and oversight of the registered public accounting firm engaged to prepare and issue an audit report on our financial statements. The audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by our registered public accounting firm and quarterly review of its non-audit services and related fees. These services may include audit services, audit-related services, permitted tax services and other services, as described above. The audit committee approves in advance the particular services or categories of services to be provided to us during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional services may be pre-approved by the audit committee on an individual basis throughout the year.

None of the Audit-Related Fees, Tax Fees or Other Fees paid by us for services provided by Deloitte were approved by the audit committee pursuant to the *de minimis* exception to the pre-approval requirement provided by Section 10A of the Exchange Act.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS**

| Period        | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans or programs | (d) Maximum number (or approximately dollar value) of shares that may yet be purchased under the plans or programs |
|---------------|--------------------------------------|----------------------------------|--|--|
| November 2009 | 1,950                                | \$15.96                          | -  | -  |
|               |                                      |                                  |  |  |

In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. In December 2008, an amount of NIS 1.7 million representing 3 million units of Series C Notes were purchased by Elscint Ltd. (our fully owned subsidiary). These notes were sold in June 2009 for a total sum of NIS 2.7 million.

#### **ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

#### **ITEM 16G. CORPORATE GOVERNANCE**

We follow the Companies Law, the relevant provisions of which are summarized in this annual report, rather than comply with the NASDAQ requirements relating to: (i) the quorum for adjourned shareholder meetings, as described in "Item 10.B. Memorandum and Articles of Association - Voting Rights"; (ii) executive sessions of independent directors, which are not required under the Companies Law; and (iii) shareholder approval with respect to issuance of securities under equity based compensation plans. NASDAQ rules generally require shareholder approval when an equity based compensation plan is established or materially amended, but we follow the Companies Law, which requires approval of the board of directors or a duly authorized committee thereof, unless such arrangements are for the compensation of directors, in which case they also require audit committee and shareholder approval.

#### **ITEM 17. FINANCIAL STATEMENTS**

In lieu of responding to this item, we have responded to Item 18 of this annual report.

#### **ITEM 18. FINANCIAL STATEMENTS**

The information required by this item is set forth beginning on page F-1 of this annual report.



**ELBIT IMAGING LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2009**

**ELBIT IMAGING LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of  
Elbit Imaging Ltd.  
Tel-Aviv, Israel**

We have audited the accompanying consolidated balance sheets of Elbit Imaging Ltd. and its subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute 36% of the total consolidated assets as of December 31, 2008 and whose revenues included in consolidation constitute 8% and 7% of total consolidated revenues for each of the two years ending December 31, 2008 and 2007. We also did not audit the financial statements of an associate accounted for by the equity method, the Company's investments in which as of December 31, 2009 and 2008 amounted to NIS 26.5 million and NIS 31.4 million, respectively, and the Company's share in its losses amounted to NIS 4.9 million, NIS 3.0 million and NIS 4.9 million for each of the three years in the period ended December 31, 2009, respectively. The financial statements of those subsidiaries and associate were audited by other auditors, and our opinion, insofar as it relates to the amounts relating to those subsidiaries and associate, is based on the reports of the other auditors on consolidated financial statements which include those subsidiaries, and on the reports of the other auditors on the financial statements of the associate, which were furnished to us.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elbit Imaging Ltd. and its subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations, other comprehensive income, and their cash flows for each of the three years in the period ended December 31, 2009, in accordance with

International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

As discussed in Note 23B, claims have been filed against Group companies for some of which petitions have been filed for certification as class actions.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 9, 2010 expressed a unqualified opinion on the Company's internal control over financial reporting based on our audit.

**/s/ Brightman Almagor Zohar & Co.**

**Brightman Almagor Zohar & Co.**  
**Certified Public Accountants**  
**A member firm of Deloitte Touche Tohmatsu**

Tel -Aviv, Israel  
May 9, 2010

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Stockholders of  
Elbit Imaging Ltd.  
Tel-Aviv, Israel**

We have audited Elbit Imaging Ltd. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated May 9, 2010, expressed an unqualified opinion and included an explanatory paragraph relating to claims that have been filed against Group companies for some of which petitions have been filed for certification as class actions.

**Brightman Almagor Zohar & Co.**  
**Certified Public Accountants**  
**A member firm of Deloitte Touche Tohmatsu**

Tel-Aviv, Israel  
May 9, 2010

**ELBIT IMAGING LTD.**  
**CONSOLIDATED BALANCE SHEETS**

|  | Note | December 31       |            |                                   |
|--|------|-------------------|------------|-----------------------------------|
|  |      | 2009              | 2008       | 2009                              |
|  |      |                   |            | Convenience translation (note 2D) |
|  |      | (in thousand NIS) |            | US\$'000                          |
| <b>Current Assets</b>                        |      |                   |            |                                   |
| Cash and cash equivalents                    | (3)  | 1,508,301         | 1,690,433  | 399,550                           |
| Short-term deposits and investments          | (4)  | 563,719           | (*)485,954 | 149,330                           |
| Trade accounts receivables                   | (5)  | 45,049            | 34,740     | 11,933                            |
| Other receivables                            | (6)  | 119,890           | 134,194    | 31,759                            |
| Prepayments and other assets                 | (7)  | 335,206           | 404,613    | 88,796                            |
| Inventories                                  |      | 45,494            | 38,176     | 12,052                            |
| Trading property                             | (8)  | 4,157,610         | 3,279,775  | 1,101,353                         |
|  |      | 6,775,269         | 6,067,885  | 1,794,773                         |
| Assets related to discontinued operation     | (29) | 2,250             | 9,043      | 596                               |
|  |      | 6,777,519         | 6,076,928  | 1,795,369                         |
| <b>Non-Current Assets</b>                    |      |                   |            |                                   |
| Deposits, loans and other long-term balances | (9)  | 625,695           | (*)706,333 | 165,746                           |
| Investments in associates                    | (10) | 41,597            | 46,655     | 11,019                            |
| Property, plant and equipment                | (12) | 1,648,620         | 1,618,253  | 436,721                           |
| Investment property                          | (13) | 80,487            | 78,897     | 21,321                            |
| Other assets and deferred expenses           | (14) | 136,491           | 118,064    | 36,157                            |
| Intangible assets                            | (15) | 53,486            | 46,582     | 14,169                            |
|  |      | 2,586,376         | 2,614,784  | 685,133                           |
|  |      | 9,363,895         | 8,691,712  | 2,480,502                         |

(\*) Reclassified see note 2 AH

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**CONSOLIDATED BALANCE SHEETS**

|  | Note | December 31       |              |   |
|--|------|-------------------|--------------|---|
|  |      | 2009              | 2008         | 2009  |
|  |      | (in thousand NIS) |              | Convenience translation (note 2D)<br>US\$'000 |
| <b>Current Liabilities</b>                               |      |                   |              |   |
| Short-term credits                                       | (16) | 2,218,964         | (*)1,452,144 | 587,805                                       |
| Suppliers and service providers                          |      | 199,566           | 214,461      | 52,865  |
| Payables and other credit balances                       | (17) | 201,450           | 217,704      | 53,364  |
| Other liabilities  | (18) | 117,965           | 105,246      | 31,249  |
|  |      | 2,737,945         | 1,989,555    | 725,283                                       |
| Liabilities related to discontinued operation            | (29) | 18,630            | 29,186       | 4,935   |
|  |      | 2,756,575         | 2,018,741    | 730,218                                       |
| <b>Non-Current Liabilities</b>                           |      |                   |              |   |
| Borrowings   | (19) | 4,318,633         | (*)4,061,513 | 1,144,009                                     |
| Other long-term financial liabilities                    | (20) | 96,686            | 93,121       | 25,612  |
| Other long-term liabilities                              | (21) | 17,450            | 15,440       | 4,623   |
| Deferred taxes   | (22) | 39,264            | 65,114       | 10,401  |
|  |      | 4,472,033         | 4,235,188    | 1,184,645                                     |
| <b>Commitments, Contingencies, Liens and Collaterals</b> | (23) |                   |              |   |
| <b>Shareholders' Equity</b>                              | (24) |                   |              |   |
| Share capital and share premium                          |      | 873,307           | 853,323      | 231,340                                       |
| Reserves   |      | (221,672)         | (301,733)    | (58,721)                                      |
| Retained earnings  |      | 427,351           | 960,621      | 113,205                                       |
| Treasury stock   |      | (138,519)         | (138,519)    | (36,693)                                      |
| Attributable to equity holders of the Company            |      | 940,467           | 1,373,692    | 249,131                                       |
| Minority interest  |      | 1,194,820         | 1,064,091    | 316,508                                       |
|  |      | 2,135,287         | 2,437,783    | 565,639                                       |
|  |      | 9,363,895         | 8,691,712    | 2,480,502                                     |

(\*) Reclassified see note 2 AH

**Doron Moshe**  
Chief Financial Officer

**Dudi Machluf**  
Co-CEO

**Ran Starkman**  
Co-CEO

**Approved by the Board of Directors on: May 9, 2010**

The accompanying notes to the financial statements constitute an integral part thereof.



**ELBIT IMAGING LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME**

|  |                             | December 31 |           |           |                                   |
|--|-----------------------------|-------------|-----------|-----------|-----------------------------------|
|  |                             | 2009        | 2008      | 2007      | 2009                              |
|  |                             |             |           |           | Convenience translation (note 2D) |
|  |                             |             |           |           | US\$'000                          |
| Note   | (in thousand NIS)           |             |           |           |                                   |
|  | (Except for per-share data) |             |           |           |                                   |
| <b>Revenues and gains</b>  |                             |             |           |           |                                   |
| Commercial centers operation   | (26A)                       | 85,466      | 524,163   | 2,917,616 | 22,640                            |
| Hotels operations and management   | (26B)                       | 396,736     | 384,220   | 395,227   | 105,096                           |
| Gains from sale of real estate assets  | (26C)                       | -           | -         | 62,621    | -                                 |
| Sale of medical systems  |                             | 61,683      | 38,076    | 49,648    | 16,340                            |
| Gains from change of shareholding in subsidiaries  | (26D)                       | 31,106      | 49,122    | 5,310     | 8,240                             |
| Sale of fashion merchandise  |                             | 118,386     | 102,736   | 68,139    | 31,360                            |
|  |                             | 693,377     | 1,098,317 | 3,498,561 | 183,676                           |
| <b>Expenses and losses</b>   |                             |             |           |           |                                   |
| Commercial centers   | (26E)                       | 169,253     | 432,760   | 1,714,253 | 44,835                            |
| Hotels operations and management   | (26F)                       | 353,229     | 354,850   | 330,063   | 93,571                            |
| Cost and expenses of medical systems operation   | (26G)                       | 67,403      | 55,469    | 69,953    | 17,855                            |
| Cost of fashion merchandise  | (26H)                       | 134,142     | 118,040   | 80,308    | 35,534                            |
| Research and development expenses  | (26I)                       | 73,959      | 68,759    | 69,559    | 19,592                            |
| General and administrative expenses  | (26J)                       | 66,153      | 54,944    | 116,992   | 17,524                            |
| Share in losses of associates, net   |                             | 14,039      | 12,952    | 12,667    | 3,719                             |
| Financial expenses   | (26K)                       | 283,546     | 296,527   | 232,566   | 75,112                            |
| Financial income   | (26L)                       | (92,725)    | (135,278) | (73,293)  | (24,563)                          |
| Change in fair value of financial instruments measured at fair value through profit and loss | (26M & 2AG(1)e)             | 70,702      | (225,244) | (18,347)  | 18,729                            |
| Impairments, charges and other expenses, net   | (26N)                       | 260,225     | 68,797    | 38,233    | 68,934                            |
|  |                             | 1,399,926   | 1,102,576 | 2,572,954 | 370,842                           |
| <b>Profit (loss) before income taxes</b>   |                             | (706,549)   | (4,259)   | 925,607   | (187,166)                         |
| Income taxes (tax benefit)   | (22)                        | (35,571)    | 24,736    | 16,288    | (9,423)                           |
| <b>Profit (loss) from continuing operations</b>  |                             | (670,978)   | (28,995)  | 909,319   | (177,743)                         |
| Profit from discontinued operation, net  | (29)                        | 16,550      | 4,934     | 10,289    | 4,384                             |
| <b>Profit (loss) for the year</b>  |                             | (654,428)   | (24,061)  | 919,608   | (173,359)                         |
| <b>Attributable to:</b>  |                             |             |           |           |                                   |
| Equity holders of the Company  |                             | (533,269)   | (103,714) | 539,749   | (141,263)                         |
| Minority interest  |                             | (121,159)   | 79,653    | 379,859   | (32,096)                          |
|  |                             | (654,428)   | (24,061)  | 919,608   | (173,359)                         |
| <b>Earnings per share - (in NIS)</b>   |                             |             |           |           |                                   |
| (26O)  |                             |             |           |           |                                   |
| Basic earnings per share:  |                             |             |           |           |                                   |
| From continuing operation  |                             | (21.60)     | (4.27)    | 20.80     | (5.72)                            |
| From discontinued operation  |                             | 0.65        | 0.19      | 0.40      | 0.17                              |
|  |                             | (20.95)     | (4.08)    | 21.20     | (5.55)                            |
| Diluted earnings per share:  |                             |             |           |           |                                   |
| From continuing operation  |                             | (21.62)     | (4.30)    | 20.18     | (5.73)                            |
| From discontinued operation  |                             | 0.65        | 0.19      | 0.40      | 0.17                              |
|  |                             | (20.97)     | (4.11)    | 20.58     | (5.56)                            |

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|  | December 31       |           |         |   |
|--|-------------------|-----------|---------|---|
|  | 2009              | 2008      | 2007    | 2009                                    |
|  |                   |           |         | Convenience<br>translation<br>(note 2D) |
|  |                   |           |         | US\$'000                                |
|  | (in thousand NIS) |           |         |   |
| <b>Profit (loss) for the period</b>                                    | (654,428)         | (24,061)  | 919,608 | (173,359)                               |
| Exchange differences arising from translation of<br>foreign operations | 92,319            | (458,217) | 11,092  | 24,455                                  |
| Gain(loss) from cash flow hedge  | (1,752)           | (53,703)  | (8,897) | (464)                                   |
| Gain(loss) from available for sale investments                         | 9,383             | (5,929)   | -       | 2,486                                   |
| Income taxes (tax benefit)(see note 22)                                | (3,028)           | 8,645     | (1,288) | (802)                                   |
|  | 96,922            | (509,204) | 907     | 25,675                                  |
| <b>Comprehensive income( loss)</b>                                     | (557,506)         | (533,265) | 920,515 | (147,684)                               |
| <b>Attributable to:</b>  |                   |           |         |   |
| Equity holders of the Company  | (466,459)         | (508,007) | 530,422 | (123,566)                               |
| Minority interest  | (91,047)          | (25,258)  | 390,093 | (24,118)                                |
|  | (557,506)         | (533,265) | 920,515 | (147,684)                               |

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT.)**

| Attributable to the shareholders of the Company                                    |               |               |   |                                  |                                      |                   |              |                |  |  |                            |
|--|---------------|---------------|---|----------------------------------|--------------------------------------|-------------------|--------------|----------------|--|--|----------------------------|
|  | Share capital | Share premium | Hedging and available for sale reserves | Stock-based compensation reserve | Foreign currency translation reserve | Retained earnings | Gross amount | Treasury stock | Loans to employees to acquire Company shares | Attributable to share-holders of the company | Total shareholders' equity |
|  |               |               |   |                                  |                                      |                   |              |                |  |  |                            |
| <b>Balance - January 1, 2007</b>   | 38,032        | 815,112       | 20,080                                  | 13,482                           | 47,966                               | 852,416           | 1,787,088    | (138,519)      | (3,853)                                      | 1,644,716                                    | 2,294,230                  |
| Comprehensive income(loss)   | -             | -             | (7,232)                                 | -                                | (2,094)                              | 539,749           | 530,423      | -              | -  | 530,423                                      | 920,515                    |
| Initially consolidated company   | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 32,416                     |
| Issuance of shares to the Group by a subsidiary                                    | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 12,035                     |
| Issuance of shares to the minority by a subsidiary                                 | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 33,424                     |
| Purchase of minority interest  | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | (367)  | (367)                      |
| Dividend paid  | -             | -             | -                                       | -                                | -                                    | (159,766)         | (159,766)    | -              | -  | (159,766)                                    | (159,766)                  |
| Repayment of loans as a result of the realization by employees of rights to shares | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | 638  | 638  | 638                        |
| Employees share premium  | -             | 163           | -                                       | -                                | -                                    | -                 | 163          | -              | (163)  | -  | -                          |
| Stock-based compensation expenses  | -             | -             | -                                       | 19,427                           | -                                    | -                 | 19,427       | -              | -  | 19,427                                       | 95,877                     |
| <b>Balance - December 31, 2007</b>   | 38,032        | 815,275       | 12,848                                  | 32,909                           | 45,872                               | 1,232,399         | 2,177,335    | (138,519)      | (3,378)                                      | 2,035,438                                    | 3,229,002                  |
| Comprehensive income(loss)   | -             | -             | (54,051)                                | -                                | (350,242)                            | (103,714)         | (508,007)    | -              | -  | (508,007)                                    | (533,265)                  |
| Investments of the minority in a subsidiary  | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 5,860                      |
| Purchase of minority interest  | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | (68,468)                                     | (68,468)                   |
| Dividend paid  | -             | -             | -                                       | -                                | -                                    | (168,064)         | (168,064)    | -              | -  | (168,064)                                    | (168,064)                  |
| Dividend paid to the minority by a subsidiary                                      | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | (97,775)                                     | (97,775)                   |
| Repayment of loans as a result of the realization by employees of rights to shares | -             | -             | -                                       | -                                | -                                    | -                 | -            | -              | 3,394  | 3,394  | 3,394                      |
| Employees share premium  | -             | 16            | -                                       | -                                | -                                    | -                 | 16           | -              | (16)   | -  | -                          |
| Stock-based compensation expenses  | -             | -             | -                                       | 10,931                           | -                                    | -                 | 10,931       | -              | -  | 10,931                                       | 67,099                     |
| <b>Balance - December 31, 2008</b>   | 38,032        | 815,291       | (41,203)                                | 43,840                           | (304,370)                            | 960,621           | 1,512,211    | (138,519)      | -  | 1,373,692                                    | 2,437,783                  |

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Attributable to the shareholders of the Company

|   | Share capital     | Share premium | Hedging and available for sale reserves | Stock-based compensation reserve | Foreign currency translation reserve | Retained earnings | Gross amount | Treasury stock | Loans to employees to acquire Company shares | Attributable to share-holders of the company | Minority interest | Total shareholders' equity |
|---|-------------------|---------------|---|----------------------------------|--------------------------------------|-------------------|--------------|----------------|--|--|-------------------|----------------------------|
|   | (In thousand NIS) |               |   |                                  |                                      |                   |              |                |  |  |                   |                            |
| <b>Balance – January 1, 2009</b>                      | 38,032            | 815,291       | (41,203)                                | 43,840                           | (304,370)                            | 960,621           | 1,512,211    | (138,519)      | -  | 1,373,692                                    | 1,064,091         | 2,437,783                  |
| Comprehensive income(loss)                            | -                 | -             | 4,745                                   | -                                | 62,065                               | (533,269)         | (466,459)    | -              | -  | (466,459)                                    | (91,047)          | (557,506)                  |
| Issuance of shares to the minority by a subsidiary    | -                 | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 71,940            | 71,940                     |
| Purchase of the minority interest                     | -                 | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 107,221           | 107,221                    |
| Initially consolidated subsidiary                     | -                 | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 5,993             | 5,993                      |
| Exercise of shares by employees                       | 6                 | 701           | -                                       | (707)                            | -                                    | -                 | -            | -              | -  | -  | -                 | -                          |
| Equity component of convertible debentures            | -                 | 19,277        | -                                       | -                                | -                                    | -                 | 19,277       | -              | -  | 19,277                                       | -                 | 19,277                     |
| Stock-based compensation expenses                     | -                 | -             | -                                       | 13,957                           | -                                    | -                 | 13,957       | -              | -  | 13,957                                       | 36,622            | 50,579                     |
| <b>Balance – December 31, 2009</b>                    | 38,038            | 835,269       | (36,458)                                | 57,090                           | (242,305)                            | 427,352           | 1,078,986    | (138,519)      | -  | 940,467                                      | 1,194,820         | 2,135,287                  |
| <b>Convenience translation into US\$'000(note 2D)</b> |                   |               |   |                                  |                                      |                   |              |                |  |  |                   |                            |
| <b>Balance - January 1, 2009</b>                      | 10,075            | 215,971       | (10,914)                                | 11,613                           | (80,627)                             | 254,469           | 400,587      | (36,694)       | -  | 363,893                                      | 281,878           | 645,771                    |
| Comprehensive income (loss)                           | -                 | -             | 1,257                                   | -                                | 16,440                               | (141,264)         | (123,566)    | -              | -  | (123,566)                                    | (24,118)          | (147,684)                  |
| Issuance of shares to the minority by a subsidiary    | -                 | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 19,057            | 19,057                     |
| Purchase of the minority interest                     | -                 | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 28,402            | 28,402                     |
| Initially consolidated subsidiary                     | -                 | -             | -                                       | -                                | -                                    | -                 | -            | -              | -  | -  | 1,588             | 1,588                      |
| Exercise of shares by employees                       | 1                 | 186           | -                                       | (187)                            | -                                    | -                 | -            | -              | -  | -  | -                 | -                          |
| Equity component of convertible debentures            | -                 | 5,107         | -                                       | -                                | -                                    | -                 | 5,107        | -              | -  | 5,107  | -                 | 5,107                      |
| Stock-based compensation expenses                     | -                 | -             | -                                       | 3,697                            | -                                    | -                 | 3,697        | -              | -  | 3,697  | 9,701             | 13,398                     |
| <b>Balance - December 31, 2009</b>                    | 10,076            | 221,264       | (9,657 )                                | 15,123                           | (64,187)                             | 113,205           | 285,825      | (36,694)       | -  | 249,131                                      | 316,508           | 565,639                    |

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

|   | December 31       |                |                  |                                   |
|---|-------------------|----------------|------------------|-----------------------------------|
|   | 2009              | 2008           | 2007             | 2009                              |
|   |                   |                |                  | Convenience translation (note 2D) |
|   | (in thousand NIS) |                |                  | US\$'000                          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |                   |                |                  |                                   |
| Profit(loss) for the year   | (654,428)         | (24,061)       | 919,608          | (173,359)                         |
| Income tax expenses (tax benefit) recognized in profit and loss   | (35,572)          | 24,736         | 16,288           | (9,423)                           |
| Finance expenses (income) recognized in profit and loss           | 261,524           | (63,995)       | 140,926          | 69,278                            |
| Income tax paid in cash   | (3,698)           | (2,433)        | (2,531)          | (980)                             |
| Discontinued operation  | (16,551)          | (4,935)        | (10,289)         | (4,384)                           |
| Depreciation and amortization (including impairment)              | 317,871           | 128,073        | 111,520          | 84,204                            |
| Investment in initially – consolidates subsidiaries (Appendix B)  | (23,127)          | -              | -                | (6,126)                           |
| Loss from realization of investments in subsidiaries (Appendix C) | 150               | -              | -                | 40                                |
| Share in losses of associates, net                                | 14,039            | 12,952         | 12,667           | 3,719                             |
| Loss from realization of assets and liabilities                   | (681)             | 3,335          | 2,790            | (180)                             |
| Stock based compensation expenses                                 | 36,719            | 52,566         | 72,226           | 9,727                             |
| Profit from realization of investments                            |                   | -              | (60,736)         |                                   |
| Profit from change of shareholding in subsidiaries                | (31,106)          | (49,122)       | (4,870)          | (8,240)                           |
| Others  | (413)             | 1,526          | 184              | (109)                             |
| Trade accounts receivables  | (9,123)           | 1,383,334      | (1,442,203)      | (2,417)                           |
| Receivables and other debit balances                              | 66,721            | (124,985)      | (15,528)         | 17,674                            |
| Long-term receivables   | (672)             | (3,403)        | 234              | (178)                             |
| Inventories   | (7,298)           | (9,608)        | (2,082)          | (1,933)                           |
| Trading property and payment on account of trading property       | (612,088)         | (968,256)      | (926,405)        | (162,142)                         |
| Suppliers and service providers                                   | (16,608)          | 52,754         | 26,092           | (4,399)                           |
| Payables and other credit balances                                | (53,315)          | (193,896)      | 307,337          | (14,124)                          |
| Net cash provided by (used in) continuing operations              | (767,656)         | 214,581        | (854,772)        | (203,352)                         |
| Net cash provided by discontinued operating activities            | 13,325            | 6,075          | 1,309            | 3,529                             |
| <b>Net cash provided by (used in) operating activities</b>        | <b>(754,331)</b>  | <b>220,656</b> | <b>(853,463)</b> | <b>(199,823)</b>                  |

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)**

|   | December 31       |                  |                  |                                   |
|---|-------------------|------------------|------------------|-----------------------------------|
|   | 2009              | 2008             | 2007             | 2009                              |
|   |                   |                  |                  | Convenience translation (note 2D) |
|   |                   |                  |                  | US\$'000                          |
|   | (in thousand NIS) |                  |                  |                                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                  |                  |                                   |
| Investment in initially-consolidated subsidiaries (Appendix D)                                | (1,252)           | -                | (135,083)        | (332)                             |
| Purchase of property plant and equipment, investment property and other assets                | (106,533)         | (534,805)        | (339,337)        | (28,221)                          |
| Payment on account of investment property   | -                 | -                | (203,099)        | -                                 |
| Proceeds from realization of property plant and equipment, investments and loans              | 2,785             | 25,126           | 914              | 738                               |
| Proceeds from realization of investments in subsidiaries (Appendix C)                         | 1,260             | -                | 483,722          | 334                               |
| Investments in associates and other companies   | (5,600)           | (3,033)          | (18,445)         | (1,483)                           |
| Proceed from realization of long-term deposits and long-term loans                            | 110,766           | -                | -                | 29,342                            |
| Investment in long-term deposits and long-term loans  | (11,214)          | (588,083)        | (6,337)          | (2,971)                           |
| Interest received in cash   | 91,223            | 133,748          | 84,123           | 24,165                            |
| Sale of subsidiary shares to its minority shareholders  | 159,746           | 9,788            | 38,286           | 42,317                            |
| Purchase of minority shares in subsidiaries   | (43,598)          | (51,256)         | (16,845)         | (11,549)                          |
| Proceed from sell of available for sale marketable securities                                 | 20,822            | -                | -                | 5,516                             |
| Purchase of available for sale marketable securities  | (45,351)          | (52,958)         | -                | (12,013)                          |
| Short-term deposits and marketable securities, net  | 42,281            | 236,427          | (422,822)        | 11,200                            |
| <b>Net cash provided by (used in) investing activities</b>                                    | <b>215,335</b>    | <b>(825,046)</b> | <b>(534,923)</b> | <b>57,043</b>                     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |                  |                  |                                   |
| Dividend paid   | -                 | (168,064)        | (159,767)        | -                                 |
| Dividend paid to minority by a subsidiary   | -                 | (97,770)         | -                | -                                 |
| Interest paid in cash   | (319,919)         | (333,277)        | (250,301)        | (84,747)                          |
| Proceeds from long-term borrowings  | 709,286           | 1,063,991        | 1,570,963        | 187,890                           |
| Repayment of long-term borrowings   | (341,672)         | (29,073)         | (138,251)        | (90,509)                          |
| Proceeds from repayments of loans as a result of realization by employees of rights to shares | -                 | 3,394            | 638              | -                                 |
| Proceeds from selling derivatives   | 71,706            | -                | -                | 18,995                            |
| Proceed from short-term credit  | 272,045           | 526,739          | 281,622          | 72,065                            |
| Repayment of short-term credit  | (82,539)          | (1,028)          | (605,362)        | (21,865)                          |
| <b>Net cash provided by financing activities</b>  | <b>308,907</b>    | <b>964,912</b>   | <b>699,542</b>   | <b>81,829</b>                     |
| <b>Increase (decrease) in cash and cash equivalents</b>                                       | <b>(230,089)</b>  | <b>360,522</b>   | <b>(688,844)</b> | <b>(60,951)</b>                   |
| <b>Cash and cash equivalents at the beginning of the year</b>                                 | <b>1,690,433</b>  | <b>1,416,710</b> | <b>2,150,871</b> | <b>447,797</b>                    |
| <b>Net effect on cash due to currency exchange rates changes</b>                              | <b>47,957</b>     | <b>(86,799)</b>  | <b>(45,317)</b>  | <b>12,704</b>                     |
| <b>Cash and cash equivalents at the end of the year</b>                                       | <b>1,508,301</b>  | <b>1,690,433</b> | <b>1,416,710</b> | <b>399,550</b>                    |

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)**

|   | December 31       |       |   |
|---|-------------------|-------|---|
|   | 2009              | 2008  | 2007  |
|   | (in thousand NIS) |       |   |
|   |                   |       | 2009<br>Convenience<br>translation<br>(note 2D)<br>US\$'000 |
| <b>Appendix A -</b>   |                   |       |   |
| <b>Non-cash transactions</b>  |                   |       |   |
| Acquisition of property plant and equipment,<br>investment property and other assets by<br>credit | 7,334             | 2,814 | 13,311  |
| Acquisition of minority interest by credit  | -                 | -     | 16,977  |
| Settlement of convertible debentures in a<br>subsidiary into share capital, by the minority       | 76,052            | -     | -   |
|   |                   |       | 20,146  |
| <b>Appendix B -</b>   |                   |       |   |
| <b>Initially consolidated subsidiaries</b>  |                   |       |   |
| Trading property  | 150,764           |       | 39,937  |
| Working capital (excluding cash), net   | 19,010            | -     | (62)  |
| Investment in associate   | 2,453             | -     | -   |
| Investment property   | -                 | -     | (168,827)   |
| Shoret term loan  | (132,337)         |       | (35,056)  |
| Long term liabilities   | (10,770)          | -     | -   |
| Minority interest   | (5,993)           | -     | 33,806  |
|   | 23,127            | -     | (135,083)   |
|   |                   |       | (6,126)   |
| <b>Appendix C -</b>   |                   |       |   |
| <b>Proceeds from realization of investments<br/>in subsidiaries</b>                               |                   |       |   |
| Working capital (excluding cash), net   | 204               | -     | (9,935)   |
| Long-term receivables, investments and<br>deposits  | -                 | -     | 778   |
| Property, plant, equipment and other assets   |                   | -     | 38,773  |
| Investment property   | 1,206             | -     | 603,104   |
| Long term liabilities   | -                 | -     | (213,363)   |
| Profit (Loss)from realization of subsidiaries   | (150)             | -     | 60,733  |
| Realization of capital reserves from foreign<br>currency translation adjustments                  | -                 | -     | (781)   |
|   | 1,260             | -     | 479,309   |
|   |                   |       | 334   |
| Proceed from realization of subsidiaries<br>which were disposed of in previous years              | -                 | -     | 4,413   |
|   | 1,260             | -     | 483,722   |
|   |                   |       | 344   |
| <b>Appendix D -</b>   |                   |       |   |
| <b>Initially consolidated subsidiaries</b>  |                   |       |   |
| Prepayment lease rights   | (1,253)           | -     | -   |
| Fix assets  | (517)             | -     | -   |
| Minority interest   | 518               | -     | -   |
|   | (1,252)           |       |   |
|   |                   |       | 332   |

The accompanying notes to the financial statements constitute an integral part thereof.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 - GENERAL**

- A.** Elbit Imaging Ltd. ("the Company") is incorporated in Israel. The Company's registered office is at 2 Weizman St. Tel Aviv, Israel. The Company's shares are registered for trade on the Tel Aviv Stock Exchange and in the United States on NASDAQ.
- B.** The Group engages, directly and through its investee companies, in Israel and abroad, mainly in the following areas:
- Commercial and entertainment centers - Initiation, construction, and sale of commercial and entertainment centers and other mixed-use property projects, predominantly in the retail sector, located in central and eastern Europe and in India. In certain circumstances and depending on market conditions, the Group operates and manages commercial and entertainment centers prior to its sale.
  - Hotels - Hotels operation and management, primarily in major European cities.
  - Image guide treatment - Investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment.
  - Residential projects - Initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India and in Eastern Europe.
  - Fashion apparel – distribution and marketing of fashion apparel and accessories in Israel.
  - Other activities - Other activities consist of: (i) venture-capital investments; (ii) investments in hospitals and farm and dairy plants in India, which are in preliminary stages; and (iii) wholesale trade of home applications in India.
- C. Definitions**
- |                            |  |
|----------------------------|--|
| Group                      | - The Company and its Investees.   |
| Investees                  | - Subsidiaries, joint ventures and associates.   |
| PC                         | - Plaza Centers N.V. Group, a material subsidiary (68%) operating in the commercial and entertainment centers.   |
| Parent Company             | - Europe Israel (M.M.S.) Ltd. ("EIL").   |
| Europe Israel Group        | - Europe Israel (M.M.S.) Ltd. and its investee companies.  |
| Control Centers            | - Control Centers Ltd. - the controlling shareholder of EIL ("CC").  |
| Control Centers Group      | - Control Centers and its investee companies.  |
| Ultimate controlling party | - The controlling shareholder of Control Centers, Mr. Mordechai Zisser, who through December 31, 2009 served as the Company's Executive Chairman of the Board, and subsequently serves as the Company's President. |
| Related parties            | - As defined in International Accounting Standard ("IAS") no. 24.  |



**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

**B. Basis for preparation**

The consolidated financial statements have been prepared on the historical cost basis except for (i) certain property, plant and equipment which were measured at the transition date to IFRSs (January 1, 2006) at "deemed cost"; (ii) financial instruments which are measured at fair value; (iii) certain trading property measured at net realizable value (see note 2AG.(1)a.); and (iv) certain property, plant and equipment and investment property measured at revocable amount (see note 2AG.(1)a.). The principal accounting policies are set out below.

**C. Presentation of the income statements**

The Group operations are characterized by diverse activities. Accordingly, management believes that its income statements should be presented in the "Single - step form". According to this form, all costs and expenses (including general and administrative and financial expenses) should be considered as continuously contributing to the generation of the overall revenues and gains. Management also believes that its operating expenses should be classified by function to: (i) those directly related to each revenues (including general and administrative expenses and selling and marketing expenses relating directly to each operation); and (ii) overhead expenses which serve the business as a whole and are to be determined as general and administrative expenses.

**D. Convenience translation**

The balance sheet as of December 31, 2009 and statement of income, statement of other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended have been translated into U.S. dollar using the representative exchange rate as of that date (U.S.\$1.0 = NIS 3.775). Such translation was made solely for the convenience of the U.S. readers. The dollar amounts so presented in these financial statements should not be construed as representing amounts receivable or payable in dollars or convertible into dollars but only a translation of reported NIS amounts into U.S. dollars, unless otherwise indicated. The convenience translation supplementary financial data is unaudited and is not presented in accordance with IFRSs.

**E. Operating cycle**

The Group's operating cycle in respect of operations relating to the construction of real estate projects designated for sale, which are classified as trading property is up to five years. Accordingly, assets and liabilities (including specific borrowings) directly related to the trading property operations are classified as current assets and liabilities. For other Group's operations it is assumed that the operating cycle is twelve months.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**F. Basis for consolidation**

- (i) The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company ("Subsidiaries"). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the reporting periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as the case may be. Where necessary, adjustments are made to the financial statements of subsidiaries to adjust their accounting policies with those of the Company. Material intra-group transactions, balances, income and expenses are fully eliminated on consolidation. Losses attributable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation (including by a way of loans to the subsidiary) and the minority is capable of investing additional amounts to cover the losses of the subsidiary.
- (ii) In cases whereby the Group acquires the minority interest, the difference between the cost of acquisition and the minority interest's book value acquired is recognized as goodwill. If the difference is negative it is recognized as an income in the income statement.

When the Group's interest in a subsidiary is reduced, without loss of control (either by sale or by issuance of shares by the subsidiary) the differences between the consideration received and the book value of the Group's investment sold is recognized in the income statements.

- (iii) In transactions in which the Group attained control through step acquisitions of an entity which do not met the definition of business combinations, are accounted based on the cost of the asset acquired at each step.

**G. Interest in joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control; that is when the strategic financial and operating policy and decisions relating to the activities of the joint venture require the unanimous of the parties sharing control.

Jointly controlled entities are accounted for using the proportionate consolidation method using line by line basis. The financial statements of jointly controlled entities are included in the consolidated financial statements from the date that joint control commences through the date it ceases. Where necessary, adjustments are made to the financial statements of jointly controlled entities to adjust their accounting policies with those of the Company.

Material intra-group transactions, balances, income and expenses are eliminated in consolidation to the extent of the Group's interest in the joint ventures.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**H. Investments in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policies of the associate, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of each individual investment.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment as a whole.

Where necessary, adjustments are made to the financial statements of associates to adjust their accounting policies with those of the Company.

**I. Foreign currency**

**(I) Foreign currency transactions**

The financial statements of each individual entity of the Group are presented based on its functional currency. Transactions in currencies other than each individual entity's functional currency (foreign currency) are translated into that entity's functional currency based on the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the historical exchange rate prevailing at the date of the transaction.

Exchange rate differences as a result of the above are recognized in statement of income, except for: (i) exchange rate differences capitalized to qualified assets (see note 2AD.); (ii) exchange rate differences charged to foreign currency translation reserve (see (ii) below); and (iii) exchange rate differences on available for sale financial instruments (see note 2K.).

**(II) Financial statements of foreign operations**

For the purpose of the consolidated financial statements, the assets and liabilities of foreign operations (the functional currency of each is the currency of the primary economic environment in which it operates) are translated to New Israeli Shekels ("NIS") which is the functional currency and the presentation currency of the Company, based on the foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of foreign operations are translated to the functional currency of the Company based on exchange rates as at the date of each transaction or for sake of practicality using average exchange rates for the period. Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at closing rates.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**I. Foreign currency (cont.)**

**(II) Financial statements of foreign operations (cont.)**

Foreign exchange rate differences arising from translation of foreign operations are recognized directly to foreign currency translation reserve within other comprehensive income.

Exchange rate differences attributable to (i) monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation; and (ii) borrowings used to hedge investments in foreign operations in the same currency, are also included in the foreign currency translation reserve.

Income taxes relating to such exchange rate differences are also included in the foreign currency translation reserve within shareholders' equity.

Upon realization of a foreign operation, in whole or in part (including realization as a result of a decline in interest arising from issuance of shares by the foreign operations to a third party), such foreign currency translation reserve relating to the portion of investment realized, is charged to the income statement.

**(III) Rates of exchange of NIS, in effect, in relation to foreign currency (in NIS) are as follows:**

|                        | <b>December 31</b> |             |
|------------------------|--------------------|-------------|
|                        | <b>2009</b>        | <b>2008</b> |
| US Dollar (\$)         | 3.775              | 3.802       |
| EURO (€)               | 5.442              | 5.297       |
| British Pound (£)      | 6.111              | 5.548       |
| Romanian New Lei (RON) | 1.278              | 1.329       |
| Indian Rupee (INR)     | 0.081              | 0.077       |

Scope of change in the exchange rate, in effect, of the NIS in relation to the foreign currencies (%):

|                        | <b>Year ended December 31</b> |             |             |
|------------------------|-------------------------------|-------------|-------------|
|                        | <b>2009</b>                   | <b>2008</b> | <b>2007</b> |
| US Dollar (\$)         | (0.71)                        | (1.14)      | (8.97)      |
| EURO (€)               | 2.74                          | (6.40)      | 1.71        |
| British Pound (£)      | 10.14                         | (28.04)     | (6.29)      |
| Romanian New Lei (RON) | (3.84)                        | (17.9)      | (4.74)      |
| Indian Rupee (INR)     | 5.195                         | (24.6)      | 1.05        |

**J. Cash and cash equivalents**

Cash equivalents include unrestricted readily convertible to a known amount of cash, maturity period of which, as at the date of investments therein, does not exceed three months.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**K. Financial assets**

Financial assets of the Group are classified into the following specified categories: (i) financial assets at fair value through profit or loss ("FVTPL") ;(ii) held to maturity investments ;(iii) available for sale ("AFS") financial assets; and (iv) loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, for which, transaction costs are immediately recognized in profit and loss at initial recognition.

Financial assets at FVTPL

The Group's financial assets at this category consist of: (i) marketable securities held for trading (an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking); (ii) derivative that is not designated as a hedging instrument; and (iii) financial asset containing embedded derivatives which is entirely designated at FVTPL upon initial recognition. Financial assets at FVTPL are stated at fair value, with any gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 30.

Held to maturity investments

The Group's investments in financial notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Available for sale ("AFS") financial assets

Listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in note 30. Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve within the other comprehensive income. Interest calculated using the effective interest method is recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

The fair value of redeemable notes denominated in a foreign currency is determined in that foreign currency and translated to NIS at the closing rate at the balance sheet date. Exchange differences attributable to the amortized cost are recognized in profit or loss, and other changes are recognized in the revaluation reserve within the other comprehensive income.

Loans and receivables

The Group's financial assets at this category consist of trade receivables, deposits in banks, and financial institutions, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**K. Financial assets (cont.)**

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed impairment at each balance sheet date. Financial assets are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the assets have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. For AFS financial assets, the amount of impairment is the difference between the amortize cost and the current fair value.

The carrying amount of financial asset carried at amortized cost is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If in a subsequent period, the amount of impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. For financial instruments carried at amortized cost, the impairment is reversed up to the amortized cost that would have been recorded had the impairment not been recognized.

**L. Inventories**

Inventories are stated at the lower of cost and net realizable value. Costs, including attributable fixed and variable overhead expenses, are assigned to inventories using the method most appropriate to the particular class of inventory. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to execute the sale. The cost of inventories is determined using the following methods:

- Hotel inventory and fashion merchandise - by the "first-in, first-out" method;
- Image guided treatment inventories -raw materials on the basis of moving average cost per unit; finished products on the basis of standard cost, which approximates actual production cost (materials, labor and indirect manufacturing costs).

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**M. Trading property**

Real estate properties for future sale (inventory) are classified as trading properties and are stated at the lower of cost and net realizable value. Net realizable value for trading property under construction or development is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, whereby all such items are taken undiscounted. Net realizable value for operating trading property is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Costs of trading properties include costs directly associated with their purchase (including payments for the acquisitions of leasehold rights) and all subsequent direct expenditures for the development and construction of such properties.

As for borrowing costs capitalized to trading property – see note 2AD.

As for write down of trading property - see note 2AG (1)a.

Cost of trading properties is determined mainly on the basis of specific identification of their individual costs (other than non-specific borrowing costs capitalized to the cost of trading property).

**N. Property plant and equipment**

(I) Property plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Government grants have been deducted from cost of assets for which they have been granted. Cost of land and building include direct construction and supervision costs incurred in the construction period as well as borrowing costs capitalized in accordance with the Group's accounting policy described in note 2AD. Improvements and renovations are charged to cost of assets. Maintenance and repair costs are charged to the statement of income as incurred.

(II) Depreciation is calculated by the straight-line method over the assets estimated useful lives. Leasehold improvements are amortized over the estimated useful period of use not exceeding the lease period (including the period of renewal options that the Group intends to exercise).

Annual depreciation rates are as follows:

|                            | %             |
|----------------------------|---------------|
| Freehold land              | 0             |
| Hotels                     | 1.1 - 1.5     |
| Other buildings            | 2.0 - 2.5     |
| Building operating systems | 7.0 (average) |
| Others (*)                 | 6.0 - 33.0    |

(\*) Consists mainly of leasehold improvements aircraft, motor vehicles, office furniture and equipment, machinery and equipment, electronic equipment, computers and peripheral equipment.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**O. Investment property**

Investment property is stated at cost less accumulated depreciation and impairment charges. Cost includes, inter-alia, direct construction and supervision costs incurred in the construction period as well as borrowing costs capitalized in accordance with the Group's accounting policy described in note 2AD. Depreciation is calculated by the straight-line method over the estimated useful lives of the investment property. The average annual depreciation rate is 1.6%.

The Group classified land acquired with no defined and final designation as an investment property. When the final use of a land is determined and it is evidenced by commencement of activities to get it ready for its intended use, the Group transfers the relevant part of the investment in the land to property plant and equipment and/or to trading property as the case may be.

**P. Leasing**

Operating lease payments (including prepaid leasehold rights) are recognized as an expense on a straight-line basis over the lease term (including the period of renewal options that the Group intends to exercise).

**Q. Other assets and deferred expenses**

Operating costs relating to initiation of real estate projects – such costs incurred (prior to finalization of an investment transaction or land acquisition) are capitalized as incurred, as long as the investment or a property acquisition transaction is probable. Said costs are charged to the cost of the investment or the real estate project upon the execution of the investment or the acquisition. Under circumstances in which the execution of investment or transaction is not probable or the expected economic benefit is doubtful, these costs are charged to the statement of income.

**R. Goodwill**

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment charges. Goodwill is not systematically amortized but rather is subject to impairment tests. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, (as at December 31) or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset of the unit. An impairment loss recognized for goodwill is not reversed in a subsequent periods. On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal. The Group's policy for goodwill arising on the acquisition of an associate is described in note 2H.

**S. Intangible assets**

Intangible assets (excluding goodwill) are stated at cost less accumulated amortization and accumulated impairment losses. Amortization is charged according to the straight-line method over their estimated useful life of the intangible asset (mainly 10 years).



**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**T. Income taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxes

Tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are non taxable or deductible for tax purposes. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred taxes

Deferred taxes are calculated in respect of all temporary differences, including (i) differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit; (ii) differences between the fair value of identifiable assets and liabilities of subsidiaries upon a business combination, and their value for tax purposes; and (iii) tax losses and deductions that may be carried forward for future years or carried backwards for previous years.

Deferred taxes are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The calculation of tax liabilities does not include taxes that would have arisen in the event of a realization of investments in certain investee companies or upon receiving their retained earnings as dividends, since it is management's policy not to realize these investees nor to declare dividend out of their retained earnings, or other form of profit distributions, in the foreseeable future, in a manner which entails additional substantial tax burden on the Group. For certain other Group's investee companies, which management's intention is to realize or to distribute their retained earnings as taxable dividend, tax liabilities (current and deferred) are recorded.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and laws that have been enacted or substantively enacted as of the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax asset is recorded to the extent that it is probable that it would be realized against future taxable profits. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**T. Income taxes (cont.)**

Current and deferred taxes are recognized as an expense or income in profit or loss, except (i) when they relate to items credited or debited directly to equity or in other comprehensive income, in which case the tax effect is also recognized directly in equity or in other comprehensive income; or (ii) where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

**U. Impairment of tangible and intangible assets (excluding goodwill and including investments in associates)**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset is part of.

Recoverable amount is the higher of 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 estimations of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the estimated recoverable amount of an asset (or cash-generating unit) is lower than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, which is no higher than the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit and loss.

**V. Financial liabilities and equity instruments issued by the Group**

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issuance costs.

Treasury stocks

Company's shares held by the Group ("dormant shares"), are presented at cost and deducted from shareholders equity of the Company according to the "treasury stock" method. The sale of treasury stock or the issuance of Company's shares to third parties is recorded based on the fair value of the assets or cash received in consideration thereof or the fair market value of shares issued, as applicable. Income taxes resulting from sale of treasury stock (if any) are charged directly to the shareholders' equity. No gain or loss is recognized on the purchase, sale or issuance of treasury shares.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**V. Financial liabilities and equity instruments issued by the Group (cont.)**

Convertible debentures

The components of convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issuance, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis until conversion or the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible debentures as a whole. This component is recognized and included in equity and is not subsequently re-measured.

Costs of issuance of convertible debentures are allocated to each component based on their fair value.

Financial liabilities

Financial liabilities of the Group are classified as either financial liabilities at fair value through profit and loss ("FVTPL") or other financial liabilities.

*(i) Financial liabilities at FVTPL*

Financial liabilities of the Group at this category consist of derivatives that are not designated or effective as a hedging instruments and financial liabilities designated to FVTPL if such designation eliminates or significantly reduces a measurement of recognition inconsistency that would otherwise arise. Financial liabilities at FVTPL are stated at fair value as of the balance sheet date, with any gain or loss from change in the fair value recognized in profit and loss. Fair value is determined in the manner described in note 30.

*(ii) Other financial liabilities*

Other financial liabilities of the Group consist of short-term credits, suppliers and service providers, borrowings and other payables, which are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, unless recognition of interest is immaterial.

The Company has Consumer Price Index ("CPI")-linked financial liabilities that are not measured at fair value through profit or loss. For these liabilities, the Company determines the effective interest rate as a real rate plus linkage differences according to the actual changes in the CPI through each balance sheet date. Rate of increase in the Israeli CPI in 2009 was 3.9% (2008 - increase of 4.5%; 2007 - increase of 3.5%).

**W. Derivative financial instruments and hedge accounting**

The Group enters into a variety of derivative financial instruments, some of which are intended to manage its exposure to interest rate and foreign exchange rate risk, including interest rate swaps and cross currency swaps and others which are embedded derivatives (see below). Further details of derivative financial instruments are disclosed in note 30.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**W. Derivative financial instruments and hedge accounting (cont.)**

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss from a derivative is immediately recognized in profit and loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cash flow hedges. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the derivative is more than 12 months and as a current asset or a current liability if the remaining maturity of the derivative is less than 12 months.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives (borrowings) in respect of foreign currency risk, at either cash flow hedges or hedges of net investments in foreign operations. At the inception of the hedge relationship the Group documents the relationships between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are detailed in the statement of other comprehensive income ("OCI").

▪ *Cash flow hedge*

The effective portion of changes in the fair value of derivatives is deferred in OCI. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts deferred in OCI are recycled in profit or loss in the periods when the hedged item is recognized in profit or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in OCI at that time remains in OCI and is recognized in profit or loss when the forecasted transaction is ultimately recognized in profit or loss. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was deferred in OCI is recognized immediately in profit or loss.

▪ *Hedges of net investments in foreign operations*

The group designated the changes in the spot rates of non-derivative financial instruments (Borrowing) as hedging investments in hedges of net investments in foreign operations. Hedges of net investments in foreign operations relating to the effective portion of the hedge is recognized in OCI in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains or losses deferred in the foreign currency translation reserve are recognized in profit and loss on disposal or partial disposal of the foreign operation.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**X. Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not (probable) that the Group will be required to settle the obligation, and a reliable estimate can be measured with respect to the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as of the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the result of the discounted expected cash flows, as long as the effect of discounting is material. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Y. Grants from the Office of Chief Scientist ("OCS")**

Certain Group's investees are obliged to pay royalties to the OCS in respect of sales of products, the development of which was funded by grants provided by the OCS, at a percentage of their revenues and up to the amount of the grants received. Such grants are recorded in the statement of income if there is reasonable assurance that the grants will not be repaid. Otherwise, the grants are recorded as a liability and are designated at fair value through profit and loss at each balance sheet date.

**Z. Retirement benefit costs**

Contributions to defined contribution retirement benefit plans are recognized as expense when employees have rendered service entitling them to the contributions. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognized immediately in the statement of income. The retirement benefit liability in the balance sheet represents the present value of the defined benefit less the fair value of plan assets.

