Section 7.2 Due Diligence.

(a) The Sellers and the Buyer acknowledge that the Buyer has completed its due diligence review of the Properties prior to the date hereof except as it specifically relates to the items set forth on Schedule 7.2 hereof (collectively, "Diligence Matters") and the Open Schedules. The Sellers and DDR shall provide Purchaser with Sellers and DDR's complete versions of the Open Schedules on or prior to January 20, 2012.

(b) For the period commencing on the date hereof and ending at 5:00 p.m. (Eastern Time) on January 24, 2012 (the "Due Diligence Expiration Time"), the Buyer shall have the right to (i) conduct or cause to be conducted, at the Buyer's sole cost, risk and expense, the inspections, tests, examinations and studies in connection with the Diligence Matters and to further examine all applicable records relating to the Diligence Matters and (ii) review and approve the Open Schedules, including, without limitation, the review and approval of the Title Affidavit by the Buyer and the Title Companies. The provisions of Section 7.1 above shall apply to any investigations or inspections to be made by the Buyer.

(c) On or before the Due Diligence Expiration Time, the Buyer may notify the Sellers in writing that the Buyer objects to (i) any Diligence Matters, including, without limitation, objections to matters set forth in the applicable title reports or the surveys, zoning reports or environmental reports (such objections are herein referred to as "Due Diligence Objections") or (ii) any of the Open Schedules delivered to Buyer (such objections are herein referred to as "Open Schedule Objections"). With respect to any Due Diligence Objections, the Sellers may elect by written notice (such notice, a "Seller's Election") to the Buyer within ten (10) Business Days after receipt by the Sellers of the Due Diligence Objections (the "Seller Election Response Date"), to either (X) undertake at its expense all necessary actions to cure the Due Diligence Objections, in which event the Sellers shall endeavor to cure such Due Diligence Objections prior to the Closing, or (Y) not to cure such Due Diligence Objections. With respect to any Open Schedule Objections, Sellers may deliver a Seller's Election to Buyer prior to the Seller Election Response Date to either (X) modify such Open Schedule in a manner acceptable to Buyer to cure the Open Schedule Objections or (Y) not modify the Open Schedule Objections. If the Sellers do not deliver written notice of Seller's Election on or before the Seller Election Response Date, then the Sellers shall be deemed to have elected not to cure such Due Diligence Objections or Open Schedule Objections. If the Sellers elect (or are deemed to have elected) not to cure any Due Diligence Objections or Open Schedule Objections, then the Buyer may elect by written notice delivered to the Sellers within five (5) Business Days following the Seller Election Response Date (the "Buyer Election Response Date"), (1) to terminate this Agreement, in which event the Cash Deposit shall be returned to the Buyer, the Guaranty shall terminate and the parties hereto shall have no further obligations under this Agreement, except for the obligations of this Agreement that expressly survive the termination hereof; or (2) indicate to the Sellers that, notwithstanding the Due Diligence Objections or Open Schedule Objections, the Buyer shall not terminate this Agreement as a result of such Due Diligence Objections or Open Schedule Objections, in which event all Due Diligence Objections and Open Schedule Objections shall be deemed waived and the Buyer shall have no further right to terminate this Agreement in connection with the Diligence Matters or Open Schedule Objections (other than as otherwise provided herein). If the Buyer does not deliver written notice of such election on or before the Buyer Election Response Date, then the Buyer shall be deemed to have elected not to terminate this Agreement pursuant to this Section 7.2(c). If the Buyer does not deliver any Due Diligence Objections or Open Schedule Objections on or before the Due Diligence Expiration Time, then the Buyer shall have no right to terminate this Agreement with respect to the Diligence Matters or Open Schedule Objections (other than as otherwise provided herein). Notwithstanding the Buyer's right to deliver Due Diligence Objections or Open Schedule Objections or otherwise disapprove of the Due Diligence Matters or Open Schedules pursuant to this Section 7.2(c), the Buyer expressly waives its right to terminate this Agreement based solely upon a change in the Buyer's internal investment guidelines resulting in an increase in the rate of return on a proposed investment or the type of investment, and a change in the general market conditions (including capital markets and other external macro events).

(d) The Buyer acknowledges that the Buyer has completed its due diligence review of the Properties prior to the date hereof (except for the Diligence Matters and the Open Schedules) and the Buyer has no right to terminate this Agreement (except as set forth in Section 7.2(c) above) for any due diligence review of the Properties. The Buyer has been given a full opportunity to inspect and investigate each and every aspect of the Assets, either independently or through agents of the Buyer's choosing, including, without limitation, (a) all matters relating to title, together with all governmental and other legal requirements such as taxes, assessments, zoning, use permit requirements, and building codes; (b) the physical condition and aspects of the Assets, including, without limitation, the interior, the exterior, the square footage within the Assets and within each tenant space therein, the structure, the paving, the utilities, and all other physical and functional aspects of the Assets, including, without limitation, an examination for the presence or absence of Hazardous Substances or the existence of any Environmental Liabilities; (c) any easements and/or access rights affecting the Assets; (d) the Space Leases and all matters in connection therewith, including, without limitation, the ability of the tenants to pay rent; (e) the Contracts and any other documents or agreements affecting the Assets; and (f) all other matters of significance affecting the Assets.

Section 7.3 Examination; Releases.

(a) In entering into this Agreement, the Buyer has not been induced by and has not relied upon any written or oral representations, warranties or statements, whether express or implied, made by any Seller, any partner of any Seller, or any affiliate, agent, employee, or other representative of any of the foregoing or by any broker or any other person representing or purporting to represent any Seller, with respect to the Assets or any other matter affecting or relating to the transactions contemplated hereby, other than the Seller General Representations, Seller Property Representations and DDR Representations. The Buyer acknowledges and agrees that, except for the Seller General Representations and the Seller Property Representations, no Seller makes any representations or warranties whatsoever, whether express or implied or arising by operation of law, with respect to such Seller's Assets. THE BUYER AGREES THAT THE ASSETS WILL BE SOLD AND CONVEYED TO (AND ACCEPTED BY) THE BUYER AT THE CLOSING IN THE THEN EXISTING CONDITION OF THE ASSETS, AS IS, WHERE IS, WITH ALL FAULTS, AND WITHOUT ANY WRITTEN OR VERBAL REPRESENTATIONS OR WARRANTIES WHATSOEVER (INCLUDING THE IMPLIED WARRANTY OF MERCHANTABILITY), WHETHER EXPRESS OR IMPLIED OR ARISING BY OPERATION OF LAW, other than the Seller General Representations, Seller Property Representations and DDR Representations.

(b) WITHOUT LIMITING THE GENERALITY OF SECTION 7.3(A), EXCEPT FOR THE SELLER GENERAL REPRESENTATIONS AND THE SELLER PROPERTY REPRESENTATIONS, EACH SELLER SPECIFICALLY DISCLAIMS, AND NEITHER IT NOR ANY OTHER PERSON (OTHER THAN DDR WITH RESPECT TO THE DDR REPRESENTATIONS) IS MAKING, ANY REPRESENTATION, WARRANTY OR ASSURANCE WHATSOEVER TO THE BUYER AND NO WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EITHER EXPRESS OR IMPLIED, ARE MADE BY THE SELLERS OR RELIED UPON BY THE BUYER WITH RESPECT TO THE STATUS OF TITLE TO OR THE MAINTENANCE, REPAIR, CONDITION, DESIGN OR MARKETABILITY OF THE PROPERTY, OR ANY PORTION THEREOF, INCLUDING BUT NOT LIMITED TO (A) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, (B) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, (C) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS, (D) ANY RIGHTS OF THE BUYER UNDER APPROPRIATE STATUTES TO CLAIM DIMINUTION OF CONSIDERATION, (E) ANY CLAIM BY THE BUYER FOR DAMAGES BECAUSE OF DEFECTS, WHETHER KNOWN OR UNKNOWN, WITH RESPECT TO THE ASSETS, (F) THE FINANCIAL CONDITION OR PROSPECTS OF THE PROPERTIES, (G) THE COMPLIANCE OR LACK THEREOF OF THE ASSETS WITH APPLICABLE LAW, (H) WHETHER THE PROPERTIES CONTAIN ASBESTOS, RADON OR ANY HAZARDOUS SUBSTANCES OR HARMFUL OR TOXIC SUBSTANCES, OR PERTAINING TO THE EXTENT, LOCATION OR NATURE OF SAME, IF ANY. FURTHER, TO THE EXTENT THAT THE SELLERS HAVE PROVIDED TO THE BUYER INFORMATION, EXCEPT FOR THE SELLER GENERAL REPRESENTATIONS AND THE SELLER PROPERTY REPRESENTATIONS, THE SELLERS MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS, METHODOLOGY OF PREPARATION OR OTHERWISE CONCERNING THE CONTENTS OF SUCH INFORMATION.

(c) WITHOUT LIMITING THE GENERALITY OF SECTION 7.3(A), EXCEPT FOR THE DDR REPRESENTATIONS, DDR SPECIFICALLY DISCLAIMS, AND NEITHER IT NOR ANY OTHER PERSON (OTHER THAN THE SELLERS WITH RESPECT TO THE SELLER GENERAL REPRESENTATIONS AND THE SELLER PROPERTY REPRESENTATIONS) IS MAKING, ANY REPRESENTATION, WARRANTY OR ASSURANCE WHATSOEVER TO THE BUYER AND NO WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EITHER EXPRESS OR IMPLIED, ARE MADE BY DDR OR RELIED UPON BY THE BUYER WITH RESPECT TO THE STATUS OF TITLE TO OR THE MAINTENANCE, REPAIR, CONDITION, DESIGN OR MARKETABILITY OF THE PROPERTY, OR ANY PORTION THEREOF, INCLUDING BUT NOT LIMITED TO (A) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, (B) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, (C) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS, (D) ANY RIGHTS OF THE BUYER UNDER APPROPRIATE STATUTES TO CLAIM DIMINUTION OF CONSIDERATION, (E) ANY CLAIM BY THE BUYER FOR DAMAGES BECAUSE OF DEFECTS, WHETHER KNOWN OR UNKNOWN, WITH RESPECT TO THE ASSETS, (F) THE FINANCIAL CONDITION OR PROSPECTS OF THE PROPERTIES, (G) THE COMPLIANCE OR LACK THEREOF OF THE ASSETS WITH APPLICABLE LAW, (H) WHETHER THE PROPERTIES CONTAIN ASBESTOS, RADON OR ANY HAZARDOUS SUBSTANCES OR HARMFUL OR TOXIC SUBSTANCES, OR PERTAINING TO THE EXTENT, LOCATION OR NATURE OF SAME, IF ANY. FURTHER, TO THE EXTENT THAT DDR HAS PROVIDED TO THE BUYER INFORMATION, EXCEPT FOR THE DDR REPRESENTATIONS, DDR MAKES NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS, METHODOLOGY OF PREPARATION OR OTHERWISE CONCERNING THE CONTENTS OF SUCH INFORMATION.