**AA. Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. The Fair value is measured using the Black and Scholes ("B&S") model except for capped-Stock Appreciation Rights ("SAR") for which the Group is using the binomial model. The expected life used in the B&S model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis for each award over the vesting period, based on the Group's estimate of shares that will eventually vest. Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the service.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AA. Share-based payments (cont.)**

Modifications to share-based transaction arrangements are recognized if the effects of modifications increase the total fair value of the share-based payment transaction or are otherwise beneficial to the employee. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, unless additional vesting is required.

In some cases the grant date is determined following certain organ approvals and after the employees begun rendering services to the Group ("Commencement Date"). In these cases the Group estimates the fair value at the end of each reporting period and recognizes it as services are received during the period between Commencement Date and grant date. Once the grant date is established, the Group revises the earlier estimates so that the amounts recognized for service already received are based on grant date fair value.

Share based payment transactions in which the terms of the arrangement provide the counterparty with the choice of whether the transaction will be settled in cash (or other assets) or by issuing equity instrument, are measured at the fair value of the liability. The Group re-measures the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in the fair value recognized in profit or loss for the period.

Loans granted to employees for purchasing the Company's shares which constitute the sole security for the loans' repayment, and which shall be repaid out of proceeds of the sale thereof, are included in the balance sheet as a deduction from shareholders' equity.

**AB. Revenue recognition**

- (i) Revenues from leasing of property and management fees, as well as other revenues relating to the operations of commercial and entertainment centers, are recognized over the term of the lease and/or the service.
- (ii) Revenues from hotel operations are recognized upon performance of service.
- (iii) Revenues on sales of real estate assets and trading properties are recognized when all the following conditions are satisfied:
  - a. the Group has transferred to the buyer the significant risks and rewards of ownership of the asset sold;
  - b. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the asset 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);

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AB. Revenue recognition (cont.)**

(iii) (cont.)

- 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.

For the Group, these conditions are usually fulfilled upon the closing of a binding sale contract.

For sales transactions with some degree of continuing involvement assuming all the above criteria are met (for example, in a form of a guarantee to the buyer), revenue recognized at the date of sale is reduced by the estimated exposure to loss measured at fair value related to the continuing involvement.

In circumstances where the terms of the transaction provide for the Group to receive additional consideration which is contingent upon fulfillment of certain conditions without risk of loss, and the transaction otherwise qualifies for profit recognition, the contingent future profits are recognized when the contingency is resolved.

In cases in which revenues from sale of real estate assets are recognized, the Group includes in the financial statements provisions for expenses for further work to be provided on real estate assets.

- (iv) Revenues from sale of medical products and rendering services are recognized when all the following conditions have been satisfied:
  - a. persuasive evidence of an arrangement exists;
  - b. delivery has occurred, or services have been rendered;
  - c. the amount of revenue can be measured reliably; and
  - d. it is probable that the economic benefits associated with the transaction will flow to the Group.

For sale arrangements which include multiple deliverables such as system sales, installation at the customer's site and technical support services, the revenue is recognized by allocating the consideration to the deliverables. A deliverable is considered a separate accounting unit in case the customer earns benefits from that deliverable regardless of the delivery of the other deliverables included in the transaction. The Group allocates consideration to each deliverable by using objective evidence of selling price for each deliverable at the date of transaction. In the absence of objective evidence, the Group uses its own assumptions of the estimated selling price, which is the price that the Group would charge in case that product or service were sold separately. Consideration allocated to each deliverable is recorded as revenues when all the above mentioned revenue recognition criteria are satisfied.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AB. Revenue recognition (cont.)**

(iv) (cont.):

The price of technical support services provided under a multiple deliverables arrangement is determined based on renewals of annual contracts. The Group generally uses objective evidence of fair value to allocate the selling price, while the Group's own assumptions of the estimated selling price of the services are used only in limited cases.

Products are generally considered delivered when all significant risks and awards associated with the ownership over the products were transferred to the customer and the Group is no longer involved in the continuing management. In general, the delivery date is the date on which ownership was transferred.

In cases in which an acceptance of the system by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenue from technical support services is deferred and recognized ratably over the period during which the services are to be performed (typically one to three years). The Group's arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

In arrangements in which sales to end customers are made by a distributor, who is considered as agent or mediator of the Group, and the Group bears the risks and awards associated with the transaction, revenues are recorded upon the sale to the end-customer in an amount equal to the end customer purchase price (gross basis), while entitled commissions to the distributor are included in selling and marketing expenses.

In arrangements in which the distributor bears the risks and awards associated with the transaction the distributor is considered as the end-customer, revenues are recorded upon the sale to the distributor in an amount equal to distributor purchase price, while entitled commissions to the distributor are characterized as a reduction from revenues.

(v) Revenues from the sale of goods in the retail industry are recognized upon delivery.

**AC. Research and development costs**

Research costs are charged to the statement of income, as incurred. Development costs are recognized as an asset when it is probable that the expected future economic benefits associated with them will flow to the Group and they can be reliably measured. Otherwise, such costs are charged to the statement of income as incurred.



**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AD. Capitalization of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get it ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Non-specific borrowing costs are capitalized to qualified assets not financed by specific borrowing, by using a rate constituting a weighted average of the costs in respect of the Group's borrowings not specifically capitalized. All other borrowing costs are recognized in profit or loss in the period in which they are incurred. Borrowing costs qualified for capitalization includes mainly: Interest expenses (including consumer price index linkage), amortization of cost of raising debt and foreign exchange on borrowing to the extent that they are considered as an adjustment to interest costs. The borrowing costs eligible for capitalization also include the net cash cost on an accruals accounting basis of swap transactions which are measured at FVTPL and which are related to a debenture measured also at FVTPL

Capitalization of borrowing costs to qualifying assets commences when the Group started the activities for the preparation of the asset for its intended use or sale and continues, generally until the completion of all the activities necessary to prepare the asset for its designated use or sale. Capitalization of borrowing costs is suspended as a result of a suspension, for an extended period, of activities for the preparation of the qualified asset for its intended use or sale.

**AE. Earnings (loss) per share**

Basic earnings (loss) per share is computed with regard to income or loss attributable to the Company's ordinary shareholders, and is calculated for income (loss) from continuing operations attributable to the ordinary shareholders of the Company. Basic earnings per share is computed by dividing income (loss) attributable to holders of ordinary shares of the Company, by the weighted average number of the outstanding ordinary shares during the period. In the computation of diluted earnings per share, the Company adjusted its income (loss) attributable to its ordinary shareholders for its share in income (loss) of investees by multiplying their diluted earnings per share by the Company's interest in the investees including its holding in dilutive potential ordinary shares of the investees and the weighted average of the outstanding shares for the effects of all the dilutive potential ordinary shares of the Company.

**AF. Statement of cash flows**

Interest and dividend received from deposits and investments are included as cash flow from investing activities. Dividend paid to the Company's shareholders and interest paid on the Group's borrowings (including interest capitalized to qualifying assets) are included as cash flow from financing activities. Acquisitions of investment property which were transferred, during the reporting period, to trading property are included as cash flow from investing activities.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AG. Critical judgment in applying accounting policies and use of estimates**

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and 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. In addition, in the process of applying the Group's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in the financial statements.

The followings are the critical judgments and key sources of estimation uncertainty, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

**(1) Use of estimates**

**a. Impairment/ write down of real estate properties**

The recognition of an impairment/ write down to the Group's real estate assets is subject to a considerable degree of estimates, the results of which, when applied under different principles, conditions and assumptions, are likely to result in materially different amounts and could have a material adverse effect on the Group's consolidated financial statements.

For the Group's property plant and equipment (mainly hotels) and investment property, the Group evaluates the existence of any decline, and hence, the need for an impairment loss on its real estate assets (operating or under construction), when indicators of impairment are present. Such evaluation is based, on the higher of (i) estimated selling price in the open market or (ii) the estimated value-in-use, based on discounted operational cash flows (before interest and income tax charges), expected to be generated by those assets ("Recoverable Amounts").

For the Group trading property (commercial centers designated for sale and residential), such evaluation is based on the estimated selling price in the ordinary course of business less all estimated costs of completion and cost necessary to make the sale ("Net Realizable Value"). (see note 8 H)

Estimations of the Recoverable Amount and/or Net Realizable Value involve, in general, critical estimation in respect of the future operational cash flows expected to be generated from the real-estate asset and the yield rate which will be applied for each real estate asset.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AG. Critical judgment in applying accounting policies and use of estimates (cont.)**

**(1) Use of estimates (cont.)**

**a. Impairment/ write down of real estate properties (cont.)**

Determination of the operational cash flow expected to be generated from the real estate asset is based on reasonable and supportable assumptions as well as on historical results adjusted to reflect the Group's best estimate of future market and economic conditions that management believes will exist during the remaining useful life of the assets. Such determination is subject to significant uncertainties. In preparing these projections, the Group takes assumptions the major of which relate to market share of the real estate asset, benchmark operating figures such as occupancy rates and average room rate (in respect of hotels) rental and management fees rates (in respect of shopping and entertainment centers), selling price of apartments (in respect of residential units), time period to complete the real estate assets under construction, costs to complete the establishment of the real estate asset, expected operational expenses and others.

The yield rate reflects economic environment risks, current market assessments regarding the time value of money, industry risks as a whole and risks specific to each asset, and it also reflects the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the Group expects to derive from the assets. Such rate is generally estimated from the rate implied in current market transactions for similar assets.

**b. Litigation and other contingent liabilities**

The Group is involved in litigation and other contingent liabilities in substantial amounts including certification requests for class actions (see note 23B.) The Group recognizes a provision for such litigation when it is probable that the Group will be required to settle the obligation, and the amount of the obligation can be reliably estimated. The Group evaluates the probability and outcome of these litigations based on, among other factors, legal opinion and consultation and past experience. The outcome of such contingent liabilities may differ materially from management's assessment. The Group periodically evaluates these assessments and makes appropriate adjustments to the consolidated financial statements. In addition, as facts concerning contingencies become known, the Group will reassess its position and make appropriate adjustments to the consolidated financial statements.

**c. Accounting for income taxes**

The calculation of the Group's tax liabilities involves uncertainties in the application and/or interpretation of complex tax laws, tax regulations and tax treaties, in respect of various jurisdictions in which the Group operates and which vary from time to time. In addition, tax authorities may interpret certain tax issues in a manner other than that which the Group has adopted. Should such contrary interpretive principles be adopted upon adjudication of such cases, the tax burden of the Group may be significantly increased. In calculating its deferred taxes, the Group is required to evaluate (i) the probability of the realization of its deferred income tax assets against future taxable income and (ii) the anticipated tax rates in which its deferred taxes would be utilized.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AG. Critical judgment in applying accounting policies and use of estimates (cont.)**

**(1) Use of estimates (cont.)**

- d. Potential penalties, guarantees issued and expired building permits

Penalties and guaranties are part of the on-going construction activities of the Group, and result from obligations the Group has towards third parties, such as banks and municipalities. The Group's management is required to provide estimations regarding risks evolving from such potential guarantees or penalties that the Group may have to settle. In addition, the Group's operations in the construction area are subject to valid authorizations and building permits from local authorities. Under certain circumstances the Group is required to determine whether the building permits it obtains have not yet expired. It may occur that building permits have expired which might impose on the Group additional costs and expenses, or delays and even abandon project under construction.

- e. Valuation of debentures measured at FVTPL

The fair value of debentures issued by Plaza Centers N.V. ("PC") is generally determined with reference to price quotation in an active market, as the debentures are traded in the Tel Aviv Stock Exchange ("TASE"). Notwithstanding the aforesaid, as a result of the finance and real estate world wide crisis that turmoil the markets mainly during the fourth quarter of 2008, PC's debentures were characterized by a significant decrease in the volume of trading, a significant increase in the spread between the BID and the ASK prices and a significant increase in the risk premium attributable to PC's debentures as of December 31, 2008. Consequently, and based on a third party professional advice, PC's management was of the opinion, that there were significant indications that the trade in the debentures as of the end of 2008 had pointed the existence of inefficient market and that the market for PC's debentures had been no longer active as of December 31, 2008. PC received valuation reports from three different external appraisals having appropriate and recognized qualifications as well as experience in evaluating fair value of debentures. While performing their valuations, each of the appraisers used observable inputs developed on the basis of market data. Two of the appraisers used the discounted cash flow method taking into consideration the terms and maturity of PC's debentures as well as market interest rates and PC's estimated credit risk as of December 31, 2008. The third appraiser used the Merton model, taking into consideration PC's asset value, risk free interest, standard deviation of assets and exercise price as of December 31, 2008. Based on all the abovementioned, PC's management was of the opinion that the quoted market prices of the debentures in the TASE as of December 31, 2008 should not have been used as evidence of fair value.

Accordingly, the fair value of PC's debentures as of December 31, 2008 was determined based on the average values of the debentures as determined by the three external appraisals as reported in their valuation reports.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AG. Critical judgment in applying accounting policies and use of estimates (cont.)**

**(1) Use of estimates (cont.)**

e. Valuation of debentures measured at FVTPL (cont.)

The quoted market price, as of December 31, 2008, of PC's series A debentures was NIS 0.563 as opposed to an average of NIS 0.812 using the valuation techniques described above. The quoted market price of PC's series B debentures was NIS 0.679 as opposed to an average of NIS 0.852 using the valuation techniques described above.

As of December 31, 2009, PC's debentures are measured according to their quoted market price at the TASE.

f. Valuations of derivative, embedded derivative and share based payment arrangements

The Group is involved in derivative transactions (mainly PC's swaps transactions, (see note 9A (iv)) embedded derivative transaction (see note 20A (iii)) and share based payment arrangement adopted by the Company and its subsidiaries (see note 25). The derivatives, embedded derivative and the cash settled share based arrangement are measured at fair value at each balance sheet date. Equity settled shares based arrangements are measured at fair value as of the grant date. The fair value of the abovementioned instruments is determined using valuations techniques which require management to make judgment and assumptions regarding the following variables in respect of each instrument:

- Derivative transactions (mainly PC's swaps transactions): mainly the interest rate yield curves of the adjusted NIS and Euro.
- Embedded derivative: the fair value of the underlying assets (i.e. the Group's hotels in London); the expected volatility of the hotels; and the probability and the term for a Transaction (as defined in the agreement) to occur.
- Share based payment arrangements : the share price in respect of options plans adopted by the Group's private investees which has no quoted market price; the expected stock price volatility over the term of the plan; and actual and projected employee stock option exercise behaviors.

The fair value of these instruments was generally computed based on reports of third party experts.

**(2) Critical judgment in applying accounting policies**

a. Capitalization of financing costs

The Group capitalizes finance costs to real estate assets under construction from commencement of activities for the preparation of the assets for their intended use or sale. Such determination requires management to use critical estimations and assumptions as well as judgment to determine whether a specific asset under

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AG. Critical judgment in applying accounting policies and use of estimates (cont.)**

**(2) Critical judgment in applying accounting policies (cont.)**

**a. Capitalization of financing costs (cont.)**

Borrowing costs qualified for capitalization includes, inter-alia, foreign exchange differences on borrowing to the extent that they are considered as an adjustment to interest costs. In order to determine whether foreign exchange differences are considered as an adjustment to the interest expenses, management is required, for each specific loan, to evaluate the alternative borrowing cost for a loan that would have been provided in the functional currency of the borrower under the same terms and conditions as the actual loan. Such determination requires management to use considerable degree of judgment and estimations. Further, additional critical judgment is required to capitalize non-specific borrowing costs to qualified assets, in cases in which the entity of the Group that raised the borrowing is not the one that owns the qualified asset.

**b. Classification of investment as held to maturity**

As of December 31, 2009 The Group has an investments of NIS 315 million (December 31, 2008: NIS 386 million) in financial notes ("Notes") (see note 9A.(ii)). The Group considered its capital management policy and its liquid requirement for operational activities, and decided that it has the positive intent and ability to hold these Notes to maturity. Accordingly, the investment in the Notes is presented in these financial statements as held to maturity.

The Group examined if there was objective evidence for impairment loss of the Notes which mainly included a decrease in the quoted market value of the Notes (which was provided to the Group by the issuing bank as of the balance sheet date) in approximately 22.5% (NIS 71 million) below their cost. Following said examination the Group concluded that, as of the balance sheet date, there is no objective evidence which should lead to impairment of these Notes

**c. Transfer of real estate assets from investment property to trading property**

During 2007 and 2008 the Group acquired plots of land in India (see note 8D.) At the initial recognition, the Group classified the cost of acquisitions of these plots as an investment property (or payment on account of investment property in case of advance payment to secure the land acquisitions) since as of the acquisition date, the Group did not have a defined and final designations use for these plots. At the end of 2008, the Group examined the designated use of these plots and transferred an amount of NIS 425.7 million (which reflect the cost of acquisitions of these plots) to trading property. A transfer of real estate assets from investment property to trading property is done when there has been a change in the use of the real estate asset, which is supported by evidence as to the beginning of development of the real estate asset for its intended use or sale. A significant judgment is required to determine whether, as of the balance sheet date, the aforementioned criteria has been met for each plot. Such determination is generally based on current achievable plans of the Group's management for each real estate asset as well as the actual steps executed by the Group in order to implement this plan.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AG. Critical judgment in applying accounting policies and use of estimates (cont.)**

**(2) Critical judgment in applying accounting policies (cont.)**

d. Revenue recognition from sale of trading property

Revenues from sale of real estate assets are recognized when all the criteria mentioned in note 2 AB are met. Determination whether these criteria have been met for each sale transaction, requires a significant judgment by the Group management. Significant judgment is made in determining whether, as of the balance sheet date, the Group has transferred to the buyer the significant risks and rewards associated with the real estate assets sold. Such determination is based on an analysis of the terms included in the sale agreement executed with the buyer as well as an analysis of other commercial understandings with the buyer in respect of the real estate sold. Generally, the sale agreement with the buyer is signed during the construction period and the consummation of the transaction is subject to certain conditions precedents which have to be fulfilled prior to delivery. Revenues are, therefore, recognized when all the significant conditions precedent included in the agreement have been fulfilled by the Group and/or waived by the buyer prior to the balance sheet date.

The delivery of the commercial center to the buyer is generally executed close to the end of construction and to the opening of the commercial 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 paid in full.

e. As for critical judgment in respect of inactive market for PC's debentures, see item e. above.

f. According to the company management judgment the rights specified in InSightec's shareholders agreement ( see note 11 A (2)) does not confer rights to the minority to participate in operational and financial decisions of InSightec in the ordinary course of business and therefore would not overcome the presumption of control in InSightec's by the company.

**AH. Reclassification**

As of December 31, 2008, an amount of 14.6 million Euro (NIS 77.2) was reclassified from long term deposits to short term deposits with respect to a loan in the amount of 36.2 million Euro (NIS 197) which was reclassified from non-current liabilities to short term liabilities. There is no impact on the balance sheets as of December 31, 2007 and 2006.

**AI. New standards and Interpretations which have been adopted in these financial statements**

The following are new and revised accounting standards amendments to standards and clarifications which have been adopted by the Group in these financial statements:

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AI. New standards and Interpretations which came into effect in 2009 and have been adopted in these financial statements (cont.)**

- (1) IFRS 8, Operating Segments** - the standard itemizes how an entity must report on segments reporting in the annual financial statements and makes reference to selected details with respect to segments reporting in interim reports. In addition, the standard relates to the disclosure that is necessary in connection with products and services, geographical regions and principal customers. The standard is applicable for annual reporting periods commencing on January 1, 2009, with restatement of comparative figures upon the initial adoption of the standard. The adoptions of the standards did not caused changes in the Group's reportable segments in the years 2008 and 2007; however, certain data in the reportable segments of 2008 and 2007 were retroactively restated in order to comply with the requirements of the new standard. In addition during 2009 an additional amendment to IFRS 8 has been published which is in effect as from January 1, 2010. Such amendment is not expected to have a material affect on the Group's financial statements.
- (2) IAS 1, Presentation of Financial Statements (Revised)** - In the framework of the amendment to this standard, changes were made in the current presentation format of financial statements. The presentation and disclosure requirements for financial statements were also expanded, including the presentation of an additional report known as "the statement of comprehensive income", and the addition of a balance sheet as of the beginning of the earliest period presented in the financial statements in cases of a retroactive change in accounting policies , reclassification or restatement. The standard is applicable to reporting periods that begin on January 1, 2009. As a result of the initial application of the standard, the Company initially included in these financial statements, an additional report named statements of comprehensive income for each of the three years ended on December 31, 2009. In addition, during 2009 an additional amendment to IAS1 has been published which is in effect commencing January 1, 2010. Such amendment is not expected to have a material affect on the Group's financial statements.
- (3) IAS 23, Borrowing Costs (Revised)** - the standard stipulates the accounting treatment of borrowing costs. The standard eliminates the immediate recognition of borrowing costs related to qualified assets in the statement of operations. The standard is applicable for borrowing costs relating to qualified assets as to which the capitalization period commences after January 1, 2009. The initial application of the standard did not have any affect on the Group's financial statements.
- (4) Amendment to IFRS 7, Disclosures about Financial Instruments** -The amendments require enhanced disclosures about fair value measurements and liquidity risk. Among other things, the new amendment: (i) clarifies that the existing IFRS 7 fair value disclosures must be made separately for each class of financial instrument;(ii) adds disclosure of any change in the method for determining fair value and the reasons for the change ; and (iii) establishes a three-level hierarchy for making fair value measurements:

  - Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
  - 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 2); and
  - Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).



**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AI. New standards and Interpretations which came into effect in 2009 and have been adopted in these financial statements (cont.)**

**(4) (cont.)**

The amendment also adds disclosure, with respect to fair value measurement in the statement of financial position, of the level in the hierarchy that was used and any transfers between levels, with additional disclosures whenever Level 3 is used including a measure of sensitivity to a change in input data. In addition, the amendment clarifies that maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts and requires disclosure of a maturity analysis for financial assets.

The standard is applicable for reporting periods that begin on January 1, 2009. However, the standard does not require providing comparative disclosures in the first year of application. Accordingly, the Company included in these financial statements the required disclosures under the amendment only for the year ended December 31, 2009.

- (5) IFRIC 15, Agreements for the Construction of Real Estate** - the clarification stipulates the accounting treatment of revenues and related expenses of entities which construct real estate by themselves or by means of subcontractors, as well as supplying goods or rendering services that are included in the framework of agreements for construction of real estate. The clarification deals with the determination as to whether the agreement to construct real estate falls within IAS 11, "Construction Contracts", or within IAS 18, "Revenues". Revenues from agreements which, pursuant to the provisions of the clarification, are within the context of IAS 11 will be recognized in accordance with the percentage of completion method. Revenues from agreements, which pursuant to the provisions of the clarification, are for the supply of goods, will be recognized at the time that the risks and rewards are transferred to the buyer, and revenues from agreements for rendering services will be recognized according to the stage of completion of the transaction as of the balance sheet date. The provisions of the clarification are effective for annual reporting periods which commenced on January 1, 2009. The initial application of the standard did not have any effect on the Group's financial statements.
- (6) IFRIC 16, Hedges of a Net Investment in a Foreign Operation** - the clarification stipulates the nature of the hedged risk and of the amount of the hedged item in the framework of a hedge of a net investment in a foreign operation. In addition, the clarification determines that the hedge instrument might be held by any of the entities in the Group. Furthermore, the clarification determines the amount which should be classified from shareholders' equity to the statement of operations, at the time that the foreign operation is realized, with respect to which hedge accounting was applied to a net investment in a foreign operation. The provisions of the clarification are effective for annual reporting periods which commenced on January 1, 2009. The initial application of the standard did not have any effect on the Group's financial statements.
- (7) Addendum to IFRS 2, Share Based Payments - Vesting Conditions and Cancellation** - the addendum to the standard determined the vesting conditions which have to be taken into account in fair value measurement of share based payment arrangements. In addition, the addendum explains the measurement of fair value of instruments with non-vesting conditions and of cancellations. The addendum will apply to annual reporting periods commencing on January 1, 2009. The initial application of the standard did not have any effect on the Group's financial statements.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AI. New standards and Interpretations which came into effect in 2009 and have been adopted in these financial statements (cont.)**

- (8) IFRIC 19 -Extinguishing Liabilities with Equity Instruments** - The Interpretation applies when a debtor extinguishing a liability fully or partly by issuing equity instruments to the creditor. If a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39. Accordingly, the debtor should derecognize the financial liability fully or partly. The debtor should measure the equity instruments issued to the creditor at fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished.

If it does, the debtor must allocate the fair value of the consideration paid between the liability extinguished and the liability retained. The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued. The provision of IFRIC 19 is effective for period beginning on January 1, 2011. IFRIC 19 has been early adopted by the Group in these financial statements.

**AJ. New accounting standards and clarifications issued that are not yet effective**

The following are new accounting standards, amendments to standards and clarifications which are applicable, or are expected to be applicable, to the Group, and which have not yet become effective:

- (1) IFRS 3, Business Combinations (Revised)** - the new standard stipulates the accounting treatment for business combinations. Among other things, the standard determines measurement provisions for contingent consideration in business combinations which is to be evaluated at fair value. The transaction costs directly connected with the business combination will be recorded to the statement of operations when incurred. Minority interests will be measured at the time of the business combination at their share in the fair value of the assets, (including goodwill), liabilities and contingent liabilities of the acquired entity, or at their share in the fair value of the net assets, as aforementioned, but excluding their share in the goodwill. As for business combinations where control is achieved after a number of acquisitions (step acquisition), the earlier purchases of the acquired company will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations. The standard will apply to business combinations that take place from January 1, 2010 and thereafter.
- (2) IAS 27, Consolidated and Separate Financial Statements (Revised)** - the standard provides the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the Company retains control before and after the transaction, will be treated as capital transactions. In respect of transaction with the minority, subsequent to which the Company loses control in the subsidiary, the investment retained will be measured at fair value as of that date, with the difference as compared to investment's book value to be recorded to the statement of operations.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AJ. New accounting standards and clarifications issued that are not yet effective (cont.)**

**(2) (cont.)**

The minority interest in the losses of a subsidiary, which exceed the minority's share in the subsidiary's shareholders' equity, will be charged to the minority interest in any case, while ignoring its obligations and ability to make additional investments in the subsidiary. The provisions of the standard will apply to annual financial reporting periods which start on January 1, 2010 and thereafter. The standard will be implemented retrospectively, excluding a number of exceptions (including the changes mentioned above), as to which the provisions of the standard will be implemented prospectively. As a result of the adoption of the standard the Company's will not include in its consolidated statement of income, the minority share in losses of a subsidiary which will be accrued as from January 1, 2010.

- (3) Amendment to IAS 17, Leases-**The amendment states that lease of land will be classified as financial or operational lease according to the general principals set in the standard. The implementation of amendment will apply retroactively for reporting periods commencing on January 1, 2010 and thereafter. Earlier implementation is permitted. The amendment will be implemented retroactively in relations to existing leases for which all the information required in the standard is available at the beginning of the lease term. When the information is not available, the classification of the leases will be examined at the inception of the amendment. The Management of the Company anticipates that that It is likely that the changes will affect the classification of some of the Group's leases of land. However, such classification will not materially affect the Company operational results, its liabilities and its shareholders equity.

- (4) IFRS9, Financial Instruments-** IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value based on the following principles:

**Debt instruments:** A debt instrument that meets the following two conditions can be measured at amortized cost: (i). the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value Changes); and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments must be measured at fair value through profit or loss (FVTPL). Even if an instrument meets the two amortized cost tests, IFRS 9 contains an option to measure such instruments at FVTPL, with some restrictions. The available-for-sale and held-to-maturity categories currently in IAS 39 are not included in IFRS 9.

**Equity instruments:** All equity investments in scope of IFRS 9 are to be measured at fair value in the balance sheet, value changes recognized in profit or loss. There is no 'cost exception' for unquoted equities. However, if the equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognized in profit or loss. Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**AJ. New accounting standards and clarifications issued that are not yet effective (cont.)**

**(3) (cont.)**

**Derivatives:** All derivatives, including those linked to unquoted equity investments, are measured at fair value.

**Embedded derivatives:** The embedded derivative concept of IAS 39 is not included in IFRS 9. Consequently, embedded derivatives that under IAS 39 would have been separately accounted for at FVTPL because they were not closely related to the financial host asset will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety, and the asset as a whole is measured at FVTPL if any of its cash flows do not represent payments of principal and interest.

For debt instruments, reclassification is required between FVTPL and amortized cost, or vice versa, if the entity's business model objective for its financial assets changes so its previous model assessment would no longer apply. IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures including added disclosures about investments in equity instruments designated as at FVTOCI.

**IFRS 9 is effective from annual period beginning on January 1, 2013. Earlier application is permitted with certain relief.**

At this stage, the management of the Company is unable to assess the effect of implementing the standard on its financial condition and results of operations

- (4)** The following are new accounting standards and clarifications which are not yet effective and, in the opinion of the Company's management, are not applicable to the Group or their effect is considered immaterial:
- (i) Amendment to IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations;
  - (ii) Amendments to IAS 7, Statements of Cash Flows;
  - (iii) IFRIC 17, Distribution of Non-Cash Assets to the Shareholders;
  - (iv) Amendments to IFRIC 9, Embedded Derivative and IAS 39, Financial Instruments :Recognition and Measurements;
  - (v) Amendments to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
  - (vi) Amendment to IAS 32, Financial Instruments: Presentation-Rights Issues;
  - (vii) Amendment to IAS 24, Related Party Disclosure;
  - (viii) Amendment to IFRIC 14, Prepayments of minimum funding requirements.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - CASH AND CASH EQUIVALENTS**

|  | <b>December 31</b>       |                  |
|--|--------------------------|------------------|
|  | <b>2009</b>              | <b>2008</b>      |
|  | <b>(in thousand NIS)</b> |                  |
| Deposits in banks and financial institutions | 1,349,994                | 1,599,651        |
| Cash   | 158,307                  | 90,782           |
|  | <u>1,508,301</u>         | <u>1,690,433</u> |

**NOTE 4 - SHORT-TERM DEPOSITS AND INVESTMENTS**

**A. Composition:**

|  |                      | <b>December 31</b>       |                |
|--|----------------------|--------------------------|----------------|
|  |                      | <b>2009</b>              | <b>2008</b>    |
|  |                      | <b>(in thousand NIS)</b> |                |
|  | <b>Interest rate</b> |                          |                |
|  | <b>%</b>             |                          |                |
| <b>Deposits at banks and financial institutions:</b> |                      |                          |                |
| US dollar  | 1.85                 | 72,873                   | 72,076         |
| Euro (i)   | see (i) below        | 172,810                  | (*) 197,583    |
| Others   | 0.25%                | 9,946                    | 4              |
|  |                      | <u>255,629</u>           | <u>269,663</u> |
| <b>Marketable securities held for trading:</b>       |                      |                          |                |
| Government bonds                                     |                      | 70,067                   | 63,421         |
| Corporate bonds                                      |                      | 62,724                   | 45,425         |
| Shares   |                      | 69,518                   | 61,846         |
|  |                      | <u>202,309</u>           | <u>170,692</u> |
| <b>Available for sale financial assets (ii)</b>      |                      | <u>81,843</u>            | <u>45,599</u>  |
| <b>Derivative measured at FVTPL (iii)</b>            |                      | <u>23,938</u>            | <u>-</u>       |
|  |                      | <u>563,719</u>           | <u>485,954</u> |

(\*) See note 2 AH

- (i) An amount of NIS 87 million as of December 31, 2009 is restricted due to bank facility agreements signed to finance projects in Eastern Europe. This amount carries an annual interest rate of 3M Euribor+1.65%. The remaining amount as of December 31, 2009 of NIS 86 million is pledged as security for derivative and financial instrument transactions with banks and financial institutions which bears an interest of between 0.75% – 1.4% and 1 month Euribor respectively.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - SHORT-TERM DEPOSITS AND INVESTMENTS (Cont.)**

**A. Composition: (cont.)**

- (ii) Interest-bearing available-for-sale financial assets with a face value of NIS 86.9 million and NIS 60.4 million are outstanding as of December 31 2009 and 2008, respectively. The available-for-sale financial assets have stated interest rates of 1.2% to 9.4% and mature between 1 year and perpetual.
- (iii) In May 2009, PC entered into a forward transaction (forward A) with an Israeli bank, in according to PC will buy NIS 357 million and will sale Euro. Forward A transaction is to be settled in December 2010. In September 2009, PC executed an opposite forward transaction with the same bank and same amounts and generated a gain of NIS 14.5 million from such transaction. In November 2009, PC entered into several forward transactions (forward B) with Israeli banks, according to PC will buy NIS 504 million and will sale Euro. Forward B transactions are to be settled in December 2010. As a result of these transactions, a gain of NIS 9.8 million was recorded in these financial statements. For commitments regarding the derivatives, see note 30 C (7).

**B. Liens – see note 23D.**

**NOTE 5 - TRADE ACCOUNTS RECEIVABLES**

|                                     | <b>December 31</b>       |               |
|-------------------------------------|--------------------------|---------------|
|                                     | <b>2009</b>              | <b>2008</b>   |
|                                     | <b>(in thousand NIS)</b> |               |
| Outstanding accounts                | 53,653                   | 44,748        |
| Less - allowance for doubtful debts | (8,604)                  | (10,008)      |
|                                     | <u>45,049</u>            | <u>34,740</u> |

**NOTE 6 - OTHER RECEIVABLES**

|                                   | <b>December 31</b>       |                |
|-----------------------------------|--------------------------|----------------|
|                                   | <b>2009</b>              | <b>2008</b>    |
|                                   | <b>(in thousand NIS)</b> |                |
| Income taxes                      | 5,660                    | 2,067          |
| Other government institutions (i) | 61,553                   | 99,167         |
| Related parties                   | 8,627                    | 8,113          |
| Loans to third parties (ii)       | 27,852                   | 7,984          |
| Other                             | 16,198                   | 16,863         |
|                                   | <u>119,890</u>           | <u>134,194</u> |

- (i) Includes mainly VAT receivable due to projects in Romania and Poland.
- (ii) As of December 31, 2009 - mainly partners in jointly controlled entities.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 - PREPAYMENTS AND OTHER ASSETS**

|   |      | <b>December 31</b>       |                |
|---|------|--------------------------|----------------|
|   |      | <b>2009</b>              | <b>2008</b>    |
|   |      | <b>(in thousand NIS)</b> |                |
|   |      | <b>Interest rate</b>     |                |
|   |      | <b>%</b>                 |                |
| <b>Restricted bank deposits designated for acquisition and construction of trading property (i)</b> |      |                          |                |
| Euro  | 0.25 | 31,018                   | 75,948         |
| Other   | *    | 8,108                    | 22,333         |
|   |      | <u>39,126</u>            | <u>98,281</u>  |
| Advance for plot purchase (ii)  |      | 235,444                  | 224,543        |
| Advance to suppliers  |      | 46,684                   | 71,137         |
| Prepaid expenses  |      | 13,952                   | 10,652         |
|   |      | <u>335,206</u>           | <u>404,613</u> |

(\*) This amount bears an interest of 90% of the Warsaw interbank bid note.

(i) Include mainly advances paid designated for projects by PC in Romania and Poland.

(ii) Include mainly advances in the amount of NIS 224 million (2008: NIS 197 million) for the purchase of plots in India (see note 8D).

**NOTE 8 - TRADING PROPERTY**

**A. Composition:**

|   |  | <b>December 31</b>       |                  |
|---|--|--------------------------|------------------|
|   |  | <b>2009</b>              | <b>2008</b>      |
|   |  | <b>(in thousand NIS)</b> |                  |
| Balance as of January 1                                       |  | 3,279,775                | 1,738,213        |
| Acquisition and construction costs                            |  | 685,373                  | 1,345,749        |
| Transfer from investment property                             |  | -                        | 425,727          |
| Disposal during the year                                      |  | -                        | (232,682)        |
| Capitalized borrowing costs                                   |  | 146,521                  | 164,200          |
| Write-down to net realizable value (see H below and note 26N) |  | (216,962)                | (8,248)          |
| Addition due to acquisitions of subsidiary                    |  | 152,215                  | -                |
| Foreign currency translation adjustments                      |  | 110,688                  | (153,184)        |
| Balance as of December 31                                     |  | <u>4,157,610</u>         | <u>3,279,775</u> |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - TRADING PROPERTY (CONT.)**

**B. Additional information:**

|  | <b>December 31</b>       |             |
|--|--------------------------|-------------|
|  | <b>2009</b>              | <b>2008</b> |
|  | <b>(in thousand NIS)</b> |             |
| Accumulated write-down to net realizable value             | 225,210                  | 8,248       |
| Composition of trading property per stages of development: |                          |             |
| Operational (*)  | 478,742                  | -           |
| Under construction   | 1,385,976                | 1,286,000   |
| Under planning and design                                  | 2,292,892                | 1,993,775   |
| Total  | 4,157,610                | 3,279,775   |

(\*) In accordance with PC's policy, operational commercial centers are designated for sell.

Regarding business segments and Geographical areas see note 28.

**3. Composition of trading property distinguished between freehold and leasehold rights:**

|           | <b>December 31</b>       |             |
|-----------|--------------------------|-------------|
|           | <b>2009</b>              | <b>2008</b> |
|           | <b>(in thousand NIS)</b> |             |
| Freehold  | 2,743,509                | 2,177,369   |
| Leasehold | 1,414,101                | 1,102,406   |
|           | 4,157,610                | 3,279,775   |

**C. Additional information in respect of PC's trading property**

During 2009, PC commenced the construction of two developments in Suwalki and Zgorzelec, in Poland with the completion of both schemes anticipated to occur in 2010. In addition, PC continues to make progress with the construction of four other projects (Casa Radio and Miercurea Ciuc in Romania, Dream Island in Hungary and Koregaon Park in Pune, India). The remainder of PC's projects are either in the design phase or waiting for permits. Commencement of construction of these projects is depending, amongst other things, on the availability of external financing.

The following table summarises general information regarding PC's significant trading property projects (excluding trading property in India which is held jointly by PC and the Company (see D below) :



**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - TRADING PROPERTY (CONT.)**

**C. Additional information in respect of PC's trading property (cont.)**

| As of December 31, 2009     |                |                             |                             |   |                                |                                |
|-----------------------------|----------------|-----------------------------|-----------------------------|---|--------------------------------|--------------------------------|
| Project                     | Location       | Purchase / transaction date | Rate of ownership by PC (%) | Nature of rights                                    | Status of registration of land | Status of permit               |
| Suwalki Plaza               | Poland         | Jun-06                      | 100                         | Ownership   | Completed                      | Under construction             |
| Zgorzelec Plaza             | Poland         | Dec-06                      | 100                         | Leasing for 25 years                                | Completed                      | under construction             |
| Torun Plaza                 | Poland         | Feb-07                      | 100                         | Perpetual leasehold                                 | In process                     | Planning and development stage |
| Lodz                        | Poland         | Sep-01                      | 100                         | Ownership/ Perpetual usufruct                       | Completed                      | Planning and development stage |
| Lods - new                  | Poland         | Sep-09                      | 100                         | Ownership   | Completed                      | Planning and development stage |
| Kielce Plaza                | Poland         | Jan-08                      | 100                         | Perpetual leasehold                                 | Completed                      | Planning and development stage |
| Leszno Plaza                | Poland         | Jun-08                      | 100                         | Perpetual leasehold                                 | Completed                      | planning and development stage |
| Liberec Plaza               | Czech Republic | Jun-06                      | 100                         | Construction lease period with subsequent ownership | Completed                      | Operational                    |
| Opava Plaza                 | Czech Republic | Jun-06                      | 100                         | Construction lease period with subsequent ownership | Completed                      | Planning and development stage |
| Roztoky                     | Czech Republic | May-07                      | 100                         | Ownership   | Completed                      | Planning and development stage |
| Riga Plaza                  | Latvia         | Feb-04                      | 50                          | Ownership   | Completed                      | Operational                    |
| Koregaon Park               | India          | Oct-06                      | 100                         | Ownership   | Completed                      | Under construction             |
| Kharadi                     | India          | Feb-07                      | 50                          | Ownership   | Completed                      | Planning and development stage |
| Trivandrum                  | India          | Jun-07                      | 50                          | Ownership   | Completed                      | Planning and development stage |
| Casa Radio                  | Romania        | Feb-07                      | 75                          | Leasing for 49 years                                | Completed                      | Under construction             |
| Timisoara Plaza             | Romania        | Mar-07                      | 100                         | Ownership   | Completed                      | Planning and development stage |
| Miercurea Ciuc Plaza        | Romania        | Jul-07                      | 100                         | Ownership   | Completed                      | Under construction             |
| Iasi Plaza                  | Romania        | Jul-07                      | 100                         | Ownership   | In Process                     | Planning and development stage |
| Slatina Plaza               | Romania        | Aug-07                      | 100                         | Ownership   | Completed                      | Planning and development stage |
| Targu Mures Plaza           | Romania        | Mar-08                      | 100                         | Ownership   | Completed                      | Planning and development stage |
| Honedoara Plaza             | Romania        | Feb-08                      | 100                         | Ownership   | Completed                      | Planning and development stage |
| Constanta Plaza             | Romania        | July-09                     | 100                         | Ownership   | Completed                      | Planning and development stage |
| Belgrade Plaza (*)          | Serbia         | Aug-07                      | 100                         | Leasing for 99 years                                | In Process                     | Planning and development stage |
| Kragujevac Plaza (*)        | Serbia         | Oct-07                      | 100                         | Leasing for 99 years                                | In Process                     | Planning and development stage |
| Sport-Star Plaza (*)        | Serbia         | Dec-07                      | 100                         | Leasing for 99 years                                | In Process                     | Planning and development stage |
| Shumen Plaza                | Bulgaria       | Nov-07                      | 100                         | Ownership   | In Process                     | Planning and development stage |
| Sofia Plaza Business Center | Bulgaria       | Jan-09                      | 51                          | Ownership   | In process                     | Planning and development stage |
| Dream Island (i)            | Hungary        | Sep-03                      | 43.5                        | Land use rights                                     | Completed                      | Under construction             |
| Arena Plaza Extension       | Hungary        | Nov-05                      | 100                         | Land use rights                                     | Completed                      | Planning and development stage |
| Uj Udvar                    | Hungary        | Sep-07                      | 35                          | Ownership   | Completed                      | Planning and development stage |
| Helios Plaza                | Greece         | May-02                      | 100                         | Ownership   | Completed                      | Planning and development stage |

(\*) In respect of all the projects in Serbia, PC is retaining the 100% holding in these projects after a decision to discontinue the negotiations with a Serbian developer. As of the balance sheet date, PC paid an amount of €1.3 million (NIS 7 million) as part of a settlement agreement signed with the Serbian developer and obligated to pay him every time there is any development in the projects.

**NOTE 8 - TRADING PROPERTY (CONT.)**

**C. Additional information in respect of Pc's trading property (cont.)**

- (i) In July 2008 a PC's associated company (ErCorner) (50%) through its associate, Alom Sziget (60%) which owns approximately 320,000 square meters of land on the island of Obuda in the Danube River, located in the heart of Budapest, Hungary (signed a concession agreement with the ministry of finance in Hungary for a casino license for its planned entertainment and mixed use Dream Island development in Budapest. According to concession agreement, the casino license, which will be formally issued towards the opening of the casino, will be granted to Alom Sziget for a period of twenty years from the date of opening of the casino, with an option to extend the license term by additional ten years (subject to the fulfillment of certain condition).

In March 2009, PC, through ErCorner has acquired a further 27% stake in Alom Sziget. The total consideration paid by ErCorner was €21.4 million (NIS 116.5 million) which was consisted of a cash payment of €12 million (NIS 65.3 million) and the assumption of €9.4 million (NIS 51.2 million) of debt, representing 27% of the project's net debt liability. Following the transaction, as of December 31, 2009 ErCorner holds 87% of the equity and voting rights in Alom Sziget. Following the additional purchase of the 27% stake of Alom Sziget, commencing the second quarter of 2009 ErCorner is proportionately (50%) consolidated by PC.

**D. Additional information in respect of EPI's trading property**

The following information is in respect of trading property which is held by Elbit-Plaza India Real Estate Holding Limited ("EPI"). EPI is jointly controlled by the Company and PC (see note 11D.)

**(1) Chennai**

In December 16, 2007 EPI entered into a framework agreement, ("Framework Agreement"), with a third party (the "Seller") to acquire, through a Special Purpose Venture ("SPV"), up to 135 acres of land in Chennai, India. Under the Framework Agreement, the SPV will develop an integrated multi-use project comprising of exclusive residential projects to be comprised of villas (bungalows), high-rise buildings, related amenities, commercial and office areas and retail areas.

Under the Framework Agreement, EPI is to hold 80% of the SPV. The total investment that EPI is anticipated to pay under the Framework Agreement in consideration for its 80% holding (through the SPV) in the project land is up to INR 4,277 million (NIS 346.4 million) ("Purchase Price"), assuming purchase of all 135 acres. The project land is to be acquired by the SPV in batches subject to such land complying with certain regulatory requirements and the due diligence requirements of EPI. Through the balance sheet date the SPV acquired approximately 62.7 acres of the project land and a total of INR 1,986 million (NIS 161 million) of the Purchase Price, was paid by EPI. In addition, as of the balance sheet date, the SPV paid advances in the amount of INR 217 million (NIS 18 million) in order to secure acquisition of additional 7 acres.

The parties have entered into a shareholders agreement in respect of the management of the SPV, which provides, among other matters, for a five member board of directors, one member appointed by the Seller for so long as it maintains a 10% holding in the SPV and four members appointed by EPI. The shareholders agreement also includes certain restrictions and pre-emptive rights pertaining to transferring of securities in the SPV. Profits from the SPV will be distributed in accordance with the parties' proportionate shareholdings, subject to EPI being entitled to certain preferences out of the SPV's cash flow, as determined in the agreements.

**NOTE 8 - TRADING PROPERTY (CONT.)**

**D. Additional information in respect of EPI's trading property (Cont.)**

**(2) Bangalore**

On March 13, 2008, EPI entered into an Amended and Reinstated Share Subscription and Framework Agreement ("Framework Agreement"), with a third party Indian partner ("JV Partner"), and a wholly owned Indian subsidiary of EPI ("Joint Venture Company"), to acquire, through the Joint Venture Company, up to 440 acres of land in Bangalore, India (the "Project Land").

Under the Framework Agreement, following the consummation of the closing of the final stage of the transaction, the Joint Venture Company will develop on the Project Land, an integrated multi-use project which include mainly residential project.

Under the Framework Agreement, the Joint Venture Company is to acquire ownership and development rights in respect of up to an approximate 230 acres of the entire Project Land for a fixed amount of cash consideration. In consideration of EPI's 50% share (through the Joint Venture Company) in such lands, EPI will pay an aggregate of up to INR 10,500 million (NIS 815 million).

As of the December 31, 2009, the Joint Venture Company has secured rights over approximately 54 acres and EPI has paid the aggregate sum of approximately INR 2,840 million (NIS 220 million) in consideration of its 50% share (through the Joint Venture Company) in such the Land Project, which is presented in the statement of financial position as of December 31, 2009 and 2008 as trading property.

Under the Framework Agreement, between the closing of the first stage and the closing of the final stage of the transaction, additional portions of the Project Land will be acquired in phases through the JV Partner's business partners on behalf of the Joint Venture Company and subject to certain conditions, EPI will make advances (in addition to sums already transferred in connection with the closing of the first stage) on account of such acquisitions.

As of December 31, 2009, EPI advanced approximately INR 2,536 (NIS 197 million) on account of the future acquisitions by the Joint Venture Company of additional 51.6 acres. Such advance payment is presented in the statement of financial position as of December 31, 2009 and 2008 as prepayment and other assets (refer to note 7).

In respect of up to the other approximately 210 acres of the entire Project Land, the Framework Agreement provides that the Joint Venture Company will enter into joint development agreements under which the Joint Venture Company will be entitled to develop the entire area of such lands. In consideration, the Joint Venture Company will pay between 38% and 53% of the built up area of such lands and in some cases, refundable deposits on account of such future consideration will also be paid. EPI's 50% share (through the Joint Venture Company) in rights under the development agreements will require it to invest INR 750 million (NIS 58 million) in order to fund its proportional share in such deposits.

**NOTE 8 - TRADING PROPERTY (CONT.)**

**D. Additional information in respect of EPI's trading property (Cont.)**

**(2) Bangalore (Cont.)**

Under the Framework Agreement, the consummation of the final stage of the transaction should have been closed until March 2009. As of December 31, 2009 the closing didn't occur. As a result, and as applicable by the Framework Agreement, in May 2009 EPI requested the JV Partner to immediately refund an advance of approximately INR 1,861.5 (NIS 144.5 million). As of the approval date of these financial statements, such amount was not yet refunded.

As of the approval date of these financial statements, EPI and the JV Partner are in advanced negotiations to amend the Framework Agreement to reflect certain new commercial understandings.

As of December 31, 2009 and 2008, the Joint Venture Company's operations are proportionately (50%) consolidated with those of the Company, since significant decisions in respect of the Project Land require the consent of both EPI and the JV partner.

**E. Disposals of trading property**

- (1) On July 10, 2007, PC has executed a binding agreement for the sale of its entire interest (100%) in a company which holds the rights in and to the Arena Plaza shopping and entertainment center in Budapest ("Arena") to UK based Active Asset Investment Management ("aAIM"). On December 18, 2007 PC and aAIM executed an addendum to the transaction agreement according to which aAIM represented that all conditions precedent for the consummation of the transaction have been fulfilled by PC and/or waived by aAIM. Accordingly, the parties executed an amicable closing of the transaction which is effective as from November 30, 2007 ("Closing Effective Date"). As a result of this transaction, the Group recorded in its 2007 financial statements revenues from sale of trading property in the amount of NIS 2,091 million and recognized a gain of NIS 1,145 million. Following purchase price adjustments conducted during 2008, the Group recognized an additional gain of NIS 117.7 million. As for indemnifications provided by PC to aAIM, see note 23C (5).
- (2) During 2007 and 2008, PC executed several transactions, in addition to the Arena transaction described in the previous paragraph, for the sale of commercial centers to Klepeirre within the framework of an agreement signed in July 2005, as detailed in the following table:

| <b>Commercial Center</b> | <b>Ownership by PC (%)</b> | <b>Date of delivery</b> | <b>Revenues recognized (NIS million)</b> | <b>Gain Recognized (NIS million)</b> |
|--------------------------|----------------------------|-------------------------|--|--------------------------------------|
| Sosnowiec Plaza          | 100%                       | May 2007                | 226                                      | 55                                   |
| Rybnik Plaza             | 100%                       | May 2007                | 269                                      | 61                                   |
| Lublin Plaza             | 50%                        | July 2007               | 224                                      | 57                                   |
| Plzen Plaza              | 100%                       | June 2008               | 328                                      | 95                                   |
| <b>Total</b>             |                            |                         | <u>1,047</u>                             | <u>268</u>                           |

As for indemnifications provided by PC to Klepeirre, see note 23C.(5-6).

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - TRADING PROPERTY (CONT.)**

- F.** As of December 31, 2009 the Group pledged trading property in the amount of NIS 1,260 million in order to secure borrowings provided to the Group by financial institutions. See also note 23D.
- G.** As for commitments in respect of construction services and purchase of plots see note 23A (3).
- H.** The majority projects of the trading property were valued as of December 31, 2009 by independent third party appraiser. PC's management made adjustments to the fair values determined by the appraiser to reflect the net realizable value by neutralizing the developers profit on costs from the valuations.