(d) The Buyer represents that it is a knowledgeable, experienced and sophisticated buyer of real estate, and that it is relying solely on its own expertise and that of the Buyer's consultants in purchasing the Assets. The Buyer acknowledges and agrees that it has had the opportunity to conduct such inspections, investigations and other independent examinations of the Assets and related matters, including, but not limited to, the physical and environmental conditions thereof, prior to the date of this Agreement and will rely upon same and not upon any statements of Sellers or of any officer, director, employee, agent or attorney of Sellers. The Buyer acknowledges that all information obtained by the Buyer will be obtained from a variety of sources and Seller will not be deemed to have represented or warranted the completeness, truth or accuracy of any of such information heretofore or hereafter furnished to the Buyer. Upon the Closing, the Buyer will assume the risk that adverse matters, including, but not limited to, adverse physical and environmental conditions, may not have been revealed by the Buyer's inspections and investigations. Seller is not liable or bound in any manner by any oral or written statements, representations or information pertaining to the Assets furnished by any real estate broker, agent, employee, servant or other person.

(e) Notwithstanding any other provisions contained herein, or in any document or instrument delivered in connection with the transfer contemplated hereby, to the contrary (including, without limitation, any language providing for survival of certain provisions hereof or thereof), the Buyer hereby acknowledges and agrees that (a) prior to Closing, the Buyer's sole recourse in the event of Seller Event of Default shall be as set forth in Section 13.2 hereof, and (b) the Sellers shall, upon consummation of Closing, be deemed to have satisfied and fulfilled all of Sellers' covenants, indemnities, and obligations contained in this Agreement and the documents delivered pursuant hereto except for covenants, indemnities and obligations that expressly survive the Closing subject to the limitations set forth in Article XI below, and the Sellers shall have no further liability to the Buyer or otherwise with respect to this Agreement, the transfers contemplated hereby, or any documents delivered pursuant hereto, except as expressly provided in Article X and Article XI hereof.

(f) Except for any claims related to a Seller Indemnity Breach or a DDR Indemnity Breach or as otherwise provided in the express provisions hereof or in any Closing Document, the Buyer, for itself, its successors and assigns, hereby waives and releases the Seller Parties from any present or future claims at law or in equity, whether known or unknown, foreseeable or otherwise, arising from or relating to, the Assets, this Agreement or the transactions contemplated hereby, including, without limitation, any Environmental Liabilities.

(g) THE BUYER, WITH THE BUYER'S COUNSEL, HAS FULLY REVIEWED THE DISCLAIMERS AND WAIVERS SET FORTH IN THIS AGREEMENT, AND UNDERSTANDS THE SIGNIFICANCE AND EFFECT THEREOF. THE BUYER ACKNOWLEDGES AND AGREES THAT THE DISCLAIMERS AND OTHER AGREEMENTS SET FORTH HEREIN ARE AN INTEGRAL PART OF THIS AGREEMENT, AND THAT THE SELLERS WOULD NOT HAVE AGREED TO SELL THE ASSETS TO THE BUYER FOR THE PURCHASE PRICE WITHOUT THE DISCLAIMERS AND OTHER AGREEMENTS SET FORTH IN THIS AGREEMENT. THE TERMS AND CONDITIONS OF THIS SECTION 7.3 WILL EXPRESSLY SURVIVE THE CLOSING, WILL NOT MERGE WITH THE PROVISIONS OF ANY CLOSING DOCUMENTS AND WILL NOT BE MERGED INTO THE DEED.

ARTICLE VIII

TITLE AND PERMITTED EXCEPTIONS

Section 8.1 Permitted Exceptions. Each Property shall be sold and is to be conveyed, and the Buyer agrees to purchase such Property, subject only to the Permitted Exceptions with respect to such Property.

Section 8.2 Title Report. The Buyer is solely responsible for obtaining any updated title commitments, surveys, or any other title related matters the Buyer desires with respect to the Properties. Except as expressly permitted pursuant to Section 7.2(c) above, the Buyer shall not have the right to object to any such matters except for Required Removal Exceptions, Voluntary Title Exceptions, Monetary Title Exceptions and other exceptions which do not constitute Permitted Exceptions.

Section 8.3 Use of Balance of the Purchase Price to Discharge Title Exceptions. If, at the Closing, there are any title exceptions applicable to a Property which are not Permitted Exceptions for such Property and which the Sellers are obligated by this Agreement or elect to pay and discharge, then the Sellers, at its sole and absolute discretion, may use any portion of the Balance of the Purchase Price to satisfy the same, provided that the Sellers shall have delivered to the Buyer at the Closing instruments in form sufficient to satisfy such title exceptions of record, together with the cost of any applicable recording or filing fees or such other evidence the Title Company shall deem necessary for the Title Company to remove such exception from the Title Policy. The existence of any such liens or encumbrances shall not be deemed objections to title.

Section 8.4 Inability to Convey. Except as expressly set forth in Section 8.6, nothing contained in this Agreement shall be deemed to require the Sellers to take or bring any action or proceeding or any other steps to remove any title exception or to expend any moneys therefor, nor shall the Buyer have any right of action against the Sellers, at law or in equity, for the Seller's inability to convey title to the Properties subject only to the Permitted Exceptions.

Section 8.5 Intentionally Deleted.

Section 8.6 Required Removal Exceptions; Voluntary Title Exceptions; Monetary Title Exceptions. The Sellers shall cure or cause to be cured the Required Removal Exceptions by obtaining releases, expending money or providing the Title Affidavit, as applicable. If after the expiration of Due Diligence Expiration Time and the resolution of the Due Diligence Objections in accordance with Section 7.2(c), the Buyer shall become aware of any Voluntary Title Exceptions or Monetary Title Exceptions, then the Buyer shall promptly notify the Sellers thereof, which notice shall describe in reasonable detail the Voluntary Title Exceptions(s) or Monetary Title Exceptions and the Property at issue. For the avoidance of doubt, in no event will any Required Removal Exceptions or any Permitted Exceptions be considered Voluntary Title Exceptions or Monetary Title Exceptions. The Sellers shall be obligated to discharge all Voluntary Title Exceptions and any Monetary Title Exceptions, prior to Closing; provided, however, that the maximum amount which the Sellers shall be required to expend in the aggregate in connection with the removal of such Monetary Title Exceptions shall be $5,000,000 and provided that such Monetary Title Exceptions do not exceed $5,000,000, Buyer shall be obligated to Close in accordance with the terms of this Agreement even if such Monetary Title Exceptions remain at Closing so long as Buyer receives a closing credit in an amount equal to the amount reasonably required to remove such remaining Monetary Title Exceptions. The Sellers, at the Sellers' option, shall be entitled to one or more adjournments of the Closing Date not to exceed thirty (30) days in the aggregate to discharge all Voluntary Title Exceptions and such Monetary Title Exceptions.

Section 8.7 The Buyer's Right to Accept Title. Notwithstanding the foregoing provisions of this Article VIII, the Buyer may, by notice given to the Sellers at any time prior to the Closing Date (as it may have been adjourned by the Sellers pursuant to this Article VIII), elect to accept such title as the Sellers can convey, notwithstanding the existence of any Voluntary Title Exceptions which are not Permitted Exceptions. In such event, this Agreement shall remain in effect and the parties shall proceed to Closing, but the Buyer shall not be entitled to any abatement of the Purchase Price, any credit or allowance of any kind or any claim or right of action against the Sellers for damages or otherwise by reason of the existence of any Voluntary Title Exceptions which are not Permitted Exceptions.

Section 8.8 Cooperation. The Buyer and the Sellers shall cooperate with the Title Company in connection with obtaining title insurance insuring title to each Property subject only to the relevant Permitted Exceptions. In furtherance and not in limitation of the foregoing, at or prior to the Closing, the Buyer and the Sellers shall deliver to the Title Company such affidavits, certificates and other instruments as are reasonably requested by the Title Company and customarily furnished in connection with the issuance of owner's policies of title insurance, including, without limitation, (i) evidence sufficient to establish (x) the legal existence of the Buyer and the Sellers and (y) the authority of the respective signatories of the Sellers and the Buyer to bind the Sellers and the Buyer, as the case may be, (ii) a certificate of good standing of each Seller, (iii) the Sellers' delivery of the Title Affidavit, and (iv) where applicable and required by Applicable Law, a partnership or limited liability company affidavit in accordance with applicable statutes of the State of Florida. Further, upon Buyer's written request, Sellers shall direct DDR to deliver a survey affidavit with respect to the Properties set forth on Schedule 8.8

Section 8.9 Rights of First Refusal. The Buyer acknowledges that all or certain portions of certain of the Properties are subject to the rights of first refusal or first offer set forth on Schedule 8.9-1 (the "Existing Options"). The Sellers shall provide the Buyer a draft of each notice to be provided to a third-party pursuant to an Existing Option within ten (10) Business Days following the Due Diligence Expiration Time, which shall be in form and substance reasonably satisfactory to the Buyer (an "Approved Option Notice") and which shall, in any event, offer to sell all or the applicable portion of the Property at the price as set forth on Schedule 8.9-2. Promptly following the approval by the Buyer of the Approved Option Notice, the applicable Seller shall deliver the Approved Option Notice required pursuant to the Existing Options and shall provide a copy thereof to the Buyer. Should any party to the Existing Options (an "Optionee") thereunder exercise its right to purchase the applicable portion of the Property (an "Excluded ROFR Asset"), (a) the applicable Seller shall notify the Buyer of the same, (b) this Agreement will terminate but only with respect to such Excluded ROFR Asset and such Excluded ROFR Asset shall not be deemed a "Property" for any purpose under this Agreement (other than for the purposes of this Section 8.9 and with respect to any terms and condition that expressly survive termination of this Agreement), (c) the Purchase Price shall be reduced by the amount set forth on Schedule 8.9-2 applicable to such Excluded ROFR Asset and (d) neither such Seller nor the Buyer shall have any liability hereunder with regard to the Excluded ROFR Asset, except for the obligations hereunder which expressly survive termination of this Agreement. In the event that any Optionee elects to purchase an Excluded ROFR Asset that is part of an Assumed Loan Property pursuant to an Existing Option and the consummation of the transfer of such Assumed Loan Property to the Optionee does not occur at or prior to the Closing, the Sellers shall pay the required release amount as set forth in the Assumed Loan Documents and shall obtain a release of such portion of the Assumed Loan Property from the Assumed Loan Lender Parties at the Closing. The Buyer acknowledges that there exist certain rights of first refusal, first offer or other purchase options granted to the DDR-Related Entities (the "DDR Options"), that will be terminated in connection with the DDR Side Letter and no Property which is subject to such DDR Options may be an Excluded ROFR Asset as a result of such DDR Options.

ARTICLE IX

TRANSACTION COSTS; RISK OF LOSS

Section 9.1 Transaction Costs. The Buyer and the Sellers agree to comply with all real estate transfer tax laws applicable to the sale of the Assets. At Closing, the real property transfer taxes, deed stamps, conveyance taxes, documentary stamp taxes and other taxes or charges ("Transfer Taxes"), payable as a result of the conveyance of the Assets to the Buyer pursuant to this Agreement shall be paid by the Buyer or the Sellers in the manner as set forth on Schedule 9.1. In addition to the foregoing and their respective apportionment obligations hereunder, (a) the Sellers and the Buyer shall each be responsible for (i) the payment of the costs of their respective legal counsel, advisors and other professionals employed thereby in connection with the sale of the Assets, (ii) one-half of the fees and expenses of the Escrow Agent, and (iii) one-half of all Loan Assumption Costs; and (b) the Buyer shall be responsible for all costs and expenses associated with (i) the Buyer's due diligence, (ii) title reports or abstracts with respect to the Properties as well as all survey and search costs and updates related thereto, in each case commissioned by the Buyer, (iii) the policy premiums in respect of any fee, leasehold or mortgage title insurance obtained by the Buyer, and (iv) any prepayment fees, penalties and all other amounts associated with the prepayment of the Repaid Loans (the "Prepayment Fees"). The Sellers and the Buyer acknowledge and agree that any Transfer Taxes which may have been due in connection with an EDT Scheduled Matter (and any penalties relating to any such unpaid Transfer Taxes) shall be the sole responsibility of the Sellers and Sellers shall indemnify the Buyer with respect to any claims related thereto. The Sellers and the Buyer shall pay their respective one-half of all Loan Assumption Costs within ten (10) days after notice of any Loan Assumption Costs, along with reasonable supporting evidence thereof, is given by one party to the other. Each party to this Agreement shall indemnify the other parties and their respective successors and assigns from and against any and all loss, damage, cost, charge, liability or expense (including court costs and reasonable attorneys' fees) which such other party may sustain or incur as a result of the failure of either party to timely pay any of the aforementioned taxes, fees or other charges for which it has assumed responsibility under this Section 9.1. Notwithstanding anything to the contrary contained herein, the Sellers shall be responsible for and shall pay all Excluded Seller Loan Expenses. The obligations of Buyer and Sellers to pay the costs set forth in this Section 9.1 shall survive the Closing for the Survival Period.

Section 9.2 Risk of Loss.

(a) If, on or before the Closing Date, any "material portion" of the Properties shall be (i) damaged or destroyed by fire or other casualty or (ii) taken as a result of any condemnation or eminent domain proceeding (a "Material Casualty Event"), the Sellers shall promptly notify the Buyer, and the Buyer may either, within five (5) Business Days after the Material Casualty Event or the Closing Date, whichever is earlier, in its sole discretion:

(i) terminate this Agreement, in which event the Cash Deposit shall be refunded to the Buyer and the Guaranty shall terminate, this Agreement shall be deemed terminated and neither party shall have any further rights or obligations to the other, except for those expressly stated to survive the termination of this Agreement; or

(ii) consummate the Closing as to all Properties, in which event the Sellers will credit against the Balance of the Purchase Price payable by the Buyer at the Closing an amount equal to the sum of (x) the net proceeds, if any, received by the Sellers from such casualty or condemnation and (y) the applicable deductible, if any, with respect to such casualty. If as of the Closing Date, the Sellers have not received any such insurance or condemnation proceeds, then the parties shall nevertheless consummate on the Closing Date the conveyance of the Assets (without any deduction for such insurance or condemnation proceeds) and the Sellers will at Closing assign to the Buyer all rights of the Sellers, if any, to the insurance or condemnation proceeds and to all other rights or claims arising out of or in connection with such casualty or condemnation.

(b) For purposes of this Section 9.2, a "material portion" of the Properties shall mean damage to one or more Properties or any portion thereof by fire or other casualty or the taking of one or more Properties or any portion thereof as a result of a condemnation or eminent domain proceeding which in the aggregate results in the cost of repair or impairment of use or value of the Properties, as reasonably determined by the Buyer, in an amount in excess of $40,000,000. For purposes of determining the value of a taking of a Property, if the primary access to the Property is taken and there is no other commercially viable substitute primary access to such Property, then the entire Allocated Purchase Price for such Property shall be considered taken.

ARTICLE X

ADJUSTMENTS

Unless otherwise provided below, the following are to be adjusted and prorated between the Sellers and the Buyer as of 11:59 P.M. on the day preceding the Closing, based upon a 366 day year, and the net amount thereof under Section 10.1 shall be added to (if such net amount is in the Sellers' favor) or deducted from (if such net amount is in the Buyer's favor) the Purchase Price at Closing:

Section 10.1 Fixed Rents, Additional Rents and CAM Charges.

(a) Fixed rents ("Fixed Rents") and Additional Rents (as hereinafter defined; Fixed Rents and Additional Rents collectively referred to herein as "Rents") paid or payable by the Tenants in connection with their occupancy of the Property shall be prorated as of the Closing on a *per diem* "if, as and when collected" basis. The Buyer shall receive a credit for all prepaid Rents, if any, paid by the Tenants with respect to the period after the Closing Date. Any Rents collected by the Buyer or the Sellers after the Closing from any Tenant who owes Rents for periods prior to the Closing, shall be applied (i) first, in payment of Rents owed by such Tenant for the month in which the Closing occurs, (ii) second, in payment of current Rents at the time of receipt, (iii) third, to delinquent Rents, if any, which became due after the Closing, and (iv) then to delinquent Rents, if any, which became due and payable prior to the Closing. Such Rent, less any costs of collection (including reasonable counsel fees) reasonably allocable thereto, shall be adjusted and prorated as provided above, and the party who receives such amount shall promptly pay over to the other party the portion thereof to which it is entitled. For the purposes of this provision, the term "Additional Rent" shall mean amounts payable under any Space Lease for (i) the payment of additional rent based upon a percentage of the tenant's business during a specified annual or other period (sometimes referred to as "percentage rent"), (ii) so called "common area maintenance" or "CAM" charges ("Tenant CAM Charges"), and (iii) so called "escalation rent" or additional rent based upon such tenant's allocable share of insurance, real estate taxes or operating expenses or labor costs or cost of living or porter's wages or otherwise.

(b) The Buyer shall use commercially reasonable efforts to attempt to collect such past due Rents, but shall not be obligated to engage a collection agency or take legal action to collect such amount. The Sellers shall have the right, upon prior written notice to the Buyer, to pursue Tenants to collect such delinquencies (provided that any amounts collected shall be applied in accordance with Section 10.1(a) and Seller shall not be permitted to commence or pursue legal proceedings against any Tenant from and after the Closing Date without Buyer's reasonable consent), provided, the Buyer agrees to reasonably cooperate with the Sellers in connection with such collection (at no cost or expense to the Buyer). Notwithstanding the foregoing, in no event shall any Seller have the right to terminate or attempt to terminate any Space Lease or evict or attempt to evict any Tenant from any of the Properties.

(c) Tenant CAM Charges and all expenses and charges payable by or to the applicable Seller under or in connection with any reciprocal easement agreements encumbering the Properties (each an "REA" and such charges together with Tenant CAM Charges, collectively "CAM Charges") shall be prorated. The applicable Seller shall be responsible for all CAM Charges incurred prior to Closing, and the Buyer shall be responsible for the same on, and subsequent to, Closing.

(d) To the extent that any portion of Additional Rent or CAM Charges is required to be paid monthly by Tenants or the other parties to any REA ("REA Parties") on account of estimated amounts for any calendar year (or, if applicable, any lease year or any other applicable accounting period), and at the end of such calendar year (or lease year, tax year or other applicable accounting period, as the case may be), such estimated amounts are to be recalculated based upon the actual expenses and other relevant factors for that calendar (or lease) year or other applicable accounting period, with the appropriate adjustments being made with such Tenants or REA Parties, then such portion of the Additional Rent or CAM Charges shall be prorated between the Sellers and the Buyer at the Closing based on such estimated payments actually paid by Tenants or REA Parties (i.e., with the Sellers entitled to retain all monthly or other periodic installments of such amounts paid by Tenants or REA Parties which relate to periods owned by such Seller, and the Sellers to credit to the Buyer at the Closing all monthly or other periodic installments of such amounts theretofore received by the Sellers which relate to periods following the Closing). At the time(s) of final calculation and collection from (or refund to) each Tenant and each REA Party of the amounts in reconciliation of actual Additional Rent or CAM Charges for a period for which estimated amounts paid by such Tenant have been prorated, there shall be a re proration between the Sellers and the Buyer based on the period of time each party owned the relevant Assets and the payments actually paid. The Sellers shall complete and bill all 2011 reconciliations for CAM Charges and Additional Rent prior to April 30, 2012.

(e) At Closing, Buyer shall either, at Buyer's election, reimburse or credit Sellers for the cost for New Cap Ex Expenditures properly performed and paid for by Sellers. Buyer shall assume the obligation to perform and pay for New Cap Ex Expenditure after the Closing Date.