Significant assumptions regarding the value of the projects upon completion (on the basis of weighted averages) used in the valuations as of 31 December are presented below:

|   | <b>Retail</b> |             | <b>Offices</b> |             |
|---|---------------|-------------|----------------|-------------|
|   | <b>2009</b>   | <b>2008</b> | <b>2009</b>    | <b>2008</b> |
| <b>Estimated rental prices per sqm per month (in EUR)</b> |               |             |                |             |
| Romania   | 10-22         | 17-26       | 12.5           | 13.5        |
| Czech Republic  | 13-15         | 17.5-18.5   | 13             | 13          |
| Serbia  | 16-36         | 16-42       | 17             | 19          |
| Latvia  | 17.4          | 18          | N/A            | N/A         |
| Poland  | 14-18         | 16-19       | 11.75          | 13          |
| Greece  | 30            | N/A         | N/A            | 18          |
| Hungary   | 10-24         | 11-25       | 11.5           | 11.5        |
| Bulgaria  | 12-22         | 17.4        | 12             | N/A         |
| India   | 10-18         | 13-19       | 10.7           | 9           |
| <b>Average risk adjusted yield used (in percentage)</b>   |               |             |                |             |
| Romania   | 7.00-9.70     | 6.00-8.75   | 9.65           | 8.85        |
| Czech Republic  | 7.50-8.25     | 7.50        | 7.50           | 7.50        |
| Serbia  | 9.25-10.50    | 8.75-10     | 9.25           | 8.75        |
| Latvia  | 9.25          | 8           | N/A            | N/A         |
| Poland  | 7.75-8.50     | 7.25-7.66   | 7.75           | 7.25        |
| Greece  | 7.25          | N/A         | N/A            | 8           |
| Hungary   | 8.75-9.00     | 8.5-9       | 8.75           | 8.50        |
| Bulgaria  | 8.50-9.25     | 9           | 8.5            | N/A         |
| India   | 10-12         | 10-12       | 12             | 12          |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 - DEPOSITS, LOANS AND OTHER LONG-TERM BALANCES**

**A. Composition:**

|   | <b>December 31</b>       |                |
|---|--------------------------|----------------|
|   | <b>2009</b>              | <b>2008</b>    |
|   | <b>(in thousand NIS)</b> |                |
| Deposits at banks and financial institutions (i)                                      | 111,451                  | (*)127,083     |
| Held to maturity financial instruments (ii)   | 315,101                  | 385,755        |
| Financial instruments designated at FVTPL (iii)                                       | 70,481                   | 52,253         |
| Derivative measured at FVTPL (iv)   | 109,656                  | 107,657        |
| Convertible loan for the acquisition of interest in jointly controlled subsidiary (v) | 20,144                   | 20,061         |
| Loans to interest holders in investee companies                                       | 15,968                   | 15,240         |
| Loans to associates   | 2,698                    | 16,321         |
| Others  | 3,252                    | 4,768          |
|   | <u>648,751</u>           | <u>729,138</u> |
| Less - allowance for doubtful debts   | (23,056)                 | (22,805)       |
|   | <u>625,695</u>           | <u>706,333</u> |

(\*) See note 2 AH.

- (i) December 31, 2009: Include NIS 86 million linked to the Euro and bearing annual interest rate of 0.42%-1.05% per annum and NIS 20 million linked to the NIS bearing interest of 1%-4.0% per annum. The deposits are mainly pledged as security for the repayment of interest rate swap transactions, long term borrowing, construction and other liabilities obtained by Group companies, which have been included as due and payable concurrently with the liabilities repayment dates.
- (ii) During 2007 and 2008 the Company (through its wholly owned subsidiary) and PC entered into several transactions with several financial institutions, according to which the Company and PC invested an amount of € 35.0 million (NIS 191 million) and € 38.0 million (NIS 207 million), respectively, in financial notes ("Notes") for a period of 15 years. The Notes bear an interest of 11.5%-12% per annum, which is payable only if the margin between the 30 years Euro swap interest rate and the 10 years Euro swap interest rate (measured on a daily basis) is higher than the margin stated in the agreement. The issuers have a call option to redeem the Notes at par value in a specific dates included in the investments agreements and any quarter thereafter. The principal amount of the Notes is 100% protected at the maturity date. In August 2009 and March 2010, Notes issued to the Company with a par value of Euro 15 million (NIS 82 million) and Euro 20 million (NIS 109 million), respectively, were redeemed by the issuers.
- (iii) In February 2008, PC entered into a financial transaction with an issuing bank, according to which PC invested an amount of € 13 million (NIS 71 million) in financial notes ("Notes") which pays a variable interest linked to the 10 year EUR CMS rate subject to a minimum annual interest rate of 6.25% and a maximum annual interest rate of 12.50%. The Note maturity date is February 19, 2018. The principal is 100% protected at maturity. Gain adjustments to fair value in 2009 amounted to NIS 17 million (in 2008: loss of NIS 15.8 million).
- (iv) During 2007 and 2008 PC executed several cross currency interest rate swap transactions with Israeli banks in the total principal amount of NIS 1,103 million. In accordance with the terms of the agreement, PC will pay the banks an interest of 6M Euribor plus a margin of 2.2%-3.6% and will receive 4.5%-5.4% interest linked to the Israeli CPI with the same amortization schedule as PC's series A and B debentures. In addition, at each payment date of the debentures, PC will receive principal amount in NIS and will pay the principal amount in Euro (subject to the amortization schedule). The derivatives are measured at fair value through profit and loss. The fair value was computed based on a valuation technique by a third party expert. Accordingly, a gain of NIS 71 million was recorded in 2009 (in 2008 and 2007 - a gain of NIS 96 and NIS 12.5 million, respectively).

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 - DEPOSITS, LOANS AND OTHER LONG-TERM BALANCES (cont.)**

**A. Composition: (cont.)**

(iv) (cont.)

In January 2009, PC settled a swap transaction in the total principal amount of NIS 304 million in respect of its series A debentures for a total consideration of €13.1 million (NIS 71 million). Concurrently, a long term deposit in the amount of 5.3 million Euro (NIS 29 million) was released.

As of December 31 2009 PC maintains an interest rate swap with par value of NIS 798 million which cover significant portion of its series B debentures.

For commitments regarding the derivatives see note 30 C.(7).

(v) See note 23 B (7).

**B. Liens - see note 23D.**

**NOTE 10 - INVESTMENTS IN ASSOCIATES**

**A. Composition:**

|   | <b>December 31</b>       |               |
|---|--------------------------|---------------|
|   | <b>2009</b>              | <b>2008</b>   |
|   | <b>(in thousand NIS)</b> |               |
| Cost (i)  | 104,919                  | 99,898        |
| Accumulated losses, net   | (54,883)                 | (49,633)      |
| Impairment  | (2,611)                  | -             |
| Acquisition of subsidiaries   | (2,598)                  | -             |
| Foreign currency translation adjustments  | (3,230)                  | (3,610)       |
|   | <u>41,597</u>            | <u>46,655</u> |
| (i) Including goodwill and allocation of investments to research and development in process | <u>37,056</u>            | <u>35,486</u> |

**B. Gamida Cell Ltd. ("Gamida")**

Gamida is engaged in the development of stem cell therapeutics based on its proprietary technologies for stem cells expansion, currently in clinical development for hematological malignancies, as well as future regenerative cell based medicines, including heart tissue repair. As of the balance sheet date, the Group holds 32.0% in Gamida's voting and equity rights (28.3% on a fully diluted basis) and the rights to appoint 20% of the board members.

In February 2006 Teva Pharmaceutical Industries Ltd. ("Teva"), one of Gamida's shareholders, and Gamida executed an agreement for the establishment of a JV Company ("JV"). The sole purpose of the JV is commercialization of certain products based on Gamida's technology.

In February 2010, the Company committed to indemnify Gamida and Teva for every damage, expansion or loss that may be caused due to describing Gamida's activity in an initial prospectus offering in Israel (see note 31 B).

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 - INVESTMENTS IN ASSOCIATES (Cont.)**

- C. The following is summarized data outlining items extracted from the associates' financial statements:

|             | <b>As at December 31<br/>and for the year then ended</b> |                 |                 |
|-------------|--|-----------------|-----------------|
|             | <b>2009</b>  | <b>2008</b>     | <b>2007</b>     |
|             | <b>(in thousand NIS)</b>                                 |                 |                 |
| Assets      | 100,026  | 231,281         | 245,222         |
| Liabilities | (53,875)   | (164,132)       | (161,890)       |
| Net assets  | <u>46,151</u>  | <u>67,149</u>   | <u>83,332</u>   |
| Revenues    | <u>22,729</u>  | <u>28,792</u>   | <u>42,800</u>   |
| Loss        | <u>(29,566)</u>  | <u>(35,745)</u> | <u>(42,780)</u> |

**NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN SUBSIDIARIES AND CHANGES THEREOF**

**A. InSightec Ltd. ("InSightec")**

- (1) InSightec Ltd. is engaged in the development, production and marketing of magnetic resonance imaging guided and focused ultrasound treatment equipment. The industry in which InSightec operates is characterized by rapid technological development. Substantially all of InSightec's current sales are derived from a few applications of InSightec's products. Other applications of InSightec's technology are in the early stages and there can be no assurance that these applications will be successful. InSightec is continuing research and development for additional applications for such products. As of the balance sheet date, the Group holds 71.3% in InSightec and 59.5% on a fully diluted basis. The fully diluted holdings in InSightec is calculated including 1.2 millions options exercisable into InSightec's ordinary shares which vest upon the initial public offering of InSightec and/or other "Material Change of the Company".
- (2) As of the balance sheet date, General Electric Health Care ("GE") holds approximately 16.9% of InSightec's shares on a fully diluted basis. The shareholders agreement stipulates several limitations on the execution of certain material transactions or activities not in the ordinary course of business of InSightec, without obtaining GE's prior approval. In addition, the approval of certain transactions requires the vote of 70% of InSightec's preferred B shares of which as for the balance sheet date the Company holds 64.3%. The shareholders agreement also imposes certain limitation and rights on shares transactions and rights for the Group and GE, in case one party fundamentally breach the agreement, to acquire the other's stake in InSightec, at certain penalty value.
- (3) In March 2009, InSightec signed an agreement for an internal round of financing in the aggregate amount of \$15.0 million (NIS 56 million), which was fully invested during 2009. The investment is in the form of series B preferred shares of InSightec at a price of \$6 per share. The series B preferred shares are senior to all other shares and junior to all creditors. Each series B preferred share may be converted at any time at the holder's option into the number of ordinary shares equal to the original issue price of the Shares divided by \$6. Upon a qualified IPO, the shares will be automatically so converted. In the event InSightec is sold, liquidated or wound up for any reason, the holders of series B preferred shares shall receive on a pro rata basis among themselves, prior to any payments to any other equity holders, the original issue price of the series B preferred shares.



**NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN SUBSIDIARIES AND CHANGES THEREOF (Cont.)**

**A. InSightec Ltd. ("InSightec") (cont.)**

**(3) (cont.)**

Within the framework of the agreement all the holders of InSightec's preferred A shares and convertible notes (see note 19G (ii)) converted their shares and/or their notes into InSightec's preferred B shares. In addition, all warrants granted by InSightec within the framework of investment round executed in August 2006, were converted into InSightec's ordinary shares. As a result of this transaction, the Group recorded a gain of approximately NIS 14.6 million in 2009.

Following the preferred B agreement the minority has no commitments to cover the losses of InSightec. As a result, commencing April 1, 2009 the Group consolidates 100% of InSightec losses.

- (4)** In December 2009, the Group acquired from GE 1 million shares of InSightec for a total consideration of \$ 2 million dollars (NIS 7.9). Said amount was recorded in the financial statements as goodwill.
- (5)** In February 2010, the Company committed to provide InSightec financial supporting up to an amount of \$15 million (under terms to be agreed between the parties according to market conditions), and as long as needed for InSightec to continue its activity until February 10, 2011.
- (6)** In 2005, InSightec, its shareholders and the Israeli Tax Authorities have concluded the principles, subject to which the merger of InSightec and its wholly owned subsidiary (TxSonics) was approved by the Income Tax Ordinance, retroactively from December 31, 2002. As per law and approval, taxable consolidated loss of InSightec and TxSonics may be offset against future taxable income, over a 7 year period (16% each year), however not exceeding 50% of annual taxable net income per each year. Said approval provides, inter alia, that profit generated by the Company from the sale of its holdings in InSightec shall be considered as C.F.C. profits and shall be taxable at a rate of 25%, or any lower rate as determined by tax authorities. The Company undertook, among other things, to deposit its shares in InSightec with a trustee, as security for the tax payment to the Israeli Tax Authorities, upon realization of the shares. Should the companies fail to fulfill the terms of the approval and provisions of the law, validity of the approval shall be terminated retroactively.

**B. Plaza Center N.V. ("PC")**

- (1)** PC conducts its activities in the field of establishing, selling and operating shopping and entertainment centres, as well as other mixed use projects (retail, office, residential) in Central and Eastern Europe, and India. As of the balance sheet date the Group holds 68% in PC (62.91% on a fully diluted basis).

**NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN SUBSIDIARIES AND CHANGES THEREOF (Cont.)**

**A. InSightec Ltd. ("InSightec") (cont.)**

- (2) On October 20, 2008 PC announced its intention to commence a share repurchase program in the framework of which PC will purchase up to approximately 19.3 million shares, representing approximately 6.6% of PC's share capital. In addition, the Company also informed its intention to purchase PC's shares which shall be executed within the above-mentioned limit of PC's repurchasing program. Through December 31, 2008 PC purchased approximately 9.2 million shares for a total consideration of € 5.5 million and the Company purchased 0.2 million shares for a total consideration of € 0.1 million. During January 2009, PC purchased additional approximately 5.3 million shares in a total consideration of € 3.5 million (NIS 18 million) and the Company purchased additional approximately 4.6 million shares in the total consideration of € 3.1 million (NIS 16.6 million). As a result of these transactions the Group recorded a gain of approximately NIS 64 and NIS 45.6 million in the financial statements of 2009 and 2008, respectively. Such gains represent the excess shareholders' equity acquired by the Group over the consideration paid.

In October 2009, PC and the Company sold all the shares acquired within the framework of the repurchase program. The aggregate consideration for the shares sold by PC and the Company was € 22 million (NIS 120 million) and € 7 million (NIS 38 million), respectively. As a result of this transaction the Group recorded in these financial statements loss of approximately NIS 44 million.

- (3) On June 12, 2008, PC has paid a cash dividend in the aggregate amount of € 57 million. The Company's share in such dividend was € 39 million.

**C. BEA Hotels N.V. ("BH")**

As of the balance sheet date the Group, through its wholly owned subsidiary, Bea Hotels N.V. ("BH"), holds the rights in the following hotels:

- (1) BH is a party to shareholder agreements with Park Plaza N.V. (a public company its shares are traded in the AIM) with respect to three hotels in the United Kingdom and three hotels in the Netherlands. In accordance with the terms of these agreements, BH and Park Plaza have equal representation in the board of directors of each hotel company. The agreements also provide for rights of first refusal, tag along, drag along rights and that some shares (5%-10%) held by Park Plaza in the UK hotel companies, will not confer voting rights until such time as Park Plaza shall have provided and completed its full equity contribution (as defined in the agreements) in each respective hotel.
- (2) 100% of the voting and equity rights in a company that holds and operates the Radisson Astrid and Park Inn hotels in Antwerp, Belgium.
- (3) Approximately 77% of SC Bucuresti Turism S.A. ("Bucuresti") which owns a complex consisting of the Radisson hotel, and the Centrville hotel (an apartment hotel), situated in Bucharest, Romania. Bucuresti was purchased through a privatization tender published by the State Ownership Fund of the Romanian government, which was approved by the supreme court of Romania. For information concerning legal actions filed in connection with the purchase and ownership of Bucuresti shares - see note 23B.(5).

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN SUBSIDIARIES AND CHANGES THEREOF (CONT.)**

**D. Elbit- Plaza India Real Estate Holding Ltd. ("EPI")**

On August 25, 2008, the Company and PC executed an agreement in the framework of which, PC acquired 47.5% of the Company's shareholding in EPI for a nominal value plus assignment of 50% of the shareholders loans granted by the Company to EPI up to the closing date, which totaled to NIS 419 million. As at the closing date EPI holds plots in Bangalore and Chennai (see note 8D.). Following the execution of the transaction the Company and PC each hold 50% of the voting rights in EPI and 47.5% of the equity rights. The additional 5% equity rights are allotted to the Company's Vice Chairman of the Board, which were granted to him within the framework of an agreement executed in January 2008 (see note 27B.(5)). The Company and PC each have the right to appoint 50% of the board members of EPI.

In addition, PC paid to the Company an advance payment in the amount of € 4.2 million (NIS 23 million) ("Advance") which is equal to 50% of the shareholders loan granted by the Company to its investment in the Cochin Island project (see note 13B). The Company will hold in trust 50% of the rights in the Cochin Island in favor of PC. The Company provided PC with a guarantee, which shall be exercised in the event the Company fails to transfer all its rights in the Cochin Island to EPI (or alternatively to transfer 50% of the said rights to PC). The guarantee will expire on August 25, 2010.

- E.** As of the balance sheet date the Group holds 6 joint venture companies which hold and operate six hotels in the UK and in the Netherland; 12 joint ventures companies which are in various stage of development and construction of trading property in eastern Europe and India; and 2 joint venture companies which hold plots in India. Commencing the second quarter of 2009, PC proportionately consolidated Ercorner (see also note 8C).

The following is summarized data outlining the items of the proportionately consolidated companies' financial statements:

|                         | <b>At December 31<br/>and for the year then ended<br/>(in thousand NIS)</b> |                 |               |
|-------------------------|---|-----------------|---------------|
|                         | <b>2009</b>   | <b>2008</b>     | <b>2007</b>   |
| Current assets          | 1,283,657   | 984,051         | 285,431       |
| Non-current assets      | 694,544   | 651,129         | 897,945       |
| Current liabilities     | (1,049,477)   | (460,202)       | (141,034)     |
| Non-current liabilities | (216,994)   | (523,434)       | (968,095)     |
| Net assets              | <u>711,730</u>  | <u>651,544</u>  | <u>74,247</u> |
| Revenues                | 242,847   | 246,346         | 488,947       |
| Expenses                | (325,650)   | (282,431)       | (477,519)     |
| Net profit (loss)       | <u>(82,803)</u>   | <u>(36,085)</u> | <u>11,428</u> |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - PROPERTY, PLANT AND EQUIPMENT**

**A. Composition:**

**December 31, 2009:**

|   | <b>Real estate</b>       |                           |               |                           |                  |
|---|--------------------------|---------------------------|---------------|---------------------------|------------------|
|   | <b>Hotels</b>            |                           |               | <b>Other fixed assets</b> | <b>Total</b>     |
|   | <b>Operating</b>         | <b>Under construction</b> | <b>Other</b>  |                           |                  |
|   | <b>(in thousand NIS)</b> |                           |               |                           |                  |
| <b>Cost:</b>  |                          |                           |               |                           |                  |
| Balance as of January 1                                       | 1,538,575                | 55,250                    | 35,942        | 173,373                   | 1,803,140        |
| Additions during the year                                     | 64,736                   | 8,113                     | -             | 20,983                    | 93,832           |
| Subsidiaries not previously consolidated                      | -                        | -                         | -             | 517                       | 517              |
| Disposals during the year                                     | (1,112)                  | -                         | -             | (3,072)                   | (4,184)          |
| Disposals in respect of subsidiaries exit from consolidation- | -                        | -                         | -             | (366)                     | (366)            |
| Foreign currency translation adjustments                      | 57,795                   | 1,160                     | 980           | 2,873                     | 62,808           |
| Balance as of December 31                                     | 1,659,994                | 64,523                    | 36,922        | 194,308                   | 1,955,747        |
| <b>Accumulated depreciation:</b>                              |                          |                           |               |                           |                  |
| Balance as of January 1                                       | 104,998                  | -                         | 2,738         | 28,739                    | 136,475          |
| Additions during the year                                     | 60,782                   | -                         | 504           | 20,623                    | 81,909           |
| Disposals during the year                                     | (1,063)                  | -                         | -             | (1,008)                   | (2,071)          |
| Disposals in respect of subsidiaries exit from consolidation- | -                        | -                         | -             | (97)                      | (97)             |
| Foreign currency translation adjustments                      | 25,311                   | -                         | 71            | (23)                      | 25,359           |
| Balance as of December 31                                     | 190,028                  | -                         | 3,313         | 48,234                    | 241,575          |
| <b>Provision for impairment:</b>                              |                          |                           |               |                           |                  |
| Balance as of January 1                                       | 32,900                   | -                         | 7,946         | 7,566                     | 48,412           |
| Impairment loss recognized (see note 26N (i))                 | 15,129                   | -                         | -             | 1,500                     | 16,629           |
| Foreign currency translation adjustments                      | 812                      | -                         | 217           | 273                       | 1,302            |
| Balance as of December 31                                     | 48,841                   | -                         | 8,163         | 9,339                     | 66,343           |
| Payment on account of fixed assets                            | -                        | -                         | -             | 791                       | 791              |
| <b>Net book value</b>   | <b>1,421,125</b>         | <b>64,523</b>             | <b>25,446</b> | <b>137,526</b>            | <b>1,648,620</b> |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONT.)**

**A. Composition (cont.):**

**December 31, 2008:**

|  | <b>Real estate</b>       |                           |               |                           |                  |
|--|--------------------------|---------------------------|---------------|---------------------------|------------------|
|  | <b>Hotels</b>            |                           |               | <b>Other fixed assets</b> | <b>Total</b>     |
|  | <b>Operating</b>         | <b>Under construction</b> | <b>Other</b>  |                           |                  |
|  | <b>(in thousand NIS)</b> |                           |               |                           |                  |
| <b>Cost:</b>                                     |                          |                           |               |                           |                  |
| Balance as of January 1                          | 1,206,373                | 515,572                   | 41,461        | 121,437                   | 1,884,843        |
| Hotels whose constructions ended during the year | 562,622                  | (562,622)                 | -             | -                         | -                |
| Additions during the year                        | 6,921                    | 183,439                   | -             | 77,482                    | 267,842          |
| Disposals during the year                        | (1,510)                  | (112)                     | (2,802)       | (21,563)                  | (25,987)         |
| Foreign currency translation adjustments         | (235,831)                | (81,027)                  | (2,717)       | (3,983)                   | (323,558)        |
| Balance as of December 31                        | 1,538,575                | 55,250                    | 35,942        | 173,373                   | 1,803,140        |
| <b>Accumulated depreciation:</b>                 |                          |                           |               |                           |                  |
| Balance as of January 1                          | 95,226                   | -                         | 2,236         | 16,929                    | 114,391          |
| Additions during the year                        | 50,842                   | -                         | 645           | 16,951                    | 68,438           |
| Disposals during the year                        | -                        | -                         | -             | (4,724)                   | (4,724)          |
| Foreign currency translation adjustments         | (41,070)                 | -                         | (143)         | (417)                     | (41,630)         |
| Balance as of December 31                        | 104,998                  | -                         | 2,738         | 28,739                    | 136,475          |
| <b>Provision for impairment:</b>                 |                          |                           |               |                           |                  |
| Balance as of January 1                          | 31,126                   | -                         | -             | -                         | 31,126           |
| Impairment loss recognized                       | 3,757                    | -                         | 7,946         | 7,566                     | 19,269           |
| Foreign currency translation adjustments         | (1,983)                  | -                         | -             | -                         | (1,983)          |
| Balance as of December 31                        | 32,900                   | -                         | 7,946         | 7,566                     | 48,412           |
| <b>Net book value</b>                            | <b>1,400,677</b>         | <b>55,250</b>             | <b>25,258</b> | <b>137,068</b>            | <b>1,618,253</b> |

**B. Composition of real estate assets distinguished between freehold and leasehold rights:**

|                | <b>December 31</b>       |             |
|----------------|--------------------------|-------------|
|                | <b>2009</b>              | <b>2008</b> |
|                | <b>(in thousand NIS)</b> |             |
| Freehold       | 1,222,264                | 1,208,296   |
| Leasehold      | 288,822                  | 272,889     |
| Net book value | 1,511,086                | 1,481,185   |

**C. Annual depreciation rates - see note 2N.**

**D** As of December 31, 2009 the Group pledged property plant and equipment in the amount of NIS 1,535 million in order to secure borrowings provided to the Group by financial institutions. See also note 23D.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 - INVESTMENT PROPERTY**

**A. Composition:**

|   | <b>December 31</b>       |             |
|---|--------------------------|-------------|
|   | <b>2009</b>              | <b>2008</b> |
|   | <b>(in thousand NIS)</b> |             |
| <b>Cost</b>   |                          |             |
| Balance as of January 1                                   | 102,506                  | 272,857     |
| Additions during the year                                 | 306                      | 291,508     |
| Transfer to trading property                              | -                        | (425,727)   |
| Foreign currency translation adjustments                  | 3,382                    | (36,132)    |
| Balance as of December 31                                 | 106,194                  | 102,506     |
| <b>Accumulated depreciation</b>                           |                          |             |
| Balance as of January 1                                   | 23,609                   | 12,977      |
| Depreciation and impairment recognized (see note 26N (i)) | 1,080                    | 8,964       |
| Foreign currency translation adjustments                  | 1,018                    | 1,668       |
| Balance as of December 31                                 | 25,707                   | 23,609      |
| <b>Net book value</b>                                     | 80,487                   | 78,897      |
| <b>Fair value of investment property (i)</b>              | 101,137                  | 94,230      |

- (i) The fair value of the majority of the investment property was determined by internal valuations using the discounted cash flows method and taking into consideration the actual rental income and the relevant market yield.

**B. Additional Information**

In September 2006, the Company together with an Indian corporation ("Project SPV") wholly owned by an unrelated third party (the "Third Party Shareholder") entered into an agreement (as amended in January 2007) for the purchase of a land measuring 41 acres located in Cochin, India. In accordance with the terms of the agreement the Company and Project SPV will acquire 13 acres ("Property A") for a total consideration of INR 1,495 million (NIS 121 million) payable subject to fulfillment of certain obligation by the seller in respect of the land including obtaining all permissions required for construction thereon and making good and marketable title with regard to Property A and others ("Conditions Precedent"). The additional 28 acres ("Property B") would be transferred by the seller to the Project SPV without any consideration and the seller will be entitled to receive 40% of the constructed area which will be built by the Project SPV. The agreement also provides that if the seller fails to comply with the aforementioned Conditions Precedent, the Project SPV and the Company shall have the right to terminate the agreement and the seller will then refund all amounts paid under this agreement plus an interest of Libor +1%. As of December 31, the net book value of the project totaled NIS 25 million.

In September 2006, the Company, the Third Party Shareholder and the Project SPV entered into a share subscription agreement according to which the Company transferred to the Project SPV its respective rights in the land in consideration of 50% shareholding and voting rights in the Project SPV. As of the balance sheet date the allotment of the shares by the Project SPV to the Company has not yet been executed since same is subject to certain regulatory provisions in respect of the land and the securing of sanctioned plans. However, as the Company holds the right to appoint two directors in the Project SPV's board which constitutes 50% of the voting rights in the Project SPV, the Project SPV's financial statements were proportionally consolidated (50%) with those of the Group's consolidated financial statements as of December 31, 2009 and 2008 and for the years then ended.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - OTHER ASSETS AND DEFERRED EXPENSES**

**A. Composition:**

|  | <b>December 31</b>       |                |
|--|--------------------------|----------------|
|  | <b>2009</b>              | <b>2008</b>    |
|  | <b>(in thousand NIS)</b> |                |
| <b>Cost</b>                                    |                          |                |
| Prepaid leasehold rights (see B. below)        | 134,373                  | 123,847        |
| Others   | 21,118                   | 11,724         |
|  | <u>155,491</u>           | <u>135,571</u> |
| <b>Accumulated amortization and impairment</b> |                          |                |
| Prepaid leasehold rights (see B. below)        | 15,521                   | 14,054         |
| Others   | 3,479                    | 3,453          |
|  | <u>19,000</u>            | <u>17,507</u>  |
| <b>Amortized cost</b>                          | <u>136,491</u>           | <u>118,064</u> |

**B. Additional information:**

The following table provides the significant terms of the Group's leases:

| <b>Asset</b>  | <b>Lease characteristics</b>    | <b>Lease term</b>  | <b>Annual lease payment</b>   |
|---|---------------------------------|--|---|
| Utrecht Park Plaza hotel, the Netherlands           | Capitalized                     | 50 years (through 2038)  | NA  |
| Sherlock Holmes Park Plaza hotel, United Kingdom(i) | Partially capitalized sub-lease | 99 years (through 2095)  | £0.6 million (NIS 3.7 million) adjusted every five years on the basis of "open market value".   |
| River Bank Park Plaza hotel, United Kingdom         | Partially capitalized           | 125 years (through 2125)   | £ 0.6 million (NIS 3.7 million), adjusted every five years based on the CPI in England, with the next adjustment to be carried out in May 2010. |
| Hotel in Tiberius, Israel (ii)                      | Capitalized                     | 49 years (through 2056) with an option to extend the lease term with an additional 49 years. | NA  |
| Dairy farm in Gujarat, India (iii)                  | Un-capitalized                  | 30 years (through 2038).   | Rupee 1,215 thousands (NIS 101 thousands). Rent payment will be adjusted after 10 years based on market rates.                                  |
| Hospital in Goa, India (iv)                         | Un-capitalized                  | 30 years (through 2039) with an option to extend the lease term with an additional 30 years. | Rupee 5,149 thousands (NIS 417 thousands). Rent payment will be adjusted after each 3 years in 10%.   |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 14 - OTHER ASSETS AND DEFERRED EXPENSES (CONT.)**

**B. Additional information (cont.):**

- (i) The lessee and the land lord are currently under dispute regarding the rent adjustment of the Sherlock Holmes Park Plaza hotel (which was initially initiated in October 2006) whereby the land lord claims an increase of the rent to £1.6 million (NIS 10 million) per annum. The Group is of the opinion, based on a professional advice, that the rent review should be calculated on the basis of the value of the hotel prior to the refurbishment and improvement works executed by the lessee and that the Group will not bear any material costs in respect of this dispute.
- (ii) Within the framework of the lease agreement, the Company has undertaken to finalize the construction in July 2010, Within the framework of the lease agreement the Company has provided the Israeli Land Authority ("ILA") with two bank guarantees in the aggregate amount of NIS 10 million linked to the increase in the Israeli consumer price index in order to secure the Company's undertakings under the lease agreement. In accordance with the lease agreement, in case of non-compliance with its terms the contract can be canceled. The company's management is of the opinion that the ILA will extend the lease agreement.
- (iii) In February 2008, the Group executed a memorandum of agreement ("Memorandum") with the Government of the State Gujarat, India pursuant to which the Group will establish a modern dairy farm with approximately 10,000 cows and an ultra modern dairy plant that will produce basic and premium dairy products. The Government of Gujarat accordingly signed in March 2008 a lease deed with respect to a land measuring approximately 500 acres, by which upon exercise thereof the Group shall be awarded the land on a long term lease ending in 2038 for the purpose of establishing the dairy farm and the dairy plant.
- (iv) In December 2009, the Group executed a project development and implementation agreement with the government of Goa, India pursuant to which the Group will build and operate a 150-200 beds hospital by a joint venture company in which the government of Goa will be 15% shareholder for no consideration. The Group undertakes to finalize the construction and operate 100 beds within a period not exceeding 2 years. The remaining 50-100 beds will be operated within the next 4 years.

**NOTE 15 - INTANGIBLE ASSETS**

**Composition:**

|  | <b>December 31</b>       |               |
|--|--------------------------|---------------|
|  | <b>2009</b>              | <b>2008</b>   |
|  | <b>(in thousand NIS)</b> |               |
| <b>Cost</b>                                    |                          |               |
| Goodwill (i)                                   | 51,192                   | 44,725        |
| Distribution rights                            | 4,815                    | 2,763         |
|  | <u>56,007</u>            | <u>47,488</u> |
| <b>Accumulated amortization and impairment</b> |                          |               |
| Distribution rights                            | 2,521                    | 906           |
| <b>Amortized cost</b>                          | <u>53,486</u>            | <u>46,582</u> |



**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 - INTANGIBLE ASSETS (Cont.)**

- (i) The goodwill is attributable to the following cash generating units: an amount of NIS 31 million (2008: NIS 32 million) to the Bucuresti hotel and an amount of NIS 20 million (2008: NIS 13 million) to the activities of InSightec.

The goodwill attributable to Bucuresti was tested for impairment based on the fair value of the Bucuresti complex which was determined based on independent third party appraiser who used the net operational cash flow expected to be generated from the hotel complex discounted in applicable interest rate. (The rate used as for December 31 2009 was 9%-10.25%)

The goodwill attributable to InSightec was tested for impairment based on the fair value of InSightec which was determined based on internal round in InSightec shares made in March 2009.

The Group did not record any impairment loss in respect of its goodwill as a result of these impairment tests.

**NOTE 16 - SHORT-TERM CREDITS**

**A. Composition:**

|  | <b>December 31</b>   |                          |
|--|----------------------|--------------------------|
|  | <b>2009</b>          | <b>2008</b>              |
|  | <b>Interest rate</b> |                          |
|  | <b>%</b>             | <b>(in thousand NIS)</b> |
| US dollars                             | Libor+ 1.75          | 91,518                   |
| Euro (i)                               | Euribor+0.4-4.7      | 1,010,786                |
| NIS                                    | Prime+ 1.1           | 39,302                   |
| Others                                 |                      | 46,892                   |
|  |                      | <u>1,188,498</u>         |
|  |                      | <u>847,611</u>           |
| Current maturities (see note 23D. (3)) |                      | <u>1,030,466</u>         |
|  |                      | <u>2,218,964</u>         |
|  |                      | <u>1,452,144</u>         |

(\*) See note 2 AH.

(i) Include NIS 722 million (2008: NIS 307 million) for the purpose of financing trading property,

**B. Liens and financial covenants - see note 23D and 23E.**

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 - PAYABLES AND OTHER CREDIT BALANCES**

|   | <b>December 31</b>       |                |
|---|--------------------------|----------------|
|   | <b>2009</b>              | <b>2008</b>    |
|   | <b>(in thousand NIS)</b> |                |
| Income taxes  | 14,227                   | 19,273         |
| Other government institutions   | 8,248                    | 6,345          |
| Wages and fringe benefits   | 44,262                   | 49,609         |
| Accrued interest payable  | 48,108                   | 49,158         |
| Related parties   | 11,848                   | 10,489         |
| Liability in respect of acquisition of trading property                 | 42,765                   | 50,531         |
| Expenses accrued in connection with the realization of trading property | -                        | 3,005          |
| Accrued expenses, commissions and others                                | 31,992                   | 29,294         |
|   | <u>201,450</u>           | <u>217,704</u> |

**NOTE 18 - OTHER LIABILITIES**

|   | <b>December 31</b>       |                |
|---|--------------------------|----------------|
|   | <b>2009</b>              | <b>2008</b>    |
|   | <b>(in thousand NIS)</b> |                |
| Liability for construction services (i) | 86,164                   | 86,971         |
| Income in advance                       | 31,801                   | 18,275         |
|   | <u>117,965</u>           | <u>105,246</u> |

- (i) Within the framework of an agreement for the acquisition of 75% holding in a company holding the Casaradio Project in Romania (Project Company), PC has undertaken to ensure that the Project Company will construct an office building for the Government of Romania at the Project Company's own costs

**NOTE 19 - BORROWINGS**

**A. Composition:**

|  | <b>December 31</b>       |                  |
|--|--------------------------|------------------|
|  | <b>2009</b>              | <b>2008</b>      |
|  | <b>(in thousand NIS)</b> |                  |
| <b>At amortized cost:</b>                                |                          |                  |
| Loans from banks and financial institutions(see D below) | 1,488,072                | (*)1,403,430     |
| Debentures issued by Company (see E. below)              | 2,417,046                | 2,264,158        |
| Debentures issued by PC (see F2 below)                   | 151,230                  | -                |
| Convertible debentures (see G below)                     | 99,038                   | 70,671           |
|  | <u>4,155,386</u>         | <u>3,738,259</u> |
| <b>At FVTPL:</b>   |                          |                  |
| Debentures issued by PC(see F1 below)                    | 1,193,713                | 927,787          |
|  | <u>5,349,099</u>         | <u>4,666,046</u> |
| Less recruitment expenses loans                          |                          |                  |
| Cost of raising  |                          |                  |
| <b>Less - current maturities (see note 23D.(3))</b>      | <u>(1,030,466)</u>       | <u>(604,533)</u> |
|  | <u>4,318,633</u>         | <u>4,061,513</u> |

(\*) See note 2 AH.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 - BORROWINGS (CONT.)**

**B. Linkage basis and interest rates:**

| <b>December 31, 2009</b> |                       |                          |
|--------------------------|-----------------------|--------------------------|
|                          | <b>Interest rates</b> | <b>(in thousand NIS)</b> |
|                          | <b>%</b>              |                          |
| NIS                      | 6.25                  | 99,038                   |
| NIS                      | Israeli CPI + 5.0-6.3 | 2,367,202                |
| NIS                      | Prime+0.5             | 1,273                    |
| Pound sterling (i)       | 7.7                   | 552,316                  |
| Euro                     | Euribor+ 0.4-1.75     | 615,436                  |
| Euro                     | 4.7 – 5.6             | 226,961                  |
| NIS (ii)                 | Israeli CPI + 4.5-5.4 | 1,344,943                |
| US dollar                | Libor+ 1.7-4.0        | 141,930                  |
|                          |                       | <u>5,349,099</u>         |

(i) The interest on this loan is hedged by a swap transaction - see note 20A.(ii)

(ii) As for swap transactions executed in respect of these debentures - see note 9A.(iv)

**C. Repayment schedule:**

|                           | <b>December 31</b>       |
|---------------------------|--------------------------|
|                           | <b>2009</b>              |
|                           | <b>(in thousand NIS)</b> |
| 2010 - current maturities | 1,030,466                |
| 2011                      | 875,954                  |
| 2012                      | 575,439                  |
| 2013                      | 712,246                  |
| 2014                      | 810,077                  |
| 2015 and thereafter       | 1,344,917                |
|                           | <u>5,349,099</u>         |

**D.** The following table provide breakdown of the Group's loans from banks and financial institutions:

|   | <b>December 31</b>       |                  |
|---|--------------------------|------------------|
|   | <b>2009</b>              | <b>2008</b>      |
|   | <b>(in thousand NIS)</b> |                  |
| Loans provided to the Company and Elscint (i) | 309,837                  | 303,441          |
| Loans provided to PC                          | 43,929                   | 23,676           |
| Loans provided to Project Companies(ii)       | 1,134,306                | 1,076,313        |
|   | <u>1,488,072</u>         | <u>1,403,430</u> |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 - BORROWINGS (CONT.)**

**D. (cont.)**

- (i) As part of the loans agreements signed between the Company, Elscint and an Israeli bank, an arrangement to accelerate repayment was established as follows: (i) amounts received by the Companies, from public or private offerings of securities of the Companies (and/or of their subsidiaries which were financed by the loan funds), as part of a business merger, as a result of the realization of assets and/or investments, or as a result of refinancing or any other receipt of capital by the Companies (and/or their subsidiaries, as above), will be used first to repay the loans; (ii) net amounts to received from realization of the shares of PC or BH or shares of their Project Companies, by means of sale or issuance to a third party or the sale of a project owned thereby (in full or part), will serve to repay part of the loans (relative to the portion sold) that were received to finance the investment in shares or projects realized, as the case may be; (iii) part of the net amounts to be received from refinancing will be used initially to repay the loans.
- (ii) Includes mainly loans provided to the Group's Project Companies in the hotel segment.

**E. Following the significant terms of the Company debentures as of December 31, 2009:**

| Series | Linkage basis   | Interest rate | Repayment terms  | Amortized cost as at December 31, |           |
|--------|-----------------|---------------|--|-----------------------------------|-----------|
|        |                 |               |  | 2009                              | 2008      |
|        |                 | %             |  | (in thousand NIS)                 |           |
| A      | Israeli CPI (i) | 6.0           | 10 semi-annual equal installments commencing August 2009 | 600,038                           | 609,909   |
| B      | US dollar       | Libor+2.65    | 10 semi-annual equal installments commencing August 2009 | 49,842                            | 55,701    |
| C      | Israeli CPI (i) | 5.3           | 10 annual installments commencing September 2009         | 447,206                           | 474,509   |
| D      | Israeli CPI (i) | 5.0           | 8 annual installments commencing April 2013              | 698,769                           | 673,854   |
| E      | Israeli CPI (i) | 6.3           | 10 annual installments commencing July 2012              | 71,687                            | 68,988    |
| F(ii)  | Israeli CPI (i) | 5.7           | 6 annual installments commencing October 2010            | 549,504                           | 381,197   |
|        |                 |               |  | 2,417,046                         | 2,264,158 |

- (i) Linked to the increase in the Israeli CPI over the base index as of the date the debentures were issued. In June 2009 the Company issued an additional NIS 30 million par value series A debentures in the TASE. The total aggregate net consideration received amounted to NIS 33 million.
- (ii) In August 2009 the Company issued an additional NIS 141.6 million par value series F debentures in the TASE. The total aggregate net consideration received amounted to NIS 154 million.

The debentures are un-secured and non-convertible and are registered for trade in Tel Aviv Stock Exchange ("TASE"). The debentures terms(except for series E and F) provide that the debentures will be prepaid by the Company at the option of the trustee or the holders of the debentures, if the Company's securities are delisted from trade on the TASE and on the Nasdaq National Market jointly.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 - BORROWINGS (CONT.)**

- F. PC's debentures are un-secured and non-convertible and are registered for trade in Tel Aviv Stock Exchange ("TASE"). The debentures will be repaid by PC, inter alia, at the option of the trustee or the holders of the debentures if PC delays the publication of its financial statements for more than 60 days from the dates provided by applicable law, or if the debentures cease to be rated for a period of more than 60 days.

Following the significant terms of PC's debentures as of December 31, 2009:

**(1) PC's debentures measured at FVTPL:**

| Series | Linkage basis   | Interest rate<br>% | Repayment terms                                      | Fair value<br>as of December 31, |                | Payments to be paid<br>contractually at<br>maturity<br>as of December 31, |                  |
|--------|-----------------|--------------------|--|----------------------------------|----------------|---|------------------|
|        |                 |                    |  | 2009(ii)                         | ,2008(ii)      | 2009(ii)  | ,2008(ii)        |
|        |                 |                    |  | (In thousand NIS)                |                | (In thousand NIS)   |                  |
| A      | Israeli CPI (i) | 4.5                | 8 annual equal installments commencing December 2010 | 323,139                          | 247,770        | 339,411   | 326,932          |
| B      | Israeli CPI (i) | 5.4                | 5 annual equal installments commencing July 2011     | 870,574                          | 680,017        | 860,744   | 829,097          |
|        |                 |                    |  | <u>1,193,713</u>                 | <u>927,787</u> | <u>1,200,155</u>  | <u>1,156,029</u> |

- (i) The debentures are linked (principal and interest) to the increase Israeli CPI over the base index at the date of the debentures' issuance. As of the balance sheet date PC has swap transactions in respect of part of its Series B debentures with par value of NIS 798 million. As for additional information - see note 9A.(iv)
- (ii) PC's debentures (except the additional Notes issued in August 2009-see below) were designated to FVTPL in accordance with the provisions stipulated in note 2V. The Fair value of PC's debentures as of December 31,2009 was computed based on their quoted market price in the TASE while their fair value as of December 31,2008 was computed based on reports of a third party experts (see note 30D.(2)d and note 2 AG.(1)e.).

**(2) PC's debentures measured at amortized cost**

On August 12 2009 and October 26 2009, PC issued to Israeli Investors approximately an additional NIS 50 million and NIS 94.5 million respectively principal amounts of Series B Notes (the "Additional Notes") for an aggregate consideration of approximately NIS 52 million and NIS 100 million respectively. The terms of the Additional Notes are identical to the terms of the Series B described above.

- G. (i) On August 3, 2009, the Company issued approximately NIS 112 million principal amount of Series 1 convertible debentures, bearing a fixed interest rate of 6.25% per annum, without linkage. The total aggregate net proceeds amounted to approximately NIS 117.7 million. The Series 1 convertible debentures are to be paid in two equal installments on December 31, 2013 and December 31, 2014 and are convertible into the Company's ordinary shares at the price of NIS 128 per share until July 31, 2013 and at the price of NIS 200 per share thereafter.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 - BORROWINGS (CONT.)**

**G. (i) (cont.).**

The debentures are un-secured and are registered for trade in Tel Aviv Stock Exchange ("TASE"). The equity component of the convertible debentures amounted to NIS 19.3 million and it was calculated based on reports of a third party experts in accordance with the provisions mentioned in note 2V. Such equity component was recorded directly to the Company's shareholders' equity as share premium. The effective interest rate, while taking into consideration the equity component and issuance costs, is 4.9%.

- (ii) Convertible debentures issued by InSightec in August 2006 (as amended in preferred A shares purchase agreement) and in September 2004 (as amended in the 2006 agreement and in the preferred A shares purchase agreement) to its existing shareholders in the total amount of \$36.0 million (the "Notes"). The debentures bear interest, payable on a semi-annual basis, at the rate of LIBOR + 3%. The Group's share in InSightec's convertible debentures amount to \$ 17.3 million. Within the framework of financing round executed in March 2009 (see note 11A. (3)) all InSightec's convertible Notes (principal and accrued interest up through December 31, 2008) were repaid in return of InSightec's preferred B shares at a price of \$6 per share.

**H. Liens and financial covenants - see note 23D and 23E.**

**NOTE 20 - OTHER LONG-TERM FINANCIAL LIABILITIES**

**A. Composition:**

|   | <b>December 31</b>       |               |
|---|--------------------------|---------------|
|   | <b>2009</b>              | <b>2008</b>   |
|   | <b>(in thousand NIS)</b> |               |
| Loans from the Office of Chief Science ("OCS") (i)  | 27,970                   | 29,739        |
| Derivative designated as hedging instruments(ii)  | 39,220                   | 37,534        |
| Embedded derivative financial liability carried at fair value through profit and loss (iii) | 27,969                   | 24,518        |
| Others  | 1,527                    | 1,330         |
|   | <u>96,686</u>            | <u>93,121</u> |

- (i) The liability to the OCS reflects the total grants received from the OCS by InSightec net of royalties paid up to each balance sheet date discounted at the applicable interest rate for similar loans having the same terms and conditions (2009 - 28%, 2008 and 2007 - 29%). InSightec is obliged to pay royalties to the OCS -in respect of products, the development of which was funded by grants provided by the OCS - at a rate of 3% of revenues, for the initial three years through the end of 2006 and 3.5% of revenues as and from 2007 and up to the amount of the grants received. Refund of the grants is contingent on future revenues and InSightec has no obligation to refund the grants if sufficient revenues are not generated. InSightec's technology developed with OCS funding is subject to transfer restrictions, which may impair its ability to sell its technology assets or to outsource manufacturing. The restrictions continue to apply even after InSightec has paid the full amount of royalties' payable for the grants. In addition, the restriction may impair InSightec's ability to consummate a merger or similar transaction in which the surviving entity is not an Israeli company. The revenues used in determining the liability to the OCS were taken till 2015 as InSightec's management company estimates that this is the year in which the obligation will be settled.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 20 - OTHER LONG-TERM FINANCIAL LIABILITIES**

**A. Composition:**

- (ii) Several Groups' companies have entered into an interest rate swap transaction with financial institutions (which granted thereto a variable-interest bearing loan) according to which the interest on the loans will be fixed through the loans terms. The swap transactions were designated as hedging instruments in a cash flow hedge.
- (iii) Within the framework of a credit facility agreement executed in March 2006, B.H. jointly controlled subsidiaries that hold 3 hotels in the U.K. ("Project Companies") are committed to pay the financing bank additional exit fee in the event of cash distributions deriving from the sale, disposal, refinancing of the hotels which were financed by the refinancing loan funds or repayment of the loan ("Transactions"). The exit fee will be calculated as the amount equivalent to 15% of the difference between the market value of the hotels as determined in such Transactions and the current agreed value of the hotels. The estimated fair value of the Exit Fee was computed based a report from a third party expert using the Black-Scholes model.

**NOTE 21 - OTHER LONG TERM LIABILITIES**

**A. Composition:**

|   | <b>December 31</b>       |               |
|---|--------------------------|---------------|
|   | <b>2009</b>              | <b>2008</b>   |
|   | <b>(in thousand NIS)</b> |               |
| Pre-paid rent income                        | 1,289                    | 1,760         |
| Provisions                                  | 11,309                   | 8,687         |
| Retirement benefit obligation (see B below) | 4,852                    | 4,993         |
|   | <u>17,450</u>            | <u>15,440</u> |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 21 - OTHER LONG TERM LIABILITIES(CONT.)**

- B.** The Group companies' liability to employees upon their retirement includes, primarily, voluntary and/or involuntary termination severance payments as well as adaptation grants. The liabilities are partially covered by ordinary deposits to employees' accounts at accredited pension and severance-pay funds and/or by acquiring insurance policies. Such deposits are not under the custody or management of the Group companies.

The Company's former Chairman's term of employment by EIL shall be taken into consideration in calculating the period of his employment by the Company, for all purposes. EIL undertook in terms of the agreement to transfer to the Company's ownership all amounts deposited in severance-pay funds, in order to cover all rights accumulated throughout the period of the Chairman's employment with EIL. As of the balance sheet date, balances of NIS 0.9 million have not yet been transferred to the Company.

The obligations of foreign subsidiaries in respect of severance-pay to their respective employees, in terms of the laws of their respective countries of residence, and various valid labor agreements are generally covered by ordinary payments executed to that end to governmental institutions, as well as by current payments to insurance companies for pension benefits and by the balance-sheet accrual.

The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

|  | <b>December 31</b>       |              |
|--|--------------------------|--------------|
|  | <b>2009</b>              | <b>2008</b>  |
|  | <b>(in thousand NIS)</b> |              |
| Present value of funded defined benefit obligation | 18,400                   | 18,214       |
| Fair value of plan assets                          | (13,548)                 | (13,221)     |
| Net liability arising from defined obligation      | <u>4,852</u>             | <u>4,993</u> |

The principal assumptions used for the purposes of the actuarial valuations were as follows:

|                                    | <b>December 31</b> |             |
|------------------------------------|--------------------|-------------|
|                                    | <b>2009</b>        | <b>2008</b> |
|                                    | <b>%</b>           | <b>%</b>    |
| Discount rates                     | 1.7-3.1            | 2.6-3.5     |
| Expected return on plan assets     | 2.6-3.5            | 3.5-3.7     |
| Expected nominal salaries increase | 5.4-6              | 1.9-5       |



**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 22 - INCOME TAXES**

**A. Composition:**

|                           | <b>Year ended<br/>December 31</b> |               |               |
|---------------------------|-----------------------------------|---------------|---------------|
|                           | <b>2009</b>                       | <b>2008</b>   | <b>2007</b>   |
|                           | <b>(in thousand NIS)</b>          |               |               |
| Current                   | 2,320                             | 6,153         | 11,072        |
| Deferred                  | (31,980)                          | 23,195        | 5,090         |
| In respect of prior years | (5,911)                           | (4,612)       | 126           |
|                           | <u>(35,571)</u>                   | <u>24,736</u> | <u>16,288</u> |

**B. Principle tax laws applicable to the major Group companies in their country of residence:**

**(1) Israel**

- a. The provision for current taxes of the Company and its Israeli subsidiaries was determined until 2007 in accordance to the provisions of the Income Tax Ordinance and the Income Tax Law (Adjustments for Inflation)-1985, which established the measurement of the results for tax purposes on a real basis pursuant to changes in the CPI.