Section 10.2 Taxes and Assessments. Real estate (ad valorem) and personal property Taxes and assessments assessed (other than any such real estate (ad valorem) and personal property taxes and assessments assessed and directly payable by Tenants of the Properties to the relevant taxing authority pursuant to such Tenants' Space Leases, for which no adjustment shall be made at Closing, but shall be subject to adjustment pursuant to Section 10.12 if not paid by such Tenants) shall be adjusted and prorated on a daily basis based on (a) the periods of ownership by the Sellers and the Buyer and (b) the most current official real property Tax information available from the county assessor's office where each Property is located or other assessing authorities. If real property Tax and assessment figures for the Taxes or assessments to be apportioned between the Buyer and the Sellers pursuant to this Section 10.2 are not available, real property Taxes shall be prorated based on the most recent assessment, subject to further and final adjustment when the tax rate and/or assessed valuation for such Taxes and assessments for such Property is fixed. Any sales tax (excluding Transfer Taxes) payable as a result of the conveyance of the Assets to the Buyer pursuant to this Agreement shall be borne 100% by Buyer.

Section 10.3 Account Receivables. Subject to the provisions of Section 10.1(a) (including the application of Rents thereunder), the Buyer acknowledges and agrees that all account receivables related to the period prior to the Closing, including, without limitation, all account receivables associated with the bankruptcy of Borders, shall accrue to the sole benefit of the applicable Sellers. In addition, the account receivable in the amount of $196,150 attributable to the JoAnn Plaza 2006 condemnation award shall accrue to the sole benefit of the applicable Seller.

Section 10.4 Utility Charges. Water rates, water meter charges, sewer rents, vault charges, gas, steam, electricity and other public utility charges (other than any such charges which are payable by Tenants of the Property pursuant to such Tenants' Space Leases, for which no adjustment will be made) will be paid by the Sellers to the utility company through the Closing Date. The Sellers agree that they shall at the Closing furnish a reading of such utilities applicable to each Property to a date not more than thirty (30) days prior to the Closing and the unfixed meter charges thereon for the time intervening from the date of the last reading shall be apportioned on the basis of such last reading, and shall be appropriately readjusted after the Closing on the basis of the next subsequent bills, except meters the charges of which are payable by Tenants of the Properties pursuant to such Tenants' Space Leases. Notwithstanding the foregoing to the contrary, the Sellers may elect to close their own applicable accounts, in which event the Buyer shall open its own accounts and the respective charges shall not be prorated. If requested by Sellers or the Buyer, the Sellers and the Buyer shall jointly execute a letter to each of such utility companies advising such utility companies of the termination of the Sellers' responsibility for such charges for utilities furnished to the Property as of the date of the Closing and commencement of the Buyer's responsibilities therefor from and after such date. If a bill is obtained from any such utility company as of the Closing, the Sellers shall pay such bill on or before the Closing. If such bill shall not have been obtained on or before the Closing, the Sellers shall, upon receipt of such bill, pay all such utility charges as evidenced by such bill or bills pertaining to the period prior to the Closing, and the Buyer shall pay all such utility charges pertaining to the period thereafter. Any bill which shall be rendered which shall cover a period both before and after the date of Closing shall be apportioned between the Buyer and the Sellers as of the Closing.

Section 10.5 Contracts. Charges and payments under all Assumed Contracts.

Section 10.6 Miscellaneous Revenues. Revenues, if any, arising out of telephone booths, vending machines, parking, or other income producing agreements.

Section 10.7 Security Deposits. The actual amounts of the security deposits provided for under the Space Leases which are being held by the Sellers as set forth on Schedule 3.7(k) (as updated to reflect any changes in the amount of such security deposits).

Section 10.8 Leasing Costs. The Seller shall be responsible for all Leasing Costs relating to Space Leases that first became binding on a Seller and the Tenant thereto prior to the Effective Date, including without limitation, the Leasing Costs set forth on Schedule 10.8(i) (the "Sellers' Leasing Costs"). The Buyer shall be responsible for all Leasing Costs with respect to New Leases entered into from and after the Effective Date in accordance with Section 3.3 and all Leasing Costs relating to renewals, amendments, expansions and extensions of Space Leases, in each case to the extent such Leasing Costs relate to renewal, expansion or extension rights of Tenants under such Space Leases that are exercised or amendments that are entered into, after the Effective Date in accordance with Section 3.3 (the "Buyer's Leasing Costs"). Furthermore and without limiting the generality of the preceding sentence (but subject to Section 3.3(d)), Buyer shall assume, and agrees that Buyer shall not be entitled receive any credits for, the economic effect of any "free rent" or other similar concessions that result in reduced payments by Tenants pertaining to the period from and after the Closing Date. To the extent any Sellers' Leasing Costs have not been fully paid as of the Closing Date, the Buyer shall receive a credit at the Closing against the Purchase Price in the amount of the balance of the Sellers' Leasing Costs remaining to be paid and the Buyer shall assume all obligations of the Seller to pay the balance of the Sellers' Leasing Costs as to which the Buyer shall have received such credit and to perform the obligations associated with the same.

Section 10.9 Intentionally Deleted.

Section 10.10 Assumed Loans. The Sellers shall assign to the Buyer at the Closing and receive a credit from the Buyer for the Sellers' right, title and interest in and to any cash reserves or escrow accounts held by Assumed Loan Lender Parties in connection with the Assumed Loans which are not returned to the Sellers on the Closing Date.

Section 10.11 Ground Rent. Ground rent and all other payments and charges due under the Ground Leases with respect to the year in which the Closing occurs shall be adjusted and prorated based on the periods of ownership by the Ground Lessees and the Buyer during such year.

Section 10.12 Re-Adjustment. If any items to be adjusted pursuant to this Article X are not determinable at the Closing, the adjustment shall be made subsequent to the Closing when the charge is determined. Any errors or omissions in computing adjustments or readjustments at the Closing or thereafter shall be promptly corrected, and any corrective payments shall be promptly made, provided that the party seeking to correct such error or omission or to make such readjustment shall have notified the other party of such error or omission or readjustment on or prior to the last date of the Survival Period. The provisions of this Article X and the obligations of the Sellers and the Buyer hereunder shall survive the Closing only for the Survival Period. If neither Sellers nor the Buyer have received written request from the other prior to the expiration of the Survival Period to reapportion such items, then the Buyer and Sellers shall each be deemed to have waived any right to seek such reapportionment.

ARTICLE XI

INDEMNIFICATION

Section 11.1 Indemnification by the Sellers. Following the Closing and subject to Sections 11.4, 11.5 and 11.6, each Seller, jointly and severally, shall indemnify and hold the Buyer, its direct and indirect affiliates, members, managers, owners and partners, and the partners, shareholders, officers, directors, employees, representatives and agents of each of the foregoing (collectively, "Buyer-Related Entities") harmless from and against any and all costs, fees, expenses, damages, deficiencies, interest and penalties (including, without limitation, reasonable attorneys' fees and disbursements) suffered or incurred by or to be incurred or suffered at Closing by, or incurred or suffered thereafter by, any such indemnified party in connection with any and all losses, liabilities, claims, damages and expenses ("Losses"). arising out of, or in any way relating to, (i) any breach of any of the Seller General Representations and Seller Property Representations (each, as qualified by Section 3.8 above) or any breach by Sellers of Section 14.3(a), or (ii) any breach by Sellers of Section 9.1, Article X or Article XII (any such breach, a "Seller Indemnity Breach").

Section 11.2 Indemnification by DDR. Following the Closing and subject to Sections 11.4, 11.5 and 11.6, DDR shall indemnify and hold the Buyer and the Buyer-Related Entities harmless from and against any and all Losses, arising out of, or in any way relating to, any breach of any of the DDR Representations (each, as qualified by Section 3.8 above) (any such breach, a "DDR Indemnity Breach").

Section 11.3 Indemnification by the Buyer. Following the Closing and subject to Sections 11.4, 11.5 and 11.6, the Buyer shall indemnify and hold the Sellers, its direct and indirect affiliates, members, managers, owners and partners, and the partners, shareholders, officers, directors, employees, representatives and agents of each of the foregoing (collectively, the "Seller-Related Entities") harmless from any and all Losses arising out of, or in any way relating to, (i) any breach of any the Buyer Representations or Section 14.3(b) or (ii) any breach by the Buyer of Section 9.1, Article X or Article XII.

Section 11.4 Survival. The following provisions (the "Survival Provisions") of this Agreement shall survive until March 30, 2013 (the "Survival Period") unless otherwise indicated below: (i) the Seller General Representations; (ii) the Seller Property Representations; (iii) the DDR Representations; (iv) the Buyer Representations; (v) the indemnity by the Buyer set forth in Section 7.1; (vi) Section 7.3; (vii) Section 9.1 (viii) Article X; (ix) this Article XI; (x) Article XII; (xi) Section 14.3(a); (xii) Section 14.3(b); and (xiii) Section 14.8. Except for the Survival Provisions which expressly survive Closing as set forth herein (and in the case of Article XII, shall survive beyond the Survival Period as more particularly set forth in Section 12.3), this Agreement, including all representations, warranties, covenants and agreements, shall terminate on Closing.

Section 11.5 Indemnification as Sole Remedy. If the Closing has occurred, a breach by the other party of the Survival Provisions or any Closing Document which survives the Closing, then, the sole and exclusive remedy, shall be the indemnifications provided for under this Article XI.

Section 11.6 Limitations.

(a) The Sellers' aggregate liability for its indemnification obligations under clause (i) of the definition of Sellers' Indemnity Breach in Section 11.1 shall not exceed the Seller Maximum Liability, and no claim by the Buyer may be made and Sellers shall not be liable for any such Losses under clause (i) of the definition of Seller Indemnity Breach in Section 11.1 unless and until the Buyer's claims for such Losses, together with any claims for Losses pursuant to Section 11.2, are for an aggregate amount in excess of the Liability Basket, in which event the Sellers' liability respecting any such Losses that are indemnifiable by the Sellers pursuant to Section 11.1(i) shall be for the entire amount thereof (as applicable), subject to the Sellers' Maximum Liability.