In February 2008 an amendment to the Israeli tax was approved by the Israeli parliament which determined that the validity of the Adjustments for Inflation Law would end in 2007, and, commencing from the 2008, the provisions of the law would no longer apply, except for transitional provisions intended to avoid distortions in the tax computations. In accordance with the amendment, from the tax year of 2008 and thereafter, the adjustment of income for tax purposes to a real measurement basis will no longer be calculated.

Corporate tax rate applicable to companies in Israel in 2009 is 26% which will decrease gradually to 18% in 2016.

- b. As from January 1, 2003, certain statutory provisions came into force and effect, concerning, among other things, the tax reform in Israel in respect of the following:
1. (i) Taxation of profits of foreign companies considered as Controlled Foreign Companies ("CFC"), if all the following conditions are met: (i) its shares or its rights on it are not listed in a stock exchange, however if they are partly listed, then less than 30% of the shares or of the rights of the company were offered to the public (ii) majority of revenues thereof are passive, as same is defined by law, or majority of profits thereof derive from passive revenues; (iii) the tax rate applying to the passive profits thereof in their country of residence does not exceed 20%; and (iv) more than 50% of the means of control therein are held, directly or indirectly, by Israeli residents. In accordance with the statutory provisions, a controlling shareholder in those companies having unpaid profits, as defined by law, is deemed to have been distributed with a dividend representing its respective share in such profits ("Deemed Dividend").

**NOTE 22 - INCOME TAXES (CONT.)**

**B. Principle tax laws applicable to the major Group companies in their country of residence (Cont.):**

**(1) Israel**

**b. (cont.)**

**1. (cont.)**

- (ii) Taxation of a dividend received in Israel, out of profits generated or accrued abroad, as well as a dividend originating abroad.

A Deemed Dividend and/or the distribution of dividends, as stated, will be subject to a tax rate of 25%, less withholding taxes which would have been paid abroad in respect of such dividend, had it in fact been distributed. Each Israeli assessee has the right to elect, at its sole discretion, to be assessed according to the Israeli corporate tax rate less taxes payable abroad in respect of these profits (including under certain circumstances taxes payable by a company held by the distributing company), as the case may be.

2. Capital gain from the realization of assets which were acquired subsequent to January 1, 2003 will be taxed at a rate of 25%. Capital gain for assets which were acquired before January 1, 2003, will be taxed at a rate of 25% for the portion of the gain relating to the period subsequent to this date up to the realization date and corporate tax rate for the portion of the gain relating to the period from the acquisition date up to January 1, 2003.

3. Method of loss offsetting - regarding business losses, capital losses, passive losses, marketable securities losses and CFC losses.

- c. During 2004, the Company, EIL and Elscint have finalized an arrangement with the Israeli Tax Authorities, with effect from December 31, 2002, whereby a new tax basis has been determined for the Company's investments (on a consolidated basis) in foreign subsidiaries ("Regulated Revaluation" and "Regulated Assets"). The arrangement provides for no additional tax to be imposed in Israel on gains generated from the realization of Regulated Assets, and on dividends distributed therefrom, and all up to the amount of the Regulated Revaluation.

**(2) The Netherlands**

- b. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 25.5%. Under the amended rules effective January 1, 2007 tax losses may be carried backward for one year and carried forward for nine years. Transitional rules apply for tax losses on account of tax years up through 2002 which may be carried forward and set off against income up through 2011.

On September 15, 2009 the Dutch government announced its tax proposals for 2010 ("2010 Tax Proposals").

**NOTE 22 - INCOME TAXES (CONT.)**

**B. Principle tax laws applicable to the major Group companies in their country of residence (Cont.):**

**(2) The Netherlands**

**a. (cont.)**

The 2010 Tax Proposals allow taxpayers to 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 and/or 2010. If a taxpayer makes use of the election, two additional limitations apply: (i) the loss carry forward period for the taxable years 2009 and/or 2010 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 proceeding the taxable year will be limited to €10 million per year. The amount of loss that can be carried back to the year directly proceeding 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, are 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 either of, or both the newly introduced Assets' Test and the amended Subject to Tax Test.

Under the 2010 Tax Proposal, the participation exemption will not apply to domestic and foreign subsidiaries which are held as passive investments ("Motive Test"). The Asset Test and the Subject-to-Tax Test will remain in place. If the taxpayer can demonstrate that one of these tests is fulfilled, the participation exemption will apply even if the Motive Test is failed.

- c.** Under the Israel Netherlands income tax treaty 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. In other situations, dividend distributions from Netherlands companies to Israeli shareholders are subject to withholding tax at a rate of 15%.

**(3) England**

- a.** Operating income and capital gains generated by the British resident group companies are subject to a 28% tax rate. Dividends received from an England. Resident company is taxed in accordance with the jurisdiction of the company receiving the dividend (in the Netherlands - tax exempt); No tax credits are allowed for distributed dividends.
- b.** Profit from rent of real estate held as an investment and let in England by companies not resident in the England, are charged to England income tax at 22%. Any gains on disposal are not taxable in the England.

**NOTE 22 - INCOME TAXES (CONT.)**

**c. (cont.)**

**(4) India**

The corporate income tax applicable to the income of Indian subsidiaries is 33.99%. Minimum alternate tax (MAT) of 11.33% (since April 2010 16.995%) is applying to the book profits (i.e. profits shown in the financial statements), if the company's corporate tax liability is less than 10% of its book profits. The paid amount will be credited if the company has taxable profits in the following ten years. Capital gains on sale of fixed assets and real estate assets are taxed at the rate of 22.66% provided that they were held at least 36 month immediately preceding the date of the transfer (unless they are stock in trade) or 33.99% if they were held for not more than 36 month. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.99%. There is no withholding tax on dividends distributed by Indian company. Business losses can be offset against taxable income for a period of eight years from the incurrence year's end.

**(5) 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.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 22 - INCOME TAXES (CONT.)**

**C. Effective tax rate:**

The following is reconciliation between the income tax expense computed on the pretax income at the ordinary tax rates ("the theoretical tax") and the tax amount included in the consolidated statement of operations:

|   | Year ended December 31 |               |               |
|---|------------------------|---------------|---------------|
|   | 2009                   | 2008          | 2007          |
|   | (in thousand NIS)      |               |               |
| Company's statutory tax rate (%)  | 26                     | 27            | 29            |
| Profit(loss) before income taxes  | (706,549)              | (4,259)       | 925,607       |
| The theoretical tax   | (183,703)              | (1,150)       | 268,426       |
| Differences in tax burden in respect of:  |                        |               |               |
| Exempt income, net of unrecognized expenses   | 24,410                 | (59,028)      | (327,482)     |
| Utilization of prior-year losses for which deferred taxes had not previously been recorded  | (7,781)                | (32,451)      | (18,899)      |
| Losses and other timing differences for which deferred taxes had not been created   | 128,815                | 153,358       | 125,213       |
| Variances from different measurement principles applied for the financial statements and those applied for income tax purposes (including exchange differences) | (17,518)               | (79,253)      | 6,068         |
| Differences in tax rates on income of foreign subsidiaries  | 22,576                 | 43,655        | (44,812)      |
| Adjustment due to changes in tax rate   | -                      | -             | 208           |
| The Group's share in results of associated companies  | 3,736                  | 3,455         | 3,466         |
| Taxes for prior years   | (5,911)                | (4,612)       | 126           |
| Other differences, net  | (195)                  | 762           | 3,974         |
|   | <u>(35,571)</u>        | <u>24,736</u> | <u>16,288</u> |

**D. Carry forward losses and deductions:**

As of December 31, 2009 the Group companies had accumulated tax losses and deductions amounting to NIS 2,270,078 million, which may be utilized in the coming years against taxable income at rates ranging from 10% to 33.99% depending on the country of residence. The realization of the carry-forward losses is subject to taxable income available in those periods when these losses are deductible. As to the limitation on utilizing InSightec's losses as a result of a merger pursuant to section 103 of the Income Tax Ordinance, at the amount of NIS 85 million, see note 11A.(6).

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 22 - INCOME TAXES (CONT.)**

**D. Carry forward losses and deductions: (cont.)**

Tax laws in respect of certain Group subsidiaries operating abroad have set a time limitation on the utilization of losses. Accordingly, the right to utilize carry-forward losses in the amount of NIS 335 million, against taxable income, will gradually expire over the following years:

|                     | <b>December 31</b>       |
|---------------------|--------------------------|
|                     | <b>2009</b>              |
|                     | <b>(in thousand NIS)</b> |
| 2010                | 7,455                    |
| 2011                | 9,447                    |
| 2012                | 17,250                   |
| 2013                | 28,585                   |
| 2014 and thereafter | 272,259                  |
|                     | <u>334,996</u>           |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 22 - INCOME TAXES (CONT.)**

**E. Deferred income taxes:**

**(1) Composition:**

**Year ended December 31, 2009:**

|   | Balance as of<br>January 1,<br>2009 | Charge to<br>profit and<br>loss account | Charged to<br>foreign<br>currency<br>translation<br>reserve | Charge to<br>hedging<br>reserve | Foreign<br>currency<br>translation<br>adjustments | Initially-<br>consolidated<br>subsidiary | Balance as of<br>December 31,<br>2009 |
|---|-------------------------------------|---|---|---------------------------------|---|--|---------------------------------------|
|   |                                     |   | (In thousand NIS)   |                                 |   |  |                                       |
| Accelerated depreciation differences in respect of property plant and equipment and investment property | (29,556)                            | (3,081)                                 | -   | -                               | 275   | (668)                                    | (33,031)                              |
| Differences between fair value of real estate at acquisition and related cost for income tax purposes   | (27,298)                            | 195                                     | -   | -                               | (251)   | -  | (27,354)                              |
| Timing differences - income and expenses  | (54,018)                            | 42,304                                  | (2,680)   | (348)                           | (3,454)   | (120)                                    | (18,317)                              |
| Carry forward tax losses and deductions   | 45,758                              | (7,438)                                 | -   | -                               | 1,118   | -  | 39,438                                |
| Net deferred taxes  | (65,114)                            | 31,980                                  | (2,680)   | (348)                           | (2,312)   | (788)                                    | (39,264)                              |

**Year ended December 31, 2008:**

|   | Balance as of<br>January 1,<br>2008 | Charge to<br>profit and<br>loss account | Charge to<br>foreign<br>currency<br>translation<br>reserve | Charge to<br>hedging<br>reserve | Foreign<br>currency<br>translation<br>adjustments | Balance as of<br>December 31,<br>2008 |
|---|-------------------------------------|---|--|---------------------------------|---|---------------------------------------|
|   |                                     |   | (In thousand NIS)  |                                 |   |                                       |
| Accelerated depreciation differences in respect of Property plant and equipment and investment property | (29,596)                            | (3,584)                                 | -  | -                               | 3,624   | (29,556)                              |
| Differences between fair value of real estate at acquisition and related cost for income tax purposes   | (31,727)                            | 92                                      | -  | -                               | 4,337   | (27,298)                              |
| Timing differences - income and expenses  | (980)                               | (*) (59,059)                            | 4,912  | 3,733                           | (2,624)   | (54,018)                              |
| Carry forward tax losses and deductions   | 7,164                               | 39,354                                  | -  | -                               | (760)   | 45,758                                |
| Net deferred taxes  | (55,139)                            | (23,195)                                | 4,912  | 3,733                           | 4,577   | (65,114)                              |

(\*) Mainly in respect of debentures and swap transactions measured at FVTPL.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 22 - INCOME TAXES (CONT.)**

**E. Deferred income taxes (cont.)**

(2) The deferred taxes are presented as follow:

|                       | <b>December 31</b>       |                 |
|-----------------------|--------------------------|-----------------|
|                       | <b>2009</b>              | <b>2008</b>     |
|                       | <b>(in thousand NIS)</b> |                 |
| Long-term liabilities | (39,264)                 | (65,114)        |
| Long-term receivables | -                        | -               |
|                       | <u>(39,264)</u>          | <u>(65,114)</u> |

(3) The Group did not record deferred tax assets in respect of the following items:

|   | <b>December 31</b>       |                |
|---|--------------------------|----------------|
|   | <b>2009</b>              | <b>2008</b>    |
|   | <b>(in thousand NIS)</b> |                |
| Accelerated depreciation differences in respect of property plant and equipment and investment property | 48,873                   | 33,425         |
| Timing differences - income and expenses  | 8,427                    | 10,727         |
| Carry forward tax losses and deductions   | 530,001                  | 435,931        |
|   | <u>587,301</u>           | <u>480,083</u> |

**F. Final tax assessments**

The Company, Elscint and certain Israeli subsidiaries have received final tax assessments, through 2003. Certain foreign group companies have received final tax assessments while others have not been assessed since incorporation.

**G. Deferred taxes in respect of investment in investee companies**

As of December 31, 2009, the Group did not recorded deferred tax liability, in respect of gains from realization of certain investee companies or upon receiving their retained earning as dividend, in the amount of NIS 303 million.

**H.** The total accumulated current and deferred taxes expenses, which were charged directly to the shareholders' equity, as of December 31, 2009, is NIS 3,898 thousands.



**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS**

**A. Commitments**

- (1) The Group's hotels located in the Netherlands and England are managed by Park Plaza Hotel Group ("Park Plaza") and the Group's hotels Located in Romania and Belgium are managed by the Rezidor Group ("Rezidor" and together with Park Plaza "Management Companies"). The respective Group's companies owning the hotels will pay the Management Companies certain agreed upon fee which will be calculated as percentage from their room revenue ("Base fee") as well as certain agreed upon percentage from their gross operating profit ("Management fee") and all as defined in the agreements. The companies owning the hotels will also participate in certain portions of the expenses incurred by the Management Companies in the course of performance of their due obligations (mainly marketing and advertising expenses), up to certain percentage of the gross operating profit. Within the terms of the management agreements with Park Plaza the Group's companies were granted a sub-franchise by Park Plaza allowing them the utilization, throughout the term of the management agreements, of the "Park Plaza" name, in relation to the hotels owned and operated thereby, in consideration for royalties not exceeding certain percentage of their room revenues ("Franchise fee"). See note 26 F.

In the framework of the Bucuresti hotel management agreement, Rezidor undertook to guarantee that the adjusted operating income of the Bucuresti hotel, as from the second year of operation (July 2010), will not decrease below a fixed annual amount, as stipulated in the agreement. The total aggregate amount of the guarantee will not, however, exceed, cumulatively during the term of the agreement, those amounts as stipulated in the agreement. Bucuresti has undertaken to ensure that as from the second year ( July 2010) the aggregate fees payable to Rezidor (Base fees and Management fees) shall not be less than certain agreed amounts as specified in the management agreement, provided that Bucuresti's obligation in this regard is capped at a total agreed amount.

Upon the termination of the management agreement by the Group, the companies owning the respective hotel (except the Bucuresti hotel) are obliged to pay to the respective Management Company an amount equal to the Base fee, the Management fee and the Franchise fee (if applicable), paid to the Management Company in the 12 months period preceding such termination. In the specific event of a sale of the Victoria Hotel in Amsterdam, Park Plaza shall also be entitled to receive 2.5% of any profit generated from such a sale.

- (2) In 2005 InSightec entered into a worldwide distribution and sale representation agreement with GE Healthcare ("GE"), granting GE the exclusive rights to market and promote InSightec's product subject to the achievement of minimum sales targets. The agreement allows InSightec to continue to make direct sales of its product worldwide and does not initially apply to Russia and Japan. GE is entitled to a commission based on payment actually received from customers retained from their marketing efforts. In July 2008, GE and InSightec have signed an amendment to the distribution agreement effective from January 1, 2008. According to the amendment GE will continue to distribute InSightec's products, but on non exclusive basis. In addition the rate of GE's commissions was revised and will be based on the deal's structure.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**A. Commitments**

- (3) Minimum future rental payments due under the Group's current operating leases as of December 31, 2009 are as follows:

| Year ended December 31, | (in thousand NIS) |
|-------------------------|-------------------|
| 2010                    | 39,740            |
| 2011                    | 39,378            |
| 2012                    | 39,005            |
| 2013                    | 37,838            |
| 2014                    | 32,574            |
| Thereafter              | 606,025           |
|                         | 794,560           |

- (4) Aggregate amount of the Group's commitments in respect of construction services and in respect of purchase of plots totaled, as of December 31, 2009, approximately NIS 1,308 million including estimated payments to related party see note 27 A (1).
- (5) (a) Elbit Trade and Retail Ltd. (formerly Mango) ("Elbit Trade") is a party to a distribution, support and service agreements signed in May 2005 with a third party for a 10-year period, subject to fulfillment of certain conditions, which entitled it to market the brand name MANGO-MNG<sup>TM</sup> in Israel.
- (b) Elbit Trade is a party to franchise agreement executed in October 2007 with a third party for a term of 5 years (with an automatic renewal for additional 5 years) which entitled it, subject to certain conditions, to market the brand name G-Star in Israel.
- (c) Elbit Trade is a party to a franchise agreement which grant it, subject to fulfillment of certain conditions, the exclusive rights to market Gap and Banana Republic brands names in Israel. The term of the franchise agreement is for 5 years with an extension of additional 5 years, subject to fulfillment of certain conditions that includes among others minimum amounts of purchases.
- (6) As for commitments to related parties- see note 27.
- (7) In relation to commitments deriving from lease agreement with ILA see note 14B (ii)

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**B. Claims**

Legal claims have been filed against Group's companies in respect of some of those claims applications have been filed to certify the claims as class actions.

In the opinion of the managements of the Group, which is based, inter alia, on legal opinions as to the chances of the claims, including the applications for their approval as class actions, adequate provisions have been included in the financial statements (including provisions in respect of discontinued operation), where provisions were necessary in order to cover the exposure which resulted from such claims. As of December 31, 2009 the Group included provisions for claims (including claims in respect of discontinued operation) in the total amount of NIS 12 million. See notes 21 and 29.

In the opinion of the managements of the Group's companies, the amount of the additional exposure as of December 31, 2009, in respect of claims that chances of them being realized is not remote amounts to approximately NIS 642 million. These amounts do not include interest. In respect to requests to certify certain claims as class actions, for which the Group has additional exposure in excess of the aforesaid (due to the fact that the exact amount of the claim was not stated in the claim), see items B1, B2 and B3 below.

Following are the details of the Group's material claims as of December 31, 2009:

- (1) On November 2, 1999 a number of institutional and other investors, holding shares in Elscint, instituted a claim against the Company, Elscint, EIL, Control Centers Ltd, past and present officers in the said companies and others. Together with the claim an application was filed to certify the claim as a class action on behalf of everyone who was a shareholder in Elscint on September 6, 1999 and until the lodging of the claim, excluding the Company and certain other shareholders.

The Plaintiffs claim continued and systematic oppression of the minority shareholders in Elscint, which caused them monetary damages and which started - so they allege - in the oppressive agreements Elscint made for the realization of the main part of its assets, continued with the sale of the control in Elscint to the EIL and with the breach of a tender offer made by the Company to purchase of the minority shares of Elscint and ended with the agreements executed by Elscint for the acquisition of the hotel operations and the Arena commercial center in Israel, from EIL and Control Centers, respectively ("September 99 Transactions") at a lower value than the consideration received for them.

Due to these acts, the Plaintiffs allege that the value of Elscint's shares fell during the period between February 24, 1999 and up until the date at which the claim was instituted from a price of \$13.25 per share to a price of \$7.25 per share. The main relief which the original claim sought was to order the Company to carry out a tender offer for Elscint's shares at a price of \$14 per share, and alternatively, to purchase Elscint's shares held by the Plaintiffs at a price to be set by the court. Further alternatively, the Plaintiffs sought, in their original claim, that the court grants an order prohibiting the execution of the September 99 Transactions and for the restitution of all money paid, if paid within the framework of the above mentioned transactions. Some of the relief sought was also sought as a derivative action on behalf of Elscint.

On January 11, 2009, the district court dismissed Plaintiffs' motion to certify the claim as a class action. On March 26, 2009 the Plaintiffs appealed the decision to dismiss their motion to certify the claim as a class action before the Supreme Court.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**B. Claims (cont.)**

**(1) (cont.)**

On May 20, 2009, the Plaintiffs filed a motion for discovery claiming that the court dismissed only their motion to certify the claim as a class action, while their personal and/or derivative claims were still pending. On June 30, 2009, the district court dismissed the Plaintiffs motion for discovery. The court expressed, inter alia, its opinion that the Plaintiffs could not continue to plead this case as a derivative claim, and ordered the Plaintiffs to file a notice detailing their reasons as to why should the court not dismiss these proceedings altogether, while maintaining the Plaintiffs' right to file individual claims. On November 5, 2009, 18 out of 31 plaintiffs filed their stand, according to the court's decision of June 30, 2009, regarding the question whether the claim should be dismissed in limine. The rest 13 Plaintiffs have not filed their stand.

The Plaintiffs claimed that all proceeding before the district court should be postponed until the Supreme Court gives its decision on the appeal.

As for a dispute with certain insurer which insured against this law suit –see C 4 below.

The companies legal counsels believe that - In light of the decision to dismiss the claim and the decision on the motion for discovery (in which the court expressed its opinion that the Plaintiffs could not continue to plead this case as a derivative claim); and based on the information and the documents delivered to them and as far as they know at this stage - the probability of the claim being upheld is no greater than 50%

**(2)** On September 6, 2006 a third party instituted two claims before the Haifa District Court in which he sued the Company, Elscint, EIL, Control Centers Ltd. and others.

These statements of claim constitute an almost identical copy of the claim detailed in section (1) above and the Plaintiff asked to combine the hearings with those in the above said matter. In the statements of claim the Plaintiff asked to approve the claims he had instituted as class actions, however up to the date of the approval of these financial statements no separate applications have been served to the companies for the certification of the claims as class actions. In the first claim, the Plaintiff alleges acts of oppression towards the Company's shareholders and in the second claim the Plaintiff alleges acts of oppression towards Elscint's shareholders.

The Plaintiff alleges continued and systematic oppression of the minority shareholders in Elscint and the Company, which caused him monetary damages and which started - so he claims- in the oppressive agreements Elscint made for the realization of the main part of its assets, continued with the withholding of information from the stock exchange and from the public, with the sale of the control in Elscint to the Company's controlling shareholder and with the breach of a tender offer made by the Company to purchase of the minority shares of Elscint and ended with the agreements executed by Elscint for the acquisition of the hotel operations and the Arena commercial center in Israel, from EIL and Control Centers, respectively ("September 99 Transactions") at a lower value than the consideration received for them.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**B. Claims (cont.)**

**(2) (cont.)**

The main relief sought in the claim is compensation consists of (i) punitive damages for the acts of the defendants; and (ii) damages for "mental anguish" to the plaintiff and to the proffered class. In addition, the plaintiff is also suing for compensation for the difference between the price at which Elscint shares were actually sold by the Plaintiff and the proffered class members and in the sum of \$14, plus interest and linkage differences since 1999. Furthermore, the Plaintiff is also claiming for harm caused to the value of his holdings in the Company's shares. It will be noted that the statements of claim in both proceedings require certain clarifications, due to the wording of the claims.

In the pre-trial session held at the District Court on February 22, 2007 the Court asked the parties to refer to the question of the appropriateness of the claimant to serve as a class representative and on the issue of the overlap between the claims lodged by the plaintiff and the claim detailed in section (1) above. The parties were given the opportunity to complete their arguments in this matter, and in this framework the Plaintiff asked, inter alia, that he be allowed to take legal representation for the proceedings. All the parties have submitted the completion of their arguments in writing. As of the date close to the approval of these financial statements, no decision has yet been handed down in this matter. On January 24, 2010, the Plaintiff filed a request to examine the documents in Civil Case 1318/99 (in section 1 above). On February 14, 2010 the Defendants filed their responses. The claim was filed in a case that is not known to the Defendants.

The companies legal counsels are of the opinion that- in light of the early stages of these proceedings, before the lodging of statements of defense or responses to the applications to certify the claims as class actions, and even before any substantive hearing has been held on the motion to certify the claim as class action and/or of the claim- it is difficult to evaluate the chances of the proceedings. Nevertheless, the Companies legal counsels are of the opinion that -taking into account, amongst other things, the great similarity with the claim mentioned in section (1) as detailed above, and given that these proceedings were instituted without legal representation for the plaintiff, at this stage, and so long as the plaintiff is not represented in the proceedings-the probability of the claims being upheld is not greater than 50%.

- (3)** In September 1999 the Company, Elscint, Elscint's past directors and others were served with a copy of a claim instituted by a shareholder in Elscint. Together with the claim an application was filed to certify the claim as a class action on behalf of everyone who was a minority shareholder in Elscint on the date of instituting the claim and was such a shareholder on February 18, 1999. The plaintiff claim that the Company acted, through Elscint's directors, systemically with the aim of emptying and diluting Elscint of its business, assets, capital and value, whilst enriching other companies in the Group at the expense of Elscint and at the expense of The minority shareholders of Elscint. The Plaintiff also alleges that the several transactions executed by the Company and Elscint in 1998 for the sale of substantially all of their assets and business in the CT, MRI and Focused Ultrasound business as well as a transaction to grant options ("Option Transaction") to the former chairman of the Company, were all done whilst oppressing the minority shareholders of Elscint and in contravention of Section 235 of the Israeli Companies Ordinance.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**B. Claims (cont.)**

**(3) (cont.)**

The relief sought in the claim is to order the Company, and alternatively the other defendants, to purchase from the Plaintiff and from the other members of the proffered class, Elscint shares they hold at a price of \$27.46 per share, and as interim relief, in order to limit the Plaintiff's damages, to oblige the Company to realise execute its undertakings dated February 18, 1999 to acquire the above said shares at a price of \$ 14 per share ("Tender Offer Claim").

On March 31, 2009, the district court stroke out, in limine, the causes of action in respect of the Options Transaction and the Tender-Offer Claim.

The scope of the class action claim (as amended in October 1999 and following the stroke out of the aforementioned cause of actions as detailed below) is estimated by the plaintiff at approximately \$158 million and its personal damages (as amended in October 1999) are estimated by him at approximately \$0.6 million.

The companies legal counsels believe that-to their best understanding-and also considering, inter alia, that this matter is in its preliminary stages and that responses have not yet been submitted to the application to certify the claim as a class action, nor have statements of defence been lodged, nor has any hearing been held on material matters on the motion to the certify the claim as a class action and/or on the claim itself, and also considering the fact that they have not yet received all the information and documents in connection with this claim, and they have not yet interviewed all the relevant entities - the probability of the claim being upheld is not greater than 50%.

- (4)** Elscint and its subsidiaries are parties to several written demands as well as certain court claims, filed against them by third parties (including governmental institutions), some without any specified amount, and others in the aggregate principal amount of \$52 million (NIS 196 million), as royalties or compensation for damages allegedly caused as a result of the companies' actions and/or products, which mainly relate to the medical imaging business sold by Elscint in 1998 and 1999. Management of the companies based-inter alia- on legal opinions and/or on past experience, believes that no significant costs will incur thereof as a result of said claims and or written demands exceeding the provisions included in respect thereof in the financial statements.
- (5)** During March 2007 the Romanian National Department of Anticorruption resumed a criminal investigation against number of suspects for certain events relating to the period prior to the acquisition of control in Bucuresti by the Group's subsidiary ("Domino"). Such criminal indictment was returned-in December 2005- by the Romanian court to the prosecution office due to lack of substance. Such criminal investigation may have an indirect effect on the validity of the privatization and thereby an indirect effect on the Group's rights in Bucuresti, notwithstanding Domino is not being investigated. Based on layers advice the outcome of such legal procedures is uncertain, however as long as domino will continue to be a party not implicated in this case the likelihood of a negative effect on this financial statement is remote. On November 10, 2008 the National Anticorruption Directorate ordered to release all the defendants in the case file from criminal pursuit, as well as to remove the preventive measures taken in the case .As of the date of approval of these financial statements, such decision has not been challenged.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**B. Claims (cont.)**

- (6) A former employee of EIL group filed in October 2005, a lawsuit against Vectory Investment Ltd. (a company in EIL group). The plaintiff requested the court to issue a mandatory injunction against Vectory ordering it to transfer the Plaintiff shares of certain Investees of the Group and shares of other companies within the EIL Group. The Plaintiff evaluated his claim to an aggregate amount of NIS 285,000. In January 2006 Vectory filed a statement of defence in respect of this claim and further added and instituted a counterclaim against the plaintiff in the sum of NIS 15 million.

In addition, in January 2008 the plaintiff instituted an additional action against the Company's chairman of the board and Control Centres Ltd in the District Court of Tel Aviv. In this action the court was asked, inter alia, to issue a mandatory order against the defendants instructing them to transfer to the plaintiff 3% of their holdings in the shares of Olive Software Ltd. (an associate of the Company) and another company within the EIL group and furthermore to issue a mandatory order against the defendants instructing them to transfer to the plaintiff a further 3% of the said holdings, against the price and for the conditions as set out in the agreement which is the subject matter of the claim. Alternatively, the court was asked to order the defendants to indemnify the plaintiff for the economic damages he allegedly sustained due to the non-transfer of the said shares and options. The plaintiff evaluated the action in the sum of NIS 5.6 million. In February 2008, the defendants lodged their application to dismiss the action in limine due to the lack of jurisdiction and lodged an urgent application for the granting of temporary relief for extending the date for submitting the statement of defence. On May 28, 2008 the court accepted the defendants' request and dismissed the action in limine. On September 3, 2008, the plaintiff filed to the Regional Labour court a claim against the defendants. The claim is a copy of the claim mentioned above, that was rejected by the District Court in Tel- Aviv.

The Company's legal counsels noted that in these claims, the plaintiff did not ask for a financial remedy from the Company. Accordingly, no adjustments were made in these financial statements in respect of these claims.

The Company's legal counsels believes that-to the best of their understanding and also considering, inter alia, that these matters are in preliminary stages, nor has any hearing been held on material matters on the claims, and also considering the fact that they have not yet received all the information and documents in connection with these claims- the probability of the said claims being upheld is not greater than 50%.

In May 2006 the plaintiff instituted an action against the Company, the Company's Chairman of the board and Control Centers. In the action the court was asked to declare the annulment of any resolution passed, if any, and/or to be passed, by the Company, by use of the shares which are the subject of the rights alleged by the Plaintiff, dealing with the grant of any benefits to the Company's chairman of the board and/or to Control Centers and/or members of the board of directors and/or the management companies under the control of the Company's chairman of the board and/or Control Centers and all with connection with the Company's general meeting to be held on May 31, 2006.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**B. Claims (cont.)**

**(6) (cont.)**

Alternatively, the court was asked to hold that at every meeting to be convened as stated, the shares which are the subject of the alleged rights of the plaintiff be counted in the part objecting to the passing of the said resolutions, whilst maintaining the plaintiff's rights to institute the appropriate legal proceedings to prevent harm, to him as a minority shareholder in the Company. Further alternatively, the court was asked to find that at every meeting to be convened for the passing of such a resolutions, the shares which are the subject of the plaintiff's alleged rights will not be counted as agreeing with the said resolutions and not as part of the objecting votes, whilst maintaining the plaintiff's rights to institute the said proceedings. Underlying this action is a factual base which is similar to additional claims made by the plaintiff against the Company's chairman of the board and companies controlled by him as described above. Following the defendant's request, on December 4, 2008 the court handed down its decision to postpone the proceeding in this matter till a ruling on the other actions filed by the plaintiff will be handed down by the court.

The Company's legal counsels noted that in this claim, the plaintiff did not ask for a financial remedy from the Company and the maximum exposure to a financial remedy from the Company, manifested in the payment of the attorney's fee and/or court expenses.

The Company's legal counsels believes that-to the best of their understanding (and also considering, inter alia, that this matter is in its preliminary stages, and that statements of defense have not yet been lodged, nor has any hearing been held on material matters on the claim, and also considering the fact that they have not yet received all the information and documents in connection with this claim, and they have not yet interviewed all the relevant entities), the probability of the claim being upheld is not greater than 50%.

- (7)** Clal Insurance Enterprises Holdings Ltd (Clal) and the company turned a dispute which arises between them to Mediation proceeding, with respect to a set of agreements between the parties, dated June 30, 2008 (Shareholders Agreement, Share purchase Agreement and a Convertible Note). The dispute between the parties includes mutual claims of breach of contract, regarding to the aforesaid agreements.

The company claims that the Share Purchase Agreement ("SPA") was terminated due to the fact that a condition precedent to it had not fulfilled and that consequently, according to the SPA, The company is entitled to be repaid for the Advanced Payment Loan which was paid by it under the SPA, in the amount of NIS 20 million ( \$ 6 million) linked to the Israeli CPI and bears interest of 5%. On the other hand, Clal claims that the Company acts and omissions caused the failure in fulfillment of the condition precedent and therefore, terminated the SPA while causing Clal damages in the estimated amount, for the mediation proceeding, of 67 million NIS

In the management opinion based on legal advice and under the SPA, direct and indirect damages are limited to a cap of no more than \$ 1 million.

The parties have submitted their pleadings to the mediator. At this stage the mediation is still pending.

- (8)** The Company and its subsidiaries are currently involved in various legal proceeding relating to their ordinary course of activities. Although the final outcome of these claims cannot be estimated at this time, the managements of these companies believe based on legal advice, that the claims will not materially impact the Group companies.



**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**C. Other contingent liabilities**

- (1) The General Meeting of the Company's shareholders approved the grant of prospective indemnification undertaking to directors (including the controlling shareholder) and officers (including in their capacity as officers of subsidiaries). Total aggregate indemnification shall not exceed the lower of 25% of the shareholders' equity as recorded in the Company's most recent financial statements prior to such payment, or \$40.0 million, and all in excess of an amount paid (if paid) by insurance companies under certain risk policies. The Company's shareholders also approved an exemption of directors and officers (other than controlling parties) from liability for any damage caused by breach of a duty of care towards the Company.
- (2) Elscint's shareholders approved in their General Meeting (in October 2000), the grant of prospective indemnification undertaking to directors and officers of Elscint (including in their capacity as officers of subsidiaries). Total indemnification shall not exceed the lower of 25% of the shareholders' equity as set forth in Elscint's most recent consolidated financial statements prior to such payment or \$50.0 million, in excess of any amounts paid (if paid) by insurance companies pursuant to insurance policies maintained by the Company from time to time. Elscint's shareholders also approved an exemption of directors and officers from liability in respect of any damage caused to Elscint by breach of duty of care.
- (3)
  - a. PC is obliged to indemnify and to hold harmless its directors and officers, to the fullest extent permitted by the laws of any relevant jurisdiction, against any liability arising out of their powers, duties or responsibilities as a director or officer of any PC group member. Such indemnification was approved for grant by PC's board. In November 2007 the Company's shareholders approved the grant of deed of indemnity to one of PC's directors who serves as a non- executive director of PC and to the Company's and PC's Executive Chairman of the Board and its controlling shareholder, save that the maximum indemnification to the Chairman shall not exceed 25% of the shareholders equity of PC based on PC's last consolidated financial statements prior to such payment.
  - b. InSightec is obliged to indemnify and to hold harmless its directors and officers, to the fullest extent permitted by the laws of any relevant jurisdiction, against any liability. The total indemnity for each InSightec's officer, in accordance with the letter of indemnity (in addition to the amounts received from the insurers), will not exceed the lower of 10 million dollars and one million dollars with the addition of 25% of InSightec's shareholders' equity, in accordance with its latest audited financial statements (as long as the equity capital is positive) with the addition of the reimbursement of legal expenses totaling 1 million dollars, subject to the terms and conditions laid down in the letter of indemnity. Furthermore, InSightec granted the officers and Directors an exemption from all responsibility and any damage that will be caused to InSightec by them, in case of breaching their obligation of caution, (with the exception of the breach of the obligation of caution in division, as defined in the Israeli Companies Law) subject to the Israeli Companies Law. The granting of the letter of indemnity and the exemption are subject to the approval of the Company's shareholders' meeting.
  - c. On September 10, 2006, Gemida (affiliate company) granted its Board of Directors, a letter of indemnity for any monetary obligation with respect to a claim, including a compromise agreement or arbitration verdict, carried out during the time of the service of as Gemida's Director, as well as with respect to reasonable legal expenses including payments of legal fees for a procedure or investigation that will be conducted against the Director.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**C. Other contingent liabilities (cont.)**

- (4) a. The Company received, in 2003, a letter from a certain insurer ("the Insurer") of EIL, Elscint and the Company (the "Insured Companies"), which insured against, inter alia, the lawsuit as described in item B(1) above, alleging against the Insured Companies, inter alia, that the Insured Companies have breached their disclosure duties under Section 6(a) to the Insurance Contract Law 1981, by failing to disclose to the Insurer material information prior to the issuance of additional cover to the policy purchased by EIL (the "Policy"), effective as of July 1999 (the "Additional Cover"), and prior to the replacement of the Policy and the Additional Cover by the issuance of a new policy effective as of August 1999 (the "Replacement Cover"). The letter states that the Policy, Additional Cover and Replacement Cover (the "Insurance Cover") issued by the Insurer will be cancelled unless the Insured Companies indicate that circumstances as at the issuance of the Insurance Cover differ from those stated in the letter. The Company's legal counsel replied on behalf of the Insured Companies on March 20, 2003, rejecting all allegations. As of the date of approval of these financial statements the Company has not received any reply thereto from the Insurer.
- b. In January 2006, the Company and Elscint entered into an agreement with one of the insurers of both the Company and Elscint which insured the Company and Elscint, inter alia, with respect to the lawsuit described in item B(1) above. In accordance with the terms of the agreement the Company, Elscint and their former and current directors and officers released the insurer from all liabilities that will arise from the abovementioned claim in consideration for a one-time payment in the amount of \$0.2 million.
- (5) 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 integrity 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. To the company's management best knowledge as of the approval date of these financial statements, no claim of any kind was received at the Group with respect to these indemnifications; 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 3 years from closing) 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 by the first instance of the authorities. The Group's management estimates, based inter alia on a professional opinion and past experience that no significant costs will be born thereby, in respect of these indemnifications.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**C. Other contingent liabilities (cont.)**

- (6) A former subsidiary of PC incorporated in Prague, Czech Rep. ("Bestes"), which was sold in June 2006 is a party to an agreement with a third party ("Lessee"), for the lease of commercial areas in a center constructed on property owned thereby, for a period of 30 years, with an option to extend the lease period by additional 30 years, in consideration for € 6.9 million (NIS 37.5 million), which as of the balance sheet date has been fully paid. According to the lease agreement, the Lessee has the right to terminate the lease subject to fulfillment of certain conditions as stipulated in the agreement. Within the framework of the agreement for the sale of Bestes to Klepierre in June 2006, it was agreed that PC will remain liable to Klepierre in case the Lessee terminates its contract. PC's management is of the opinion that this commitment will not result in any material amount due to be paid by it.
- (7) In 2001, the "Elezra Group" won the right to purchase, through privatization, the shares of the State of Israel owned Afridar - Ashkelon Housing and Development Ltd. ("Afridar"). The Elezra Group consists of Elezra Developments and Investments Ltd. ("Elezra") and Elbit Medical Holdings Ltd. - a subsidiary of the Company ("Elbit Holdings"), as well as the Company and Mr. Eli Elezra as an interested party (altogether: the "Group"). Immediately following the win of the right, the members of the Group signed a principle-agreement so as to regulate and govern the relations thereof, according to which Elezra would bear the entire acquisition costs of the Afridar shares (NIS 80 million), while the Company and/or Elbit Holdings would hold the Afridar shares, which would be registered in their name, in trust for Elezra.

Transfer of the shares among the members of the Group is subject to the approval of the Israeli Governmental Companies Authority ("IGCA"). In the absence of such approval, the Company and/or Elbit Holdings will remain the owners of the Afridar shares until such time that the restriction on transfer thereof is lifted. Elbit Holdings and Elezra would remain, under such circumstance, jointly and severally, liable to IGCA as well as to the State of Israel for all undertakings applicable to purchasers of Afridar shares. The sale of control in and to Afridar (directly or indirectly) is contingent on the assignment to the purchaser of all seller's obligations in favor of IGCA, all as stipulated in the agreement. Elezra undertook to indemnify the Company and/or Elbit Holdings for any expense and/or damage and/or claim and/or loss and/or payment demand and/or any other expense incurred by the Company and/or Elbit Holdings in connection with the acquisition of the Afridar shares, the holding of same in trust, transfer thereof by and between the parties and the abovementioned principle-agreement. As of the date of approval of these financial statements, the rights in and to Afridar, had not been assigned. Company's management estimates that it is not exposed to any costs and/or damage in respect of these holdings.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**D. Liens, collateral and guarantees**

- (1)
  - a. As security for a loan of NIS 258 million granted to the Company by an Israeli bank, the Company undertook not to pledge, in favor of third parties, any existing and prospective assets, without the bank's prior consent (excluding pledges of new assets and/or projects granted in favor of those who financed or refinanced -the acquisition and/or execution of same). The Company further undertook to provide under certain circumstances, some additional securities as detailed in the agreement, including a secondary lien on assets and interests acquired through funds provided by the credit line.
  - b. As security for loans totaling NIS 92 million granted to the Company by another Israeli bank, the Company undertook, in favor thereof, not to pledge the majority of its shares in Elscint, without the bank's prior consent.
- (2) As security of a long term credit facility of NIS 52 million received from an Israeli bank, Elscint has registered, as a security for the credit, a first-ranking pledge in favor of the bank on the B.H shares and granted certain additional first and second ranking pledges on shares of subsidiaries owned thereby. Elscint also undertook not to grant any floating or fixed charges of any rank, on any existing and prospective assets, in favor of third parties, without the bank's prior consent (excluding pledges of assets and/or projects, granted in favor of those who financed or refinanced -the acquisition and/or execution of same). Elscint further undertook to provide additional collateral, as detailed in the agreement, including first or second ranking pledges on assets and interests acquired by means of the credit line, and all as may be required by the bank.

**(3) Projects under credit facilities**

Certain Project Companies which engaged in the purchase, construction or operation of hotels and/or commercial centers ("Project Companies") have secured their respective credit facilities awarded by financing banks, in a total amount of NIS 2,496 million, by providing the first or second ranking (fixed or floating) charges on property owned thereby, including, mainly, right in and to real estate property as well as the financed projects and the revenues and profits derived from them, on goodwill and other intangible assets, on rights pertaining to certain contracts (including lease, operation and management agreements), on rights arising from insurance policies. Shares of Project Companies were also pledged in favor of the financing banks. 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 subject to fulfilling of certain preconditions.

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, mainly : (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;

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**D. Liens and collateral (cont.)**

**(3) Projects under credit facilities (cont.)**

The Company and Elscint guarantee fulfillment of certain project companies' obligations under loan agreements up to an aggregate amount of NIS 370 million. PC guarantee fulfillment of obligations under loan agreements in respect of its project companies up to an aggregate amount of NIS 169 million.

PC has committed to repay 43.5% of the outstanding Part of the Alom Sziget (refer to note 8C (i)) bank loan in the amount of EUR 21(NIS 114) million in case Alom Sziget fails to do so.

- (4)** As to bank deposits made to secure long term borrowings, short term credits and other liabilities of the Group - see note 30C.(7).
- (5)** Within the framework of the franchise and support agreements executed by Elbit Trade with third parties (see notes 23.A.(5)), Elbit Trade has furnished the third parties with letters of credit in the aggregate amount of € 6.4 million (NIS 35 million) in order to secure payments to the third parties under the agreements.

**E. Financial covenants**

- (1)** Within the framework of a loan agreements executed by the Company with an Israeli bank, the balance of which as of December 31, 2009 NIS 258 million (see note 19D (i)), the Company undertook to comply with financial covenants, including, among other, an undertaking to maintain throughout the term of the credit a minimum ratio of "adjusted shareholders equity" of the Company to its "adjusted balance sheet," all as defined in the agreement. The Company also committed to a minimum "net operating profit", before financial expenses and before depreciation and amortization. The Company further committed to a minimum "net asset value" of PC (after deduction of loans, including shareholders' loans) which is to be determined by an external appraiser. The covenants will remain in full force and effect for as long as the credit provided by the bank to the Company or to EIL exceeds \$30.0 million (NIS 113 million). Should the Company fail to comply with all or any of said financial covenants, or upon the occurrence of an event of default (including failure to provide additional securities), the bank shall then be entitled to demand the immediate repayment of the loan.

Upon consummation of the transaction for the sale of the commercial and entertainment centers, the issuance of the debentures by the Company and the Initial Public Offer (IPO) of PC's shares in the LSE, the Company is conducting negotiations with the bank with the view of mutually rescheduling the rate and scope of repayments and the other terms of credit. In the framework of re-examining various terms contained in the loan agreements, the bank and the Company have reached written understandings according to which (i) repayment of loans the Company was obliged to repay as a result of sales of certain commercial centers, issuance of debenture and the PC's IPO, as stipulated in the loan agreements, is not yet required prior to January 1, 2011; (ii) principal repayment of loans, which the bank had provided the Company with and which repayment dates had fallen prior to December 31, 2009, is not yet required prior to January 1, 2011, subject to payment by the Company of all interest due; (iii) as of December 31, 2009, the bank did not demand that the Company will comply with the covenants stipulated in the loan agreement except for maintaining a minimum rate of "adjusted shareholders' equity" of the Company to its "adjusted balance sheet". As of the balance sheet date, the Company is in compliance with this covenant and accordingly, the balance of the bank credit was classified as long-term loan.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**E. Financial covenants (cont.)**

- (2) Within the framework of a loan agreements executed by Elscint with an Israeli bank, the balance of which as of December 31, 2009 amounted to NIS 52 million (see note 19D (i)), Elscint undertook to comply with certain financial covenants, namely maintaining a minimum ratio of shareholders' equity to total balance sheet assets and others. Should Elscint fail to comply with the financial covenant, or upon the occurrence of certain events of default, then the bank shall be entitled to demand immediate repayment of the loans.

In the framework of re-examining various terms contained in the loan agreement, the bank has informed Elscint that: (i) repayment of a principal amount of € 9.6 million (NIS 52 million) is not yet required till January 1, 2011 subject to repayment by Elscint of all interest payments; (ii) as of December 31, 2009 the bank did not demand that Elscint will comply with the covenants stipulated in the loan agreement except for maintaining a minimum rate of "adjusted shareholders' equity" of the Company to its "adjusted balance sheet. As of the balance sheet date, Elscint is in compliance with this covenant and accordingly, the balance of the bank credit was classified as long-term loans.

- (3) Within the framework of loan agreements executed by the Group's Project Companies (i.e., companies which engaged in the purchase, construction and operations of hotels and/or commercial centers), the Project Companies have undertaken to comply with certain financial and operational covenants, namely: complying with "a minimum debt service 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; average room or rental fee rates, a minimum "ratio of total room revenue per available rooms" and others. Should the Project Companies fail to comply with said financial covenants, or upon the occurrence of certain events of default, then the bank shall be entitled to demand immediate repayment of the loans.

As of the balance sheet date the Group's Project Companies are in compliance with all said covenants except for the following:

- (i) As of December 31, 2009, a Project Company in the hotel segment which has been granted with a long term loan in the amount of approximately NIS 116 million is in breach of certain covenants under the loan agreement. The parties to the agreement follow the terms and conditions provided therein in respect of the long term repayment schedule or in accordance with the agreement with the bank, as the case may be accordingly, the total outstanding loan, as of December 31, 2009, has been classified to current maturity of long term debts within the current liabilities.

**NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)**

**E. Financial covenants (cont.)**

- (ii) As of December 31, 2009, Project Companies ("Borrowers") in the hotel segment have been granted with a long-term loan in which the Group's share is approximately NIS 568.6 million. The facility agreement which is non-recourse to the shareholders of the Borrowers, or to any affiliates of the Borrowers, contains a debt service cover ratio ("DSCR") covenant by which the ratio of net operating income (including relevant management fees) to debt service cost, on a quarterly basis, must not be less than agreed upon level, all as specified in the facility agreement. In the context of determining whether the Borrowers are in compliance with such covenant, the bank has disputed the inclusion in net operating income of the hotels of certain revenue received from, and expenses paid to, affiliates of the Borrowers on the ground, inter alia, that the relevant transactions were in breach of the facility agreement, since, in the opinion of the bank, they entered into other than on arm's-length commercial terms in the ordinary course of the Borrowers' business. If the disputed transactions were to be excluded from net operating income, the DSCR covenant for the fourth quarter of 2009 would not have been met, and as a result the Borrowers would not have been in compliance with the DSCR covenant with respect to said quarter. In that event, or if the transactions were not on arm's-length commercial terms in the ordinary course of the Borrowers' business, there would be an event of default under the facility agreement, which entitles the bank to demand immediate repayment of all amounts outstanding under the facility agreement. As of December 31, 2009 and the approval date of the financial statements the bank has not yet sought to exercise any right of acceleration. However, in January 2010, the bank notified the Borrowers that it intends to commence declaratory proceedings in the High Court seeking declaration that an event of default has occurred under the facility agreement. However, as of the approval date of these financial statements, such proceedings have not yet been initiated by the bank.

The Borrowers strongly disagree with the bank's view and claim, based on legal advice obtained, that the relevant transactions should be included in the computation of the DSCR covenant, or alternatively, on each payment date and as permitted by the facility agreement, an appropriate cure to the DSCR covenant was made by the Borrowers. The Borrowers also believe, based on legal advice obtained, that all the relevant transactions were entered into on arm's-length commercial terms in the ordinary course of business of the hotels. In addition, prior to the commencement of the dispute with the bank and subsequently, the Borrowers have fully complied on a timely basis with their payment obligations under the facility agreement, both as to principal and interest.

Currently, the Borrowers and the bank maintain negotiations in order to settle the dispute and to reach new commercial understandings concerning the terms of the facility agreement. However, due to the lasting dispute with the bank, which has not been settled as of the approval date of the financial statements, and hence there is uncertainty, as of the balance sheet date, whether a settlement agreement shall be reached and if not, how the dispute shall be resolved and whether the Borrowers' position that they were in compliance with the DSCR covenant will be accepted, Company's management reached a conclusion that, under these circumstances, it is more appropriate to classify the loan as of December 31, 2009 as a short-term liability, rather than presenting it as a long-term liability.

- (iii) PC's subsidiary which has been granted with a loan the balance of which as of €39 million (NIS 212 million) for financing construction of trading property is not in compliance with certain covenants included in the loan agreement. PC negotiating with the financing bank in respect of settling the bank requirement and a waiver on all covenants was provided until June 30, 2011. Such loan is presented within the short term credit.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 24 - SHARE CAPITAL**

**A. Composition:**

|                            | Ordinary shares<br>of NIS 1.00 par value each |            |            |
|----------------------------|---|------------|------------|
|                            | December 31                                   |            |            |
|                            | 2009  | 2008       | 2007       |
| Authorized share capital   | 50,000,000                                    | 50,000,000 | 50,000,000 |
| Issued and outstanding (*) | 25,461,490                                    | 25,454,703 | 25,454,524 |

(\*) December 31, 2009, 2008 and 2007 - excluding 2,800,000 treasury shares.

The increase in the share capital during the years ended December 31, 2009 and 2008 is attributable to exercise of options by Offerees into the Company's shares. See note 25 A.

The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of the Company, *inter alia*, the right to receive notices of, and to attend meetings of shareholders; for each share held, the right to one vote at all meetings of shareholders; and to share equally, on a per share basis, in such dividend and other distributions to shareholders of the Company as may be declared by the Board of Directors in accordance with these Articles and the Companies Law, and upon liquidation or dissolution of the Company, in the distribution of assets of the Company legally available for distribution to shareholders in accordance with the terms of applicable law and these Articles. All Ordinary Shares rank *pari passu* in all respects with each other.

**B. Dividend declared**

- (1) On April 19, 2007, the Company has distributed a dividend in the amount of NIS 160.9 million (which represents NIS 6.3 per share). Out of the said amount, NIS 0.7 million was paid to employees and was recorded as salary expenses in 2007 financial statements.
- (2) On June 2, 2008, the Company has distributed a dividend in the amount of NIS 168.0 million (which represents NIS 6.6 per share).
- (3) In January 2007, the Company's board of directors, has adopted a dividend distribution policy (the "Policy"), pursuant to which the Company will distribute a cash dividend of at least 50% of its surpluses generated by the Company every year, provided such dividend does not exceed 50% of the cash flow accrued by the Company from dividends and repayment of owners' loans received by the Company from its subsidiaries in that year, all in accordance with the Company's audited and consolidated annual financial statements. The Company will publish a detailed report with respect to any such distribution under the Policy, at a time close to the publication date of its annual financial statements for the previous year.

Any distribution of dividends under the Policy is subject to a specific resolution of the Company's board of directors which shall determine the Company's compliance with the distribution criteria, as prescribed in the Companies Law, as may be from time to time, and to any applicable law. In reaching such resolution, the Company's board of directors will take into account; *inter alia*, the Company's liabilities and undertakings towards third parties, the Company's cash-flow needs and financing resources available to the Company. The board of directors is authorized in its sole discretion to change or terminate the Policy at any time. The adoption of the Policy does not serve to constitute any undertaking towards any third party.



**NOTE 25 - OPTIONS PLANS**

**A. Options plan adopted by the Company**

In March 2006, the Company's audit committee and board of directors adopted option plan for the grant of up to 1,000,000 non-marketable options to the employees, directors and officers of the Company and companies under its control ("2006 Option Plan"). The Options will be granted to the employees, directors and officers of the Company and companies under its control ("Offerees") for no consideration. The exercise price per Option will be the lower of: (i) the average closing price of the Company's shares on the Tel Aviv Stock Exchange ("TASE") during the 30-trading day period preceding May 31, 2006 (the date of the option plan approval by the Company's shareholders' meeting) or (ii) the average closing price of the shares on the TASE during the 30-trading days period preceding the date of grant of the options (the "Exercise Price"). The Exercise Price of each option will be reduced upon distributions of dividend by the dividend per share net of tax. The exercise mechanism of the options into the Company's shares will be as follow: At the exercise date the Company shall issue to each option exercised shares equal to the difference between (A) the opening price of the Company's shares on the TASE on the exercise date, provided that if the opening price exceeds 166% of the Exercise Price, the opening price shall be set as 166% of the Exercise Price ("Caped Exercise Price"); less (B) the Exercise Price of the options; and the result (A minus B) will be divided by the Caped Exercise Price.

In January 31, 2007 the Company's audit committee and board of directors approved an amendment to the 2006 Option Plan according to which the Caped Exercises Price of each option will be NIS 200.0 instead of NIS 166.0. Such amendment terms were applied immediately to all Offerees other than the Company's directors, in respect of which the amendment terms were applied following the approval of the Company's shareholders meeting on November 1, 2007.

On August 5, 2008, the Company's board of directors adopted an additional amendment to the 2006 Option Plan increasing the number of options issuable under the 2006 Option Plan from 1,000,000 to 2,000,000. In addition, the exercise price of each option which will be granted following that date (including options in the pool) will be determined based on the average closing price of the Company's shares on the TASE during the 30-trading day period proceeding the grant date. The options were granted to the Offeress (other than the Company's directors) on October 6, 2008 at an exercise price of NIS 44.1 per option. On November 16, 2008 the Company's board of directors amended the exercise price of the options granted in October 2008 to be NIS 32.0 per option instead of NIS 44.1 per option.

In May, 2009 the Company's audit committee and board of directors approved an amendment to the Company's 2006 Option Plan. Such amendment will apply to all Offerees (other than the Company's directors) which have been granted the options during 2006. Under the amended plan the following terms would apply to 377,250 options (i) the Exercise Price was reduced from NIS 89.7 (the original Exercise Price less adjustments to dividend) to NIS 60 per option ;(ii) the Caped Exercise Price has been reduced to NIS 120 instead of NIS 200; and (iii) the options' term was extended to 7 years from the grant date instead of 5 years in the original plan. In addition the term of 14,000 options were extended to 7 years without any change in the Exercise Price and the Caped Exercise price.

The vesting period of the options will occur ratably over a three years period (33.33% of the Options shall vest on each of the first three anniversaries of the date of grant) (the "Vesting Period"). Following is the activity in the Company's 2006 Option Plan:

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 25 - OPTIONS PLANS (CONT.)**

**A. Options plan adopted by the Company (cont.)**

|                                      | Number of options                  |   |                                     |   |                                |  |
|--------------------------------------|------------------------------------|---|-------------------------------------|---|--------------------------------|--|
|                                      | Year ended December 31             |   |                                     |   |                                |  |
|                                      | 2009                               |   | 2008                                |   | 2007                           |  |
|                                      | Number<br>of<br>options<br>(i)(ii) | Weighted<br>average<br>exercise<br>price (iii)<br>(NIS) | Number<br>of<br>options<br>(i)(iii) | Weighted<br>average<br>exercise<br>price (iii)<br>(NIS) | Number<br>of<br>options<br>(i) | Weighted<br>average<br>exercise<br>price(iii)<br>(NIS) |
| Balance at the beginning of the year | 1,683,499                          | 54  | 848,083                             | 89.7  | 857,250                        | 89.7   |
| Granted                              | 129,000                            | 32  | 836,750                             | 32  | -                              | -  |
| Exercised                            | (14,749)                           | 51  | (1,334)                             | 89.7  | (500)                          | 89.7   |
| Forfeited                            | (16,833)                           | 86  | -                                   | -   | (8,667)                        | 89.7   |
| Balance at the end of the year       | <u>1,780,917</u>                   | <u>52</u>   | <u>1,683,499</u>                    | <u>61.0</u>   | <u>848,083</u>                 | <u>89.7</u>  |
| Options exercisable at the year end  | <u>1,096,999</u>                   | <u>65</u>   | <u>564,499</u>                      | <u>89.7</u>   | <u>285,250</u>                 | <u>89.7</u>  |

- (i) Include 353,500 options which were granted to the Company's directors (excluding the Company's chairman of the board) at an exercise price of NIS 100.0 per option. Such grant was approved by the Company's shareholders in May 2006.
- (ii) Include 250,000 options which were granted to the Company's directors (excluding the Company's chairman of the board and external directors) at an exercise price of NIS 32.0 per option. Such grant was approved by the Company's shareholders in December 2008.
- (iii) After adjustments in respect of dividend distributions subsequent to the grant date.

The weighted average contractual life of the options outstanding as of December 31, 2009 is 3.14 years. The average estimated fair value of the options was calculated based on the Binominal model based on a report of a third party expert, using the following assumptions:

|                                      | Year ended December 31 |                        |                       |
|--------------------------------------|------------------------|------------------------|-----------------------|
|                                      | 2009                   | 2008                   | 2007                  |
| Risk free interest rate (%)          | 3.45-4.14              | 3.9-6.5                | 4.85                  |
| Exercise coefficient                 | 2.34                   | 2.3-3.5                | 2.0                   |
| Contractual term                     | 5-7                    | 5                      | 3.67                  |
| Expected volatility (%)              | 60.85-64.63            | 47.2-57.8              | 37.3-38.3             |
| Expected dividend yield              | None                   | None                   | None                  |
| Forfeited (%)                        | 0                      | 0-2                    | 2                     |
| Total cost of benefit (NIS thousand) | 9,229 <sup>(iii)</sup> | 13,819 <sup>(ii)</sup> | 15,564 <sup>(i)</sup> |
| Expenses recognized                  | 13,957                 | 10,932                 | 19,427                |

- (i) Represent additional cost in respect of the amendment of the option plan in January 2007 (see above).
- (ii) Include NIS 1,475 thousands in respect of amendment of the exercise price in November 2008 (see above).
- (iii) Include NIS 1,455 thousands in respect of amendment of the exercise price, capped exercise price and the option term in May 2009 (see above)

**NOTE 25 - OPTIONS PLANS (CONT.)**

**B. Options plan adopted by PC**

On October 26, 2006 PC's board of directors approved the grant of up to 33,834,586 non-negotiable options over PC's ordinary shares to PC's board members, employees in PC's group and other persons who provide services to PC including employees of the Group ("Offerees"). The options were granted to the Offerees for no consideration. The exercise price of each option shall be the average price of PC's shares in the London Stock Exchange during the 5-day period before the date of grant ("Exercise Price").

Exercise of the options is subject to the following mechanism:

On exercise date PC shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of PC'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 PC's Shares in the LSE on the exercise date.

The options vest over a three year period following the grant date, in equal parts (the "Vesting Periods"), and will expire after five years following the grant date.

On November 25, 2008 PC's general shareholders meeting and 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 LSE during the 30-day period ending on 25 November 2008 (i.e: £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 3 (three) years 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 2 (two) years to a total period of 7 (seven) years, which starts at grant date. The abovementioned 180% limit on the potential benefit from each option was changed to a cap of GBP 3.24 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 approximately NIS 34.0 million which will be recognized over the new vesting period or immediately for vested options. The immediate affect of the modification on the 2008 profit and loss statement was an expense of approximately NIS 9.5 million. Following the modification of the employee share option plan, the contractual life of the options (7 years) is used for future grants and the assumed early exercise multiple (suboptimal factor) is 3 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 balance sheet date, is 21,201,017.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 25 - OPTIONS PLANS (CONT.)**

**B. Options plan adopted by PC (cont.)**

Following is the activity in PC's option plan:

|                                      |                       | Number of options                     |                       |                                       |                                       |
|--------------------------------------|-----------------------|---------------------------------------|-----------------------|---------------------------------------|---------------------------------------|
|                                      |                       | Year ended December 31                |                       |                                       |                                       |
|                                      |                       | 2009                                  | 2008                  |                                       | 2007                                  |
|                                      | Number of options (i) | Weighted average exercise price (GBP) | Number of options (i) | Weighted average exercise price (GBP) | Number of options (i)                 |
|                                      |                       |                                       |                       |                                       | Weighted average exercise price (GBP) |
| Balance at the beginning of the year | 30,115,208            | 0.52                                  | 28,945,704            | 1.81                                  | 26,108,602                            |
| Granted                              | 1,335,000             | 0.80                                  | 3,625,000             | 1.67                                  | 4,093,572                             |
| Exercised                            | (2,970,976)           | 0.52                                  | (131,711)             | 1.80                                  | (303,471)                             |
| Forfeited                            | (2,223,750)           | 0.50                                  | (2,323,785)           | 1.81                                  | (952,999)                             |
| Balance at the end of the year       | <u>26,255,482</u>     | 0.532                                 | <u>30,115,208</u>     | 0.60                                  | <u>28,945,704</u>                     |
| Options exercisable at the year end  | <u>12,800,446</u>     |                                       | <u>9,031,603</u>      |                                       | <u>8,195,777</u>                      |

- (i) Include 5,424,436 options, which were approved for grant on November 1, 2007 by the Company's shareholders meeting, to the Company's chairman of the board, who is also non executive director in PC and certain Company's directors, respectively.

Following the modification of the option plan (as mentioned above) the options outstanding at December 31, 2009 have an exercise price in the range of £ 0.52 to £ 1.64 and a weighted average contractual life of 4 years. The weighted average share price in respect of options exercised in 2009 was £1.32 (2008: £2.29; 2007: £2.3).

The average estimated fair value of each option granted was calculated based on the binominal-lattice model, based on a report from a third party expert, using the following assumptions:

| Year ended December 31   |           |           |                       |
|--|-----------|-----------|-----------------------|
|  | 2009      | 2008 (ii) | 2007                  |
| Risk free interest rate (%)  | 0.65-4.57 | 2.89-4.82 | 4.62-5.55             |
| Expected life of options (years)   | 5-7       | 5-7       | 5                     |
| Expected volatility (%)  | 49-61     | 35-51     | 25-35                 |
| Expected dividend yield  | -         | -         | -                     |
| Forfeited (%)  | 2.5-5.9   | 2.5-6     | 2.5-7.5               |
| Suboptimal exercise multiple   | 2.39-3    | 1.8-3     | 1.8                   |
| Total cost of benefit for options granted(or modified) during the year (NIS thousands) | 2,905     | 47,058    | 25,215 <sup>(i)</sup> |
| Expenses recognized during the year (NIS thousands)                                    | 29,461    | 49,820    | 65,575                |

- (i) Include NIS 8.8 million in respect of re-measurement of 5,424,436 options granted by PC in October 2006 to the Company's chairman of the board and certain of the Company's directors, which was approved for grant by the Company's general shareholders meeting on November 1, 2007.
- (ii) Include NIS 34.0 million in respect of the modification of the option plan in November 2008 (see above).

**NOTE 25 - OPTIONS PLANS (CONT.)**

**B. Options plan adopted by PC (cont.)**

Due to the changes in the global economics, PC's management is of the opinion, that the data regarding share prices and companies' volatilities do not reflect correctly the future results. The stock prices data of PC during the last quarter of 2008 presents a high volatility that is in irregular form, and therefore could not be implemented as the expected volatility for the relevant term of the options. Since PC has been publicly traded for two years only by the end of 2008, the state of the financial markets at the end of 2008 affected PC's volatility in a greater manner and in the opinion of PC's management was not reflecting the predicted volatility. In order to estimate PC's expected volatility, the calculation was based on PC's share performance during the two and a half years for the granted date, and a comparison to similar companies with historical share price of five to seven years. The difference in the volatility between those two and a half / years and five to seven years, while neutralizing the fourth quarter of 2008 for each company is significant. Therefore, the implemented volatility for option granted in 2009 was set at range of 49% -61.11% (2008-volatility set at 35%- 51.1%), which takes into account the influence of the markets if PC has been publicly traded for a longer period. The expected volatility for options granted in 2007 was based on companies in comparable stages as well as companies in the industry and considering historic share Price volatility of PC.

**C. Options plan adopted by the InSightec**

InSightec has adopted several options plans over its ordinary shares to InSightec's board members, employees other persons who provide services to InSightec including employees of the Group ("Offerees"). The options were granted to the Offerees for no consideration. The exercise price of each option granted was generally determined based on private placement of InSightec's equity securities close to the grant date. ("Exercise Price"). The options are generally vest over a three or four year period following grant date, except for options granted under InSightec 2007 plan which their vesting period would start at the earlier of InSightec's IPO or Material Change of InSightec such as liquidation or merger ("Commencement Date") and would be two year from the Commencement Date for 50% of the options granted, three years from the Commencement Date for additional 25% of the options granted and four years from the Commencement Date for the remaining 25% of the options granted ("Vesting Period").

As of December 31, 2009 InSightec granted 5,127,315 options and 917,300 outstanding options available for future grants. InSightec's options available for grant include 250,000 options designated for grant, for no consideration, to the Company's Chairman of the Board (its controlling shareholder), at an exercise price of \$6.6 each. The issuance was approved by the Company's board of directors, audit committee and the Company's shareholders' meeting.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 25 - OPTIONS PLANS (CONT.)**

**C. Options plan adopted by the InSightec (cont.)**

Following is the activity in InSightec's option plan:

|                                      | Number of options            |  |                          |  |                          |  |
|--------------------------------------|------------------------------|--|--------------------------|--|--------------------------|--|
|                                      | Year ended December 31       |  |                          |  |                          |  |
|                                      | 2009                         |  | 2008                     |  | 2007                     |  |
|                                      | Number of options<br>(i)(ii) | Weighted average exercise price<br>(USD) | Number of options<br>(i) | Weighted average exercise price<br>(USD) | Number of options<br>(i) | Weighted average exercise price<br>(USD) |
| Balance at the beginning of the year | 4,536,315                    | 5.12                                     | 3,928,065                | 4.03                                     | 3,474,565                | 2.98                                     |
| Granted                              | 853,000                      | 6.18                                     | 658,000                  | 12.00                                    | 516,250                  | 11.42                                    |
| Forfeited                            | (169,000)                    | 6  | (38,000)                 | 12.26                                    | (36,500)                 | 11.93                                    |
| Exercised                            | (93,000)                     | 0.0025                                   | (11,750)                 | 0.0025                                   | (26,250)                 | 0.0025                                   |
| Balance at the end of the year (*)   | <u>5,127,315</u>             | 3.01                                     | <u>4,536,315</u>         | 5.12                                     | <u>3,928,065</u>         | 4.03                                     |
| Options exercisable at the year end  | <u>3,365,565</u>             | 1.9                                      | <u>3,225,690</u>         | 2.4                                      | <u>2,926,815</u>         | 1.32                                     |

(\*) After Re-pricing of certain of the options' exercise price to 6\$

- (i) Include 100,000 options granted to the Company's CEO at an exercise price of \$3.3 per share which as of the balance sheet date are fully vested.
- (ii) Include 250,000 options granted to the Company's former Chairman in December 2009 following the approval of the Company's shareholders. The exercise price of the options granted was \$6.60 per share with a vesting period which will occur ratably over a period of 3 years.

The following table summarizes information about share options outstanding as of December 31, 2009:

| Outstanding as of December 31, 2009      |                    |   |   | Exercisable as of December 31, 2009 |   |
|--|--------------------|---|---|-------------------------------------|---|
| Range of exercise prices<br>(US dollars) | Number outstanding | Weighted average remaining contractual life<br>(in years) | Weighted average exercise price<br>(US dollars) | Number exercisable                  | Weighted average exercise price<br>(US dollars) |
| 0.0025                                   | 2,160,690          | 1.87  | 0.0025  | 2,160,690                           | 0.0025  |
| 3.33                                     | 300,000            | 1.36  | 3.33  | 300,000                             | 3.33  |
| 5.33-5.85                                | 273,875            | 1.55  | 5.81  | 273,875                             | 5.81  |
| 6.00-6.60                                | 2,392,750          | 4.90  | 6.06  | 631,000                             | 6.00  |
|  | <u>5,127,315</u>   |   |   | <u>3,365,565</u>                    |   |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 25 - OPTIONS PLANS (CONT.)**

**C. Options plan adopted by the InSightec(cont.)**

The fair value of InSightec stock price was determined based on private placement of InSightec's equity securities close to the grant date. The share price volatility was computed based on public companies' volatility, which are in comparable stage to InSightec and are operating in the same industry.

For the purpose of estimating the fair value of the options, InSightec utilizes the Black-Scholes option-pricing model using the following assumptions:

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2009</b>                    | <b>2008</b> | <b>2007</b> |
| Risk free interest rate (%)  | 2.5                            | 2.5-2.7     | 4-4.55      |
| Expected life of options (years)   | 3.5-4.9                        | 4-4.9       | 4.5         |
| Expected volatility (%)  | 60                             | 60          | 60          |
| Expected dividend yield  | None                           | None        | None        |
| Forfeited (%)  | 3.5                            | 3.5         | 3.5         |
| Total cost of benefit for options granted<br>(or modified) during the year (NIS thousands) | 8,587(i)                       | 15,335      | 13,400      |
| Expenses recognized during the year (NIS<br>thousands)                                     | 7,004                          | 6,080       | 10,875      |

- (i) Include NIS 3.5 million in respect of re-pricing the Exercise price to \$6.0 per option which was executed in February 2009, and NIS 2.4 million related to the 250,000 options granted to the Company's former chairman of the board.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT**

|   | Year ended December 31 |                |                  |
|---|------------------------|----------------|------------------|
|   | 2009                   | 2008           | 2007             |
|   | (in thousand NIS)      |                |                  |
| <b>A. Revenues from commercial centers</b>  |                        |                |                  |
| Sales of trading property (i)   | -                      | 439,339        | 2,819,820        |
| Rental income and management fees   | 43,240                 | 31,251         | 43,978           |
| Others  | 42,226                 | 53,573         | 53,818           |
|   | <u>85,466</u>          | <u>524,163</u> | <u>2,917,616</u> |
| (i) See note 8E.  |                        |                |                  |
| <b>B. Revenues from hotel operations and management</b>   |                        |                |                  |
| Rooms   | 242,466                | 244,162        | 261,397          |
| Food, beverage and other services   | 134,254                | 123,855        | 116,978          |
| Rental of commercial space  | 20,016                 | 16,203         | 16,852           |
|   | <u>396,736</u>         | <u>384,220</u> | <u>395,227</u>   |
| <b>C. Gains from sale of real estate assets</b>   |                        |                |                  |
| Sales of investment property (i)  | -                      | -              | 17,800           |
| Sales of hotels (ii)  | -                      | -              | 44,821           |
|   | <u>-</u>               | <u>-</u>       | <u>62,621</u>    |
| (i) Mainly in respect of the sale of PC's Duna Plaza offices, Hungary in May 2007.                                    |                        |                |                  |
| (ii) Mainly in respect of the sale of the Group's 50% holding in the Ballet Institute building, Hungary in June 2007. |                        |                |                  |
| <b>D. Gains from change of shareholding in subsidiaries</b>   |                        |                |                  |
| Change of shareholding in PC (i)  | 16,478                 | 49,122         | -                |
| Change of shareholding in InSightec (ii)  | 14,628                 | -              | 5,310            |
|   | <u>31,106</u>          | <u>49,122</u>  | <u>5,310</u>     |
| (i) 2009 and 2008: see note 11B.(2);  |                        |                |                  |
| (ii) See note 11A.(3)   |                        |                |                  |



**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (CONT.)**

|   | Year ended December 31 |                |                  |
|---|------------------------|----------------|------------------|
|   | 2009                   | 2008           | 2007             |
|   | (in thousand NIS)      |                |                  |
| <b>E. Cost of commercial centers</b>              |                        |                |                  |
| <b>Direct expenses:</b>                           |                        |                |                  |
| Cost of trading property sold                     | 1,956                  | 232,681        | 1,492,020        |
| Wages and fringe benefits                         | 10,471                 | 11,306         | 9,039            |
| Allowance for doubtful debts                      | 3,683                  | -              | -                |
| Energy costs                                      | 13,268                 | 8,410          | 8,901            |
| Taxes and insurance                               | 4,492                  | 3,280          | 3,139            |
| Maintenance of property and other expenses        | 25,790                 | 23,316         | 34,364           |
|   | <u>59,660</u>          | <u>278,993</u> | <u>1,547,463</u> |
| <b>Other operating expenses:</b>                  |                        |                |                  |
| Wages and fringe benefits                         | 24,725                 | 32,599         | 35,195           |
| Stock-based compensation expenses                 | 15,964                 | 36,571         | 44,343           |
| Professional services                             | 22,821                 | 21,482         | 23,952           |
| Advertising                                       | 14,671                 | 21,103         | 23,757           |
| Others  | 25,074                 | 35,978         | 18,892           |
|   | <u>103,255</u>         | <u>147,733</u> | <u>146,139</u>   |
| <b>Depreciation and amortization</b>              | <u>6,338</u>           | <u>6,034</u>   | <u>20,651</u>    |
|   | <u>169,253</u>         | <u>432,760</u> | <u>1,714,253</u> |
| <b>F. Cost of hotel operations and management</b> |                        |                |                  |
| <b>Direct expenses:</b>                           |                        |                |                  |
| Wages and fringe benefits                         | 103,618                | 113,436        | 112,821          |
| Food and beverages                                | 30,425                 | 26,220         | 22,622           |
| Others  | 99,711                 | 96,185         | 86,774           |
|   | <u>233,754</u>         | <u>235,841</u> | <u>222,217</u>   |
| <b>Other operating expenses:</b>                  |                        |                |                  |
| Wages and fringe benefits                         | 378                    | 515            | 974              |
| Management fees and reimbursement expenses (i)    | 21,265                 | 20,477         | 18,864           |
| Business taxes, insurance and lease payments      | 25,354                 | 22,270         | 21,559           |
| Others  | 11,043                 | 22,569         | 16,182           |
|   | <u>58,040</u>          | <u>65,831</u>  | <u>57,579</u>    |
| <b>Depreciation and amortization</b>              | <u>61,435</u>          | <u>53,178</u>  | <u>50,267</u>    |
|   | <u>353,229</u>         | <u>354,850</u> | <u>330,063</u>   |

(i) See note 23 A. (1)

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (CONT.)**

|   | Year ended December 31 |                |               |
|---|------------------------|----------------|---------------|
|   | 2009                   | 2008           | 2007          |
|   | (in thousand NIS)      |                |               |
| <b>G. Costs and expenses of medical systems operation</b> |                        |                |               |
| <b>Direct expenses:</b>                                   |                        |                |               |
| Wages and fringe benefits                                 | 7,473                  | 7,800          | 7,327         |
| Stock-based compensation expenses                         | 688                    | 538            | 1,178         |
| Materials and subcontractors                              | 14,650                 | 10,529         | 9,565         |
| Changes in work in process and finished goods             | 1,251                  | (3,403)        | (94)          |
| Others  | 3,335                  | 2,452          | 6,762         |
|   | <u>27,397</u>          | <u>17,916</u>  | <u>24,738</u> |
| <b>Other operating expenses:</b>                          |                        |                |               |
| Wages and fringe benefits                                 | 20,141                 | 19,401         | 14,865        |
| Stock-based compensation expenses                         | 4,445                  | 3,841          | 5,135         |
| Advertising and commissions                               | 6,525                  | 6,524          | 15,684        |
| Depreciation and amortization                             | 753                    | 651            | 541           |
| Others  | 8,142                  | 7,136          | 8,990         |
|   | <u>40,006</u>          | <u>37,553</u>  | <u>45,215</u> |
|   | <u>67,403</u>          | <u>55,469</u>  | <u>69,953</u> |
| <b>H. Cost of fashion merchandise</b>                     |                        |                |               |
| <b>Direct expenses:</b>                                   |                        |                |               |
| Inventories - opening balance                             | 18,157                 | 11,429         | 10,290        |
| Purchases   | 58,255                 | 47,465         | 31,604        |
| Less - inventories closing balance                        | 26,652                 | 18,157         | 11,429        |
|   | <u>49,760</u>          | <u>40,737</u>  | <u>30,465</u> |
| <b>Other operating expenses:</b>                          |                        |                |               |
| Wages and fringe expenses                                 | 25,964                 | 25,790         | 16,515        |
| Rental, management fee and shops' maintenance             | 35,789                 | 28,743         | 20,571        |
| Advertising   | 9,952                  | 12,924         | 6,634         |
| Depreciation and amortization                             | 8,951                  | 5,907          | 4,215         |
| Others  | 3,726                  | 3,939          | 1,908         |
|   | <u>84,382</u>          | <u>77,303</u>  | <u>49,843</u> |
|   | <u>134,142</u>         | <u>118,040</u> | <u>80,308</u> |
| <b>I. Research and development expenses</b>               |                        |                |               |
| Wages and fringe benefits                                 | 37,666                 | 36,555         | 34,410        |
| Stock-based compensation expenses                         | 1,842                  | 1,530          | 3,496         |
| Materials and subcontractors                              | 20,635                 | 13,631         | 16,402        |
| Depreciation and amortization                             | 3,019                  | 5,558          | 6,578         |
| Others  | 10,797                 | 11,485         | 8,673         |
|   | <u>73,959</u>          | <u>68,759</u>  | <u>69,559</u> |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (CONT.)**

|  | Year ended December 31 |                  |                  |
|--|------------------------|------------------|------------------|
|  | 2009                   | 2008             | 2007             |
|  | (in thousand NIS)      |                  |                  |
| <b>J. General and administrative expenses</b>  |                        |                  |                  |
| Wages and fringe benefits  | 27,610                 | 23,991           | 73,110           |
| Stock-based compensation expenses  | 12,209                 | 9,531            | 18,724           |
| Depreciation and amortization  | 1,997                  | 1,849            | 1,788            |
| Others   | 24,337                 | 19,573           | 23,370           |
|  | <u>66,153</u>          | <u>54,944</u>    | <u>116,992</u>   |
| <b>K. Financial expense</b>  |                        |                  |                  |
| Interest and CPI linkage on borrowings (i)   | 429,417                | 444,825          | 325,298          |
| Loss (gain) from foreign currency translation differences<br>(net of exchange results charged to foreign currency<br>translation reserve)  | 2,406                  | 28,262           | 10,659           |
| Other financial expenses   | 6,754                  | 15,063           | 1,390            |
| Total financial expenses   | <u>438,577</u>         | <u>488,150</u>   | <u>337,347</u>   |
| Financial expenses capitalized to qualified assets (ii)  | <u>(155,031)</u>       | <u>(191,623)</u> | <u>(104,781)</u> |
|  | <u>283,546</u>         | <u>296,527</u>   | <u>232,566</u>   |
| (i) Including results of swap transactions designated as<br>cash flow hedge. In addition interest on debentures<br>measured at FVTPL in the amount of NIS 62 million,<br>NIS 73 million and NIS 13 for the years ended<br>December 31, 2009, 2008 and 2007 respectively. |                        |                  |                  |
| (ii) The rate applicable to non-specific credit  | <u>8.6%</u>            | <u>9.3%</u>      | <u>7.8%</u>      |
| <b>L. Financial incomes</b>  |                        |                  |                  |
| Interest on deposits and receivables   | 85,529                 | 144,513          | 101,844          |
| Gain (loss) from foreign currency translation differences  | 7,196                  | (9,235)          | (28,551)         |
|  | <u>92,725</u>          | <u>135,278</u>   | <u>73,293</u>    |
| <b>M. Change in fair value of financial instruments at<br/>FVTPL</b>   |                        |                  |                  |
| Change in fair value of embedded derivative  | (796)                  | 18,711           | 5,303            |
| Change in fair value of financial instruments measured at<br>FVTPL (mainly debentures)   | (222,208)              | 154,189          | (17,330)         |
| Change in fair value of derivatives (mainly swap and<br>forward transactions)  | 99,120                 | 95,668           | 12,531           |
| Gain (loss) on marketable securities   | 53,182                 | (43,324)         | 17,843           |
|  | <u>(70,702)</u>        | <u>225,244</u>   | <u>18,347</u>    |
| <b>N. Impairment, charges and other expenses, net</b>  |                        |                  |                  |
| Impairment of real estate assets, other property and other<br>receivables (i)  | 232,555                | 50,568           | 30,286           |
| Initiation expenses (ii)   | 30,411                 | 21,280           | 7,623            |
| Loss (gain) from disposition of assets and liabilities (iii)   | (2,278)                | 2,498            | 6,270            |
| Others, net  | (463)                  | (5,549)          | (5,946)          |
|  | <u>260,225</u>         | <u>68,797</u>    | <u>38,233</u>    |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (CONT.)**

**N. Other expenses, net (cont.)**

- (i) The economic and financial crisis in the world markets, which caused a decrease in the operating results of the Group's real estate assets (including mainly hotels and other assets within the property plant and equipment, and commercial centers within trading property) in addition to the increase in the yield rates applying to these real estate assets, have lead the Group to reexamine its investments in its real estate assets and its other property. As a result, the Group included in these financial statements a write-down of NIS 217 million in respect of its trading property, and impairment of NIS 15 million in respect of its property plant and equipment.
- (ii) Includes mainly cost and expenses in respect of the Group's operations in India.
- (iii) 2007: represent loss from the sale of the Arena Herzlia, Israel commercial center in July 2007.

| Year ended December 31 |      |      |
|------------------------|------|------|
| 2009                   | 2008 | 2007 |
| (in thousand NIS)      |      |      |

**O. Earnings per share**

**1. Basic earning per share:**

The earnings and weighted average number of ordinary shares used in the calculation of the basic earning per share are as follows:

|  |           |           |         |
|--|-----------|-----------|---------|
| Profit (loss) from continuing operations   | (549,820) | (108,648) | 529,459 |
| Profit from discontinued operation   | 16,550    | 4,934     | 10,289  |
| Weighted average number of shares used in computing basic earnings per share (thousands) | 25,458    | 25,455    | 25,454  |

**2. Diluted earning per share:**

The earnings and weighted average number of ordinary shares used in the calculation of the diluted earning per share are as follows:

|  |           |           |         |
|--|-----------|-----------|---------|
| Profit (loss) from continuing operations   | (550,495) | (109,511) | 522,876 |
| Profit from discontinued operation   | 16,550    | 4,934     | 10,289  |
| Weighted average number of shares used in computing diluted earnings per share (thousands) | 25,458    | 25,455    | 25,917  |
| Effect of diluted options on the number of shares (thousands)                              | -         | -         | 463     |

The earnings used in the calculation of all diluted earnings per share are same as those for the equivalent basic earnings per share measures, as outlined above.

**NOTE 27 - RELATED PARTIES**

**A. Transactions with related parties**

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

(1) As of the balance sheet date the Company and/or its subsidiaries are bound by the following agreements, with Control Centers Ltd. ("CC"), the ultimate controlling party of the Company, and/or companies controlled thereby:

- a. An agreement according to which the Company will receive from CC (either directly or through its subsidiaries or affiliates) coordination, planning, execution and supervision services (the "Services") over real estate projects of the Company and/or its subsidiaries and/or affiliates as defined in the agreement in consideration for a fee equal to 5% of the actual execution costs (excluding land acquisition costs, financing cost and the consideration for CC under the agreement) of each such project ("Supervision Fees"). The agreement applies to real estate projects whose initiation began following the approval of the agreement by the Company's shareholders meeting (May 31, 2006) and to three other real estate projects which were under early stage of development as of May 31, 2006 ("Real Estate Projects"). Supervision Fees are paid in installments upon the attainment of certain milestones. In addition, the Company will reimburse CC for all reasonable costs incurred in connection with the Services rendered thereby, not to exceed a total of €75,000 per real estate project.

If the designation of a real estate project is changed for any reason prior to its completion or if the development of the real estate project is terminated for any reason (including its sale), the Services Payment to CC will be calculated as a percentage of the budget for the project at such time provided that such percentage shall not exceed the percentage determined for the next milestone of the project had it had been continued as planned. The calculation of such payments to CC will be subject to the approval of an external accountant and the Company's audit committee and board of directors. In addition, the Group may also purchase from CC through Jet Link Ltd. (a company controlled by CC) up to 125 flight hours per calendar year in consideration for payments to Jet Link Ltd. in accordance with its price list deducted by a 5% discount. This agreement does not derogate from a previous agreement entered into between the Company and Jet Link Ltd. for the purchase by the Company of aviation services (see Item c. below).

The agreement entered into effect upon its approval by the Company's shareholders in May 2006 and shall remain in effect for a five year term (through May 2011).

- b. An agreement with Jet Link Ltd., for the provision of aviation services, up to 150 flight hours per annum, for the operations and in connection with projects abroad, in consideration for payment calculated on the basis of the price list of Jet Link Ltd., deducted by a 5% discount. Due to Group increasing business needs, the Group purchased during 2007 certain additional flight hours from Jet Link under the same terms stipulated in the agreement. The purchase of the additional flight hours was approved by the audit committee and the board of directors as a non-extraordinary transaction within the meaning of the Israeli Companies Law.

**NOTE 27 - RELATED PARTIES (CONT.)**

**A. Transactions with related parties (cont.)**

- (2) The Group furnished a local municipality with a bank guarantee in an amount of approximately NIS 4.5 million to secure payment of the land betterment tax by Marina Herzliya Limited Partnership Ltd. (a subsidiary of the Control Centers Group). Arbitration is currently being held as to such liability. The Company's management estimates, based on professional opinion that no significant costs will be borne thereby, in respect of this guarantee.

**B. Benefits to key management personnel**

On December 27, 2009 the Company's board of directors approved an overall structural reorganization of the company's headquarters in the framework of which several changes were made in executive positions within the Group. All the appointments which have been approved by the board are effective as from January 1, 2010. Accordingly, the disclosures provided below are referring to the Company's key management personnel prior to the achievement of said reorganization.

- (1) On May 31, 2006 the general shareholders' meeting approved a service agreement with a company controlled by the Company's executive chairman of the board (the "Management Company" and the "Chairman", respectively) according to which, the Management Company will provide the Company with executive chairman services (the "Services"). The Management Company may provide the Services to private subsidiaries and/or affiliates of the Company. In accordance with the term of the agreement, the Services will be provided by the Chairman only, as an employee of the Management Company and the Chairman will devote at least 80% of his time, skills and efforts to his role as Chairman of the Company's board of directors. The control over the Management Company will not be changed during the term of the agreement. In consideration for the Chairman's services the Company will pay the Management Company a monthly amount of \$50,000 (NIS 188,750 as of December 31, 2009) as well as reimbursement of direct expenses incurred directly with the provision of the Services. The Company will provide the Management Company with an appropriate vehicle and shall bear all costs and expenses in connection with such vehicle. In accordance with the terms of the service agreement, the Management Company will be the sole employer of the Chairman and no employer-employee relationship will exist between the Chairman and the Company. The Management Company has agreed to indemnify the Company with respect to any amount, rights or benefits the Company would be required to pay the Chairman including legal fees, in connection with any determination by the labor court and/or any other competent authority that the Chairman was or is an employee of the Company during the term of the agreement. The agreement is for a five-year term commencing retroactively on August 1, 2005. The Chairman has guaranteed all of the Management Company's obligations as far as they relate to it and has further guaranteed the Management Company's indemnification undertakings and responsibility for damages.
- (2) On November 1, 2007, the Company's shareholders approved a service agreement between PC and the Chairman, according to which, the Chairman will serve as PC's executive chairman of the board of directors in consideration of monthly salary of \$25,000 (NIS 94,375 as of December 31, 2009) as well as reasonable expenses incurred by the Chairman in the performance of his duties under the service agreement. The salary will be reviewed by PC's board of directors each year and may be increased at the discretion of PC's board and subject to applicable law. The Chairman has waived his right to any entitlement to severance pay under the Israeli Severance Pay Law and social benefit. The service agreement commenced on October 26, 2006. Each party may terminate the service agreement by a 12-month prior notice.

**NOTE 27 - RELATED PARTIES (CONT.)**

**B. Benefits to key management personnel (cont.)**

- (3) On November 1, 2007 the Company's shareholders approved an annual bonus payment for the Chairman which will be calculated as follows: (i) 0% of the first NIS 100 million of Profits (as defined below); (ii) 2.5% of Profits between NIS 100 million and NIS 125 million; (iii) 3% of Profits between NIS 125 million and NIS 150 million; and (iv) 3.5% of Profits exceeding NIS 150 million. The annual bonus is payable for so long as the Chairman serves as a director or officer of the Company or any of its subsidiaries.

For the purpose of determining the annual bonus, in accordance with resolutions of the Company's audit committee and board of directors as of May 29, 2008 and also based on legal advice obtained, "Profits" shall mean profit of the Company before taxes, as disclosed in the Company's annual audited consolidated financial statements for that year minus profits (losses) before tax allocated to the minority and minus such losses (before taxes and after deduction of profits (losses) allocated to the minority) as disclosed in the Company's annual consolidated audited financial statements for all years commencing 2007, that had not already been deducted for the purpose of calculating of such annual bonus for any previous year. Such resolution shall be applied, retroactively, to bonuses payable in respect of the year 2007 and thereafter. Accordingly, the Company has reversed, in its 2008 financial statements, provisions for bonuses accrued in 2007 in the amount of NIS 2.4 million. Notwithstanding the above, the annual bonus the Chairman is entitled to shall not exceed NIS 18.0 million.

- (4) On May 31, 2006, the Company's shareholders approved bonus payments for the fiscal years commencing 2006 to two of the Company's directors, which will be calculated as follows: (i) 0.75% of the first NIS 125 million of Profits (as defined below); (ii) 0.875% of Profits between NIS 125 million and NIS 150 million; and (iii) 1% of Profits exceeding NIS 150 million. Within the framework of an agreement executed with one of the two directors mentioned above regarding its resignation from certain positions within the Group, which were approved by the Company's shareholders on November 1, 2007, the director will be entitled to such bonus payments in respect of the years 2007 and 2008.

For the purpose of determining the annual bonus, in accordance with the resolutions of the Company's audit committee and board of directors of May 29, 2008 and also based on legal advice received, "Profits" for any year, shall mean profit of the Company before taxes, as disclosed in the Company's annual consolidated audited financial statements for that year minus profits (losses) before tax allocated to the minority shareholders. Such resolution shall be applied, retroactively, to bonuses payable in respect of the year 2007 and thereafter. Accordingly, the Company has reversed, in its 2008 financial statements, provisions for bonuses accrued in 2007 in the amount of NIS 3.7 million.

**NOTE 27 - RELATED PARTIES (CONT.)**

**B. Benefits to key management personnel (cont.)**

- (5) On January 17, 2008, the Company's shareholder's approved an agreement with an officer who serves as the Company's executive vice chairman of the board ("VC") according to which the Company has undertaken to allot the VC 5% (five percent) of the aggregate issued and outstanding share capital in each entity through which the Group (excluding operations of PC and its investees) will conduct its operations in India and in Asia (the "Investment Vehicle") during the Sourcing Period (as defined below). In the event the Investment Vehicle is not wholly owned by the Group, the VC will be allotted that number of shares equal to 5% of the issued and outstanding share capital in such Investment Vehicle held by the Group ("VC Shares"). The VC Shares 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 Investment Vehicle to the VC) from the Investment Vehicle until the Group's investments (principal and interest calculated in accordance with a mechanism provided for in the agreement) in such Investment Vehicle have been fully repaid. As of the balance sheet date, the VC's right to receive the shares in each Investment Vehicle is fully vested. The Group's obligation to issue the VC Shares shall apply to all the Group's operations (excluding operations of PC and its investees) initiated in the territory since the Group has commenced its operations in India and shall remain in effect for a period of 2.5 years subsequent to the date on which the VC ceases, for any reason, to devote, in the aggregate, a substantial part of his time and attention to the sourcing activities (the "Sourcing Period"). The agreement includes tag-along rights, preemptive rights and registration rights in favor of the VC and transfer restrictions, right of first refusal and drag-along rights in favor of the Group. On December 31, 2009, the VC informed the Company that he is resigning from his position with the company. This resignation will enter into effect on December 31, 2010. Although VC's full employment with the Company is ending, he continues to serve as the company's Executive Vice-Chairman of the board and as a director.
- (6) On October 27, 2006, PC has entered into an agreement with an officer who through December 31, 2009 served as the Company's executive vice-chairman of the board ("VC") with respect to its 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 PC will carry out its operations in India. However, where considered appropriate and by agreement, the VC will be entitled to take up a 5% interest in specific projects, in which case necessary adjustments will be made at the holding company level. PC and the VC will agree on the form of the Option for each project, taking into account taxation, securities laws and regulations applicable to either party or their respective affiliates, and other considerations of the respective parties. If the VC exercises all his Options (5%) at the holding company level, his right to take up interests on a project by project basis will elapse. As of the balance sheet date, the VC's right to receive the shares in each holding company is fully vested.

The Options may be exercised at any time, at a price equal to PC's net equity investment made in the projects as of the date in which the Option is exercised plus interest at the rate of LIBOR plus 2% per annum from the date of the investment made by PC until the Options exercise date ("Exercise Price"). The VC has cash-in right to require PC to purchase shares held by him following the exercise of the Options, at a price to be determined by an independent appraiser. In addition, the VC has the right to pay the Exercise Price on a partial exercise of Options by way of the surrender to PC of Options valued at the Exercise Price of the exercised Options. The agreement includes tag-along rights and a right of first refusal. If PC sells its shares in the holding company to a third party, the VC's Options will not be affected. However, if a new investor is allotted shares in the holding company, the VC's Options will be diluted pro-rata.



**NOTE 27 - RELATED PARTIES (CONT.)**

**B. Benefits to key management personnel (cont.)**

**(6) (cont.)**

The VC and PC have agreed to enter into a new agreement in substantially the same terms and conditions as the agreement described in item (5) above (the "New Agreement") which will replace and supersede the previous agreement. The New Agreement shall enter into effect following the receipt of the approval of the Company's shareholders and the approval of PC's relevant bodies as required under applicable law. However, in the event the New Agreement is not approved by the relevant bodies of the Company and PC, as discussed above, the previous agreement shall remain in effect.

The agreement was approved by the Company's shareholders meeting on January 17, 2008. As of the balance sheet date, a liability of NIS 3.4 million was recorded in the consolidated financial statements in respect of this agreement.

- (7) a.** The directors and officers of the Company and of companies, in which the directors serve on behalf of the Company, are covered by insurance of up to \$40.0 million per occurrence and in the aggregate during the duration of the policy. The first layer of such policy in the amount of \$10.0 million shall also cover the liability of directors and officers of EIL and its subsidiaries. The coverage is within the framework of a joint insurance policy for the EIL Group companies. The allocation of the insurance costs between the Company and its subsidiaries (90%) and EIL (10%) was approved by the Company's shareholders. The shareholders also approved the renewal and/or extension of the policy and the purchase of other directors and officers policy, provided that the coverage will not exceed the amount described above and that the premium will not exceed an amount representing an increase of 20% as compared to the previous year. The shareholder's meeting of December 2008 approved the coverage of liability of the Chairman under the above insurance policy.
- b.** PC's directors and officers (including the Company's directors who are non-controlling shareholders of the Company) are covered through September 2012 by Public Offering of Securities Insurance of up to \$5.0 million for losses arising under the prospectus filed by PC in October 2006. Such coverage was approved by the Company's shareholders.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 27 - RELATED PARTIES (CONT.)**

**B. Benefits to key management personnel (cont.)**

**(7) (cont.)**

- c. InSightec's directors and officers (including the Company's directors who are non-controlling shareholders of the Company) are covered on damages caused by illegal activities by insurance policy of up to \$10.0 million and includes a component of special cover for risk management (up to an amount of \$100 thousands and for intellectual property (up to an amount of one million dollars). The policy is valid throughout the world commencing from March 1, 2009 and up to May 31, 2010, with the retroactive validity of the policy being set at March 1, 1999. The approval of the terms of the policy is subject to the approval of the organs of Insightec and of the Company.
- d. Gamida's directors and officers (including the Company's directors who are non-controlling shareholders of the Company) are covered with the policy includes insurance cover for the Directors and officers in Gamida as well as indemnity for Gamida, cover with respect to financial damage caused to Gamida in the case of claims against the officers and this in the event that Gamida is entitled or obligated, by law, to indemnify the insured with respect to monetary damage. In accordance with the terms and conditions of the policy, the limit of liability of the insurer is 5,000,000 dollars. The limit of liability is the total of the accumulated amount of the liability of the insurer for any monetary damage, resulting from all the claims that will be submitted against all the insured parties in accordance with all the clauses of the insurance cover, in accordance with the accumulative policy.

**(8)** As for directors' indemnification - see note 23C (1-3).

**(9)** Shares and warrants issued to related parties - see note 25.

- C.** The following table presents the components of the Group related party transactions and benefit granted to the Group's key management personnel:

|           |   | <b>Year ended December 31</b> |               |               |
|-----------|---|-------------------------------|---------------|---------------|
|           |   | <b>2009</b>                   | <b>2008</b>   | <b>2007</b>   |
|           |   | <b>(in thousand NIS)</b>      |               |               |
| <b>a.</b> | <b>Benefits to key management personnel</b>   |                               |               |               |
|           | Salaries, management fees, directors' fees and bonuses (i)  | 8,096                         | 2,132         | 61,770        |
|           | Post employment benefits  | 225                           | 1,332         | 490           |
|           | Termination benefits  | -                             | -             | 380           |
|           | Amortization of stock based compensation expenses   | 5,003                         | 16,690        | 31,665        |
|           |   | <u>13,324</u>                 | <u>20,154</u> | <u>94,305</u> |
| <b>b.</b> | Project expenses (coordination, supervision and aviation services) - charged, mainly to cost of trading property and property plant and equipment | <u>112,232</u>                | <u>99,407</u> | <u>73,747</u> |

- (i) 2008: Net after adjustment of bonus provisions accrued in 2007 to the Company's directors in the amount of NIS 6.1 million. See sections (4) and (5) above.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 27 - RELATED PARTIES (CONT.)**

**D. Balances with related parties**

|  | <b>Year ended<br/>December 31</b> |               |
|--|-----------------------------------|---------------|
|  | <b>2009</b>                       | <b>2008</b>   |
|  | <b>(in thousand NIS)</b>          |               |
| <b>Assets:</b>   |                                   |               |
| Receivables and other debit accounts                   | 8,627                             | 8,113         |
| Jointly controlled entity                              | 25,032                            | 7,984         |
| Deposit, loans and other long-term receivables         | 1,082                             | 1,082         |
|  | <u>34,741</u>                     | <u>17,179</u> |
| <b>Liabilities:</b>                                    |                                   |               |
| Payables and other credit accounts                     | 8,447                             | 4,630         |
| Liability to the Company's vice chairman (see 6 above) | 3,401                             | 5,859         |
| Benefits payable to key management personnel           | 11,308                            | 10,909        |
|  | <u>23,156</u>                     | <u>21,398</u> |

**E. Liens and guarantees - see notes 23E.(1).**

**NOTE 28 - SEGMENTS REPORTING**

The Group has initially adopted in these financial statements IFRS 8, Operating Segments. The standard is applicable for annual reporting periods commencing on January 1, 2009. The adoption of the standard did not change the Group's reportable segments in the years 2008 and 2007, however, certain data in the reportable segments of 2008 and 2007 were retroactively restated in order to comply with the requirements of the new standard.

The Group's Chief Operating Decision-Maker ("CODM") has been identified as the Group's Executive Committee. The CODM reviews the Group's internal reporting to assess the performance and to allocate resources. The CODM assesses the performance of the Group's segments based on Net Operating Income. Such Net Operating Income is excluding general and administrative expenses attributable to the Company's headquarter, financing income (expenses) and income taxes. In addition, the CODM is assessing separately the specific financial expenses of each segment based on the borrowings which are specifically attributable to the segment. All other financing expenses (income) (i.e: financing expenses in respect of non specific borrowing ,interest income on investments and deposits and changes in fair value of financial instruments) were considered as unallocated financing expenses(income). For the purpose of these financial statements the following business segments were identified:

- Commercial and entertainment centers - Initiation, construction and sale, of commercial and entertainment centers and other mixed-use real property projects, predominantly in the retail sector. In certain circumstances and depending on market conditions, the Group operates and manages a commercial and entertainment centers prior to its sale.
- Hotels - Hotels operation and management.
- Image guide treatment - Investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 28 - SEGMENTS REPORTING (cont.)**

- Residential projects- initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential.
- Fashion apparel - distribution and marketing of fashion apparel and accessories.
- Venture-capital investments - investments in high tech companies which are mainly engaged in research and development operations.
- Hospitals - initiation and construction of hospitals which are in preliminary stages.
- Farm and dairy plant- initiations and construction of farm and dairy farm which are in preliminary stages.
- Wholesale trade of home appliances- distribution and marketing of electrical appliances, kitchen appliances, kitchen systems, and facilities.

The Group's reportable segments for each of the years ended December 31, 2009, 2008 and 2007 are: Commercial and entertainment centers, Hotels, Image guide treatment, Residential projects and Fashion apparel. All the other operations identified by the CODM are included as "other activities". The assets of a reportable segment include mainly property plant and equipment (mainly of the Hotels and the fashion apparel segments) as well as trading property and payments on account of trading property attributable to the Commercial and entertainment centers and the Residential projects. Unallocated assets include mainly cash and cash equivalent as well as short and long term deposits and investments.