(b) DDR's aggregate liability for its indemnification obligations under Section 11.2 shall not exceed the DDR Maximum Liability and no claim by the Buyer may be made and DDR shall not be liable for any such Losses unless and until the Buyer's claims for such Losses, together with any claims for Losses pursuant to Section 11.1(i), are for an aggregate amount in excess of the Liability Basket, in which event the DDR's liability respecting any Losses that are indemnifiable by DDR pursuant to Section 11.2 shall be for the entire amount thereof (as applicable), subject to the DDR Maximum Liability.

(c) The Buyer's liability for its indemnification obligations under clause (i) of Section 11.3 shall not exceed the Buyer's Maximum Liability, and no claim by the Sellers may be made and the Buyer shall not be liable for any such Losses unless and until the Buyer's claims for such Losses under clause (i) of Section 11.3 are for an aggregate amount in excess of Liability Basket, in which event the Buyer's liability respecting any such Losses shall be for the entire amount thereof, subject to the Buyer's Maximum Liability. The Buyers hereby covenant and agree that they shall each remain in existence and reserve adequate capital to satisfy its obligations under Article XI during the Survival Period.

(d) The parties shall have no right to make any claim against the other parties hereto for Losses under this Article XI unless the claiming party notifies the other parties hereto of such claim in writing within the Survival Period and an action on account thereof shall be filed in a court of competent jurisdiction no later than ninety (90) days following the end of the Survival Period.

(e) In no event will any party to this Agreement be liable for punitive, special or exemplary damages.

(f) The Losses suffered by any indemnified party shall be calculated after giving effect to any amounts recovered from third parties, including insurance proceeds, in each case net of the reasonable third party out-of-pocket costs and expenses associated with such recoveries, that is associated with such Losses or the receipt of an indemnification payment in respect thereof (it being understood and agreed that the indemnified party shall use its commercially reasonable efforts to seek insurance recoveries in respect of Losses to be indemnified hereunder and that the payment of any deductibles shall constitute Losses). If any insurance proceeds or other recoveries from third parties are actually realized (in each case calculated net of the reasonable third party out-of-pocket costs and expenses associated with such recoveries) by an indemnified party subsequent to the receipt by such indemnified party of an indemnification payment hereunder in respect of the claims to which such insurance proceedings or third party recoveries relate, the indemnified party shall hold such amounts in trust and appropriate refunds shall be made promptly to the indemnifying party regarding the amount of such indemnification payment.

(g) Notwithstanding anything to the contrary contained in this Agreement, the Buyer shall have no recourse upon or against any property or assets of any of the past, present or future, direct or indirect, shareholders, partners, members, managers, principals, directors, officers, agents, incorporators, affiliates (other than the Sellers in accordance with this Agreement) or representatives of any of the Sellers (collectively, the "Seller Non-Recourse Parties") or any of their respective assets for payment or collection of any amount, judgment, judicial process, arbitral award, fee or cost or for any other obligation or claim arising out of or based upon this Agreement. The Seller Non-Recourse Parties shall not be subject to levy, lien, execution, attachment or other enforcement procedure for the satisfaction of any of the Buyer's rights or remedies under or with respect to this Agreement, in equity or otherwise. The Buyer shall not seek enforcement of any judgment, award, right or remedy against any asset of any of the Seller Non-Recourse Parties.

(h) Notwithstanding anything to the contrary contained in this Agreement, the Sellers shall have no recourse upon or against any property or assets of any of the past, present or future, direct or indirect, shareholders, partners, members, managers, principals, directors, officers, agents, incorporators, affiliates (other than the Buyer, the Buyer Affiliate Acquirors, Assumed Loan Property Purchasers with respect to this Agreement and Deposit Guarantor with respect to the Guaranty, which shall not be released and shall be subject to such liabilities in accordance with this Agreement or the Guaranty, as applicable) or representatives of the Buyer (collectively, the "Buyer Non-Recourse Parties") or any of their respective assets (other than the Assets) for payment or collection of any amount, judgment, judicial process, arbitral award, fee or cost or for any other obligation or claim arising out of or based upon this Agreement. The Buyer Non-Recourse Parties shall not be subject to levy, lien, execution, attachment or other enforcement procedure for the satisfaction of any of the Sellers' rights or remedies under or with respect to this Agreement, in equity or otherwise. The Sellers shall not seek enforcement of any judgment, award, right or remedy against any asset of any of the Buyer Non-Recourse Parties.

(i) Notwithstanding anything to the contrary contained in this Agreement, the Buyer shall have no recourse upon or against any property or assets of any of the past, present or future, direct or indirect, shareholders, partners, members, managers, principals, directors, officers, agents, incorporators, affiliates (other than DDR in accordance with this Agreement) or representatives of DDR (collectively, the "DDR Non-Recourse Parties") or any of their respective assets for payment or collection of any amount, judgment, judicial process, arbitral award, fee or cost or for any other obligation or claim arising out of or based upon this Agreement. The DDR Non-Recourse Parties shall not be subject to levy, lien, execution, attachment or other enforcement procedure for the satisfaction of any of the Buyer's rights or remedies under or with respect to this Agreement, in equity or otherwise. The Buyer shall not seek enforcement of any judgment, award, right or remedy against any asset of any of the DDR Non-Recourse Parties.

(j) Any indemnification payment made pursuant to this Agreement shall be treated as an adjustment to the Purchase Price, except as otherwise required by Applicable Law.

Section 11.7 Sellers Escrow Holdback. In connection with Sellers' liability for any Seller Indemnity Breaches, subject to the limitations set forth in this Article XI, Sellers agree to deposit, at the Closing, in escrow with the Escrow Agent, the amount of the lesser of 1% of the Purchase Price or $14,280,000.00 (said lesser amount, the "Seller Escrow Holdback"), which Seller Escrow Holdback shall be held by Escrow Agent for the Survival Period in accordance with the Escrow Agreement attached hereto as Exhibit M and made a part hereof (the "Escrow Holdback Agreement"): provided, that, if the Buyer notifies Sellers of a claim for a Seller Indemnity Breach under this Agreement during the Survival Period, then the portion of the Seller Escrow Holdback claimed by the Buyer shall continue to be held by the Escrow Agent until the final resolution of such claim, which resolution is not subject to appeal or for which the time for appeal has expired and no appeal has been perfected.

Section 11.8 Proportionate Losses.

(a) To the extent that Sellers incur any Losses arising out of both (i) the breach of a Sellers Property Representation set forth in Sections 3.2(a), (b), (d) or (f) (the "Shared Seller Representations"), on the one hand, and (ii) the breach of a DDR Representation set forth in Sections 3.7(a), (c), (h) or (i) (the "Shared DDR Representations"), on the other hand, which Losses arise out the same facts, events or circumstances (any such Losses, the "Shared Losses"), then the Buyer shall, subject to the limitations of this Article XI, be entitled to recover fifty percent (50%) of the Shared Losses from the applicable Sellers and fifty percent (50%) of the Shared Losses from DDR.

(b) For purposes of Sections 5.2(a), 5.2(b) and 5.3(d) above and this Article XI, the Losses attributed to Sellers shall be all Losses resulting from breaches of the Seller General Representations and the Seller Property Representations (excluding the Shared Seller Representations), plus fifty percent (50%) of the Shared Losses. For purposes of Sections 5.2(a), 5.2(b) and 5.3(d) above, the Losses attributed to DDR shall be all Losses resulting from breaches of the DDR Representations (excluding the Shared DDR Representations), plus fifty percent (50%) of the Shared Losses.

(c) Except for Sellers' obligations with respect to Shared Losses as provided herein, the Buyer agrees that in no event will Sellers be responsible or liable for any DDR Indemnity Breaches, any of the DDR Representations, or any other documents, schedules, materials, reports or other information prepared by DDR (or any other DDR-Related Entities), regardless of whether the same are incorporated into this Agreement. Except for DDR's obligations with respect to Shared Losses as provided herein, the Buyer agrees that in no event will DDR be responsible or liable for any Seller Indemnity Breaches, any of the Seller General Representations or Seller Property Representations, or any other documents, schedules, materials, reports or other information prepared by Seller (or any other Seller-Related Entities), regardless of whether the same are incorporated into this Agreement.

(d) Notwithstanding the foregoing to the contrary, the Sellers' obligations with respect to Shared Losses, and DDR's obligations with respect to Shared Losses, are subject to the other limitations set forth in this Article XI.

ARTICLE XII

TAX REFUNDS AND CREDITS; TAX CERTIORARI PROCEEDINGS

Section 12.1 Prosecution and Settlement of Proceedings. If any tax reduction proceedings in respect of any Owned Property or Leased Property, (i) relating to any fiscal years ending prior to the fiscal year in which the Closing occurs or (ii) relating to the fiscal year in which the Closing occurs, are pending at the time of Closing, then until January 15, 2013, the relevant Seller reserves and shall have the right to continue to prosecute and/or settle the same, subject to Buyer's reasonable approval and ability to participate; provided, however, that such Seller shall not settle any such proceeding that relates to the taxable year during which the Closing occurs or which could reasonably be expected to increase any Tax liability with respect to any Property in a taxable period (or portion thereof) following the Closing Date without the Buyer's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. The Buyer shall reasonably cooperate with such Seller in connection with the prosecution of any such tax reduction proceedings. From and after February 15, 2013, the Buyer shall have the sole right to continue and prosecute and/or settle any tax reduction proceedings in respect of any Owned Property or Leased Property.

Section 12.2 Application of Refunds or Savings. Any refunds or savings (including credits) in the payment of real property taxes (whether or not resulting from such tax reduction proceedings) applicable to taxes payable during the period (or portion thereof) prior to the date of the Closing shall belong to and be the property of the Sellers, and any refunds or savings in the payment of taxes applicable to taxes payable from and after the date of the Closing shall belong to and be the property of the Buyer; provided, however, that if any refund received by any of the Sellers pursuant to this Section 12.2 creates an obligation to reimburse any Tenants under Space Leases for any rents or additional rents paid or to be paid, that portion of such refund equal to the amount of such required reimbursement (after deduction of allocable expenses as may be provided in the Space Lease to such Tenant) shall, either (a) be paid to the Buyer and the Buyer shall disburse the same to such Tenants or (b) be paid by the Sellers directly to the Tenants entitled thereto. All attorneys' fees and other expenses incurred in obtaining such refunds or savings shall be apportioned between the Sellers and the Buyer in proportion to the gross amount of such refunds or savings payable to the Sellers and the Buyer, respectively (without regard to any amounts reimbursable to Tenants); provided, however, that neither the Sellers nor the Buyer shall have any liability for any such fees or expenses in excess of the refund or savings paid to such party unless such party initiated such proceeding. All amounts payable to the Buyer shall be paid by the Seller within ten (10) Business Days after receipt by the Seller or its successors or assigns of such refund or savings. All amounts payable to the Sellers shall be paid by the Buyer within ten (10) Business Days after receipt by the Buyer or its successors or assigns of such refund or savings.