The liabilities of the reportable segments include mainly specific borrowings provided directly to the Project Companies (i.e: mainly companies which are engaged in the purchase. construction and initiations of commercial centers and hotels) and which are usually secured by a mortgage on the property owned by these Project Companies. Other borrowings which were raised by the Group with no identification to certain operations (i.e: mainly debentures raised by the Company and PC) were considered as unallocated liabilities.

The accounting policies of the reportable segments are the same as the Group accounting policies described in note 2

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 28 - SEGMENTS REPORTING (CONT.)**

**B. Data regarding business segments**

**Year ended December 31, 2009**

|   | Commercial and<br>entertainment<br>centers (i) | Hotels    | Image guided<br>treatment | Residential | Fashion<br>apparel | Other<br>activities | Total     |
|---|--|-----------|---------------------------|-------------|--------------------|---------------------|-----------|
|   | (In thousand NIS)                              |           |                           |             |                    |                     |           |
| <b>Revenues</b>   | 102,937  | 396,736   | 75,318                    | -           | 118,386            | -                   | 693,377   |
| <b>Segment profit(loss)</b>   | (281,741)                                      | 27,914    | (66,044)                  | (16,551)    | (15,757)           | (12,655)            | (364,834) |
| Financial expenses  | (22,923)                                       | (106,213) | (705)                     | -           | (5,742)            | -                   | (135,583) |
| Share in losses of associates,<br>net                                 | (4,226)  |           |                           |             |                    | (9,813)             | (14,039)  |
| Unallocated general and<br>administrative expenses                    |  |           |                           |             |                    |                     | (66,153)  |
| Unallocated financial expenses  |  |           |                           |             |                    |                     | (147,963) |
| Financial income  |  |           |                           |             |                    |                     | 92,725    |
| Change in fair value of financial<br>instruments measured at<br>FVTPL |  |           |                           |             |                    |                     | (70,702)  |
| loss before income taxes  |  |           |                           |             |                    |                     | (706,549) |
| Income taxes  |  |           |                           |             |                    |                     | (35,571)  |
| <b>Loss from continuing<br/>operations</b>                            |  |           |                           |             |                    |                     | (670,978) |
| <b>Profit from discontinued<br/>operation</b>                         |  |           |                           |             |                    |                     | 16,550    |
| <b>Loss for the year</b>  |  |           |                           |             |                    |                     | (654,428) |
| <b>Purchase cost of segment<br/>assets(ii)</b>                        | 920,235  | 74,581    | 843                       | 358,532     | 12,644             | 14,647              | 1,381,482 |
| <b>Depreciation and<br/>amortization of segment<br/>assets</b>        | 6,501  | 61,435    | 3,363                     | -           | 8,951              | -                   | 80,250    |
| <b>Unallocated depreciation and<br/>amortization</b>                  |  |           |                           |             |                    |                     | 1,997     |
|   |  |           |                           |             |                    |                     | 82,247    |
| <b>Provision for impairment of<br/>segment assets</b>                 | 216,962  | 15,593    | -                         | -           | -                  | -                   | 232,555   |
| <b>Unallocated provision for<br/>impairment</b>                       |  |           |                           |             |                    |                     |           |
| <b>December 31, 2009:</b>   |  |           |                           |             |                    |                     |           |
| <b>Segment assets</b>   | 3,670,008                                      | 1,696,902 | 24,647                    | 1,011,994   | 92,052             | 8,796               | 6,504,399 |
| <b>Investment on the equity<br/>basis</b>                             | (3,269)  |           |                           |             |                    | 44,866              | 41,597    |
| <b>Unallocated assets</b>   |  |           |                           |             |                    |                     | 2,817,899 |
|   |  |           |                           |             |                    |                     | 9,363,895 |
| <b>Segment liabilities</b>  | 967,329  | 1,351,980 | 70,461                    | 958         | 60,622             | 3,609               | 2,454,960 |
| <b>Unallocated liabilities</b>  |  |           |                           |             |                    |                     | 4,773,648 |
|   |  |           |                           |             |                    |                     | 7,228,608 |

(i) Includes mainly sales of trading property.

(ii) Includes trading property and payments on accounts of trading property.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 28 - SEGMENTS REPORTING (CONT.)**

**B. Data regarding business segments**

**Year ended December 31, 2008**

|  | Commercial<br>and<br>entertainme<br>nt centers (i) | Hotels    | Image<br>guided<br>treatment | Residential | Fashion<br>apparel | Other<br>activities | Total     |
|--|--|-----------|------------------------------|-------------|--------------------|---------------------|-----------|
|  | (In thousand NIS)                                  |           |                              |             |                    |                     |           |
| <b>Revenues</b>  | 568,895  | 387,776   | 38,076                       | 834         | 102,736            |                     | 1,098,317 |
| <b>Segment profit(loss)</b>  | 119,438  | 19,251    | (86,152)                     | (10,598)    | (15,304)           | (26,993)            | (358)     |
| Financial expenses   | (16,016)   | (121,369) | (5,404)                      |             | (2,008)            |                     | (144,797) |
| Share in losses of associates, net                                 | (4,954)  |           |                              |             |                    | (7,998)             | (12,952)  |
| Unallocated general and<br>administrative expenses                 |  |           |                              |             |                    |                     | (54,944)  |
| Unallocated financial expenses                                     |  |           |                              |             |                    |                     | (151,730) |
| Financial income   |  |           |                              |             |                    |                     | 135,278   |
| Change in fair value of financial<br>instruments measured at FVTPL |  |           |                              |             |                    |                     | 225,244   |
| <b>Loss before income taxes</b>                                    |  |           |                              |             |                    |                     | (4,259)   |
| Income taxes   |  |           |                              |             |                    |                     | 24,736    |
| <b>Loss from continuing<br/>operations</b>                         |  |           |                              |             |                    |                     | (28,995)  |
| <b>Profit from discontinued<br/>operation</b>                      |  |           |                              |             |                    |                     | 4,934     |
| <b>Loss for the year</b>   |  |           |                              |             |                    |                     | (24,061)  |
| <b>Purchase cost of segment<br/>assets (ii)</b>                    | 1,279,969  | 192,562   | 1,101                        | 522,026     | 24,039             | 56,930              | 2,076,627 |
| <b>Depreciation and amortization<br/>of segment assets</b>         | 6,034  | 53,178    | 5,711                        |             | 5,907              |                     | 70,830    |
| <b>Unallocated depreciation and<br/>amortization</b>               |  |           |                              |             |                    |                     | 1,849     |
|  |  |           |                              |             |                    |                     | 72,679    |
| <b>Provision for impairment of<br/>segment assets</b>              | 8,248  | 12,234    |                              |             |                    |                     | 20,482    |
| <b>Unallocated provision for<br/>impairment</b>                    |  |           |                              |             |                    |                     | 30,085    |
|  |  |           |                              |             |                    |                     | 50,567    |
| <b>December 31, 2008:</b>  |  |           |                              |             |                    |                     |           |
| <b>Segment assets</b>  | 2,973,741  | 1,660,014 | 27,378                       | 806,987     | 78,573             | 5,110               | 5,552,004 |
| <b>Investment on the equity basis</b>                              | 996  |           |                              |             |                    | 45,659              | 46,655    |
| <b>Unallocated assets</b>  |  |           |                              |             |                    |                     | 3,093,053 |
|  |  |           |                              |             |                    |                     | 8,691,712 |
| <b>Segment liabilities</b>   | 654,857  | 1,313,239 | 137,052                      | 3,483       | 64,170             | 3,171               | 2,175,972 |
| <b>Unallocated liabilities</b>                                     |  |           |                              |             |                    |                     | 4,077,957 |
|  |  |           |                              |             |                    |                     | 6,253,929 |

(i) Includes mainly sales of trading property.

(ii) includes trading property and payments on accounts of trading property.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 28 - SEGMENTS REPORTING (CONT.)**

**B. Data regarding business segments**

**Year ended December 31, 2007**

|   | Commercial<br>and<br>entertainment<br>centers (i) | Hotels    | Image<br>guided<br>treatment | Residential | Fashion<br>apparel | Other<br>activities | Total     |
|---|---|-----------|------------------------------|-------------|--------------------|---------------------|-----------|
|   | (In thousand NIS)                                 |           |                              |             |                    |                     |           |
| <b>Revenues</b>   | 2,935,416   | 440,048   | 54,958                       | -           | 68,139             | -                   | 3,498,561 |
| <b>Segment profit(loss)</b>   | 1,199,370   | 92,728    | (84,555)                     | -           | (8,545)            | (2,806)             | 1,196,192 |
| Financial expenses  | (16,367)  | (104,989) | (9,951)                      |             | (2,431)            |                     | (133,738) |
| Share in losses of associates,<br>net                                 | (107)   |           |                              |             |                    | (12,560)            | (12,667)  |
| Unallocated general and<br>administrative expenses                    |   |           |                              |             |                    |                     | (116,992) |
| Unallocated financial expenses  |   |           |                              |             |                    |                     | (98,828)  |
| Financial income  |   |           |                              |             |                    |                     | 73,293    |
| Change in fair value of financial<br>instruments measured at<br>FVTPL |   |           |                              |             |                    |                     | 18,347    |
| <b>Profit before income taxes</b>                                     |   |           |                              |             |                    |                     | 925,607   |
| Income taxes  |   |           |                              |             |                    |                     | 16,288    |
| <b>Profit from continuing<br/>operations</b>                          |   |           |                              |             |                    |                     | 909,319   |
| <b>Profit from discontinued<br/>operation</b>                         |   |           |                              |             |                    |                     | 10,289    |
| <b>Profit for the year</b>  |   |           |                              |             |                    |                     | 919,608   |

(i) Includes mainly sales of trading property.

**C. Data regarding geographical areas**

**(1) Revenues by geographical areas**

Revenues information above is based, mainly, on the locations of the assets.

|                            | Year ended December 31 |           |           |
|----------------------------|------------------------|-----------|-----------|
|                            | 2009                   | 2008      | 2007      |
|                            | (in thousand NIS)      |           |           |
| East and central Europe(i) | 238,443                | 669,740   | 3,006,192 |
| West Europe (ii)           | 293,921                | 305,660   | 353,245   |
| Israel                     | 132,021                | 102,736   | 96,875    |
| Others                     | 28,992                 | 20,181    | 42,249    |
|                            | 693,377                | 1,098,317 | 3,498,561 |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 28 - SEGMENTS REPORTING (CONT.)**

**C. Data regarding geographical areas (Cont.)**

**(1) Revenues by geographical areas (cont.)**

- (i) The following table provides an additional information in respect of the revenues in east and central Europe per countries:

|                | Year ended December 31 |                |                  |
|----------------|------------------------|----------------|------------------|
|                | 2009                   | 2008           | 2007             |
|                | (in thousand NIS)      |                |                  |
| Hungary        | 13,058                 | 126,539        | 2,170,733        |
| Poland         | 27,504                 | 43,241         | 761,547          |
| Czech Republic | 23,198                 | 355,237        | 14,964           |
| Romania        | 131,731                | 83,509         | 51,126           |
| Latvia         | 20,841                 | -              | -                |
| Others         | 22,111                 | 61,214         | 7,822            |
|                | <u>238,443</u>         | <u>669,740</u> | <u>3,006,192</u> |

- (ii) The following table provides additional information in respect of the revenues in west Europe per countries:

|            | Year ended December 31 |                |                |
|------------|------------------------|----------------|----------------|
|            | 2009                   | 2008           | 2007           |
|            | (in thousand NIS)      |                |                |
| England    | 138,676                | 166,110        | 199,661        |
| Netherland | 66,246                 | 74,184         | 80,181         |
| Belgium    | 60,082                 | 60,417         | 64,664         |
| Others     | 28,917                 | 4,950          | 8,738          |
|            | <u>293,921</u>         | <u>305,661</u> | <u>353,245</u> |

**(2) Non Current assets by geographical areas**

The Group's Non Current assets provided in the following table include also trading property and payment on account of trading property.

|                         | Segment assets    |                  |
|-------------------------|-------------------|------------------|
|                         | December 31       |                  |
|                         | 2009              | 2008             |
|                         | (in thousand NIS) |                  |
| East and central Europe | 4,212,508         | 3,523,325        |
| West Europe             | 973,067           | 924,400          |
| Israel                  | 200,732           | 190,921          |
| India                   | 1,158,274         | 957,831          |
| Others                  | 1,414             | 2,182            |
|                         | <u>6,545,995</u>  | <u>5,598,660</u> |



**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 29 - DISCONTINUED OPERATION**

Following the sale of the diagnostic ultrasound activity by the Company and the sale of the Nuclear Medicine (NM), Magnetic Resonance Imaging (MRI) and Computerized Tomography (CT) activities by Elscint, the Group's core activity in these areas was terminated. The results from these operations have therefore been presented in the statements of operations, as discontinued operation. Balances included in the statement of operations and/or dispositions in balance sheet items through the reported years, reflect primarily settlements or resolution of disputes and/or lawsuits and/or certain claims relating to the ultrasound, NM, CT and MRI businesses and the ultimate sale thereof. The liabilities included in the discontinued operations include mainly provisions for demands and claims of third parties in respect of discontinued operation.

**NOTE 30 - FINANCIAL INSTRUMENTS**

**A. Principal accounting policies**

The principal accounting policies adopted by the Group in respect of financial instruments and equity components including recognition criteria, measurement and charges to the statement of income and other comprehensive income are included in note 2.

**B. Balances of financial instruments by categories**

**(1) Composition:**

|  | <b>December 31</b>       |                  |
|--|--------------------------|------------------|
|  | <b>2009</b>              | <b>2008</b>      |
|  | <b>(in thousand NIS)</b> |                  |
| <b>Financial assets</b>  |                          |                  |
| Cash and cash equivalents  | 1,508,301                | 1,690,433        |
| Loans and receivables  | 486,061                  | 507,021          |
| Financial assets held for trading                                      | 202,309                  | 170,692          |
| Available for sale financial instruments                               | 81,843                   | 45,599           |
| Held to maturity financial instruments                                 | 315,101                  | 385,755          |
| Financial assets designated at fair value through profit and loss      | 70,481                   | 52,253           |
| Derivative financial assets at fair value through profit and loss      | 133,594                  | 107,657          |
|  | <u>2,797,690</u>         | <u>2,959,410</u> |
| <b>Financial Liabilities</b>   |                          |                  |
| Derivative financial liabilities at fair value through profit and loss | 27,969                   | 24,518           |
| Financial liabilities designated at fair value through profit and loss | 1,221,683                | 957,526          |
| Derivative financial instruments designated for cash flow hedge        | 39,220                   | 37,534           |
| Financial liabilities at amortized cost                                | 5,742,580                | 5,022,935        |
|  | <u>7,031,452</u>         | <u>6,042,513</u> |

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**B. Balances of financial instruments by categories (Cont.)**

**(2) Additional information:**

- a. As for financing income and expenses resulting from the aforementioned financial instruments –see note 26K., L&M.
- b. The total change in fair value which is attributable to the change in the credit risk of PC's debentures measured at FVTPL for the year ended December 31,2009 and 2008 amount to loss of NIS 358 million and revenue of NIS 230 million respectively.  
The group estimates changes in fair value due to credit risk, by estimating the amount of change in the fair value that is not due to changes in market conditions that give rise to market risk.

**C. Management of financial risks**

The operations of the Group exposes it to risks that relate to various financial instruments, such as: market risks (including currency risk, fair value risk with respect to interest rates, cash flow risk with respect to interest rates and other price risk), credit risk and liquidity risk.

Market risk – is the risk that the fair value of future cash flow of financial instruments will fluctuate because of changes in market prices

Credit risk - is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations.

Liquidity risk - Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The comprehensive risk management program of the Group focuses on actions to minimize the possible negative effects on the financial performance of the Group. In certain cases the Group uses derivatives and non-derivative financial instruments in order to hedge certain risk exposures.

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board has established a continuous process for identifying and managing the risks faced by the Group, and confirms that any appropriate actions have been or are being taken to address any weaknesses. The board has established the Investment committee, which is responsible for developing and monitoring the Group's financial risk management policies. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to the following risks which are related to financial instruments:

**(1) Foreign currency risk**

The Group has international activities in many countries and therefore it is exposed to foreign currency risks as a result of fluctuations in the different exchange rates.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**C. Management of financial risks (cont.)**

**(1) Foreign currency risk (cont.)**

Foreign currency risks are derived from transactions executed and/or financial assets and liabilities held in currency which is different than the functional currency of the Group's entity which executed the transaction or hold these financial assets and liabilities. In order to minimize such exposure the Group policy is to hold financial assets and liabilities in a currency which is the functional currency or the Group's entity. The Company's functional currency is the NIS and its investees use different functional currencies (mainly the Euro, GBP, Indian Rupee, US Dollar and the RON). In addition, part of the Company's long term loans (mainly Euro) are used as hedge to the Company's investments in foreign operations. As for foreign currency risk in respect of PC debentures, for which PC executed swap transactions in order to hedge such risk, see C.(4) below.

The following tables details sensitivity analysis to a change of 10% in the Group's main foreign currencies against their relevant functional currency and their effect on the statements of income and the shareholders' equity (before tax and before capitalizing any exchange results to qualified assets):

**As of December 31, 2009:**

|                                     | Functional<br>currency | Linkage<br>currency | Change in<br>the<br>exchange<br>rate (%) | Profit (loss)<br>In thousand NIS |
|-------------------------------------|------------------------|---------------------|--|----------------------------------|
| <b><u>Assets</u></b>                |                        |                     |  |                                  |
| Cash and deposits                   | NIS                    | US Dollar           | +10%                                     | 9,807                            |
| Cash and deposits                   | Euro                   | PLN                 | +10%                                     | 4,757                            |
| Cash and deposits                   | NIS                    | Euro                | +10%                                     | 22,320                           |
|                                     |                        |                     |  | <u>36,884</u>                    |
| <b><u>Financial liabilities</u></b> |                        |                     |  |                                  |
| Loans at amortized cost             | NIS                    | US Dollar           | +10%                                     | (16,702)                         |
| Loans at amortized cost (i)         | NIS                    | Euro                | +10%                                     | (23,367)                         |
| Debentures at amortized cost        | NIS                    | US Dollar           | +10%                                     | (4,984)                          |
| Debentures at amortized cost (ii)   | Euro                   | NIS                 | +10%                                     | (15,123)                         |
| Loans at amortized cost             | Euro                   | CHF                 | +10%                                     | (1,929)                          |
| Loans at amortized cost             | RON                    | Euro                | +10%                                     | (24,323)                         |
|                                     |                        |                     |  | <u>(86,428)</u>                  |

- (i) The effect of the exchange rates results in respect of these financial liabilities is offset against the exchange rate resulting from investments in foreign operations with the same functional currency.
- (ii) In respect of PC's series B debentures which are represented at amortized cost. Regarding the foreign currency risk of PC's debentures see C (4) below.

**Forward transactions**

PC entered into 2 forward transactions to hedge its foreign currency exposure risk in respect of Series A and B debentures. The Company settled Forward A for a total consideration of NIS 14.5 million.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**C. Management of financial risks (cont.)**

**(1) Foreign currency risk (cont.)**

**Forward transactions (cont.)**

In January 2010 the Company settled Forward B for a total consideration of NIS 29.6 million (approximately EUR 5.6 million).

**As of December 31, 2008:**

|                                     | Functional<br>currency | Linkage<br>currency | Change in<br>the<br>exchange<br>rate (%) | Profit (loss)<br>In thousand NIS |
|-------------------------------------|------------------------|---------------------|--|----------------------------------|
| <b><u>Assets</u></b>                |                        |                     |  |                                  |
| Cash and deposits                   | NIS                    | US Dollar           | +10%                                     | 13,379                           |
| Cash and deposits                   | NIS                    | Euro                | +10%                                     | 3,077                            |
|                                     |                        |                     |  | <u>16,456</u>                    |
| <b><u>Financial liabilities</u></b> |                        |                     |  |                                  |
| Loans at amortized cost             | NIS                    | US Dollar           | +10%                                     | (12,639) (i)                     |
|                                     |                        |                     |  | (22,740)                         |
| Loans at amortized cost             | NIS                    | Euro                | +10%                                     | (i)                              |
| Debentures at amortized cost        | NIS                    | US Dollar           | +10%                                     | (5,570)                          |
| Loans at amortized cost             | RON                    | Euro                | +10%                                     | (24,399)                         |
| Loans at amortized cost             | RON                    | US Dollar           | +10%                                     | (4,149)                          |
|                                     |                        |                     |  | <u>(69,497)</u>                  |

**As of December 31, 2007:**

|                              | Functional<br>currency | Linkage<br>currency | Change in the<br>exchange<br>rate (%) | Profit (loss)<br>In thousand NIS |
|------------------------------|------------------------|---------------------|---------------------------------------|----------------------------------|
| <b><u>Assets</u></b>         |                        |                     |                                       |                                  |
| Cash and deposits            | NIS                    | US Dollar           | +10%                                  | 27,030                           |
| Cash and deposits            | NIS                    | Euro                | +10%                                  | 7,973                            |
|                              |                        |                     |                                       | <u>35,003</u>                    |
| <b><u>Liabilities</u></b>    |                        |                     |                                       |                                  |
| Loans at amortized cost      | NIS                    | US Dollar           | +10%                                  | (12,786) <sup>(i)</sup>          |
| Loans at amortized cost      | NIS                    | Euro                | +10%                                  | (24,318) <sup>(i)</sup>          |
| Debentures at amortized cost | NIS                    | US Dollar           | +10%                                  | (5,788)                          |
| Loans at amortized cost      | RON                    | Euro                | +10%                                  | (26,024)                         |
| Loans at amortized cost      | RON                    | US Dollar           | +10%                                  | (4,236)                          |
|                              |                        |                     |                                       | <u>(73,152)</u>                  |

- (i) The effect of the exchange rates results in respect of these financial liabilities is offset against the exchange rate resulting from investments in foreign operations with the same functional currency.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**C. Management of financial risks (cont.)**

**(2) Price risk**

Marketable securities

The Company invests in marketable securities based on the investment policy adopted by the Company's investment committee. In accordance with the said policy the Company will invest up to NIS 500.0 million through several Israeli investment institutions. The portfolio investment will be divided as follow: up to 15% in shares and the remaining in government bonds and corporate bonds with a rating of at least A on a local scale. In addition the portfolio may not include investment in derivative instruments and trust funds.

Embedded derivative

The Group is committed to pay to a financing bank additional exit fee in the event of cash distributions deriving from the sale, disposal, refinancing of the hotels which were financed by the bank loan funds or in the event of other repayment of the loan ("Transaction"). The exit fee will be calculated as the amount equivalent to 15% of the difference between the market value of the hotels as determined in such Transaction and the current agreed value of the hotels (see note 20A.(iii)). The embedded derivative is measured at fair value at each balance sheet date based on the Black-Schools model. One of the most significant parameter which influences the fair value of the embedded derivative is the market value of the underlying assets (i.e. the value of the hotels which were financed by the loan).

The following table details sensitivity analysis to changes in market prices and/or fair value and their effect on the statements of income (before tax) :

|   | Scope of<br>price change<br>% | Profit (loss)          |         |         |
|---|-------------------------------|------------------------|---------|---------|
|   |                               | Year ended December 31 |         |         |
|   |                               | 2009                   | 2008    | 2007    |
|   |                               | (in thousand NIS)      |         |         |
| Increrase in the prices of marketable securities held for trade   | +10%                          | 20,231                 | 17,069  | 54,229  |
| Increrase in the fair value of the underlying assets used for the calculation of the embedded derivative's fair value | +5%                           | (3,548)                | (3,415) | (5,349) |
|   |                               | 16,683                 | 13,654  | 48,880  |

**(3) Credit risk**

The Group holds cash and cash equivalents, short term investments and other long- term investments in financial instruments (mainly investments in Notes of foreign financial institutions- see note 9A) in various reputable banks and financial institutions. These banks and financial institutions are located in different geographical regions, and it is the Group's policy to disperse its investments among different banks and financial institutions. The maximum credit risk exposure of the Group is approximate to the financial assets presented in the balance sheet.

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**C. Management of financial risks (cont.)**

**(3) Credit risk (cont.)**

The investment of the group in HTM structures is concentrated mainly in one bank with a credit rate of A2 according to MOODY'S and A according to the S&P. (See also note AG (2) b.

Due to the nature of their activity, the Group companies, which operates at the hotels, the image guided and the fashion merchandise business, are not materially exposed to credit risks stemming from dependence on a given customer. The Group companies examine on an ongoing basis the credit amounts extended to their customers and, accordingly, record a provision for doubtful debts based on those factors they consider having an effect on specific customers.

**(4) Interest rate risk**

Fair value risk

A significant portion of the Group's long term loans and debentures bearing a fixed interest rate and are therefore exposed to change in their fair value as a result of changes in the market interest rate. The vast majority of these loans and debentures are measured at amortized cost and therefore changes in the fair value will not have any effect on the statement of income. In addition, the Group has invested in financial Notes (see note 9A.) which are classified as held to maturity, and therefore change in the fair value of these financial Notes will not have any effect on the statement of income. The fair value of these financial instruments is presented in Item D (3) below.

PC's debentures at FVTP and swap transaction

As of the balance sheet date PC has issued two series of debentures: Series A in the total aggregate amount of NIS 305 million and Series B in the aggregate amount of NIS 943 million. PC series A and Series B debentures are linked to the Israeli CPI and bear a fixed interest rate 4.5%-5.4% per annum. Close to the date of their issuance PC entered into a cross currency interest rate swap transactions in respect of the entire amount of Series A debentures. Such swap transaction was settled in January 2009. In addition, PC entered into several swap transaction for its Series B debentures, NIS 798 million par value ("Series B at FVTPL"). PC did not execute Swap transaction for the additional amount of Series B debentures. According to the Swap transactions PC will pay an interest equal to the Euribor plus a margin of 2.19%-3.62% and will receive the same interest of the debentures linked to the Israeli CPI with the same amortization schedule as the debentures. The derivatives are measured at fair value with changes in the fair value are charged to the statements of income. The debentures (other than those for which a swap transaction were not executed) are designated at fair value through profit and loss since it significantly reduces a measurement inconsistency with the said derivative. The debentures and the derivative associated to it (i.e. the swap transactions) are mainly exposed to changes in the Euro/NIS exchange rate, the Israeli consumer Price Index and the market interest rates.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**C. Management of financial risks (cont.)**

**(4) Interest rate risk (cont.)**

Set forth is an analysis of the net change in the fair value of the debentures and the derivatives. This analysis assumes that in each case all other parameters affecting the derivatives and the debentures fair value remain constant:

|  | Scope of<br>price change<br>% | Profit (loss)          |                 |              |
|--|-------------------------------|------------------------|-----------------|--------------|
|  |                               | Year ended December 31 |                 |              |
|  |                               | 2009                   | 2008            | 2007         |
|  |                               | (in thousand NIS)      |                 |              |
| Devaluation of the NIS<br>against the Euro | (i)                           | <u>39,224</u>          | <u>(51,421)</u> | <u>(385)</u> |
| Change in the Israeli CPI                  | +2%                           | <u>(4,196)</u>         | <u>11,580</u>   | <u>164</u>   |
| Change in the market interest<br>rate      | +1%                           | <u>6,759</u>           | <u>(32,001)</u> | <u>679</u>   |

(i) December 31, 2009: +12.27% December 31, 2008: +20%; December 31, 2007: +5%.

Cash flow risk

- a. Part of the Group's long term borrowings as well as long term loans receivable are bearing variable interest rate. Cash and cash equivalent, short term deposits and short term bank credits are mainly deposited in or obtained at variable interest rate. Change in the market interest rate will affect the Group's finance income and expenses and its cash flow. In certain cases the Group uses interest rate swap transaction in order to swap loans with a variable interest rate to fixed interest rate or alternatively entered into loans with a fixed interest rate.

The following table presents the effect of an increase of 2% in the Libor rate with respect to financial liabilities which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

|  | Profit (loss)          |                 |                 |
|--|------------------------|-----------------|-----------------|
|  | Year ended December 31 |                 |                 |
|  | 2009                   | 2008            | 2007            |
| (in thousand NIS)  |                        |                 |                 |
| Loans, debentures and<br>convertible debentures linked to<br>the US dollar | (4,342)                | (5,889)         | (12,714)        |
| Loans and debentures linked to<br>the Euro(i)                              | (48,984)               | (48,303)        | (13,627)        |
| Loans linked to the NIS  | (811)                  | (674)           | (127)           |
|  | <u>(54,137)</u>        | <u>(54,866)</u> | <u>(26,468)</u> |

(i) In respect of PC's debentures which are linked to the Israeli CPI and for which PC has executed swap transactions in order to exchange the interest to variable interest rate (see note 9A.(iv).

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**C. Management of financial risks (cont.)**

**(4) Interest rate risk (cont.)**

- b. As of the balance sheet date the Group holds investments in financial Notes in the amount of NIS 315 million (2008: NIS 386 million) which bear an interest of 11.5%-12% per annum, and which is payable only if the margin between the 30 years Euro swap interest rate and the 10 years Euro swap interest rate (measured on a daily basis) is higher than the margin stated in the agreement. Therefore, the Group is exposed to non payment of interest on these Notes in the event that the aforementioned condition is not met. A decrease of 5% in the annual effective interest rate on the Notes will lead to a decrease in the Group's financing income and its cash flow for the year ended December 31, 2009 in the amount of NIS 15.8 million ( 2008: NIS 19.3 million; 2007: 0 NIS). After the balance sheet date the company settled financial Notes in the amount of NIS 108 million.

**(5) Liquidity risk**

The Group's capital resources include the following: (a) public issuances of unsecured debentures by the Company and PC; (b) lines of credit obtained from banks and financial institutions; (c) proceeds from sales of trading property and real estate assets; and (d) available cash and cash equivalents. Such resources are used for the following activities:

- (i) Equity investments in the Group's shopping and entertainment centers, hotels and residential projects, which are generally constructed by the Group's Project Companies. The Company and/or PC generally finance approximately 25%-30% of such projects through equity investments in the Project Companies, while the remaining 70%-75% is generally financed through a credit facility secured by a mortgage on the project constructed by the respective Project Company, registered in favor of the financial institution that provides such financing. The equity investments in the Project Companies are typically provided by the Company or PC through shareholders loans that are subordinated to the credit facilities provided to the Project Company;
- (ii) Additional investments in InSightec, to the extent necessary. InSightec's capital resources are obtained primarily from additional investments in equity or in convertible notes by its shareholders and from its revenues from sales of medical systems. Such amounts are used for research and development activities aimed to obtain FDA approvals for further treatments and other general corporate expenses such as cost of revenues, marketing and selling and general and administrative expenses;
- (iii) Additional investments in order to expand Elbit Trade's operations by opening new Mango stores in Israel as well as to expand its activities in other brands, such as Star, and Banana Republic;
- (iv) Interest and principal payments on the Group debentures and loans;
- (v) Payment of general and administrative expenses; and
- (vi) Additional investment in associates (mainly venture capital investments).

The following tables present the cash flow of financial liabilities and assets (principal and interest) in accordance with the contractual repayment dates:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 30 - FINANCIAL INSTRUMENTS

## C. Management of financial risks (cont.)

## (5) Liquidity risk (cont.)

As of December 31, 2009:

|  | 1st year         | 2nd year    | 3rd year | 4th year | 5th year  | 6th year and thereafter | Total     |
|--|------------------|-------------|----------|----------|-----------|-------------------------|-----------|
|  | In thousands NIS |             |          |          |           |                         |           |
| <b><u>Financial liabilities</u></b>          |                  |             |          |          |           |                         |           |
| <b>Borrowing with fixed interest rate</b>    |                  |             |          |          |           |                         |           |
| Loans linked to Euro                         | 16,848           | 17,819      | 18,462   | 18,101   | 188,769   | 29,511                  | 289,510   |
| Loans Linked to the GBP (iii)                | 612,209          | -           | -        | -        | -         | -                       | 612,209   |
| Convertible Debentures                       | 7,000            | 7,000       | 7,000    | 63,003   | 59,503    | -                       | 143,506   |
| Debentures linked to the Israeli CPI         | 472,640          | 485,137     | 472,818  | 539,662  | 448,559   | 1,170,851               | 3,589,667 |
|  | 1,108,697        | 509,956     | 498,280  | 620,766  | 696,831   | 1,200,362               | 4,634,892 |
| <b>Borrowing with variable interest rate</b> |                  |             |          |          |           |                         |           |
| Loans linked to the Euro (iii)               | 750,660          | (i) 578,086 | 66,371   | 64,170   | 222,689   | 206,462                 | 1,888,438 |
| Debenture linked to the Euro (ii)            | 38,680           | 190,835     | 183,097  | 175,364  | 167,626   | 159,893                 | 915,495   |
| Loans linked to the NIS                      | 41,337           | 599         | -        | -        | -         | -                       | 41,936    |
| Loans linked to the US Dollar                | 95,613           | 76,723      | 958      | 947      | 15,824    | -                       | 190,065   |
| Debentures linked to the US Dollar           | 13,320           | 12,829      | 12,339   | 11,849   | 5,802     | -                       | 56,139    |
|  | 939,610          | 859,072     | 262,765  | 252,330  | 411,941   | 366,355                 | 3,092,073 |
| Suppliers, payable and other credit balances | 346,615          | 72,677      | 10,596   | 14,700   | 23,890    | 34,612                  | 503,090   |
| <b>Total financial liabilities</b>           | 2,394,922        | 1,441,705   | 771,641  | 887,796  | 1,132,662 | 1,601,329               | 8,230,055 |
| <b><u>Financial assets</u></b>               |                  |             |          |          |           |                         |           |
| Cash and cash equivalent                     | 1,508,301        | -           | -        | -        | -         | -                       | 1,508,301 |
| Short term deposits                          | 563,719          | -           | -        | -        | -         | -                       | 563,719   |
| Trade receivables and other receivables      | 164,939          | -           | -        | -        | -         | -                       | 164,939   |
| Long term deposits, loans and investments    | -                | 51,940      | 60,844   | 39,625   | 37,970    | (iv) 435,316            | 625,695   |
| <b>Total financial assets</b>                | 2,236,959        | 51,940      | 60,844   | 39,625   | 37,970    | 435,316                 | 2,862,654 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

## C. Management of financial risks (cont.)

## (5) Liquidity risk (cont.)

As of December 31, 2008:

|  | 1 <sup>st</sup> year | 2nd year | 3rd year  | 4th year | 5th year | 6th year and thereafter | Total     |
|--|----------------------|----------|-----------|----------|----------|-------------------------|-----------|
|  | In thousand NIS      |          |           |          |          |                         |           |
| <b>Borrowing with fixed interest rate</b>      |                      |          |           |          |          |                         |           |
| Loans linked to Euro                           | 189,596              | -        | -         | -        | -        | -                       | 189,596   |
| Loans Linked to the GBP                        | 48,713               | 47,326   | 549,712   | -        | -        | -                       | 645,751   |
| Debentures linked to the Israeli CPI           | 230,990              | 349,679  | 336,161   | 329,581  | 399,253  | 1,255,696               | 2,901,360 |
|  | 469,299              | 397,005  | 885,873   | 329,581  | 399,253  | 1,255,696               | 3,736,707 |
| <b>Borrowing with variable interest rate</b>   |                      |          |           |          |          |                         |           |
| Loans linked to the Euro(i) (iii)              | 514,322              | 264,738  | 36,873    | 36,622   | 36,370   | 767,768                 | 1,656,693 |
| Debentures linked to the Euro(ii)              | 54,163               | 89,272   | 235,485   | 225,539  | 215,587  | 475,971                 | 1,296,017 |
| Loans linked to the NIS                        | 19,544               | 15,876   | -         | -        | -        | -                       | 35,420    |
| Loans linked to the US Dollar                  | 45,984               | 76,040   | -         | -        | -        | -                       | 122,024   |
| Debentures linked to the US Dollar             | 7,919                | 13,283   | 12,819    | 12,354   | 11,890   | 5,829                   | 64,094    |
| Convertible debentures linked to the US Dollar | 54,506               | 871      | 20,216    | -        | -        | -                       | 75,593    |
|  | 696,438              | 460,080  | 305,393   | 274,515  | 263,847  | 1,249,568               | 3,249,841 |
| <b>Total</b>                                   | 1,165,737            | 857,085  | 1,191,266 | 604,096  | 663,100  | 2,505,264               | 6,986,548 |

- (i) Includes loans in the amount of NIS 310 million and NIS 205 million (2008: 304 million) with a contractual maturity date on January 1, 2011 and respectively and which, in accordance with the provisions of the agreements, have a mechanism to accelerate the repayment of the loans in certain events as stipulated in the agreements. See also note 23E (1), (2) & (3)(iii).
- (ii) In respect of PC's debentures which are linked to the Israeli CPI and for significant portions of which PC has executed swap transactions in order to exchange the debentures linkage currency into Euro, see 9 A.(iv).
- (iii) Include loans in the amount of NIS 731 million (2008: NIS 392 million), in respect of which the Group is not in compliance with certain covenants included in the loan agreements. See also note 23E.(3)(i) & (ii)
- (iv) An amount of NIS 108 million was settled after the balance sheet date see (4) (b).

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**C. Management of financial risks (cont.)**

**(6) Consumer Price Index ("CPI") risk**

A significant part of the Group borrowings consist of debentures raised by the Company in the Tel Aviv Stock Exchange (excluding PC's debentures for which PC has executed swap transactions in order to exchange the debentures linkage currency into Euro. (see 9 A.(iv).) and which are linked to the increase in the Israeli CPI above the base index at the date of the debentures issuance. An increase of 3% in the Israeli CPI will cause an increase in the Group finance expenses for the years ended December 31, 2009, 2008 and 2007 (before tax and capitalization of borrowings costs to qualified assets) in the amount of NIS 75.8 million , NIS 66.5 million and NIS 62.8 million, respectively.

**(7) Collaterals**

The following table presents the book value of financial assets which are used as collaterals for the Group's liabilities:

|                                  | <b>December 31</b>       |                |
|----------------------------------|--------------------------|----------------|
|                                  | <b>2009</b>              | <b>2008</b>    |
|                                  | <b>(in thousand NIS)</b> |                |
| Long term borrowings             | 10,671                   | 12,929         |
| Short term credits               | 138,526                  | 191,487        |
| Guarantees provided by the Group | 19,622                   | 14,450         |
| Interest rate swap transactions  | 78,012                   | 104,145        |
| Forward transactions             | 34,283                   | -              |
|                                  | <u>281,114</u>           | <u>323,011</u> |

**D. Fair value of financial instruments**

The financial instruments of the Group include primarily, cash and cash equivalents, short and long-term deposits, marketable securities, trade receivables, short and long-term other receivables, short-term banks credit, other current liabilities and long- term monetary liabilities.

**(1) Fair value of financial instruments**

The fair value of traded financial instruments (such as marketable securities and debentures) is generally calculated according to quoted closing prices as of the balance sheet date, multiplied by the issued quantity of the traded financial instrument as of that date, except for instances in which the market for these traded financial instruments is considered an inactive market. The fair value of financial instruments that are not traded and financial instruments traded in an inactive market is estimated by means of accepted pricing models, such as present value of future cash flows discounted at a rate that, in the Group's assessment, reflects the level of risk that is incorporated in the financial instrument. The Group relies, in part, on market interest which is quoted in an active market, as well as on various techniques of approximation. Therefore, for most of the financial instruments, the estimation of fair value presented below is not necessarily an indication of the realization value of the financial instrument as of the balance sheet date. The estimation of fair value is carried out, as mentioned above, according to the discount rates in proximity to the date of the balance sheet date and does not take into account the variability of the interest rates from the date of the computation through the date of issuance of the financial statements.

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**D. Fair value of financial instruments (cont.)**

**(1) Fair value of financial instruments (cont.)**

Under an assumption of other discount rates, different fair value assessments would be received which could be materially different from those estimated by the Group, mainly with respect to financial instruments at fixed interest rate.

Moreover, in determining the assessments of fair value, the commissions that could be payable at the time of repayment of the instrument have not been taken into account and they also do not include any tax effect. The difference between the balances of the financial instruments as of the balance sheet date and their fair value as estimated by the Group may not necessarily be realizable, in particular in respect of a financial instrument which will be held until redemption date.

**(2) The principal methods and assumptions which served to compute the estimated fair value of the financial instruments**

- a. Financial instruments included in current assets** (cash and cash equivalents, deposits and marketable securities, trade receivables, other current assets and assets related to discontinued operation) - Due to their nature, their fair values approximate to those presented in the balance sheet.
- b. Financial instruments included in non-current assets** - the fair value of loans and deposits which bear variable interest rate is an approximate to those presented in the balance sheet. The fair value of long term Financial Notes (see note 9A.(ii) &(iii)), is determined using a price quotations provided to the Group by the issuer of the Notes as of the balance sheet date. Such quotation is generally, based on discounted expected cash flows from the Notes, taking into consideration factors such as the credit rating of the issuer, the prevailing and the expected relevant interest rates and others. The fair value of derivatives (mainly swap transactions) is done by relying on third party professional expert which takes into account the expected future cash flow based on the terms and maturity of each contract using market interest rates for a similar instrument prevailing at the measurement date.
- c. Financial instruments included in current liabilities** - (short-term credit, suppliers, other current liabilities and liabilities related to discontinued operation)) - Due to their nature, their fair values approximate to those presented in the balance sheet.
- d. Financial instruments included in long-term liabilities** - the fair value of the traded liabilities (debentures) is generally determined according to closing prices as of the balance sheet date quoted on the Tel- Aviv Stock Exchange, multiplied by the quantity of the marketable financial instrument issued as of that date, except for PC's traded debentures for which it was determined that the trade in said debentures as of the end of 2008 is pointing the existence of inefficient and inactive market and accordingly their fair value was determined using a valuation techniques (see note 2 AG.(1)e.). The fair value of non-traded liabilities at fixed interest rate is determined according to the present value of future cash flows, discounted at a rate which reflects, in the estimation of the Group, the level of risk embedded in the financial instrument. The fair value of liabilities which carried variable interest rate is approximate to those presented in the balance sheet.

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**D. Fair value of financial instruments (cont.)**

- (3) The following table presents the book value and fair value of the Group's financial assets (liabilities), which are presented in the financial statements at other than their fair value:

|   | December 31        |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2009               |                    | 2008               |                    |
|   | Book Value         | Fair Value         | Book Value         | Fair Value         |
|   | (In thousands NIS) |                    |                    |                    |
| Financial Notes held to maturity        | 315,101            | 244,436            | 385,755            | 252,448            |
| Long- term loans at fixed interest rate | (779,278)          | (816,695)          | (681,577)          | (723,859)          |
| Debentures                              | (2,568,276)        | (2,625,528)        | (2,208,457)        | (1,390,764)        |
|   | <u>(3,032,455)</u> | <u>(3,197,787)</u> | <u>(2,504,279)</u> | <u>(1,862,175)</u> |

**(4) Fair value levels**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements derived from 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); and
- Level 3: fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Financial assets at fair value through profit or loss:**

|                                  | December 31, 2009  |                |               |                |
|----------------------------------|--------------------|----------------|---------------|----------------|
|                                  | Level 1            | Level 2        | Level 3       | Total          |
|                                  | (In thousands NIS) |                |               |                |
| Marketable securities            | 202,309            | -              | -             | 202,309        |
| AFS financial assets             | 81,843             | -              | -             | 81,843         |
| PC's forward transactions        | -                  | 23,938         | -             | 23,938         |
| Financial note measured at FVTPL | -                  | -              | 70,481        | 70,481         |
| PC's swap transactions           | -                  | 109,656        | -             | 109,656        |
|                                  | <u>284,152</u>     | <u>133,594</u> | <u>70,481</u> | <u>488,227</u> |

**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)**

**D. Fair value of financial instruments (cont.)**

**Financial liabilities at fair value through profit or loss**

|  | <b>December 31, 2009</b>  |                |                     | <b>Total</b>     |
|--|---------------------------|----------------|---------------------|------------------|
|  | <b>Level 1</b>            | <b>Level 2</b> | <b>Level 3 (ii)</b> |                  |
|  | <b>(In thousands NIS)</b> |                |                     |                  |
| PC's Debentures (i)  | 1,193,713                 | -              | -                   | 1,193,713        |
| Interest swap transaction designated as hedging instrument | -                         | 39,220         | -                   | 39,220           |
| Exit fee to financing bank                                 | -                         | -              | 27,969 (iii)        | 27,969           |
| Liability to the Office of Chief Scientist                 | -                         | -              | 27,970              | 27,970           |
|  | <u>1,193,713</u>          | <u>39,220</u>  | <u>55,939</u>       | <u>1,288,872</u> |

- (i) As of December 31, 2008, PC's debentures were measured based on a valuation techniques and not based on their quoted market price on the TASE since the trade in the said debentures as of the end of 2008 pointed the existence of inefficient and inactive market. Accordingly such debentures would have been classified at Level 2 in the financial statements of 2008. As of December 31, 2009, these debentures are measured based on their quoted market price at the TASE and therefore were transferred to Level 1 See note 2 AG (1) e.
- (ii) The changes in the fair value of the Group's financial liabilities included in Level 3 were charged mainly to the profit and loss.
- (iii) See C (2) above

**NOTE 31 - SUBSEQUENT EVENTS**

- A.** in January and February 2010, and following the public offering in Israel of unsecured non-convertible Series B Notes of PC (the "Series B Notes"), pursuant to PC's prospectus dated 3 February 2008, PC has agreed with Israeli Investors to issue approximately an additional NIS 35 million (EUR 6.8 million) and NIS 273 million (EUR 51.8 million) respectively in principal amount of Series B Notes (the "Additional Notes") for an aggregate consideration of approximately NIS 38 million (EUR 7.4 million) and NIS 292 million (EUR 55.4 million) respectively. The terms of the Additional Notes are identical to the terms of the Series B Notes issued to the public under Plaza's prospectus dated 3 February 2008 (the "Prospectus").
- B.** In February 2, 2010, the Company announced that it intends to restructure its bio-tech and medical holdings (InSightec – 60%, and Gamida Cell – 28%; both on a fully diluted basis) under a wholly-owned subsidiary of the Company ("Elbit Medical") and to offer shares of such subsidiary in a public offering on the Tel Aviv Stock Exchange ("IPO").

**NOTE 31 - SUBSEQUENT EVENTS (CONT.)**

- C. In February 9, 2010, the Company announced that its subsidiary, Elbit Plaza USA, L.P. ("Elbit Plaza USA") a real estate investment venture jointly formed by the Company and PC has entered into a framework and co-investment agreement (the "Agreement") with Eastgate Property LLC, an affiliate of NCH Capital Inc. ("Eastgate"). Under the Agreement the parties have committed to co-invest in equal portions a combined \$200 million with a U.S. real estate investment fund EPN GP, LLC ("EPN") that will be jointly established by the parties with outside investors and which will focus on investments in the U.S. retail and commercial real estate sectors (the "Fund"). Eastgate shall take an active role in the joint management of the Fund utilizing its long standing experience in fund management activities in the U.S. The Agreement provides that the parties will identify and locate potential investments during a two-year period in which the Fund together with the co-investment facility will acquire assets or enter into joint ventures with owners of relevant assets or portfolios, with the objective of selling the Fund's assets or holdings and dissolving the Fund within a five-to-seven-year period of the initial closing of the Fund.

On April 22, 2010 EPN entered into a series of agreements for investment in Macquarie DDR Trust ("MDT" or the "Trust"), an Australian publicly traded trust, which holds and manages two US REIT portfolios (Macquarie DDR US Trust Inc. ("REIT I") and Macquarie DDR US Trust II Inc. ("REIT II")) with 41 operating retail properties in REIT I and 37 operating retail properties in REIT II. Altogether approximately 13.3 million square feet of leaseable area, mainly of community shopping centers throughout the United States (the "Investment Agreements").

Under the Investment Agreements, (i) MDT completed a Australian \$9.5 million (approximately \$8.8 million) private placement ("Placement") to EPN representing 15% pre-placement; (ii) MDT shall initiate a proposed recapitalisation of MDT by way of a pro rata entitlement offer ("Entitlement Offer") to raise approximately A\$200 million (approximately \$185.5 million) ("Proposed Recapitalisation"). The Entitlement Offer is conditional on MDT entering into definitive underwriting agreements with professional underwriters and receiving acceptable standstill agreements from the Trust's lenders and derivative counterparties. EPN will participate in and be a sub-underwriter to the Entitlement Offer Other substantial unitholders in the Trust will be offered the opportunity to participate in the sub-underwriting of the offer; (iii) EPN has acquired from Macquarie Group Limited 2.6% principal unitholding in the Trust; and (iv) following the completion of the Entitlement Offer, EPN shall acquire from Macquarie Group its 50% interest in the entity which is the owner of the Responsible Entity of the Trust ("US Manager").

It is intended that the proceeds of the Placement and Proposed Recapitalisation will be used for the repayment of the amounts outstanding under MDT's unsecured debt and derivative liabilities and other senior debt, and provide enhanced balance sheet stability to MDT.

Following the Placement and acquisition of Macquarie's interest in MDT, EPN's holding in the Trust will be approximately 15.3%. This holding may increase as a result of the Proposed Recapitalisation.

- D. On March 25, 2010 the Company issued 100,000,000 principal amounts of Series G debentures, at the price of NIS 1,000 per unit (each unit is comprised of NIS 1,000 principal amount) pursuant to the shelf prospectus filed on July 21, 2009. The debentures are bearing interest rate of 5.08% linked to increases in the Israeli consumer price index. Interest will be payable on June 30 and December 31 of each of the years 2010 through 2018. The principal of the Series G Debentures will be subject to repayment as follows:
- 10% of the principal will be payable on December 31, 2014;
  - 20% of the principal will be payable on December 31 on each of 2015 and 2016; and
  - 25% of the principal will be payable on December 31 on each of 2017 and 2018.

**NOTE 31 - SUBSEQUENT EVENTS (CONT.)**

- E.** In February 2010, the Company's board of directors adopted an option plan ("option plan") for the grant of up to 500,000 non-marketable options to 35 employees of the Company exercisable into 500,000 Insightec's ordinary shares. Each option is exercisable to one share for an exercise price of 2\$ .The exercise price of each option will be reduced upon distribution of dividend, stock dividend etc., according to the approved option plan. At the same day the Company's board of directors approved the grant of 400,000 options to the Company's employees out of which 67,500 options granted to the Company Co-CEOs and CFO additional 50,000 intended to be granted to the Company's chairman of the board which is subject to the shareholders meeting approval.

The vesting period of the options will occur ratably over a three years period (33% of the options shall vest on each of the first three anniversaries of the date grant (vesting period). The options will expire 7 years following the date of grant. The Company can decide on each day and on its sole discretion to convert each option to Elbit Medical share instead of Insightec's share according to the ratio between the naïve value accumulated from the date grant to the conversion date (meaning the gap between Insightec share value to the exercise price) to the gap between the price of Elbit Medical share to the new exercise price as determined by the Company.

- F.** In April, 2010 the Group together with jointly control partner acquired a hotel (the Holiday Inn Schipol hotel) for a total consideration of EUR 30 Million (Group share – Euro 15 million) out of which 28 million will be financed by the Bank.



**ELBIT IMAGING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Appendix**

| <b>Name of company</b>                            |                 | <b>Nature of Activity</b>   | <b>Rate of ownership and control (direct as well as indirect)</b> | <b>Country of Residence</b> |
|---|-----------------|---|---|-----------------------------|
|   |                 |   | <b>%</b>  |                             |
| <b>Elscint Ltd.</b>                               | ("Elscint")     | Management and investment in companies  | 100.0   | Israel                      |
| <b>Bea Hotels N.V.</b>                            | ("BH")          | A holding company in the hotel segment, mainly in Europe  | 100.0   | The Netherlands             |
| <b>Elbit Trade and Retail Ltd.</b>                | ("Elbit Trade") | A distributor and retailer of the retail brand name MANGO - MNG <sup>TM</sup> , GAP, Banana Republic and G-Star | 100.0   | Israel                      |
| <b>Elbit Ultrasound Netherlands B.V.</b>          | ("EUN")         | A holding company   | 100.0   | The Netherlands             |
| <b>Plaza Centers N.V.</b>                         | ("PC")          | Development and sale of commercial centers in Central and Eastern Europe and in India                           | 68  | The Netherlands             |
| <b>InSightec Ltd.</b>                             | ("InSightec")   | Development manufacturing and marketing of means of imaging-guided treatment                                    | 71.3  | Israel                      |
| <b>Elbit-Plaza India Real Estate Holding Ltd.</b> | ("EPI")         | Development of real estate projects in India designated mainly for residential and commercial use               | 100.0(*)  | Cyprus                      |

(\*) The Company holds 47.5% of the shares directly and 47.5% through PC. 5% of the shares were allotted to the Company's Vice Chairman of the Board following the approval of the Company's shareholders' meeting in January 2008. The VC's shares are not entitled to voting rights. - see note 27B.(5)& (6).

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Plaza Centers N.V (formerly: Plaza Centers (Europe) B.V)

We have audited the accompanying consolidated balance sheets of Plaza Centers N.V and its subsidiaries as of December 31, 2008, and 2007 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Plaza Centers N.V and its subsidiaries as of December 31, 2008 and 2007 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG Hungária Kft.

Budapest, Hungary

June 25, 2009

## PART III

### ITEM 19. EXHIBITS

|      |  |
|------|--|
| 1.1  | Amended and Restated Memorandum of Association (incorporated by reference to Appendix B to Exhibit 99.1 of Elbit Imaging Ltd.'s Report on Form 6-K filed with the Securities and Exchange Commission on April 2, 2009).  |
| 1.2  | Amended and Restated Articles of Association (incorporated by reference to Exhibit 1.2 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 26, 2008).   |
| 2.1  | Form of share certificate of Elbit Imaging Ltd. (incorporated by reference to Exhibit 2.1 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 26, 2008).  |
| 4.1  | Framework Transaction Agreement dated July 29, 2005, among Klepierre S.A., Plaza Centers N.V. and others (incorporated by reference to Exhibit 4.15 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 30, 2006).  |
| 4.2  | English summary of Share Purchase Agreement dated June 14, 2007, among ELS Trust Ltd., Elscint Ltd. and Manofim Finances for Israel (Mapal) Ltd. for the sale of the Arena commercial and entertainment center in Israel (incorporated by reference to Exhibit 4.14 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on July 2, 2007).   |
| 4.3  | English translation of Agreement for the Provision of Consultancy Services for the Development of Real Estate Projects dated May 31, 2006, between Elbit Imaging Ltd. and Control Centers Ltd. (incorporated by reference to Exhibit 4.13 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on July 2, 2007).   |
| 4.4  | English translation of Deed of Trust dated January 31, 2008, between Plaza Centers N.V. and Reznik Paz Nevo, as amended on February 17, 2008 (incorporated by reference to Exhibit 4.6 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 30, 2008).   |
| 4.5  | English translation of Employees, Directors and Offices Incentive Plan of 2006, as amended (incorporated by reference to Exhibit 4.6 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 26, 2009).   |
| 4.6  | Framework Agreement dated April 22, 2010, among EPN GP, LLC, Macquarie DDR Management Limited, Macquarie DDR Management LLC, Developers Diversified Realty Corporation, DDR MDT Holdings II Trust, DDR Macquarie Fund LLC, DDR MDT PS LLC, DDR MDT MV LLC, Macquarie DDR U.S. Trust Inc., Macquarie DDR U.S. Trust II Inc., Macquarie MDT Holdings Trust, Macquarie MDT Holdings Inc., Belike Nominees Pty Limited and Macquarie Group Services Australia Pty Limited. |
| 8.1  | List of subsidiaries.  |
| 12.1 | Certification of the co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 12.2 | Certification of the co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 12.3 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 13.1 | Certification of the co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 13.2 | Certification of the co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 13.3 | Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 15.1 | Consent of Brightman Almagor Zohar & Co.   |
| 15.2 | Table of advisors relied upon in the consolidated financial statements for the years ended December 31, 2009, 2008 and 2007.   |
| 15.3 | Consent of SHM Smith Hodgkinson (Romania) srl  |
| 15.4 | Consent of Financial Immunities Ltd.   |
| 15.5 | Consent of Financial Immunities Ltd.   |
| 15.6 | Consent of Financial Immunities Ltd.   |

|       |  |
|-------|--|
| 15.7  | Consent of Financial Immunities Ltd.                   |
| 15.8  | Consent of Financial Immunities Dealing Room Ltd.      |
| 15.9  | Consent of BDO Ziv Haft Consulting and Management Ltd. |
| 15.10 | Consent of Financial Immunities Dealing Room Ltd.      |
| 15.11 | Consent of BDO Ziv Haft Consulting and Management Ltd. |
| 15.12 | Consent of Giza Zinger Even                            |
| 15.13 | Consent of BDO Ziv Haft Consulting and Management Ltd. |
| 15.14 | Consent of Giza Zinger Even                            |
| 15.15 | Consent of Giza Zinger Even                            |
| 15.16 | Consent of Giza Zinger Even                            |
| 15.17 | Consent of Tavor Economic Consulting Ltd.              |
| 15.18 | Consent of King Sturge Kft                             |
| 15.19 | Consent of Giza Zinger Even                            |
| 15.20 | Consent of KPMG Hungaria Kft                           |

## **SIGNATURES**

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to hereby sign this annual report on its behalf.

### **Elbit Imaging Ltd.**

By: /s/ Dudi Machluf

Name: Dudi Machluf

Title: co-Chief Executive Officer

By: /s/ Ran Shtarkman

Name: Ran Shtarkman

Title: co-Chief Executive Officer

Date: May 9, 2010

This Master Agreement has been included to provide investors with information regarding its terms. It is not intended to provide any other factual information about the Registrant. The representations, warranties and covenants contained in the Master Agreement were made only for purposes of such agreement and as of the specific dates therein, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the Master Agreement. The representations and warranties may have been made for the purposes of allocating contractual risk between the parties to the agreement instead of establishing those matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors are not third party beneficiaries under the Master Agreement and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of the Registrant or any other party to the Master Agreement. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Master Agreement, which subsequent information may or may not be fully reflected in the Registrant's public disclosures.

EXECUTION VERSION

# Master Agreement

Dated April 22 2010

Macquarie DDR Management Limited (ACN 101 743 926) ("**MDML**")  
(as responsible entity of Macquarie DDR Trust (ARSN 106 570 352)  
("**MDT**"))

Macquarie DDR Management LLC, a Delaware limited liability company  
("**US Manager**")

EPN GP, LLC, a Delaware limited liability company ("**Investor**")

Developers Diversified Realty Corporation, an Ohio corporation ("**DDR Corp.**")

DDR MDT Holdings II Trust, a Maryland real estate investment trust  
("**DDR**")

DDR Macquarie Fund LLC, a Delaware limited liability company ("**US LLC**")

DDR MDT PS LLC, a Delaware limited liability company ("**PS LLC**")

DDR MDT MV LLC, a Delaware limited liability company ("**Mervyns LLC**")

Macquarie DDR U.S. Trust Inc., a Maryland corporation ("**US REIT I**")

Macquarie DDR U.S. Trust II Inc., a Maryland corporation ("**US REIT II**")

Macquarie MDT Holdings Trust, a Maryland real estate investment trust  
("**MBL US Trust**")

Macquarie MDT Holdings Inc., a Maryland corporation ("**MBL US Inc.**")

Belike Nominees Pty Limited (ACN 008 604 966), in its capacity as trustee  
of Macquarie Blended Property Trust ("**Belike**")  
Macquarie Group Services Australia Pty Limited (ACN 116 467 031)  
("**MGS**")

**Mallesons Stephen Jaques**

Level 61  
Governor Phillip Tower  
1 Farrer Place  
Sydney NSW 2000  
Australia  
T +61 2 9296 2000  
F +61 2 9296 3999  
DX 113 Sydney  
[www.mallesons.com](http://www.mallesons.com)  
Ref: MCW:SP

# Master Agreement

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# Master Agreement

## Details

|                   |  |   |
|-------------------|--|---|
| <b>Parties</b>    | <b>MDML, US Manager, the Investor, DDR, DDR Corp., US LLC, PS LLC, Mervyns LLC, US REIT I, US REIT II, MBL US Trust, MBL US Inc., Belike and MGS</b> |   |
| <b>MDML</b>       | <b>Name</b>  | <b>Macquarie DDR Management Limited</b>   |
|                   | <b>ACN</b>   | 101 743 926   |
|                   | <b>Capacity</b>  | As responsible entity of Macquarie DDR Trust (ARSN 106 570 352) (“ <b>MDT</b> ”)  |
|                   | <b>Address</b>   | No 1 Martin Place<br>Sydney NSW 2000  |
|                   | <b>Fax</b>   | 612 8232 4713   |
|                   | <b>Attention</b>   | Christine Williams  |
| <b>US Manager</b> | <b>Name</b>  | <b>Macquarie DDR Management LLC</b>   |
|                   | <b>Address</b>   | c/o Macquarie DDR Management Limited<br>No 1 Martin Place<br>Sydney NSW 2000<br><br>Cc c/o Developers Diversified Realty<br>Corporation 3300 Enterprise Parkway<br>Beachwood OH 44122 USA |
|                   | <b>Capacity</b>  | Individually and as managing member of US LLC, PS LLC and Mervyns LLC   |
|                   | <b>Fax</b>   | +61 2 8232 4713 (attention Christine Williams)<br>and +1 (216) 755-1678 (attention General Counsel)   |
|                   |  |   |
| <b>Investor</b>   | <b>Name</b>  | <b>EPN GP, LLC</b>  |
|                   | <b>Address</b>   | c/- Elbit Plaza USA, L.P.<br>707 Skokie Boulevard, Suite 600<br>Northbrook IL 60062 USA   |
|                   | <b>Fax</b>   | +1 972-3-608-6051   |
|                   | <b>Attention</b>   | Mr Dudi Machluf, CFO  |

with copy to: Elbit Imaging Ltd.  
2 Weitzman Street,  
Tel Aviv 64239 Israel

Fax +1 972-3-608-6050

Attention Mr Zvi Maayan, Adv.

and with copy to: NCH Capital, Inc.  
712 Fifth Avenue  
New York NY 10019-4108 USA

Fax +1 212 641 3201

Attention Gregory Katz, Esq.  
Senior General Counsel

|                    |           |  |
|--------------------|-----------|--|
| <b>DDR</b>         | Name      | <b>DDR MDT Holdings II Trust</b>   |
|                    | Address   | c/o Developers Diversified Realty Corporation<br>3300 Enterprise Parkway<br>Beachwood OH 44122 USA |
|                    | Fax       | +1 216 755-1678  |
|                    | Attention | General Counsel  |
| <b>DDR Corp.</b>   | Name      | <b>Developers Diversified Realty Corporation</b>   |
|                    | Address   | c/o Developers Diversified Realty Corporation<br>3300 Enterprise Parkway<br>Beachwood OH 44122 USA |
|                    | Fax       | +1 216 755-1678  |
|                    | Attention | General Counsel  |
| <b>US LLC</b>      | Name      | <b>DDR Macquarie Fund LLC</b>  |
|                    | Address   | c/o Developers Diversified Realty Corporation<br>3300 Enterprise Parkway<br>Beachwood OH 44122 USA |
|                    | Fax       | +1 216 755-1678  |
|                    | Attention | General Counsel  |
| <b>PS LLC</b>      | Name      | <b>DDR MDT PS LLC</b>  |
|                    | Address   | c/o Developers Diversified Realty Corporation<br>3300 Enterprise Parkway<br>Beachwood OH 44122 USA |
|                    | Fax       | +1 216 755-1678  |
|                    | Attention | General Counsel  |
| <b>Mervyns LLC</b> | Name      | <b>DDR MDT MV LLC</b>  |
|                    | Address   | c/o Developers Diversified Realty Corporation<br>3300 Enterprise Parkway<br>Beachwood OH 44122 USA |
|                    | Fax       | +1 216 755-1678  |
|                    | Attention | General Counsel  |
| <b>US REIT I</b>   | Name      | <b>Macquarie DDR U.S. Trust Inc.</b>   |
|                    | Address   | One North Wacker Drive, 7th Floor<br>Chicago IL 60606 USA<br>Attn: MDT Asset Manager               |

|                     |           |  |
|---------------------|-----------|--|
|                     | Fax       | +1 312 660 9386  |
|                     | Attention | c/o Macquarie Capital Funds Inc.   |
| <b>US REIT II</b>   | Name      | <b>Macquarie DDR U.S. Trust II Inc.</b>  |
|                     | Address   | One North Wacker Drive, 7th Floor<br>Chicago IL 60606 USA<br>Attn: MDT Asset Manager |
|                     | Fax       | +1 312 660 9386  |
|                     | Attention | c/o Macquarie Capital Funds Inc.   |
| <b>MBL US Trust</b> | Name      | <b>Macquarie MDT Holdings Trust</b>  |
|                     | Address   | 125 West 55th Street<br>Level 22<br>New York NY 10019 USA<br>+1 212 231 155          |
|                     | Fax       | +61 2 8232 4713  |
|                     | Attention | Company Secretary cc Christine Williams  |
| <b>MBL US Inc.</b>  | Name      | <b>Macquarie MDT Holdings Inc.</b>   |
|                     | Address   | 125 West 55th Street<br>Level 22<br>New York NY 10019 USA                            |
|                     |           | Cc c/o Macquarie DDR Management Limited<br>No 1 Martin Place, Sydney NSW 2000        |
|                     | Fax       | +1 212 231 1555  |
|                     |           | Cc 61 2 8232 4713  |
|                     | Attention | Company Secretary<br><br>Cc Christine Williams                                       |
| <b>Belike</b>       | Name      | <b>Belike Nominees Pty Limited</b>   |
|                     | ACN       | 008 604 966  |
|                     | Capacity  | As trustee of Macquarie Blended Property Trust                                       |
|                     | Address   | No 1 Martin Place<br>Sydney NSW 2000   |
|                     | Fax       | +61 2 8232 4713  |
|                     | Attention | Christine Williams   |

|                          |  |   |
|--------------------------|--|---|
| <b>MGS</b>               | <b>Name</b>  | <b>Macquarie Group Services Australia Pty Limited</b> |
|                          | <b>ACN</b>   | 116 467 031   |
|                          | <b>Address</b>   | No 1 Martin Place<br>Sydney NSW 2000                  |
|                          | <b>Fax</b>   | +61 2 8232 4713                                       |
|                          | <b>Attention</b>   | Christine Williams                                    |
| <hr/>                    |  |   |
| <b>Recitals</b>          | The Parties have agreed to implement the Transaction upon and subject to the terms and conditions of this agreement. |   |
| <hr/>                    |  |   |
| <b>Governing law</b>     | New South Wales  |   |
| <hr/>                    |  |   |
| <b>Date of agreement</b> | See Signing page   |   |

# Master Agreement

## General terms

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### 1 Definitions and interpretation

#### 1.1 Definitions

These meanings apply unless the contrary intention appears.

**Amended and Restated US Joint Venture Agreements** means the Seventh Amended and Restated US LLC Agreement, the Fourth Amended and Restated Mervyns LLC Agreement and the Third Amended and Restated PS LLC Agreement.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited or the market operated by it, as the context requires.

**Business Day** means a business day as defined in the Listing Rules.

**CBA Standstill** means a standstill agreement for the period of the Entitlement Offer (on terms agreed between MDML and the Underwriters) from Commonwealth Bank of Australia as administrative agent and lender under the Credit Agreement dated 13 April 2007 between, amongst others, DDR MDT Great Northern LLC, DDR MDT Belden Park LLC, DDR MDT Beldon II Park LLC, DDR MDT Midway Marketplace LLC, DDR MDT Merriam Town Center LLC, DDR MDT Riverdale Village Inner Ring LLC, DDR MDT Monaca Township Marketplace LLC, DDR MDT Cool Springs Pointe LLC, DDR MDT Winter Park Palms LLC, DDR MDT Lake Walden Square LLC and DDR MDT Piedmont Plaza LLC.

**Citi** means Citigroup Global Markets Australia Pty Limited (ACN 003 114 832).

**Claim** means any claim, demand, legal proceedings or cause of action including any claim, demand, legal proceedings or cause of action:

- (a) based in contract (including breach of warranty);
- (b) based in tort (including misrepresentation or negligence);
- (c) under common law; or
- (d) under statute,

in any way relating to this agreement and includes a claim, demand, legal proceedings or cause of action arising from a breach of warranty or under an indemnity in this agreement.

**Class C Shares** means the Class C common stock of US REIT I and US REIT II which are held by employees and former employees of Macquarie Group Members.

**Class C Shareholders** means the holders of the Class C Shares.

**Code** means the United States Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations promulgated thereunder.

**Completion Date** means the first to occur of:

- (i) the date of the allotment of the Entitlement Offer Units under the Entitlement Offer; and
- (ii) the date 60 days after the Entitlement Offer Announcement Materials are provided to ASX in accordance with clause 3.2 provided that the Investor has not breached its obligations under the Sub-underwriting Agreement.

**Confidential Information** means Macquarie Confidential Information, MDT Confidential Information or Investor Entity Confidential Information.

**Corporations Act** means the Australian Corporations Act 2001 (Cwlth).

**Data Room** means the virtual data room established by MDML, and populated with information by MDML as listed in the data room index, a copy of which has been initialled by MDML and the Investor for identification on or prior to the execution of this agreement.

**DDR REIT Officers** means each of:

- (a) Scott A. Wolstein;
- (b) Daniel B. Hurwitz;
- (c) David J. Oakes;
- (d) Joan U. Allgood;
- (e) Richard E. Brown;
- (f) Paul Freddo;
- (g) David E. Weiss; and
- (h) Craig A. Schultz.

**DDR US REIT I Class B-2 Exchange Agreement** means the DDR Class B-2 Exchange Agreement in the form or substantially the form set out in Annexure II by and between MDT and DDR.

**Deed of Indemnity** means the deed of indemnity granted by the US Manager in favour of MDML dated on or around 1 April 2010.

**Deed of Termination of Licence Deed** means the deed of termination in the form set out in Annexure D under which Macquarie Bank Limited, MDML, the US Manager and DDR Management Fund LLC agree to terminate the licence deed between those parties dated 21 November 2003.

**Deed of Termination of Resources Agreement** means the deed of termination in the form set out in Annexure E under which Macquarie Capital Group Limited and MDML agree to terminate the resources agreement between those parties dated 31 December 2008.



**Derivative Liabilities** means amounts which are required to be paid by the relevant MDT Entity to a Hedge Provider on a net basis under each MDT Derivative and each Macquarie DDR Fund LLC Derivative in order to close out each MDT Derivative and each Macquarie DDR Fund LLC Derivative on the Completion Date.

**Due Diligence Q&A** means the omnibus of questions asked by the Investor and answered by MDML in relation to the Investor's due diligence process, a copy of which has been initialled by MDML and the Investor for identification on or prior to the execution of this agreement.

**Effective Time** means the time that the last of the Parties has executed this agreement.

**Eligible Unitholders** has the meaning given to that term in the Underwriting Agreement.

**Entitlement Offer** means the pro-rata entitlement offer to be made to Eligible Unitholders to raise approximately \$200 million on terms determined by MDML in consultation with the Investor.

**Entitlement Offer Announcement Materials** means each of the following documents in the form determined by MDML in relation to the Entitlement Offer:

- (a) a form of ASX announcement or press release in a form determined by MDML after consultation with the Investor;
- (b) the PDS; and
- (c) an ASX Listing Rule Appendix 3B notice in relation to the Entitlement Offer.

**Entitlement Offer Announcement Time** means the time determined by MDML after consultation with the Investor and the Underwriters at which the Entitlement Offer Announcement Materials are to be provided to ASX for release to the market.

**Entitlement Offer Units** means those MDT Units to be offered pursuant to the Entitlement Offer.

**EPN Entitlement Offer Commitment Deed** means the deed of undertaking pursuant to which the Investor undertakes to subscribe for and pay or procure payment for all of the new MDT units to which it will be entitled under the Entitlement Offer.

**EPN MDML Directors** means the persons named by the Investor in a notice in writing to MDML, delivered not later than 5 Business Days before the Completion Date, as the Investor's nominees for appointment as directors of MDML in accordance with the constitution of MDML (as amended by the MDML Shareholder Resolutions).

**EPN US REIT I Class B-2 Exchange Agreement** means the EPN Class B-2 Exchange Agreement in the form or substantially the form set out in Annexure GG by and between MDT and EPN.

**EPN US REIT II Class B-2 Exchange Agreement** means the EPN Class B-2 Exchange Agreement in the form or substantially the form set out in Annexure HH by and between MDT and EPN.

**Excluded Information** means Confidential Information which:

- (a) is in or becomes part of the public domain other than through breach of this agreement or an obligation of confidence owed to the party providing the Confidential Information; or
- (b) was already known to the recipient at the time of disclosure by the party providing the Confidential Information (unless such knowledge arose from disclosure of information in breach of an obligation of confidentiality) and can be demonstrated to have been known; or
- (c) the recipient of the Confidential Information acquires from a source other than the party providing the Confidential Information or any Related Body Corporate (as defined in the Corporations Act) or Representative of the party providing the Confidential Information where such source, to the knowledge of the recipient, is entitled to disclose it.

**First MDT Supplemental Deed** means the supplemental deed to amend the constitution of MDT to insert a provision providing for the issue of the Placement Units at the Placement Price in the form attached as Annexure J.

**Fourth Amended and Restated Mervyns LLC Agreement** means the Fourth Amended and Restated Limited Liability Company Agreement of Mervyns LLC in the form or substantially the form attached as Annexure AA.

**Hedge Provider** means each counterparty to an MDT Derivative or a Macquarie DDR Fund LLC Derivative that is not an MDT Entity.

**Intellectual Property Licence** means the Intellectual Property Licence in the form attached as Annexure FF.

**Investor Entity** means the Investor and any of its related bodies corporate, as that term is defined in the Corporations Act.

**Investor Entity Confidential Information** means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties before, on, or after the date of this agreement relating to the business, technology or other affairs of an Investor Entity.

**Last Accounts** means the audit reviewed financial report of MDT prepared for the half-year ended 31 December 2010 and given to ASX.

**Letters of Credit** means the standby letters of credit, to be provided by JP Morgan Chase Bank, N.A and FIBI Bank Switzerland Limited, in the form set out in Annexure KK or otherwise reasonably agreed by the Investor and MDML to the Underwriters in accordance with clause 2.4.

**Listing Rules** means the Listing Rules of ASX as waived or modified from time to time.

**Losses** means all Claims, demands, damages, losses, costs, expenses and liabilities.

**Macquarie** means Macquarie Group Limited (ACN 122 169 279).

**Macquarie Confidential Information** means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties before, on, or after the date of this agreement relating to the business, technology or other affairs of MDML or a Macquarie Group Member.

**Macquarie Group Member** means Macquarie Group Limited and each of its Subsidiaries.

**Macquarie MDML Directors** means each of:

- (a) Richard Sheppard;
- (b) Simon Jones; and
- (c) Stephen Girdis.

**Macquarie MDT Unitholders** means Belike, MBL US Inc. and MGS.

**Macquarie REIT Directors and Officers** means each of:

- (a) Richard Sheppard;
- (b) Stephen Girdis; and
- (c) Mark Mullen.

**Macquarie US REIT Derivatives** means the various derivative transactions between the US LLC and Macquarie Bank Limited and Citibank, N.A., and the derivative transactions between Longhorn II LLC and UBS Investment Bank under their respective ISDA Agreements.

**MDML Shareholder Resolutions** means the resolutions in the form, or substantially the form, attached as Annexure EE pursuant to which the sole shareholder of MDML resolves to change the name of MDML to a name proposed by the Investor and DDR that does not include “Macquarie” or any substantially identical or deceptively similar word, amend the constitution of MDML and replace certain of the directors of MDML.

**MDT Confidential Information** means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties before, on, or after the date of this agreement relating to the business, technology or other affairs of an MDT, the US REITs and any of their subsidiaries and controlled entities.

**MDT Derivatives** means the various derivative transactions between MDT and Macquarie Bank Limited, Societe Generale and The Hongkong and Shanghai Banking Corporation Limited under their ISDA Agreements and the various derivative transactions between MDT and Commonwealth Bank of Australia Limited under the relevant swap confirmations for those transactions.

**MDT Entity** means MDML, MDT, US REIT I, US REIT II, US LLC, PS LLC or Mervyns LLC.

**MDT Register** means the unit register of MDT maintained in accordance with the constitution of MDT and the Corporations Act.

**MDT Units** means fully paid ordinary units in MDT.

**Mervyns LLC Agreement** means the Third Amended and Restated Limited Liability Company Agreement of Mervyns LLC, dated as of October 20, 2009, as such agreement may be amended from time to time.

**New MDT Units** means the Placement Units and the Entitlement Offer Units.

**Notice to Bank of America re Venice Assets** means the notice to Bank of America, N.A. in the form or substantially the form attached as Annexure S.

**Outgoing DDR MDML Director** means the director of MDML named by DDR in a notice in writing to MDML, delivered not later than 5 Business Days before the Completion Date, requesting the removal of that director on the Completion Date in accordance with the constitution of MDT.

**PDS** means the product disclosure statement to be lodged with ASIC and sent to Eligible Unitholders in connection with the Entitlement Offer in a form to be agreed between MDML and the Underwriters.

**Permitted Disposals** means the following disposals:

- (a) the sale of the McDonough Marketplace property located at 101 Willow Lane, McDonough, Atlanta, Georgia for approximately US\$5,650,000;
- (b) the sale of the West Covina Shopping Centre located at 2753 E Eastland Ctr Dr, West Covina, Los Angeles, California and the Fairfield property located at 1451 Gateway Boulevard, Fairfield, California to Westfield for approximately US\$16,000,000; and
- (c) the sale of the ex-Mervyn's South San Diego property located at 575 Saturn Boulevard, San Diego, California to Wal-Mart for approximately US\$7,000,000.

**Placement** means the private placement of the Placement Units to the Investor in accordance with the Subscription Agreement.

**Placement Completion** means the registration of the Investor as the holder of the Placement Units in accordance with the Subscription Agreement.

**Placement Units** means the 141,480,000 MDT Units to be issued to the Investor pursuant to the Placement at a price per MDT Unit of A\$0.067.

**PS LLC Agreement** means the Second Amended and Restated Limited Liability Company Agreement of PS LLC, dated as of October 20, 2009, as such agreement may be amended from time to time.

**REIT Bylaws** means the US REIT I Bylaws and the US REIT II Bylaws.

**REIT Charters** means the US REIT I Charter and the US REIT II Charter.

**REIT Redemption Agreement** means the Redemption Agreement by and among MBL US Trust, US REIT I and US REIT II in the form or substantially the form set out in Annexure L pursuant to which US REIT I and US REIT II

agree to redeem all Class A and B-1 Shares in US REIT I, and all Class B-1 Shares in US REIT II, held by MBL US Trust.

**Related Body Corporate** has the meaning given to it in the Corporations Act.

**Representative** means any person acting for or on behalf of a person including any director, officer, employee, agent, contractor or professional adviser of a person.

**Resources Agreement** means the resources agreement dated 31 December 2008 between Macquarie Capital Group Limited and MDML, as such agreement may be amended from time to time.

**Second MDT Supplemental Deed** means the supplemental deed to amend the constitution of MDT to insert a provision providing for the issue of the Entitlement Offer Units in the form or substantially the form attached as Annexure JJ.

**Seventh Amended and Restated US LLC Agreement** means the Seventh Amended and Restated Limited Liability Company Agreement of US LLC in the form or substantially the form attached as Annexure Z.

**Sixth Amended and Restated US Manager LLC Agreement** means the Sixth Amended and Restated Limited Liability Company Agreement of the US Manager, dated as of October 20, 2009.

**Stand Still Agreements** means the CBA Standstill and an agreement (on terms agreed between MDML and the Underwriters) from each of the non-MDT Entity parties to the MDT Derivatives Liabilities and the Unsecured Debt Documents in respect of the MDT Derivatives Liabilities and the Unsecured Debt Documents, as relevant.

**Subscription Agreement** means the subscription agreement in the form set out in Annexure A under which the Investor agrees to subscribe for, and MDML agrees to issue the Placement Units.

**Subsidiary** has the meaning given in the Corporations Act.

**Sub-underwriting Agreement** means the sub-underwriting agreement in the form, or substantially the form, set out in Annexure I between the Underwriters and the Investor pursuant to which the Investor agrees to sub-underwrite the Entitlement Offer up to an amount of \$180 million (or such higher amount as the Investor shall elect by notice in writing to the Underwriters by no later than Friday 23 April 2010).

**Termination of US REIT I Class B-1 Exchange Agreement** means the Termination of Second Amended and Restated US REIT Class B-1 Exchange agreement in the form or substantially the form set out on Annexure T by and among MDML, US Manager, MBL US Trust and DDR.

**Termination of US REIT I Class B-2 Exchange Agreement** means the Termination of Amended and Restated Class B-2 Exchange agreement in the form or substantially the form set out on Annexure U between MDML and MBL US Trust.

**Termination of US REIT II Class B-2 Exchange Agreement** means the Termination of Amended and Restated Class B-2 Exchange agreement in the

form or substantially the form set out on Annexure V between MDML and MBL US Trust.

**Timetable** means the timetable for the Placement and Entitlement Offer as set out in schedule 1.

**Third Amended and Restated PS LLC Agreement** means the Third Amended and Restated Limited Liability Company Agreement of PS LLC in the form or substantially the form attached as Annexure BB.

**Third MDT Supplemental Deed** means the supplemental deed to amend the constitution of MDT to change the name of MDT and references to Macquarie in the form or substantially the form attached as Annexure DD.

**Transaction** means the transaction described in the Transaction Documents together with the Entitlement Offer.

**Transaction Announcement** means the ASX announcement in relation to the Transaction in substantially the form set out in Annexure CC.

**Transaction Documents** means the documents set out in clauses 2.1, 2.2 and 2.3.

**Transitional Services Agreement** means the transitional services deed in the form set out in Annexure F between Macquarie Capital Group Limited and MDML under which Macquarie Capital Group Limited agrees to provide certain services to MDML.

**Trust Property** means the property of the relevant trust from time to time determined under the trust deed of that trust, and if there are any wholly owned sub-trusts means includes the property of those sub-trusts.

**Underwriters** means Macquarie Capital Advisers Limited and Citi.

**Underwriting Agreement** means the underwriting agreement in the form, or substantially the form, set out in Annexure H between and the Underwriters and MDML pursuant to which the Underwriters agree to underwrite the Entitlement Offer.

**Unit Sale Agreement** means the unit sale agreement in the form set out in Annexure B.

**Unit Sale Completion** means the registration of the Investor as the holder of the MDT Units the subject of the Unit Sale Agreement in accordance with that agreement.

**Unsecured Debt Documents** means the loan agreement between UBS AG, Australian Branch and Royal Bank of Scotland, plc Australian Branch with MDML as responsible entity of MDT and all other 'Finance Documents' as defined in that loan agreement. .

**US LLC Agreement** means the Sixth Amended and Restated Limited Liability Company Agreement of US LLC, dated as of October 20, 2009, as such agreement may be amended from time to time.

**US Manager Assignment and Assumption Agreement** means the agreement in the form or substantially the form set out in Annexure C pursuant to which:

- (a) MBL US Trust agrees to sell and the Investor agrees to acquire all of MBL US Trust's limited liability company interest in the US Manager, representing 50% of the outstanding limited liability company interests in the US Manager; and
- (b) US Manager agrees to distribute to DDR and MBL US Trust certain accrued fees and distributions related to US LLC and PS LLC.

**US Manager Mervyns Redemption Agreement** means the Redemption Agreement between US Manager and Mervyns LLC in the form or substantially the form set out in Annexure Y.

**US Manager Operating Agreement** means the Seventh Amended and Restated Limited Liability Company Agreement of US Manager in the form or substantially the form set out in Annexure K.

**US Manager PS Redemption Agreement** means the Redemption Agreement between US Manager and PS LLC in the form or substantially the form set out in Annexure X.

**US Manager Redemption Agreements** means the US Manager PS Redemption Agreement, the US Manager Mervyns Redemption Agreement and the US Manager US Redemption Agreement.

**US Manager Sale** means the sale of MBL US Trust's limited liability company interest in the US Manager to the Investor in accordance with the US Manager Assignment and Assumption Agreement.

**US Manager US Redemption Agreement** means the Redemption Agreement between US Manager and US LLC in the form or substantially the form set out in Annexure W.

**US REIT I Bylaws** means the Third Amended and Restated Bylaws of US REIT I in the form or substantially the form set out on Annexure O.

**US REIT I Charter** means the Fourth Amended and Restated Articles of Incorporation of US REIT I in the form or substantially the form set out on Annexure N.

**US REIT II Bylaws** means the Second Amended and Restated Bylaws of US REIT II in the form or substantially the form set out on Annexure Q.

**US REIT II Charter** means the Third Amended and Restated Articles of Incorporation of US REIT II in the form or substantially the form set out on Annexure P.

## 1.2 References to certain general terms

Unless the contrary intention appears, a reference in this agreement to:

- (a) **(variations or replacement)** a document (including this agreement) includes any variation or replacement of it;
- (b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this agreement;

- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) **(singular includes plural)** the singular includes the plural and vice versa;
- (f) **(person)** the word “person” includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, any Regulatory Authority, or any other body, entity or representative whatsoever;
- (g) **(executors, administrators, successors)** a particular person includes a reference to the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (h) **(two or more persons)** an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and each of them individually;
- (i) **(jointly and severally)** an agreement, representation or warranty by two or more persons binds them jointly and each of them individually;
- (j) **(reference to a group of persons)** a group of persons or things is a reference to any two or more of them jointly and to each of them individually;
- (k) **(dollars)** Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia. US Dollars and US\$ is a reference to the lawful currency of the United States of America;
- (l) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (m) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (n) **(accounting terms)** an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia;
- (o) **(meaning not limited)** the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and
- (p) **(time of day)** time is a reference to Australian Eastern Standard Time or Australian Eastern Daylight Time as relevant.



### **1.3 Next day**

If an act under this agreement to be done by a party on or by a given day is done after 5.30 pm on that day, it is taken to be done on the next day.

### **1.4 Next Business Day**

If an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day.

### **1.5 Headings**

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this agreement.

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## **2 Execution of documents**

### **2.1 Entry into Transaction Documents**

Immediately following the Effective Time, each of the Parties must enter into, or procure the entry into of, the following documents where they, or one of more of their respective controlled entities, are expressed as being a party to or responsible for executing the document:

- (a) the Subscription Agreement (Annexure A);
- (b) the Unit Sale Agreement (Annexure B);
- (c) the Deed of Termination of Licence Agreement (Annexure D);
- (d) the Deed of Termination of Resources Agreement (Annexure E);
- (e) the Transitional Services Agreement (Annexure F);
- (f) the EPN Entitlement Offer Commitment Deed (Annexure G);
- (g) the First MDT Supplemental Deed;
- (h) the Intellectual Property Licence (Annexure FF); and
- (i) the Notice to Bank of America re Venice Assets (Annexure S).

### **2.2 Entitlement Offer obligations**

- (a) On and from the date of execution, MDML and the Investor must use their reasonable best efforts to obtain:
  - (i) fully executed copies of the Stand Still Agreements; and
  - (ii) the Underwriting Agreement and the Sub-underwriting Agreement signed by the Underwriters.
- (b) On the date that MDML receives a fully signed copy of the Stand Still Agreements and a copy of the Underwriting Agreement and Sub-underwriting Agreement signed by the Underwriters and immediately prior to the Entitlement Offer Announcement Time, each of the Parties must enter into and deliver, or procure the entry into and delivery of, the

following documents where they, or one of more of their respective controlled entities, are expressed as being a party to or responsible for executing the document:

- (i) the Underwriting Agreement (Annexure H);
- (ii) the Sub-underwriting Agreement (Annexure I); and
- (iii) the Second MDT Supplemental Deed (Annexure JJ).

## **2.3 US Manager and REIT Redemption Transaction Documents**

- (a) On or prior to the Completion Date, each of the Parties must enter into, or procure the entry into of, the following documents where they, or one of more of their respective controlled entities, are expressed as being a party to or responsible for executing the document, in the order and priority set forth below:
  - (i) the US Manager Redemption Agreements (Annexures W, X and Y);
  - (ii) the Amended and Restated US Joint Venture Agreements (Annexures Z, AA and BB);
  - (iii) the REIT Redemption Agreement (Annexure L);
  - (iv) the US Manager Assignment and Assumption Agreement (Annexure C);
  - (v) the US Manager Operating Agreement (Annexure K);
  - (vi) the Termination of US REIT Class B-1 Exchange Agreement (Annexure T);
  - (vii) the Termination of US REIT I Class B-2 Exchange Agreement (Annexure U);
  - (viii) the Termination of US REIT II Class B-2 Exchange Agreement (Annexure V);
  - (ix) the EPN US REIT I Class B-2 Exchange Agreement (Annexure GG);
  - (x) the EPN US REIT II Class B-2 Exchange Agreement (Annexure HH); and
  - (xi) the DDR US REIT I Class B-2 Exchange Agreement (Annexure II).
- (b) During the period beginning at the Effective Time and ending on the date that the US Manager Assignment and Assumption Agreement is entered into (which shall in no event be later than the Completion Date), EPN, DDR and MBL US Trust agree to use reasonable efforts to determine in good faith the Net Asset Value (as defined in the US Manager

Assignment and Assumption Agreement) of US Manager as of the date such agreement is entered into.

## **2.4 Letters of credit**

Prior to the execution of the Sub-underwriting Agreement in accordance with clause 2.2(b), the Investor must procure the delivery to the Underwriters of the Letters of Credit to provide financial support for the obligations of the Investor under the Sub-underwriting Agreement.

## **2.5 MDT Supplemental Deeds**

- (a) As soon as reasonably practicable after the execution of the First MDT Supplemental Deed in accordance with clause 2.1, MDML must lodge the changes to the constitution of MDT made by that deed with ASIC.
- (b) As soon as reasonably practicable after the execution of the Second MDT Supplemental Deed in accordance with clause 2.2(b), MDML must lodge the changes to the constitution of MDT made by that deed with ASIC.
- (c) On the Completion Date, MDML will execute the Third MDT Supplemental Deed (Annexure DD) and must as soon as practicable lodge the changes to the constitution of MDT made by that deed with ASIC.

## **2.6 MDML Shareholder Resolutions**

On the Completion Date:

- (a) the Investor must provide to MDML:
  - (i) a request for the removal of the Macquarie MDML Directors in accordance with clause 3.7 of the MDML Constitution as amended by the MDML Shareholder Resolutions (Annexure EE); and
  - (ii) a request to appoint the EPN MDML Directors in accordance with clause 3.5 of the MDML Constitution as amended by the MDML Shareholder Resolutions (Annexure EE).
- (b) DDR Corp. must provide to MDML a request for the removal of the Outgoing DDR MDML Director in accordance with clause 3.7 of the MDML Constitution as amended by the MDML Shareholder Resolutions (Annexure EE); and
- (c) the US Manager must execute and deliver to MDML the MDML Shareholder Resolutions (Annexure EE) and MDML must, as soon as practicable after the execution and delivery of the MDML Shareholder Resolutions to MDML, lodge with ASIC notice of:
  - (i) the change of name of MDML;
  - (ii) the changes to the constitution of MDML; and
  - (iii) the changes to the directors of MDML.

## **2.7 Notice to Bank of America**

As soon as reasonably practicable after the execution of the Notice to Bank of America re Venice Assets (Annexure S) in accordance with clause 2.1, MDML will provide a signed copy of the Notice to Bank of America re Venice Assets to Bank of America, N.A. at the address specified in that document.

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## **3 Implementation obligations**

### **3.1 Obligation to announce**

Immediately following the execution of the documents in accordance with clause 2.1, MDML must give to ASX the Transaction Announcement (Annexure CC) for release to the market.

### **3.2 Obligation to undertake Entitlement Offer**

Immediately following the execution of the Underwriting Agreement and the Sub-underwriting Agreement by all the parties to those agreements in accordance with clause 2.2(b), MDML must:

- (a) give the Entitlement Offer Announcement Materials to ASX for release to the market;
- (b) undertake the Entitlement Offer in accordance with the Timetable; and
- (c) ensure that the Entitlement Offer Announcement Materials comply with applicable law, the Listing Rules and applicable ASIC Regulatory Guides, including providing to the ASX and holders of MDT Units such further or new information as may arise after the release of the Entitlement Offer Announcement Materials and the despatch of the Product Disclosure Statement as is required by law,

provided that (without prejudice to any Party's rights and remedies in respect of any breach of this agreement or the Transaction Documents) MDML's obligations under this clause shall cease in the event that the Placement Completion, in accordance with the Subscription Agreement, and the Unit Sale Completion, in accordance with the Unit Sale Agreement, have not occurred prior to the record date for the Entitlement Offer as set out in the Timetable.

### **3.3 Use of Macquarie Name**

In order to assist with giving effect to the Deed of Termination of Licence Agreement, the parties agree to use reasonable endeavours to:

- (a) following the Effective Time, prepare, or cause to be prepared, such documents and procure, or cause to be procured, such approvals as may be required to change the name of each of US REIT I, US REIT II, US LLC and US Manager to a name that does not include "Macquarie" or any substantially identical or deceptively similar word; and
- (b) on the Completion Date, file or cause to be filed with the Secretary of State of the State of Delaware and the Secretary of State of the State of Maryland, as the case may be, the documents prepared in accordance with clause (a) above.

### **3.4 Redemption of Class C Shares**

On and from the Completion Date, MBL US Trust and the Investor agree to take, or cause their respective related bodies corporate to take, such actions as are necessary to ensure that, subject to receipt of any necessary third party consents or approvals, within 120 days after the Completion Date:

- (a) US REIT I and US REIT II each issue shares of Class C common stock to each of the individuals identified by Investor and/or DDR; and
- (b) following the issue of Class C common stock to the individuals designated by Investor and/or DDR pursuant to clause (a) above, US REIT I and US REIT II redeem the Class C Shares of the Class C Shareholders in consideration for the payment of the fair market value of those shares to Macquarie or an entity nominated by Macquarie;

in each case in a manner that does not prejudicially affect the status of US REIT I or US REIT II as a real estate investment trust pursuant to the Code.

Within 120 days after the Completion Date, DDR Corp. and the Investor shall, or shall cause their respective related bodies corporate to, mutually agree whether to redeem the Class C common shares of US REIT I and US REIT II which are held by employees and former employees of DDR Corp. in consideration for the payment of the fair market value of those shares, provided that US REIT I and US REIT II will both maintain 120 individual Class C shareholders after the redemption described in clause 3.4(b) and any potential redemption as described in this paragraph.

### **3.5 US REIT I and US REIT II Matters**

On the Completion Date:

- (a) MBL US Trust will procure that each of the Macquarie REIT Directors and Officers execute and deliver to US REIT I and US REIT II a letter of resignation in substantially the form set out on Annexure M;
- (b) DDR will procure that each of the DDR REIT Officers execute and deliver to US REIT I and US REIT II a letter of resignation in substantially the form set out on Annexure M; and
- (c) Investor and MDML (on behalf of MDT, in its capacity as a shareholder of US REIT I and US REIT II), will:
  - (i) enter into, or procure the entry into of, and file or cause to be filed with the Secretary of State of the State of Maryland, the US REIT I Charter and the US REIT II Charter; and
  - (ii) take such other actions as are required under the applicable REIT Charters to appoint the Investor's nominees as replacement directors and officers for each of US REIT I and US REIT II and adopt the REIT Bylaws.

### **3.6 Period before Completion Date - MDML and US Manager obligations**

Between the date of this agreement and the Completion Date, MDML and the US Manager must ensure that:

- (a) the businesses of MDT and the US Manager are conducted in the ordinary course;
- (b) there is no distribution or return of capital to MDT Unitholders or shareholders of the US Manager other than the payments by the US Manager to Macquarie Group Members contemplated by the Transaction Documents particularly the US Manager Assignment and Assumption Agreement;
- (c) neither MDML, the US Manager, US REIT I, US REIT II, US LLC, PS LLC nor Mervyns LLC:
  - (i) enters into any transaction which is abnormal, unusual or not on arm's length terms;
  - (ii) incurs any liability or makes any commitment in excess of \$200,000 (or its equivalent in US Dollars) or liabilities and commitments exceeding \$1,500,000 (or its equivalent in US Dollars) in aggregate;
  - (iii) disposes or agrees to dispose of any real property asset other than the Permitted Disposals;
  - (iv) borrows money, or commits to or raises any new financial facility;
  - (v) enters into, or varies, terminates or waives any rights under, any contract requiring payments over the term of the contract in excess of \$200,000 (or its equivalent in US Dollars) or with a term of more than 12 months;
  - (vi) approves or makes any offering of units or other equity ownership interests, or other change of capital structure involving the issue of units or options or other rights to acquire units or other equity ownership interests, or makes any other commitment entitling any person to acquire units or other equity ownership interests or to carry out any other amendment to its capital or financial structure through units or other equity ownership interests;
  - (vii) approves, proposes or gives effect to any merger, demerger or other extraordinary transaction;
  - (viii) solicits any takeover bid,

provided that nothing in this clause restricts a Party from:

- (d) doing anything that is expressly required on or before the Completion Date under this agreement or the Transaction Documents;
- (e) incurring a liability or disposing of an asset if necessary for the Party to meet its legal obligations in force at the date of this agreement;
- (f) doing anything approved in writing or e-mail by the Investor; or
- (g) doing anything required to maintain the status of US REIT I or US REIT II as a real estate investment trust pursuant to the Code; or

- (h) performing, or causing to be performed, any leasing or property management activities contemplated by, and in material compliance with, any annual or operating budget or plan of US Manager, US LLC, PS LLC or Mervyns LLC that has been approved by the members of US Manager, US LLC, PS LLC or Mervyns LLC, as the case may be, in accordance with the Sixth Amended and Restated US Manager LLC Agreement, the US LLC Agreement, the PS LLC Agreement or the Mervyns LLC Agreement, as applicable, prior to the Effective Time; or
- (i) entering into or approving the Longhorn II CMBS Forbearance Extension agreement titled “Agreement Regarding Loan (LBUBS 2005-C2; Loan No. M130201814)” in the form or substantially the form provided to the Investor on or around 20 April 2010; or
- (j) making a directors’ recommendation in respect of, and taking all actions required under the Corporations Act in response to, a takeover bid.

### **3.7 Period before Completion Date - Investor obligation**

Between the date of this agreement and the Completion Date, the Investor must provide to MDML all such further or new information of which it becomes aware concerning the Investor Entities which may arise after the Transaction Announcement is provided to ASX in accordance with clause 3.1 which would cause any statement concerning the Investor Entities included in the Transaction Announcement to be misleading or deceptive or contain any material omission.

### **3.8 Net tangible assets**

On or before the Completion Date, the Investor and DDR must arrange either for:

- (a) the net tangible assets of MDML, for the purposes of compliance with its Australian financial services licence (“AFSL”), to be at least the lesser of A\$5,000,000 and the amount required under the AFSL; or
- (b) a guarantee or undertaking in a form acceptable to ASIC to be given in relation to MDML,

so that ASIC releases the guarantee given by Macquarie Bank Limited for the purposes of MDML’s AFSL and MDML must cause that release.

For the purposes of meeting the costs or funding of compliance with this clause 3.8, where the US Manager has:

- (c) sufficient excess funds to capitalise MDML to the level required under this clause, the US Manager must capitalise MDML to that level; or
- (d) insufficient excess funds to capitalise MDML to the level required under this clause, then the Investor and DDR must each contribute half of either the:
  - (i) capital required under paragraph (c) and then the US Manager must then capitalise MDML to that level; or
  - (ii) cost of and any liability associated with the guarantee or undertaking under paragraph (b).

### 3.9 US Federal Income Tax Matters

- (a) Within thirty (30) calendar days after the Completion Date, MDML on behalf of MDT (or any successor) shall make an entity classification election to be treated as a partnership for United States federal income tax purposes pursuant to Section 301.7701-3(c) of the Income Tax Regulations promulgated under the Code.
- (b) Immediately following the effective date of the entity classification election made pursuant to clause 3.9(a), the parties hereto (including, without limitation, MDML and the Investor) shall, and shall cause their affiliates to, use their reasonable best efforts to ensure that MDML on behalf of MDT (or any successor) or any of MDT's non-United States unitholders will not derive any income that would cause MDT (or any successor) or any non-United States unitholder of MDT to be treated as engaged in a trade or business in the United States pursuant to Code Section 897 and to be subject to U.S. tax liability and tax return filing obligations as if the income derived were effectively connected with such trade or business ("Effectively Connected Income"). Such efforts shall include, but shall not be limited to:
  - (i) causing US REIT I, US REIT II, any other real estate investment trust within the meaning of Code Section 856 or any United States real property holding corporation within the meaning of Code Section 897(c)(1)(A)(ii) to not make any capital gains distributions or other distributions that would be treated as Effectively Connected Income;
  - (ii) causing MDML on behalf of MDT to not enter into any sale or exchange of the shares of US REIT I, US REIT II, any other real estate investment trust within the meaning of Code Section 856 or any United States real property holding corporation within the meaning of Code Section 897(c)(1)(A)(ii) that gives rise to gain that is Effectively Connected Income; and
  - (iii) taking any other action as appropriate, including without limitation the application for tax exemptions or rulings with the United States tax authorities.
- (c) Immediately following the effective date of the entity classification election made pursuant to clause 3.9(a), neither US REIT I nor US REIT II (or any other real estate investment trust within the meaning of Code Section 856) shall make a distribution within the meaning of Code Section 301 to MDT (and no party hereto shall cause, or allow any of their affiliates to cause, US REIT I, US REIT II or any other real estate investment trust within the meaning of Code Section 856 to make a distribution within the meaning of Code Section 301), if such distribution is not made out of such REIT's earnings and profits and is applied against and reduces MDT's adjusted basis in the stock of such REIT pursuant to Code Section 301(c)(2), without first making an application to obtain a withholding certificate from the United States Internal Revenue Service that excuses withholding on such distribution as set forth in United States Treasury Regulation 1.1445-6, or any successor provision.
- (d) If, as a result of a transaction or distribution, the unitholders of MDT (other than Investor and any other unitholder otherwise obligated to file



US tax returns) becomes legally obligated to file US tax returns, MDML on behalf of MDT and the Investor shall use their reasonable best efforts to assist the unitholders of MDT in satisfying this obligation, including but not limited to through the appointment of a filing agent for the affected unitholders.

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## **4 Use of proceeds**

### **4.1 Use of proceeds from the Placement**

MDML agrees that, unless the Investor otherwise consents in writing, the net Placement Proceeds will be applied towards the repayment of the principal and interest and other amounts outstanding under the Unsecured Debt Documents and Derivative Liabilities.