Section 12.3 Survival. The provisions of this Article XII shall survive the Closing for the Survival Period, provided that the parties agree that the Buyer shall have the sole right to prosecute and/or settle any tax reduction proceedings after the Survival Period.

ARTICLE XIII

DEFAULT

Section 13.1 Buyer Default.

(a) If on the Closing Date (or any date on which this Agreement is terminated earlier in accordance with Section 2.3(c) or Section 2.3(d)) (i) there exists a material breach or default by the Buyer in the performance of its obligation to purchase the Assets under this Agreement or (ii) one or more Loan Assumption Consents have not been obtained and such failure was caused by a material breach of the Buyer's obligations under Section 4.2(a), (b), (c), (d) or (f) (any such event, a "Buyer Event of Default"), then this Agreement may be terminated by the Sellers; provided that, the Sellers may not terminate this Agreement pursuant to this Section 13.1(a) if, on the Closing Date, there exists a Seller Event of Default.

(b) In the event this Agreement is terminated pursuant to Section 13.1(a), this Agreement shall be null and void and of no further force or effect and neither party shall have any rights or obligations against or to the other except (i) for those provisions hereof which by their terms expressly survive the termination of this Agreement and (ii) as set forth in Section 13.1 (c).

(c) **IN THE EVENT THE SELLERS TERMINATE THIS AGREEMENT AS A RESULT OF A BUYER EVENT OF DEFAULT, THE DEPOSIT GUARANTOR SHALL IMMEDIATELY FUND TO THE ESCROW AGENT THE LIQUIDATED DAMAGES AMOUNT IN IMMEDIATELY AVAILABLE FUNDS PURSUANT TO THE GUARANTY WHICH SHALL CONSTITUTE A PORTION OF THE CASH DEPOSIT, AND THE ESCROW AGENT SHALL IMMEDIATELY DISBURSE THE CASH DEPOSIT TO THE SELLERS IN ACCORDANCE WITH SECTION 14.5 AND UPON PAYMENT OF THE CASH DEPOSIT AND THE LIQUIDATED DAMAGES AMOUNT TO THE SELLERS, THE SELLERS AND THE BUYER SHALL HAVE NO FURTHER OBLIGATIONS UNDER THIS AGREEMENT, EXCEPT THOSE WHICH EXPRESSLY SURVIVE SUCH TERMINATION. THE BUYER AND THE SELLERS HEREBY ACKNOWLEDGE AND AGREE THAT IT WOULD BE IMPRACTICAL AND/OR EXTREMELY DIFFICULT TO FIX OR ESTABLISH THE ACTUAL DAMAGES SUSTAINED BY THE SELLERS AS A RESULT OF A BUYER EVENT OF DEFAULT, AND AGREE THAT THE CASH DEPOSIT PLUS THE LIQUIDATED DAMAGES AMOUNT IS A REASONABLE APPROXIMATION THEREOF. SELLERS AND BUYER ACKNOWLEDGE AND AGREE THAT THE AMOUNTS OF THE CASH DEPOSIT AND LIQUIDATED DAMAGES AMOUNT ARE REASONABLE. ACCORDINGLY, THE CASH DEPOSIT AND THE LIQUIDATED DAMAGES AMOUNT SHALL CONSTITUTE AND BE DEEMED TO BE THE AGREED AND LIQUIDATED DAMAGES OF THE SELLERS, AND SHALL BE PAID BY THE ESCROW AGENT AND THE DEPOSIT GUARANTOR, AS THE CASE MAY BE, TO THE SELLERS AS THE SELLERS' SOLE AND EXCLUSIVE REMEDY HEREUNDER.**

Section 13.2 Seller Default.

(a) If there exists a material breach or default by the Sellers in the performance of their obligations under this Agreement of which the Buyer has provided the Sellers written notice of and the Sellers have failed to cure within fifteen (15) Business Days of such notice (but in all events such material breach or default is not cured prior to the Closing Date, if earlier), provided that Sellers shall not be entitled to such notice and opportunity to cure for failure to Close on the Closing Date (any such event, a "Seller Event of Default"), then this Agreement may be terminated by the Buyer provided that, the Buyer may not terminate this Agreement pursuant to this Section 13.2(a) if, on the Closing Date, there exists a Buyer Event of Default; provided further, that the Buyer may not terminate this Agreement pursuant to this Section 13.2(a) for so long as the Sellers are using reasonable and diligent efforts to cure the material breach or default and such material breach or default is capable of being cured by Sellers prior to the Closing Date. In lieu of terminating this Agreement in the event of a Seller Event of Default, the Buyer may specifically enforce the terms and provisions of this Agreement. If a Seller Event of Default occurs, then the Buyer shall be deemed to have elected to terminate this Agreement, receive back the Cash Deposit and terminate the Guaranty if the Buyer fails to file suit for specific performance against Seller in a court prescribed by this Agreement, on or before sixty (60) days following the date upon which Closing was to have occurred, in which case neither party shall have any further obligations under this Agreement except for those obligations which expressly survive the termination of this Agreement.

(b) Upon termination of this Agreement by the Buyer pursuant to Section 13.2(a), as the Buyer's sole and exclusive remedy, the Escrow Agent shall immediately disburse the Cash Deposit to the Buyer and the Guaranty shall immediately terminate, and upon such disbursement and termination, the Sellers and the Buyer shall have no further obligations under this Agreement, except those which expressly survive such termination (including those set forth in Section 13.2(c)).

(c) In addition to terminating this Agreement and the Guaranty and receiving the Cash Deposit, in the event this Agreement is terminated as a result of a Seller Event of Default, the Buyer can seek reimbursement of its reasonable actual out-of-pocket expenses incurred in negotiating this Agreement and conducting due diligence activities contemplated hereunder, pursuing the consummation of the transactions contemplated by this Agreement (including any payments or reimbursements made by Buyer pursuant to the terms hereunder), and arranging for and documenting any financing and pursuing the Loan Assumption Consents (not to exceed the Buyer Expense Reimbursement Cap). The provisions of this Section 13.2(c) shall survive the termination of this Agreement.

(d) EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION 13.2, BUYER EXPRESSLY WAIVES ITS RIGHT TO SEEK ANY OTHER DAMAGES, CLAIMS, RIGHTS OR OTHER REMEDIES UPON THE OCCURRENCE OF A SELLER EVENT OF DEFAULT.

ARTICLE XIV

MISCELLANEOUS

Section 14.1 Intentionally Omitted.

Section 14.2 Several Liability. Notwithstanding anything to the contrary contained in this Agreement, the liabilities and obligations of the Sellers shall be several in all respects, but not joint.

Section 14.3 Brokers.

(a) Each Seller represents and warrants to the Buyer that it has dealt with no broker, salesman, finder or consultant with respect to this Agreement or the transactions contemplated hereby other than JP Morgan Real Estate Advisors, Inc. (the "Sellers' Consultant"). At the Closing, the Sellers shall pay the Sellers' Consultant a fee in connection with this transaction in accordance with a separate agreement between the Sellers and the Sellers' Consultant and upon the occurrence of the Closing. Each Seller agrees to indemnify, protect, defend and hold the Buyer and the Buyer-Related Entities harmless from and against all claims, losses, damages, liabilities, costs, expenses (including reasonable attorneys' fees and disbursements) and charges resulting from such Seller's breach of the foregoing representation in this Section 14.3(a). The provisions of this Section 14.3(a) shall survive the Closing and any termination of this Agreement.

(b) The Buyer represents and warrants to the Sellers that it has dealt with no broker, salesman, finder or consultant with respect to this Agreement or the transactions contemplated hereby. The Buyer agrees to indemnify, protect, defend and hold the Sellers and the Seller-Related Entities harmless from and against all claims, losses, damages, liabilities, costs, expenses (including reasonable attorneys' fees and disbursements) and charges resulting from such the Buyer's breach of the foregoing representation in this Section 14.3(b). The provisions of this Section 14.3(b) shall survive the Closing and any termination of this Agreement for the Survival Period.

Section 14.4 Confidentiality; Press Release; IRS Reporting Requirements

(a) The Buyer and the Sellers shall hold as confidential all information disclosed in connection with the transaction contemplated hereby and concerning each other, the Assets, this Agreement and the transactions contemplated hereby and shall not release any such information to third parties without the prior written consent of the other parties hereto, except (i) any information which was previously or is hereafter publicly disclosed (other than in violation of this Agreement), (ii) to their partners, advisers, underwriters, analysts, employees, affiliates, officers, directors, consultants, lenders, accountants, legal counsel, title companies or other advisors of any of the foregoing, provided that they are advised as to the confidential nature of such information and are instructed to maintain such confidentiality and (iii) to comply with any Applicable Law. Without limiting the generality of the preceding sentence, the Buyer acknowledges that Sellers may be required to attach this Agreement to filings with the Securities and Exchange Commission as a result of certain affiliates of Sellers being foreign entities that that are publicly traded companies in the United States and that such disclosures may be made by Sellers (and their affiliates) without the Buyer's prior written consent. The foregoing shall constitute a modification of any prior confidentiality agreement that may have been entered into by the parties. The Sellers shall not disclose Schedule 4.2(d) to any Assumed Loan Lender Party without first obtaining the prior written consent of the Buyer (not to be unreasonably withheld, conditioned or delayed). The provisions of this Section 14.4(a) shall survive the Closing for the Survival Period or the termination of this Agreement for a period of six (6) months.