### **4.2 Use of proceeds from the Entitlement Offer**

MDML agrees that, unless the Investor otherwise consents in writing, any net Entitlement Offer Proceeds will be applied firstly towards the repayment of the principal and interest and other amounts outstanding under the Unsecured Debt Documents and to retire the Derivative Liabilities together with the payment to US LLC and PS LLC of an amount equal to the fees and distributions that have accrued to the US Manager on or prior to the Completion Date and are payable by the US Manager to DDR and MBL US Trust pursuant to the US Manager Assignment and Assumption Agreement and any other accrued fees and other payables.

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## **5 Representations and warranties**

### **5.1 MDML's representations and warranties**

MDML represents and warrants to the Investor that each of the statements set out in schedule 2 is true and correct in all material respects and not otherwise misleading as at the date of this agreement and MDML will notify the Investor to the extent that such a statement ceases to be true and correct in all material respects and not otherwise misleading at any time up to the Completion Date except to the extent that a statement is expressed in its terms to operate only as at a particular date.

### **5.2 Limitations**

- (a) The Investor acknowledges and agrees that the representations and warranties given by MDML under clause 5.1 are qualified by the:
  - (i) actual knowledge of an Investor Entity or its employees prior to the entry into this agreement; and
  - (ii) matters fairly, clearly and accurately disclosed in this agreement, the Transaction Documents, the Data Room or in the Due Diligence Q&A.
- (b) If, prior to the execution of the Underwriting Agreement and Sub-underwriting Agreement, MDML notifies the Investor that any of the statements in schedule 2 was, to a material extent in the circumstances, inaccurate or otherwise misleading as at the date of this agreement the

Investor shall have a right to terminate the future obligations of the Parties under this agreement provided that this right shall lapse at the time the Underwriting Agreement and Sub-underwriting Agreement are signed.

- (c) If the Investor has a right to terminate the future obligations of the Parties under this agreement by virtue of clause 5.2(b) and it does not do so then the representations and warranties given by MDML under clause 5.1 are qualified by the matters disclosed to the Investor under clause 5.2(b).

### **5.3 MDML's indemnity**

Subject to clause 5.2, MDML indemnifies the Investor against all Losses incurred directly as a result of any of the representations and warranties in clause 5.1 not being true and correct provided that the maximum aggregate amount that MDML are required to pay in response to this indemnity is limited to the aggregate of the amounts paid by the Investor to acquire the Placement Units and any MDT Units it acquires under the Entitlement Offer and the Sub-Underwriting Agreement, plus the amount of the Investor's reasonably incurred legal fees and due diligence expenses invoiced directly relating to the Transaction.

### **5.4 Investor's representations and warranties**

The Investor represents and warrants to the Macquarie MDT Unitholders and MDML (on its own behalf and separately as trustee of MDT) that each of the statements set out in schedule 3 is true and correct in all material respects and not otherwise misleading as at the date of this agreement and will be true and correct in all material respects and not otherwise misleading on each day up to the Completion Date as if made on and as of each of those dates except to the extent that a statement is expressed in its terms to operate only as at a particular date.

### **5.5 Limitations**

The Macquarie MDT Unitholders and MDML acknowledge and agree that the representations and warranties given by the Investor under clause 5.4 are qualified by the:

- (a) actual knowledge of the Macquarie MDT Unitholders and MDML or their employees prior to the entry into this agreement; and
- (b) matters fairly, clearly and accurately disclosed in this agreement or the Transaction Documents.

### **5.6 Investor's indemnity**

- (a) Subject to clause 5.5, the Investor indemnifies the Macquarie MDT Unitholders against all Losses incurred directly as a result of any of the representations and warranties in clause 5.4 not being true and correct provided that the maximum aggregate amount that the Investor are required to pay in response to this indemnity, when aggregated with all other amounts paid by an Investor Entity in response to this indemnity, is limited to the amount of the Purchase Price as defined in the Unit Sale Agreement.

- (b) Subject to clause 5.5, the Investor indemnifies MDML (on its own behalf and separately as trustee of MDT) against all Losses incurred directly as a result of any of the representations and warranties in clause 5.4 not being true and correct provided that the maximum aggregate amount that the Investor are required to pay in response to this indemnity, when aggregated with all other amounts paid by an Investor Entity in response to this indemnity, is limited to the aggregate of the amounts paid or agreed to be paid by the Investor to acquire the Placement Units and any MDT Units it acquires or is to acquire under the Entitlement Offer and the Sub-Underwriting Agreement.

## **5.7 Macquarie MDT Unitholders' representations and warranties**

Each of the Macquarie MDT Unitholders represent and warrant to the Investor that each of the statements set out in schedule 4 is true and correct in all material respects and not otherwise misleading as at the date of this agreement and will be true and correct in all material respects and not otherwise misleading on each day up to the Completion Date as if made on and as of each of those dates except to the extent that a statement is expressed in its terms to operate only as at a particular date.

## **5.8 Limitations**

The Investor acknowledges and agrees that the representations and warranties given by each of the Macquarie MDT Unitholders under clause 5.7 are qualified by the matters fairly, clearly and accurately disclosed in this agreement, the Transaction Documents, the Data Room or in the Due Diligence Q&A.

## **5.9 Macquarie MDT Unitholders' indemnity**

Subject to clause 5.8, each of the Macquarie MDT Unitholders indemnifies the Investor against all Losses incurred directly as a result of any of the representations and warranties in clause 5.7 not being true and correct provided that the maximum aggregate amount that the Macquarie MDT Unitholders are required to pay in response to this indemnity is limited to the amount of the Purchase Price as defined in the Unit Sale Agreement.

## **5.10 Time limits**

- (a) MDML and the Macquarie MDT Unitholders are not liable under a Claim:
  - (i) in respect of a particular breach of representation or warranty, if any Investor Entity or any of their Representatives were aware of the breach prior to Completion Date and the Investor did not promptly notify MDML and each Macquarie MDT Unitholder, as relevant, of the breach so as to permit MDML and/or that Macquarie MDT Unitholder to seek to remedy the circumstances which gave rise to the breach to the extent that the amount of the Claim is increased by such failure by the Investor to notify it of the breach; or
  - (ii) if the Investor does not notify MDML or the Macquarie MDT Unitholder, as relevant, of the Claim and/or provide all relevant details (including the amount) then known to the Investor (or its

Affiliates) of the events, matters or circumstances giving rise to the Claim within 12 months after the Completion Date.

- (b) The Investor is not liable under a Claim:
  - (i) in respect of a particular breach of representation or warranty, if MDML was aware of the breach prior to Completion Date and the MDML did not promptly notify the Investor of the breach so as to permit the Investor to seek to remedy the circumstances which gave rise to the breach to the extent that the amount of the Claim is increased by such failure by MDML to notify them of the breach; or
  - (ii) if MDML does not notify the Investor of the Claim and/or provide all relevant details (including the amount) then known to MDML or Macquarie (or its Affiliates) of the events, matters or circumstances giving rise to the Claim within 12 months after the Completion Date.

#### **5.11 No double recovery**

- (a) MDML and the Macquarie MDT Unitholders are not liable for any loss that an Investor Entity recovers, or is compensated for by any Macquarie Group Member or MDML under another Transaction Document.
- (b) The Investor is not liable for any loss that MDML or a Macquarie Group Member recovers, or is compensated for, by any Investor Entity under another Transaction Document.

#### **5.12 Survival**

- (a) The representations and warranties, undertakings and indemnities in this agreement do not merge and are not extinguished on the Completion Date and will survive after the Completion Date subject to clause 5.10.
- (b) Any accrued obligations under this clause 5 survive termination of this agreement.

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## **6 Public announcements**

Where a party is required by law, the Listing Rules or a memorandum of understanding with a Regulatory Authority to make any announcement or make any disclosure relating to a matter the subject of the Transaction, it may do so only after (to the extent legally permitted) it has given the other party as much notice as possible and has consulted to the fullest extent possible in the circumstances with the other party and its legal advisers.

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## **7 Confidential Information**

### **7.1 Disclosure of Macquarie Confidential Information**

No Macquarie Confidential Information, or MDT Confidential Information may be disclosed by an Investor Entity to any person except:

- (a) as required by this agreement; or

- (b) another Investor Entity or their Representatives requiring the information for the purposes of the Transaction contemplated by this agreement; or
- (c) with the consent of Macquarie or MDML (as applicable) which consent may be given or withheld in its absolute discretion; or
- (d) if the Investor Entity is required to do so by law or regulatory (including stock exchange) request or requirement; or
- (e) if the Investor Entity is required to do so in connection with legal proceedings relating to this agreement; or
- (f) disclosure by MDML or the US Manager of MDT Confidential Information in their discretion after the Completion Date.

## **7.2 Use of Macquarie Confidential Information**

The Investor Entities must use the Macquarie Confidential Information or MDT Confidential Information exclusively for the purpose of due diligence in relation to the Transaction.

## **7.3 Disclosure of Investor Entity Confidential Information**

No Investor Entity Confidential Information may be disclosed by MDML, or a Macquarie Group Member to any person except:

- (a) as required by this agreement; or
- (b) MDML or another Macquarie Group Member or their Representatives requiring the information for the purposes of the Transaction contemplated by this agreement; or
- (c) to a bank or other financial institution (and its professional advisers including legal advisers) in connection with any existing loan or other financial accommodation or application for a loan or financial accommodation of MDML or its controlled entities; or
- (d) with the consent of the Investor which consent may be given or withheld in its absolute discretion; or
- (e) if MDML or the Macquarie Group Member is required to do so by law or regulatory (including stock exchange) request or requirement; or
- (f) if MDML or the Macquarie Group Member is required to do so in connection with legal proceedings relating to this agreement.

## **7.4 Disclosure by recipient of Confidential Information**

Any party disclosing information under clause 7.1(a) or clause 7.3(a) must use all reasonable endeavours to ensure that persons receiving Confidential Information from it do not disclose the information except in the circumstances permitted in clause 7.1 or clause 7.3.

## **7.5 Excluded Information**

Clauses 7.1, 7.2, 7.3, and 7.4 do not apply to the Excluded Information.

## **7.6 Termination**

This clause 7 will survive termination (for whatever reason) of completion of this agreement for a period of two years following such termination or completion.

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# **8 Notices and other communications**

## **8.1 Form - all non-email communications**

Unless expressly stated otherwise in this agreement, all notices, certificates, consents, approvals, waivers and other communications in connection with this agreement must be:

- (a) in writing;
- (b) signed by the sender (if an individual) or an Authorised Officer of the sender; and
- (c) marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

## **8.2 Form - communications sent by email**

Communications sent by email need not be marked for attention in the way stated in clause 8.1. However, the email must state the first and last name of the sender. Communications sent by email are taken to be signed by the named sender.

## **8.3 Delivery**

Communications must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details; or
- (d) sent by email to the address set out or referred to in the Details or notified by the recipient to the sender for the purposes of communications under this agreement and the Transaction Documents from time to time; or
- (e) given in any other way permitted by law.

However, if the intended recipient has notified a changed address or fax number, then communications must be to that address or fax number.

## **8.4 When effective**

Communications take effect from the time they are received or taken to be received under clause 8.5 (whichever happens first) unless a later time is specified.

## 8.5 When taken to be received

Communications are taken to be received:

- (a) if sent by courier, two days after sending (or four days after sending if sent from one country to another); or
- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent; or
- (c) if sent by email;
  - (i) when the sender receives an automated message confirming delivery; or
  - (ii) four hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered,

whichever happens first.

## 8.6 Receipt outside business hours

Despite clauses 8.4 and 8.5, if communications are received or taken to be received under clause 8.5 after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day and take effect from that time unless a later time is specified.

## 8.7 Service of process

- (a) Without preventing any other mode of service, any document in an action (including any writ of summons or other originating process or any third or other party notice) may be served on any party by being delivered to or left for that party at its address set out or referred to in the Details.
- (b) The Investor irrevocably appoints Minter Ellison (attention James Philips) as its agent for the service of process in Australia in relation to any matter arising out of this agreement. If Minter Ellison ceases to be able to act as such or have an address in Australia, the Investor agrees to appoint a new process agent in Australia and deliver to Macquarie within 10 Business Days a copy of a written acceptance of appointment by the process agent, upon receipt of which the new appointment becomes effective for the purpose of this agreement. The Investor must inform MDML in writing of any change in the address of its process agent within 10 Business Days of the change.

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## 9 MDML and Belike limitation of liability

MDML enters into this agreement only in its capacity as responsible entity of MDT. Belike enters into this agreement only in its capacity as trustee of Macquarie Blended Property Trust. For the purposes of this clause MDML and Belike are each a “**Trustee**”.

- (a) Subject to paragraph (c):

- (i) a liability arising under or in connection with this agreement is limited to and can be enforced against a Trustee only to the extent to which it can be satisfied out of property of Trust Property out of which the Trustee is actually indemnified for the liability. This limitation of the Trustees' liability applies despite any other provision of this agreement and extends to all liabilities and obligations of the Trustees in any way connected with any representation, warranty, conduct, omission, agreement or transaction related to this agreement; and
  - (ii) the other parties to this agreement may not sue a Trustee in any capacity other than as responsible entity or trustee of MDT or Macquarie Blended Property Trust, as applicable, including seeking the appointment of a receiver (except in relation to property of MDT or Macquarie Blended Property Trust, as applicable) a liquidator, an administrator or any similar person to a Trustee or prove in any liquidation, administration or arrangement of or affecting a Trustee (except in relation to Trust Property).
- (b) Despite any other provision of this or any other agreement (including a deed or deed poll), paragraph (a) does not apply to any obligation or liability of a Trustee to the extent that it is not satisfied because under the constitution of the Trustee, or by operation of law, there is a reduction in the extent of the Trustee's indemnification out of the assets of MDT or Macquarie Blended Property Trust, as applicable, as a result of the Trustee's fraud, negligence or breach of trust or if there is a reduction in the extent of the Trustee's indemnification as a result of:
  - (i) the Trustee's failure to exercise any right of indemnity it has under the constitution of MDT or Macquarie Blended Property Trust, as applicable, or by law, in respect of that obligation or liability; or
  - (ii) the Trustee's release or waiver of any rights of indemnity it has under the constitution of MDT or Macquarie Blended Property Trust, as applicable, in respect of that obligation or liability.
- (c) A Trustee is not obliged to enter into any commitment or obligation under this agreement unless its liability is limited in the same manner as in this clause 9.

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## 10 Acknowledgements

### 10.1 Acknowledgement by DDR, DDR Corp., MBL US Trust, US REIT I and US REIT II

DDR, DDR Corp., MBL US Trust, US REIT I and US REIT II each acknowledge and agree by signing this agreement that each such party waives, individually and on behalf of any related body corporate, any and all rights or options it or such related body corporate may have under the US LLC Agreement, the PS LLC Agreement or the Mervyns LLC Agreement (as each such agreement is in effect as of the Effective Time) that may arise as a result of signing this agreement or the completion of any transaction contemplated herein, including, without limitation, any and all rights or options it or such related body



corporate may have under sections 7.2, 7.3 or 9.5 of the PS LLC Agreement or the Mervyns LLC Agreement, sections 7.2 or 9.5 of the US LLC Agreement, or sections 7.2, 9.5 or 9.6 of the Sixth Amended and Restated US Manager LLC Agreement (as each such agreement is in effect as of the Effective Time) that may arise as a result of signing this agreement or the completion of any transaction contemplated herein.

#### **10.2 Acknowledgement by MDML**

MDML acknowledges and agrees by signing this agreement that nothing in this agreement, any Transaction Document or any other agreement contemplated herein shall, nor shall any transaction contemplated by this agreement, relieve MDML of its obligations under that certain Settlement Agreement dated as of March 31, 2010 by and among Holliday Fenoglio Fowler, L.P., MDML (as the responsible entity of MDT) and DDR Corp.

#### **10.3 Acknowledgement by DDR**

DDR acknowledges by signing this agreement it is consenting to the US Manager Sale and, in connection therewith, waives any and all rights and options it may have pursuant to the Sixth Amended and Restated US Manager LLC Agreement, in connection with the US Manager Sale and will co-operate to facilitate the completion of the transactions contemplated by this agreement.

#### **10.4 Acknowledgement by the Investor**

- (a) The Investor acknowledges by signing this agreement that the US Manager has granted an indemnity to MDML in the form of the Deed of Indemnity and the Investor covenants that it will not do anything or refrain from doing anything that would result in the US Manager breaching its obligations under the Deed of Indemnity provided that nothing in this agreement prevents the US Manager from terminating the Deed of Indemnity following the Completion Date or from seeking repayment of any amounts paid by the US Manager under the Deed of Indemnity after the Completion Date.
- (b) The Investor acknowledges by signing this agreement that the lenders to MDML and its controlled entities, including the counterparties under the Unsecured Debt Documents and in respect of the Derivative Liabilities, (“**Lenders**”) have certain rights under their relevant loan or derivative documents and that the Investor will have no right to terminate this agreement as a result of one or more Lenders exercising any of their rights under these documents.

#### **10.5 Acknowledgement by Parties**

The Parties acknowledge and agree by signing this agreement that DDR shall continue to serve as property manager for US LLC, PS LLC, Mervyns LLC and their respective subsidiaries from and after the Effective Time, through and including the completion of the transactions contemplated by this agreement, pursuant to the terms and conditions of the Property Management Agreements (as such term is defined in the Sixth Amended and Restated US Manager LLC Agreement) in effect as of the Effective Time, and such transactions contemplated by this agreement, including, without limitation, the redemption of the US Manager’s equity interest in the US LLC, PS LLC and Mervyns LLC, shall not affect the existing parties’ rights or obligations of the parties under the

Property Management Agreements or alter whether or not any party has a right to terminate the Property Management Agreements or permit any party the right to terminate such Property Management Agreements.

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## **11 Miscellaneous**

### **11.1 Joint Venture Agreements**

The parties acknowledge and agree that from and after the Completion Date, MBL US Trust shall no longer be a party to, and shall have no further right or obligation under, each of the US LLC Agreement, the PS LLC Agreement and the Mervyns LLC Agreement.

### **11.2 Discretion in exercising rights**

A party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this agreement expressly states otherwise.

### **11.3 Partial exercising of rights**

If a party does not exercise a right or remedy fully or at a given time, the party may still exercise it later.

### **11.4 No liability for loss**

A party is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this agreement.

### **11.5 Approvals and consents**

By giving its approval or consent a party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

### **11.6 Conflict of interest**

The parties' rights and remedies under this agreement may be exercised even if it involves a conflict of duty or a party has a personal interest in their exercise.

### **11.7 Remedies cumulative**

The rights and remedies in this agreement are in addition to other rights and remedies given by law independently of this agreement.

### **11.8 Variation and waiver**

A provision of this agreement or a right created under it, may not be waived or varied except in writing, signed by the party or parties to be bound.

### **11.9 No merger**

The warranties, undertakings and indemnities in this agreement do not merge on the Completion Date.

#### **11.10 Indemnities**

The indemnities in this agreement are continuing obligations, independent from the other obligations of the parties under this agreement and continue after this agreement ends. It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity under this agreement.

#### **11.11 Further steps**

Each party agrees, at its own expense, to do anything the other party reasonably requests (such as obtaining consents, signing and producing documents and getting documents completed and signed):

- (a) to bind the party and any other person intended to be bound under this agreement; or
- (b) to show whether the party is complying with this agreement.

#### **11.12 Construction**

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of, or seeks to rely on, this agreement or any part of it.

#### **11.13 Costs**

The parties agree to pay their own legal and other costs and expenses in connection with the preparation, execution and completion of this agreement and other related documentation except for stamp duty.

#### **11.14 Entire agreement**

This agreement constitutes the entire agreement of the parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter.

#### **11.15 Assignment**

A party may not assign or otherwise deal with its rights under this agreement or allow any interest in them to arise or be varied in each case, without the consent of the other parties.

#### **11.16 No representation or reliance**

Each party acknowledges that:

- (a) no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this agreement, except for representations or inducements expressly set out in this agreement;
- (b) it does not enter into this agreement in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this agreement; and

- (c) paragraphs (a) and (b) above do not prejudice any rights a party may have in relation to information which had been filed by the other party with ASIC or ASX.

#### **11.17 Governing law**

This agreement is governed by the law in force in the place specified in the Details. Each party submits to the non-exclusive jurisdiction of the courts of that place.

#### **11.18 Counterparts**

This agreement may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

**EXECUTED** as an agreement

# Master Agreement

## Schedule 1 - Timetable

| Business Days           | Action/Step   |
|-------------------------|---|
| <b>X</b>                | <b>Effective Time</b> <ol style="list-style-type: none"> <li>1. Execution of Master Agreement</li> <li>2. Execution of all those documents listed in clause 2.1 (immediately following execution of Master Agreement) (First MDT Supplemental Deed to be lodged with ASIC)</li> <li>3. Placement of new MDT units to the Investor (conditional on funds being transferred to MDML) - Appendix 3B for the placement to be lodged with ASX following the placement</li> <li>4. Transfer of MDT units to the Investor (conditional on funds being transferred to Macquarie MDT Unitholders)</li> <li>5. Release of the Transaction Announcement –ASX/Press release in relation to the transaction lodged with ASX</li> </ol> |
| <b>T</b>                | <b>Entitlement Offer Announcement Time</b> <ol style="list-style-type: none"> <li>1. Execution of Sub-underwriting Agreement</li> <li>2. Execution of Underwriting Agreement</li> <li>3. Execution of Second MDT Supplemental Deed (to be lodged with ASIC)</li> <li>4. Release of the Entitlement Offer Announcement Materials (pre-Open) – Entitlement Offer Announcement Materials lodged with ASX which will include: <ul style="list-style-type: none"> <li>• the Product Disclosure Statement for the entitlement offer;</li> <li>• an ASX announcement/press release; and</li> <li>• an Appendix 3B in relation to the entitlement offer units.</li> </ul> </li> </ol>   |
| <b>T+1</b>              | <b>Eligible securityholders notification date</b> - notice containing information required by Appendix 3B sent to eligible securityholders  |
| <b>T+2</b>              | <b>“Ex - date”</b> - rights commence trading and securities quoted as “ex-rights”   |
| <b>T+6 (post-close)</b> | <b>Record Date</b> (after the market closes)  |
| <b>T+8</b>              | <b>Despatch Date</b> –Offer Booklet and entitlement offer and acceptance forms despatched   |

| <b>Business Days</b>     | <b>Action/Step</b>   |
|--------------------------|--|
| <b>T+17</b>              | <b>Rights trading ends</b>   |
| <b>T+18</b>              | <b>Deferred settlement trading</b> - securities quoted on a deferred settlement basis  |
| <b>T+22 (post-close)</b> | <b>Entitlement offer closes (5pm)</b>  |
| <b>T+25</b>              | <b>ASX notified of level of under subscription</b>   |
| <b>T+27</b>              | <b>Settlement Date</b>   |
| <b>T+28</b>              | <b>Completion Date</b> <ol style="list-style-type: none"> <li>1. Allotment of new units under entitlement offer and sub-underwriting</li> <li>2. Assignment of MBL US Trust shares in the US Manager to the Investor</li> <li>3. Redemption of MBL US Trust shares in respect of US REIT I and US REIT II conditional on the placement and unit sale having completed (provided redemption can be performed without consent)</li> <li>4. The following Transaction Documents to take effect: <ul style="list-style-type: none"> <li>• Transitional Services Arrangement</li> <li>• Deed of Termination of Licence Agreement</li> <li>• Deed of Termination of Resources Agreement</li> <li>• Intellectual Property Licence</li> </ul> </li> <li>5. Constitutions of MDT and MDML to be amended.</li> <li>6. Board of MDML to be changed</li> <li>7. Names of entities to be changed to remove references to Macquarie</li> <li>8. Completion announcement to be made to ASX</li> </ol> |
| <b>T+29</b>              | <b>Normal trading of new units commences</b>   |

# Master Agreement

## Schedule 2 – MDML’s representations and warranties

- 1      **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
- 2      **(Sole trustee)** MDML is the only trustee and responsible entity of MDT.
- 3      **(MDT existence)** MDT has been duly established and has not been terminated.
- 4      **(Appointment and no removal)** MDML has been validly appointed as trustee and responsible entity of MDT and no action has been taken or proposed to remove it as trustee or responsible entity of MDT.
- 5      **(No termination)** no action has been taken or proposed to, either:
  - (a)      terminate MDT; or
  - (b)      wind-up MDT whether under Chapter 5C of the Corporations Act or otherwise.
- 6      **(Execution)** the execution and delivery of this agreement has been properly authorised by all necessary corporate action of MDML.
- 7      **(Corporate power)** MDML has full corporate power and lawful authority to execute and deliver this agreement and to consummate and perform or cause to be performed its obligations under this agreement in accordance with its terms.
- 8      **(Binding obligations)** (subject to laws generally affecting creditors’ rights and the principles of equity) this agreement constitutes legal, valid and binding obligations on MDML.
- 9      **(Continuous disclosure)** MDML is not currently, and so far as MDML is aware, including having made due enquiry in relation to its continuous disclosure obligations over the previous 12 months, having made due enquiry has not in the past been, in breach of its continuous disclosure obligations under the Listing Rules (and has not received notice of, and is not otherwise aware of, any threatened litigation or proceedings against it in relation to such a breach), and is not relying on the carve-out in Listing Rule 3.1A to withhold any information from disclosure.
- 10     **(Accurate)** as far as MDML is aware all historical or current information in the Data Room and the Due Diligence Q&A prepared by or on behalf of MDML is accurate and is not misleading or deceptive, whether by way of omission or otherwise provided that no warranty is given in relation to forward looking statements or forward looking opinions and that historical information is only warranted as being accurate and not misleading or deceptive at the time that information was current.
- 11     **(Copies of documents)** as far as MDML is aware, the copies of the documents listed in Annexure R which were included in the Data Room or otherwise

provided by or on behalf of MDML to the Investor before the date of this agreement, are true, complete and (save for historical information) up-to-date versions. For the purposes of this warranty, a copy of an agreement is taken to be up-to-date unless there has been a subsequent variation or amendment which was not included in the Data Room, or otherwise provided by or on behalf of MDML to the Investor before the date of this agreement.

- 12 **(Compliance)** as far as MDML is aware the MDT Entities have complied in all material respects with all material Australian and foreign laws and regulations applicable to them and orders of Australian and foreign governmental agencies having jurisdiction over them and have all material licenses, permits and franchises necessary for them to conduct their respective businesses as presently being conducted.
- 13 **(Disclosure Material):** MDML did not deliberately or knowingly include anything misleading in the Data Room or the Due Diligence Q&A provided to any Investor Entity or its Representatives, or deliberately, knowingly or recklessly omit anything material (in the context of the Placement, or the Transaction) from the Data Room or the Due Diligence Q&A and that all the information provided to the Investor Entities by MDML under the Data Room, the Due Diligence Q&A and otherwise provided in writing has been prepared and provided in good faith.
- 14 **(Disclosure of terms)** subject to the amendments to the constitution of MDT contemplated by the MDML Directors Resolutions, true copies of the constitution of MDT (including any amending documents) have been provided to the Investor Entities, and the constitution of MDT discloses all the terms of MDT.
- 15 **(Power)** MDML has power under the terms of the MDT constitution to enter into the documents to which it is a party and comply with its obligations under them.
- 16 **(Authorisations)** MDML has in full force and effect the authorisations necessary for it to enter into the documents to which it is a party, perform obligations under them and allow them to be enforced (including any authorisation required under the constitution of MDT).
- 17 **(Exercise of powers)** MDML has not exercised its powers under the constitution of MDT to release, abandon or restrict any power conferred on it by the constitution of MDML.
- 18 **(No default)** MDML is not in default under the constitution of MDT.
- 19 **(Benefit)** as far as MDML is aware entry into the Transaction Documents to which MDML is a party is a valid exercise of MDML's powers under the constitution of MDT for the benefit of the beneficiaries.
- 20 **(Indemnity)** MDML has a right to be fully indemnified out of the trust property in respect of obligations incurred by it under the Transaction Documents to which it is a party, and there is nothing that would prevent MDML from being fully indemnified out of Trust Property for any obligations under or in connection with this agreement, the Transaction, or any of the transactions contemplated by this agreement.
- 21 **(Liabilities generally)** Except as disclosed in the Data Room and the Due Diligence Q&A or contemplated by the Transaction Documents, or specifically



disclosed and quantified in the Last Accounts, the MDT Entities have no actual, prospective or contingent liabilities other than liabilities incurred in the ordinary course of their respective businesses and which do not exceed \$200,000 (or its equivalent in US Dollars) individually and \$1,000,000 (or its equivalent in US Dollars) in aggregate.

- 22     **(Disclosure of finance liabilities):** The terms of, and the amounts payable by the MDT Entities under, the Unsecured Debt Documents, the Derivative Liabilities and other finance facilities provided to the MDT Entities, as at the date of this agreement, are accurately disclosed in the Data Room (subject to daily market movements in respect of amounts payable).
- 23     **(Income)** The income derived by the MDT Entities is materially in accordance with the tenancy schedules included in the Data Room.
- 24     **(Success fees)** There are no success fees or commissions payable by any MDT Entity to Macquarie Capital Advisers Limited and UBS AG, Australia Branch pursuant to the engagement letter between these parties and MDML dated 10 February 2009 as a result of the Transaction occurring. There are no success fees or commissions payable by any MDT Entity to Holliday Fenoglio Fowler, L.P. ("HFF") pursuant to the agreement between HFF, DDR Corp. and MDML effective 31 March 2010, as a result of the Transaction occurring.

# Master Agreement

## Schedule 3 - Investor's representations and warranties

- 1      **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
- 2      **(Execution)** the execution and delivery of this agreement has been properly authorised by all necessary corporate action of Investor.
- 3      **(Corporate power)** it has full corporate power and lawful authority to execute and deliver this agreement and to consummate and perform or cause to be performed its obligations under this agreement in accordance with its terms.
- 4      **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this agreement constitutes legal, valid and binding obligations on it.
- 6      **(Funding)** the Investor has, or has unrestricted access to, sufficient funds to satisfy its obligations under this agreement and the Transaction Documents, including in relation to the representations and warranties it has given under clause 7.4 of this agreement.

# Master Agreement

## Schedule 4 - Macquarie MDT Unitholder 's representations and warranties

- 1       **(Execution)** the execution and delivery of this agreement has been properly authorised by all necessary corporate action of each Macquarie MDT Unitholder.
- 2       **(Corporate power)** each Macquarie MDT Unitholder has full corporate power and lawful authority to execute and deliver this agreement and to consummate and perform or cause to be performed its obligations under this agreement in accordance with its terms.
- 3       **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this agreement constitutes legal, valid and binding obligations on each Macquarie MDT Unitholder.

# Master Agreement

## Signing page

**DATED:** 22 April 2010

SIGNED by L. Petherbridge and )  
Christine Williams as attorney for )  
**MACQUARIE DDR** )  
**MANAGEMENT LIMITED** as )  
responsible entity of **MACQUARIE** )  
**DDR TRUST** under power of attorney )  
dated \_\_\_\_\_ in the presence of: )

/s/ Goeff Lovell )  
Signature of witness )

**Goeff Lovell** )  
Name of witness (block letters) )

/s/ L. Petherbridge

By executing this agreement the  
attorney states that the attorney has  
received no notice of revocation of the  
power of attorney

/s/ Christine Williams

By executing this agreement the  
attorney states that the attorney has  
received no notice of revocation of the  
power of attorney

**EXECUTED** by **EPN GP, LLC** by its )  
signatory Alexander L. Berman duly )  
authorised by the unanimous consent of )  
the Managing Members dated 14 April )  
2010 in the presence of: )

/s/ J. Wade Challacombe )  
Signature of witness )

**J. Wade Challacombe** )  
Name of witness (block letters) )

/s/ Alexander L. Berman

By executing this agreement, the  
signatory states that the signatory has  
received no notice of revocation of  
their authorisation

SIGNED by L. Petherbridge and )  
Christine Williams as attorney for )  
**BELIKE NOMINEES PTY** )  
**LIMITED** as trustee of )  
**MACQUARIE BLENDED** )  
**PROPERTY TRUST** under power of )  
attorney dated \_\_\_\_\_ in the )  
presence of: )

/s/ Goeff Lovell )  
Signature of witness )

**Goeff Lovell** )  
Name of witness (block letters) )

/s/ L. Petherbridge

By executing this agreement the  
attorney states that the attorney has  
received no notice of revocation of the  
power of attorney

/s/ Christine Williams

By executing this agreement the  
attorney states that the attorney has  
received no notice of revocation of the  
power of attorney

# Master Agreement

SIGNED by L. Petherbridge and )  
Christine Williams as attorney for )  
**MACQUARIE GROUP SERVICES** )  
**AUSTRALIA PTY LIMITED** under )  
power of attorney dated \_\_\_\_\_ in )  
the presence of: )

/s/ Goeff Lovell )  
Signature of witness )

Goeff Lovell )  
Name of witness (block letters) )

/s/ L. Petherbridge

By executing this agreement the  
attorney states that the attorney has  
received no notice of revocation of the  
power of attorney

/s/ Christine Williams

By executing this agreement the  
attorney states that the attorney has  
received no notice of revocation of the  
power of attorney

**MACQUARIE DDR MANAGEMENT LLC,**  
a Delaware limited liability company

By: DDR MDT Holdings II Trust,  
its managing member

By: /s/ Joan U. Allgood

Name: Joan U. Allgood

Title: Executive Vice President & Secretary

**DEVELOPERS DIVERSIFIED REALTY**  
**CORPORATION**, an Ohio corporation

By: /s/ Joan U. Allgood

Name: Joan U. Allgood

Title: Executive Vice President & Secretary

**DDR MDT HOLDINGS II TRUST,**  
a Maryland real estate investment trust

By: /s/ Joan U. Allgood

Name: Joan U. Allgood

# Master Agreement

Title: Executive Vice President & Secretary

**DDR MACQUARIE FUND LLC,**  
a Delaware limited liability company

By: Macquarie DDR Management LLC,  
its managing member

By: DDR MDT Holdings II Trust,  
its managing member

By: /s/ Joan U. Allgood  
Name: Joan U. Allgood  
Title: Executive Vice President & Secretary

**DDR MDT PS LLC,**  
a Delaware limited liability company

By: Macquarie DDR Management LLC,  
its managing member

By: DDR MDT Holdings II Trust,  
its managing member

By: /s/ Joan U. Allgood  
Name: Joan U. Allgood  
Title: Executive Vice President & Secretary

# Master Agreement

**DDR MDT MV LLC,**  
a Delaware limited liability company

By: Macquarie DDR Management LLC,  
its managing member

By: DDR MDT Holdings II Trust,  
its managing member

By: /s/ Joan U. Allgood  
Name: Joan U. Allgood  
Title: Executive Vice President & Secretary

**MACQUARIE DDR U.S. TRUST INC.,**  
a Maryland corporation

By: /s/ L. Petherbridge /s/ Christine Williams  
Name: **L. Petherbridge** **Christine Williams**  
Title:

**MACQUARIE DDR U.S. TRUST II INC.,**  
a Maryland corporation

By: /s/ L. Petherbridge /s/ Christine Williams  
Name: **L. Petherbridge** **Christine Williams**  
Title:

**MACQUARIE MDT HOLDINGS TRUST,**  
a Maryland real estate investment trust

By: /s/ L. Petherbridge /s/ Christine Williams  
Name: **L. Petherbridge** **Christine Williams**  
Title:

# Master Agreement

**MACQUARIE MDT HOLDINGS INC.,**

a Delaware corporation

By: /s/ L. Petherbridge /s/ Christine Williams

Name: **L. Petherbridge**

**Christine Williams**

Title:



**LIST OF SUBSIDIARIES**

| <b>Name of company</b>                         | <b>direct and indirect ownership percentage</b> | <b>Country of organization</b> |
|--|---|--------------------------------|
| Elscint Ltd.                                   | 100   | Israel                         |
| Bea Hotels N.V.                                | 100   | The Netherlands                |
| Elbit Ultrasound (Netherlands) B.V.            | 100   | The Netherlands                |
| Elbit Plaza India Real Estate Holdings Limited | 50.0 <sup>(1)</sup>                             | Cyprus                         |
| InSightec Ltd.                                 | 71.2 <sup>(2)</sup>                             | Israel                         |
| Plaza Centers N.V.                             | 67.5 <sup>(3)</sup>                             | The Netherlands                |
| Elbit Trade & Retail Ltd.                      | 100   | Israel                         |
| Elbit Plaza USA, L.P.                          | 100 <sup>(4)</sup>                              | USA                            |

- (1) We hold 47.5% of the shares in Elbit Plaza India Real Estate Holdings Limited directly, and an additional 47.5% through Plaza Centers N.V.
- (2) Approximately 60% on a fully diluted basis, including warrants granted by InSightec Ltd. contingent upon certain rates of return as well as 2,000,000 options exercisable into InSightec Ltd.'s ordinary shares which vest upon the initial public offering of InSightec Ltd.
- (3) Approximately 63% on a fully diluted basis.
- (4) We hold 50% in Elbit Plaza USA, L.P. directly, and an additional 50% through Plaza Centers N.V.

**EXHIBIT 12.1**

I, Dudi Machluf, certify that:

1. I have reviewed this annual report on Form 20-F of Elbit Imaging Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the resistant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2010

By: /s/ Dudi Machluf

Name: Dudi Machluf

Title: co-Chief Executive Officer

**EXHIBIT 12.2**

I, Ran Shtarkman, certify that:

1. I have reviewed this annual report on Form 20-F of Elbit Imaging Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the resistant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2010

By: /s/ Ran Shtarkman

Name: Ran Shtarkman

Title: co-Chief Executive Officer

**EXHIBIT 12.3**

I, Doron Moshe, certify that:

1. I have reviewed this annual report on Form 20-F of Elbit Imaging Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the resistant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2010

/s/ Doron Moshe  
Doron Moshe  
Chief Financial Officer

**EXHIBIT 13.1**

**Section 906 Certification by Principal Executive Officer**

In connection with the Annual Report of Elbit Imaging Ltd. (the "Company") on Form 20-F for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dudi Machluf co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2010

By: /s/ Dudi Machluf

Name: Dudi Machluf

Title: co-Chief Executive Officer

**EXHIBIT 13.2**

**Section 906 Certification by Principal Executive Officer**

In connection with the Annual Report of Elbit Imaging Ltd. (the "Company") on Form 20-F for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ran Shtarkman, co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2010

By: /s/ Ran Shtarkman

Name: Ran Shtarkman

Title: co-Chief Executive Officer

**Section 906 Certification by Principal Financial Officer**

In connection with the Annual Report of Elbit Imaging Ltd. (the "Company") on Form 20-F for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Doron Moshe, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2010

/s/ Doron Moshe  
Doron Moshe  
Chief Financial Officer

**Exhibit 15.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820 on Form S-8 filed by Elbit Imaging Ltd. (the "Company") and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009, of our reports dated May 9, 2010 relating to (1) the consolidated financial statements of the Company which report expresses an unqualified opinion and includes an explanatory paragraph relating to claims that have been filed against Group companies and for some of which petitions have been filed for certification as class actions; and (2) the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, appearing in this Annual Report on Form 20-F of the Company for the year ended December 31, 2009.

/s/ Brightman Almagor Zohar & Co.

**Brightman Almagor Zohar & Co.**

**Certified Public Accountants**

**A member firm of Deloitte Touche Tohmatsu**

Tel-Aviv, Israel

May 9, 2010



**Exhibit 15.2**

Advisors relied upon in the consolidated financial statements for the years ended December 31, 2009, 2008 and 2007

| <b>Name of advisor</b>                      | <b>Nature of professional advice</b>  | <b>Reference to the consolidated financial statements</b> | <b>Reference to advisor's consent letter in this Form 20-F</b> |
|---|---|---|--|
| SHM Smith Hodgkinson (Romania) srl          | valuation dated 1 February 2010 of Radisson Hotel Complex Bucharest of SC Bucuresti Turism SA as of December 31, 2009                                 | Note 15 (i)   | Exhibit 15.3   |
| Financial Immunities Ltd.                   | Valuation of interest rate swap transaction (IRS) of Plaza Centers N.V. ("PC") in respect of series A debentures as of December 31, 2008 and 2007     | Notes 2 AG. (1) f. and 9 A.( iv)                          | Exhibit 15.4   |
| Financial Immunities Ltd.                   | Valuation of interest rate swap transaction (IRS) of PC in respect of series B debentures as of December 31, 2009 and 2008                            | Notes 2 AG. (1) f. and 9 A.( iv)                          | Exhibit 15.5   |
| Financial Immunities Ltd.                   | Valuation of Series A debentures of PC as of December 31, 2008 and 2007   | Notes 2 AG. (1) e. and 19 F.                              | Exhibit 15.6   |
| Financial Immunities Ltd.                   | Valuation of Series B debentures of PC as of December 31, 2008  | Notes 2 AG. (1) e. and 19F.                               | Exhibit 15.7   |
| Financial Immunities Dealing Room Ltd.      | Valuation of options granted by PC in November 24, 2009 under the framework of ESOP 2008 dated January 2010   | Notes 25 B.   | Exhibit 15.8   |
| BDO Ziv Haft Consulting and Management Ltd. | Valuation of options granted by PC under ESOP 2006 during the years ended December 31, 2008, 2007   | Notes 25 B.   | Exhibit 15.9   |
| Financial Immunities Dealing Room Ltd.      | Valuation of option granted by PC to the Company's Vice Chairman of the Board in respect of PC's operations in India as of December 31, 2009          | Notes 25 B.   | Exhibit 15.10  |
| BDO Ziv Haft Consulting and Management Ltd. | Valuation of option granted by PC to the Company's Vice Chairman of the Board in respect of PC's operations in India as of December 31, 2008 and 2007 | Notes 25 B.   | Exhibit 15.11  |
| Giza Zinger Even                            | Valuation of embedded derivative included in a loan agreement as of December 31, 2009   | Notes 2 AG. (1) e. and note 20 A.(iii)                    | Exhibit 15.12  |
| BDO Ziv Haft Consulting and Management Ltd. | Valuation of embedded derivative included in a loan agreement as of December 31, 2008 and 2007  | Notes 2 AG. (1) e. and note 20A.(iii)                     | Exhibit 15.13  |
| Giza Zinger Even                            | Valuation of Series A and Series B debentures of PC as of December 31, 2008.  | Notes 2 AG. (1) e. and 19 F.                              | Exhibit 15.14  |
| Giza Zinger Even                            | Financial opinion in respect of Tradability of PC debentures and  | Notes 2 AG. (1) e. and 19 F..                             | Exhibit 15.15  |

|                                 |  |                              |               |
|---------------------------------|--|------------------------------|---------------|
|                                 | significance of market price as of December 31, 2008   |                              |               |
| Giza Zinger Even                | Valuations of options granted by the Company during the year ended December 31, 2009 and 2008 under the Company 2006 and 2008 Option Plan. | Notes 25 A.                  | Exhibit 15.16 |
| Tavor Economic Consultants Ltd. | Valuation of Series A and Series B debentures of PC as of December 31, 2008.   | Notes 2 AG. (1) e. and 19 F. | Exhibit 15.17 |
| King Sturgh Kft                 | Valuation of certain trading property of Plaza Centers as of December 31, 2009   | Notes 2 AG. (1) a and 8 H.   | Exhibit 15.18 |
| Giza Zinger Even                | Valuation of series I convertible debentures of the Company.   | Notes 19 G.                  | Exhibit 15.19 |

CONSENT

We hereby consent to the reference to our valuation dated 1 February 2010 of Radisson Hotel Complex Bucharest of SC Bucuresti Turism SA as of December 31, 2009 in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ SHM Smith Hodgkinson (Romania) srl  
SHM Smith Hodgkinson (Romania) srl

Bucharest, Romania  
May 9, 2010

**CONSENT**

We hereby consent to the reference to our “valuation of Interest rate swap transaction (IRS) of Plaza Centers N.V.” in respect of Series A debentures as of December 31, 2008 and 2007 in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852 , No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.  
Financial Immunities Ltd.

Rehovot, Israel  
May 9, 2010

**CONSENT**

We hereby consent to the reference to our “valuation of Interest rate swap transaction (IRS) of Plaza Centers N.V.” in respect of Series B debentures as of December 31, 2009 and 2008 in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.  
Financial Immunities Ltd.

Rehovot, Israel  
May 9, 2010

**CONSENT**

We hereby consent to the reference to our “valuation of Series A Debentures of Plaza Centers N.V.” as of December 31, 2008 and 2007 in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.  
Financial Immunities Ltd.

Rehovot, Israel  
May 9, 2010

**CONSENT**

We hereby consent to the reference to our “valuation of Series B Debentures of Plaza Centers N.V.” as of December 31, 2008 in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852 and No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.  
Financial Immunities Ltd.

Rehovot, Israel  
May 9, 2010

**LETTER OF CONSENT**

We hereby consent to the Valuation report in respect of options granted in November 24, 2009 under the framework of ESOP 2008, dated January 2010 which we prepared for Plaza Centers N.V. (the "Company"), in the Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of such Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

Very truly yours,

/s/ Financial Immunities Dealing Room Ltd.

Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel  
May 9, 2010



**LETTER OF CONSENT**

We hereby consent to the reference to each of our studies listed below, which we prepared for Plaza Centers N.V. (the "Company"), in the Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of such Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009:

- Valuation of options granted in October 2006 under the Company's 2006 Employee Stock Option Plan ("ESOP 2006"), dated February 2007;
- Valuation of options granted in March 21, 2007 under the framework of ESOP 2006, dated June 2007;
- Valuation report in respect of options granted in May 29, 2007 under the framework of ESOP 2006, dated June 2007;
- Valuation report in respect of options granted in August 30, 2007 under the framework of ESOP 2006, dated October 2007;
- Valuation report in respect of options granted in November 25, 2007 under the framework of ESOP 2006, dated February 2008;
- Valuation report in respect of options re-priced in November 1, 2007 under the framework of ESOP 2006, dated November 2007;
- Valuation report in respect of options granted in March 26, 2008 under the framework of ESOP 2008, dated April 2008;
- Valuation report in respect of options granted in May 27, 2008 under the framework of ESOP 2008, dated June 2008;
- Valuation report in respect of options granted in August 25, 2008 under the framework of ESOP 2008, dated November 2008;
- Valuation report in respect of options granted in November 25, 2008 under the framework of ESOP 2008, dated April 2009;
- Valuation report in respect of options re-priced in October 25, 2008 under the framework of ESOP 2008, dated February 2009;

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

Very truly yours,

/s/ BDO Ziv Haft Consulting & Management Ltd.

BDO Ziv Haft Consulting & Management Ltd.

May 9, 2010

Tel Aviv, Israel

**LETTER OF CONSENT**

We hereby consent to the reference to our studies relating to the valuation report of options granted by Plaza Centers N.V. ("the Company") to Elbit Imaging Ltd's Vice Chairman of the Board in respect of the Company's operations in India as of December 31, 2009 dated 2010, in the Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd., as required by the U.S. Securities and Exchange Commission and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

Very truly yours,

/s/ Financial Immunities Dealing Room Ltd.

Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel  
May 9, 2010

**LETTER OF CONSENT**

We hereby consent to the reference to our studies relating to the valuation report of options granted by Plaza Centers N.V. ("the Company") to Elbit Imaging Ltd's Vice Chairman of the Board in respect of the Company's operations in India as of December 31, 2008 dated April 2009 and as of December 31, 2007 dated March 2008, in the Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820 ) filed by Elbit Imaging Ltd., as required by the U.S. Securities and Exchange Commission and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

Very truly yours,

/s/ BDO Ziv Haft Consulting & Management Ltd.

BDO Ziv Haft Consulting & Management Ltd.

May 9, 2010

Tel Aviv, Israel

**LETTER OF CONSENT**

We hereby consent to the reference to our studies relating to the valuation of an embedded derivative included in a loan agreement as of December 31, 2009 dated January 2010 prepared for Elbit Imaging Ltd. (the "Company"), in the Annual Report on Form 20-F of the Company for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd, as required by the U.S. Securities and Exchange Commission and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even  
Giza Zinger Even

Tel Aviv, Israel  
May 9, 2010

**LETTER OF CONSENT**

We hereby consent to the reference to our studies relating to the valuation of an embedded derivative included in a loan agreement as of December 31, 2008 dated March 2009 and as of December 31, 2007 dated March 2008 prepared for Elbit Imaging Ltd. (the "Company"), in the Annual Report on Form 20-F of the Company for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd, as required by the U.S. Securities and Exchange Commission and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

Very truly yours,

/s/ BDO Ziv Haft Consulting & Management Ltd.

BDO Ziv Haft Consulting & Management Ltd.

May 9, 2010

Tel Aviv, Israel

**CONSENT**

We hereby consent to the reference to our “valuation of Series B Debentures and Series A Debentures of Plaza Centers N.V.” as of December 31, 2008, in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even  
Giza Zinger Even

Tel Aviv, Israel  
May 9, 2010

CONSENT

We hereby consent to the reference to our study in respect of “Tradability of Plaza Centers N.V. debentures and significance of market price as of December 31, 2008” in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even  
Giza Zinger Even

Tel Aviv, Israel  
May 9, 2010



**LETTER OF CONSENT**

We hereby consent to the reference to each of our studies listed below, which we prepared for Elbit Imaging Ltd. (the "Company"), in the Annual Report on Form 20-F of the Company for the year ended December 31, 2009 and to the incorporation by reference of such Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009:

- Valuation report in respect of options granted in August 30, 2009 under the framework of ESOP 2008, dated November 2009;
- Valuation report in respect of options granted in May 27, 2009 under the framework of ESOP 2008, dated June 2009;
- Valuation report in respect of options re-priced in May 20, 2009 under the framework of ESOP 2006, dated June 2009;

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

Very truly yours,

/s/ Giza Zinger Even  
Giza Zinger Even

Tel Aviv, Israel

May 9, 2010

CONSENT

We hereby consent to the reference to our “valuation of Series A Debentures and Series B Debentures of Plaza Centers N.V.” as of December 31, 2008 in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Tavor Economic Consultants Ltd.  
Tavor Economic Consultants Ltd.

Raanana, Israel  
May 9, 2010

CONSENT

We hereby consent to the reference to our valuation (dated 19 March 2010) of certain trading property of Plaza Centers N.V. as of December 31, 2009 in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ King Sturge Kft  
King Sturge Kft

Budapest, Hungary  
May 9, 2010

**CONSENT**

We hereby consent to the reference to our “valuation of Series 1 Convertible Debentures of Elbit Imaging Ltd.” as of December 31, 2009, in this Annual Report on Form 20-F of Elbit Imaging Ltd. for the year ended December 31, 2009 and to the incorporation by reference of this Annual Report in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd. and in the Shelf Prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed with the Annual Report under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even  
Giza Zinger Even

Tel Aviv, Israel  
May 9, 2010

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the registration statements (No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) on Form S-8 of Elbit Imaging Ltd. and in the shelf prospectus filed by Elbit Imaging Ltd. with the Israeli Securities Authority and the Tel Aviv Stock Exchange on July 21, 2009, of our report dated June 25, 2009 with respect to the consolidated balance sheets of Plaza Centers N.V. as of December 31, 2008 and 2007 and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008, which report appears in the December 31, 2009 annual report on Form 20-F of Elbit Imaging Ltd.

/s/ KPMG Hungária Kft.  
KPMG Hungária Kft.

Budapest, Hungary  
May 9, 2010