(b) The Sellers or the Buyer (or the members of the Buyer) may issue a press release with respect to this Agreement and the transactions contemplated hereby, provided that the content of any such press release shall be subject to the prior written consent of the other party hereto unless such press release is required to be made to comply with any Applicable Law, in which event no consent shall be required; provided that the Buyer is provided a reasonable opportunity to review and comment on such release to the extent reasonably practicable given the requirement to make such disclosure. Without limiting the generality of the preceding sentence, the Buyer acknowledges that Sellers are required to issue certain press releases with respect to this Agreement as a result of certain affiliates of Sellers being publicly traded companies and that such press releases may be made by Sellers (and their affiliates) without the Buyer's prior written consent; provided that the Buyer is provided a reasonable opportunity to review and comment on such release to the extent reasonably practicable given the requirement to make such disclosure. Further, the form of press release attached hereto as Schedule 14.4(b) is approved.

(c) For the purpose of complying with any information reporting requirements or other rules and regulations of the IRS that are or may become applicable as a result of or in connection with the transaction contemplated by this Agreement, including, but not limited to, any requirements set forth in proposed Income Tax Regulation Section 1.6045-4 and any final or successor version thereof (collectively, the "IRS Reporting Requirements"), the Sellers and the Buyer hereby designate and appoint the Escrow Agent to act as the "Reporting Person" (as that term is defined in the IRS Reporting Requirements) to be responsible for complying with any IRS Reporting Requirements. The Escrow Agent hereby acknowledges and accepts such designation and appointment and agrees to fully comply with any IRS Reporting Requirements that are or may become applicable as a result of or in connection with the transaction contemplated by this Agreement. Without limiting the responsibility and obligations of the Escrow Agent as the Reporting Person, the Sellers and the Buyer hereby agree to comply with any provisions of the IRS Reporting Requirements that are not identified therein as the responsibility of the Reporting Person.

Section 14.5 Escrow Provisions.

(a) The Escrow Agent shall hold the Cash Deposit in escrow in an interest-bearing bank account at JPMorgan Chase Bank, N.A. (the "Escrow Account"). All funds held by the Escrow Agent hereunder shall be in a segregated (non-commingled) account established on behalf of and in trust for the Buyer and Sellers, as their interests may appear. The Cash Deposit account shall expressly not be a part of the estate of the Escrow Agent and the Escrow Agent hereby disclaims any right to claim that the Cash Deposit is a part of the estate of the Escrow Agent.

(b) The Escrow Agent shall hold the Cash Deposit in escrow in the Escrow Account until the Closing or sooner termination of this Agreement and shall hold or apply such proceeds in accordance with the terms of this Section 14.5(b). The Sellers and the Buyer understand that no interest is earned on the Cash Deposit during the time it takes to transfer into and out of the Escrow Account. All interest earned on the Cash Deposit shall be added to the Cash Deposit. At Closing, the Cash Deposit shall be paid by the Escrow Agent to, or at the direction of, the Sellers. If for any reason the Closing does not occur and either party makes a written demand upon the Escrow Agent for payment of such amount, the Escrow Agent shall, within 24 hours give written notice to the other party of such demand. If the Escrow Agent does not receive a written objection within five (5) Business Days after the giving of such notice, the Escrow Agent is hereby authorized to make such payment. If the Escrow Agent does receive such written objection within such five (5) Business Day period, the Escrow Agent shall continue to hold such amount until otherwise directed by joint written instructions from the parties to this Agreement or a final judgment of a court of competent jurisdiction. However, the Escrow Agent shall have the right after receipt of such objection to deposit the Cash Deposit with the clerk of the court of New York County. The Escrow Agent shall give written notice of such deposit to the Sellers and the Buyer. Upon such deposit the Escrow Agent shall be relieved and discharged of all further obligations and responsibilities hereunder.

(c) The parties acknowledge that the Escrow Agent is acting solely as a stakeholder at their request and for their convenience, that the Escrow Agent shall not be deemed to be the agent of either of the parties, and the Escrow Agent shall not be liable to either of the parties for any act or omission on its part, other than for its negligence or willful misconduct.

(d) The Escrow Agent has acknowledged its agreement to these provisions by signing this Agreement in the place indicated following the signatures of the Sellers and the Buyer. This Agreement shall be fully enforceable upon execution hereof by the Buyer and Sellers. The failure of Escrow Agent to execute this Agreement shall not affect the enforceability of this Agreement.

(e) The Buyer and the Sellers acknowledge and agree that (i) the Escrow Agent shall not be responsible for levies by taxing authorities based upon the taxpayer identification number used to establish this interest bearing account and (ii) the Escrow Agent has no liability in the event of failure, insolvency, or inability of the depositary to pay the Cash Deposit or accrued interest upon demand for withdrawal.

Section 14.6 Successors and Assigns; No Third-Party Beneficiaries. The stipulations, terms, covenants and agreements contained in this Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective permitted successors and assigns (including any successor entity after a public offering of stock, merger, consolidation, purchase or other similar transaction involving a party hereto) and nothing herein expressed or implied shall give or be construed to give to any person or entity, other than the parties hereto and such assigns, any legal or equitable rights hereunder.

Section 14.7 Assignment. This Agreement may not be assigned by the Buyer without the prior written consent of the Sellers. Notwithstanding the foregoing, the parties acknowledge and agree that the Buyer shall be permitted to designate, in writing to Sellers given no later than fifteen (15) Business Days prior to the Closing Date or such earlier time as required by the Assumed Loan Lender Parties, one or more affiliates to which one or more of the Assets will be assigned at Closing (each, a "Buyer Affiliate Acquiror"), with such applicable the Buyer Affiliate Acquiror assigned the applicable obligations under all Space Leases, Assumed Contracts and Assumed Loans related to the applicable Property, provided that the Buyer and all the Buyer Affiliate Acquirors will be jointly and severally liable under this Agreement notwithstanding any such designation.

Section 14.8 Further Assurances. From time to time, as and when requested by any party hereto, the other party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as such other party may reasonably deem necessary or desirable to consummate the transactions contemplated by this Agreement, so long as such additional documents, instruments and actions are taken at the cost and expense of the requesting party and do not increase or create liability of the non-requesting party. It is the intent of the Sellers that the conveyances at Closing will include all of Sellers' interest in all land, buildings and improvements that are used in the operation of the Properties. Without limiting the generality of the preceding sentence, if there are any parcels of vacant or undeveloped land that are adjacent, contiguous or within a reasonable minor distance of any Property that is either currently being utilized by a Tenant pursuant to a right in an existing Space Lease and owned by Seller or any affiliate of Seller (such parcels, the "Additional/Adjacent Land") and such Additional/Adjacent Land is not conveyed to the Buyer at Closing, then Sellers shall convey such Additional/Adjacent Land to the Buyer within a reasonable time after the Buyer's request for the same. This Section 14.8 shall survive the Closing for the Survival Period.

Section 14.9 Notices. All notices, demands or requests made pursuant to, under or by virtue of this Agreement must be in writing and shall be (i) personally delivered, (ii) delivered by express mail, Federal Express or other comparable overnight courier service, (iii) telecopied, with telephone confirmation within one Business Day or (iv) mailed to the party to which the notice, demand or request is being made by certified mail, postage prepaid, return receipt requested, as follows:

(a) To any Seller:

c/o EPN Investment Management, LLC
5250 Old Orchard Road, Suite 300
Skokie, Illinois 60077
Attention: William B. Cohen
Facsimile: (312) 915-0691
Telephone: (312) 915-0688

with copies thereof to:

Elbit Imaging Ltd.
2 Weitzman Street
Tel Avviv 64239, Israel
Attention: Amit Shiff
Telephone: 972 (3) 608-6035

with copies thereof to:

DDR Corp.
3300 Enterprise Parkway
Beachwood, OH 44122
Attention: General Counsel
Facsimile: (216) 755-1650
Telephone: (216) 755-5650

with copies thereof to:

Fulbright & Jaworski L.L.P.
98 San Jacinto Boulevard, Suite 1100
Austin, Texas 78701
Attention: Jane Snoddy Smith
Facsimile: (512) 536-4598
Telephone: (512) 536-5238

(b) To the Buyer:

c/o Blackstone Real Estate Partners VII L.P.
345 Park Avenue
32nd Floor
New York, New York 10154
Attention: Nadeem Meghji
Facsimile: (212) 583-5726
Telephone: (212) 583-5293

with copies thereof to:

DDR Corp.
3300 Enterprise Parkway
Beachwood, OH 44122
Attention: General Counsel
Facsimile: (216) 755-1650
Telephone: (216) 755-5650

with copies thereof to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Attention: Erik G. Quarfordt, Esq.
Facsimile: (212) 455-2502
Telephone: (212) 455-2459

(c) To DDR:

DDR Corp.
3300 Enterprise Parkway
Beachwood, OH 44122
Attention: General Counsel
Facsimile: (216) 755-1650
Telephone: (216) 755-5650

with copies thereof to:

Jones Day
901 Lakeside Avenue
Cleveland, Ohio 44114
Attn: Zachary T. Paris, Esq.
Facsimile: (216) 579-0212
Telephone: (216) 586-7275

(d) To the Escrow Agent or Title Company:

Fidelity National Title Insurance Company
1 Park Avenue, Suite 1402
New York, New York 10016
Attention: Kenneth C. Cohen
Facsimile: (646) 742-0733
Telephone: (212) 845-3135

(e) All notices (i) shall be deemed to have been given on the date that the same shall have been delivered in accordance with the provisions of this Section or the date on which delivery is refused after being sent in accordance with the provisions of this Section, and (ii) may be given either by a party or by such party's attorneys. Any party may, from time to time, specify as its address for purposes of this Agreement any other address upon the giving of ten (10) days' prior notice thereof to the other parties. The Buyer shall deliver to the Sellers copies of all notices sent by the Buyer to DDR with respect to this Agreement simultaneously with Buyer's delivery of such notices to DDR.

Section 14.10 Entire Agreement. This Agreement, along with the Exhibits and Schedules hereto, contains all of the terms agreed upon between the parties hereto with respect to the subject matter hereof, and all understandings and agreements heretofore had or made among the parties hereto are merged in this Agreement which alone fully and completely expresses the agreement of the parties hereto.

Section 14.11 Amendments. This Agreement may not be amended, modified, supplemented or terminated, nor may any of the obligations of the Sellers or the Buyer hereunder be waived, except by written agreement executed by the party or parties to be charged.

Section 14.12 No Waiver. No waiver by either party of any failure or refusal by the other party to comply with its obligations hereunder shall be deemed a waiver of any other or subsequent failure or refusal to so comply.

Section 14.13 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the principles of conflicts of law thereof (other than the New York General Obligations Law 5-1401).

Section 14.14 Submission to Jurisdiction. Any and all legal actions and proceedings by a party hereto concerning, relating to, or arising out of this Agreement, the Closing Documents or their enforcement shall be submitted to the exclusive jurisdiction of United States federal courts sitting in New York City, New York or any New York State court sitting in New York City, New York. Each of the parties hereto hereby consents and submits to the jurisdiction of the aforesaid courts and waives and agrees not to plead or claim, in any legal action or proceeding with respect to this Agreement, the Closing Documents or their enforcement brought in any of the aforesaid courts, that any such court lacks jurisdiction over such party, that venue before any such court is improper, that any such court is an inconvenient forum, or that such legal action or proceeding should be transferred from any such court for any other reason.

Section 14.15 WAIVER OF TRIAL BY JURY. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE CLOSING DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

Section 14.16 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

Section 14.17 Section Headings. The headings of the various Sections of this Agreement have been inserted only for purposes of convenience, are not part of this Agreement and shall not be deemed in any manner to modify, explain, expand or restrict any of the provisions of this Agreement.

Section 14.18 Counterparts. This Agreement may be executed in two or more counterparts, including by electronic means, each of which shall be deemed an original, and all of which will be deemed the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

Section 14.19 Construction. The parties acknowledge that the parties and their counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any exhibits or amendments hereto.

Section 14.20 Recordation. Neither this Agreement nor any memorandum or notice of this Agreement may be recorded by any party hereto without the prior written consent of the other party hereto. The provisions of this Section shall survive the Closing or any termination of this Agreement.

Section 14.21 Time of Essence. Time is of the essence to this Agreement and to all dates and time periods set forth herein. If performance of any obligations under this Agreement is scheduled or required to occur on a day that is not a Business Day, then the scheduled or required date shall be the next Business Day.

Section 14.22 Exclusivity. Except as permitted herein, during the term of this Agreement, neither the Sellers nor their affiliates shall solicit, authorize the solicitation of, or enter into any agreement or discussions with any third party concerning any offer or possible offer for a third party to acquire the Assets or any interest therein (whether debt or equity, directly or indirectly) or with respect to any similar transaction.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

SELLERS:

DDR MDT WOODFIELD VILLAGE LLC,
DDR MDT FAIRFAX TOWN CENTER LLC,
DDR MDT CARILLON PLACE LLC,
DDR RIVERCHASE LLC,
DDR RIVERCHASE II LLC,
DDR MDT PARKER PAVILIONS II LLC,
DDR MDT UNION ROAD PLAZA LLC,
each a Delaware limited liability company

By: EDT Fund LLC, a Delaware limited liability company,
Each such Seller's sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

BG TRANSIT JA I, LLC,
a New York limited liability company

By: EDT Fund LLC, a Delaware limited liability company,
Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT SHOPPERS WORLD LLC,
a Delaware limited liability company

By: DDR MDT SW Holdings LLC, a Delaware limited liability company, its sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT HARBISON COURT LLC,
DDR MDT PIONEER HILLS LLC,
each a Delaware limited liability company

By: DDR Macquarie Longhorn Holdings LLC, a Delaware limited liability company, each such Seller's its sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT MACARTHUR MARKETPLACE LP,
a Delaware limited partnership

By: DDR MDT MacArthur GP LLC, a Delaware limited liability company, its general partner

By: DDR Macquarie Longhorn Holdings LLC, a Delaware limited liability company, its sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT BROOKFIELD LLC,
DDR MDT LAKE BRANDON VILLAGE LLC,
DDR MDT CONNECTICUT COMMONS LLC,
DDR MDT BROWN DEER CENTER LLC,
DDR MDT BROWN DEER MARKET LLC,
DDR MDT RIVERDALE VILLAGE INNER RING LLC,
DDR MDT RIVERDALE VILLAGE OUTER RING LLC,
each a Delaware limited liability company

By: DDR Macquarie Longhorn II Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company, its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT GRANDVILLE MARKETPLACE LLC,
DDR MDT PARKER PAVILIONS LLC,
each a Delaware limited liability company

By: DDR Macquarie Longhorn III Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT BELDEN PARK LLC,
DDR MDT BELDEN PARK II LLC,
DDR MDT GREAT NORTHERN LLC,
DDR MDT MIDWAY MARKETPLACE LLC,
DDR MDT MERRIAM TOWN CENTER LLC,
DDR MDT MONACA TOWNSHIP MARKETPLACE LLC,
DDR MDT COOL SPRINGS POINTE LLC,
DDR MDT LAKE WALDEN SQUARE LLC,
DDR MDT PIEDMONT PLAZA LLC,
DDR MDT WINTER PARK PALMS LLC,
each a Delaware limited liability company

By: DDR MDT Revolver Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT CHEEKTOWAGA WALDEN PLACE LLC,
DDR MDT ASHEVILLE RIVER HILLS LLC,
DDR MDT WALDEN AVENUE BOOKSTORE LLC,
DDR MDT WALDEN CONSUMER SQUARE LLC,
DDR MDT BATAVIA COMMONS LLC,
DDR MDT BATAVIA SJB PLAZA LLC,
DDR MDT FAYETTEVILLE SPRING CREEK LLC,
DDR MDT WILLIAMSVILLE PREMIER PLACE LLC,
DDR MDT FAYETTEVILLE STEELE CROSSING LLC,
DDR MDT UNION CONSUMER SQUARE LLC,
DDR MDT MURFREESBORO TOWNE CENTER LLC,
DDR MDT ERIE MARKETPLACE LLC,
each a Delaware limited liability company

By: DDR MDT Bison Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT SHOPS AT TURNER HILL LLC,
DDR MDT TURNER HILL MARKETPLACE LLC,
DDR MDT FLATACRES MARKETCENTER LLC,
DDR MDT OVERLAND POINTE MARKETPLACE LLC,
Each a Delaware limited liability company

By: DDR MDT PS LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT MCKINNEY MARKETPLACE LP,
A Delaware limited partnership

By: DDR MDT McKinney Marketplace GP LLC, a Delaware limited liability company, its general partner

By: DDR MDT PS LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT FRISCO MARKETPLACE LP

By: DDR MDT Frisco Marketplace GP LLC, a Delaware limited liability company, its general partner

By: DDR MDT PS LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT MARKETPLACE AT TOWNE CENTER LP

By: DDR MDT Marketplace at Towne Center GP LLC, a Delaware limited liability company, its general partner

By: DDR MDT PS LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

BUYER:

BRE DDR RETAIL HOLDINGS LLC

By: /s/ Nadeem Meghji
Name: Nadeem Meghji
Title: Vice President

JOINDER BY DDR

DDR Corp and DDR MDT Holdings II Trust (collectively "DDR") hereby execute this Agreement for the sole purpose of making the representations, warranties and/or covenants of DDR set forth in the following sections of the Agreement: Section 3.7, Article XI, and the applicable provisions of Article XIV; and shall not join in, or be obligated with respect to, any other provision of the foregoing Agreement.

DDR CORP.

By: /s/ Daniel B. Hurwitz
Name: Daniel B. Hurwitz
Title: President and CEO

DDR MDT HOLDINGS II TRUST

By: /s/ Daniel B. Hurwitz
Name: Daniel B. Hurwitz
Title: President and CEO

JOINDER BY THE ESCROW AGENT

Fidelity National Title Insurance Company, referred to in this Agreement as the "Escrow Agent," hereby acknowledges that it received this Agreement executed by the Sellers and the Buyer as of the ___ day of January, 2012, and accepts the obligations of the Escrow Agent as set forth herein. The Escrow Agent further acknowledges that it received the Cash Deposit on the __ day of January, 2012. The Escrow Agent hereby agrees to hold and distribute the Cash Deposit in accordance with the terms and provisions of the Agreement.

FIDELITY NATIONAL TITLE INSURANCE COMPANY

By: /s/ Kennth C. Cohen
Name: Kennth C. Cohen
Title: Senior Vice President

GUARANTY OF BLACKSTONE

Blackstone Real Estate Partners VII L.P., a Delaware limited partnership ("Blackstone"), hereby irrevocably and unconditionally guarantees to the Sellers the due and punctual funding of the Liquidated Damages Amount under Agreement of Purchase and Sale to which this Guaranty is attached (the "Agreement"; capitalized terms used herein but not defined shall have the same meanings ascribed to said terms in the Agreement), to the extent the same is required to be funded pursuant to the Agreement. Upon the requirement to fund the Liquidated Damages Amount pursuant to the Agreement, Blackstone agrees that it shall pay the Liquidated Damages Amount to Escrow Agent in immediately available funds within five (5) Business Days after written demand from the Sellers is sent to Buyer to fund the Liquidated Damages Amount. The liability of Blackstone under this Guaranty for funding of the Liquidated Damages Amount, if required to be paid pursuant to the Agreement, is continuing and shall only be discharged by the full funding by Blackstone of the Liquidated Damages Amount under the Agreement or the termination of the Agreement (other than pursuant to a termination of the Agreement that requires the payment of the Cash Deposit to Sellers).

This is a guaranty of payment and not of collection. The liability of Blackstone under this Guaranty shall be direct and immediate and not conditional or contingent upon the pursuit of any remedies against Buyer or any other person. Sellers, in their sole discretion, may proceed directly against Blackstone under this Guaranty without first proceeding against the Buyer or exhausting any of its remedies against the Buyer.

Blackstone represents, warrants and acknowledges that Blackstone has received good, valuable and sufficient consideration for the making of this Guaranty and expressly agrees that recourse may be had against Blackstone's property for all obligations under this Guaranty, and further agrees that any and all of Blackstone's properties shall be subject to execution for any judgment rendered against Blackstone on this Guaranty by a court of competent jurisdiction.

Blackstone absolutely and unconditionally guarantees the prompt and full payment of all costs and expenses of whatever nature or kind, including, without limitation, reasonable attorneys' fees, incurred by Sellers in enforcing the provisions of this Guaranty and in collecting the obligations guarantied hereunder, whether or not legal action is brought against the Buyer, Blackstone or either of them, including, but not limited to, those incurred in connection with court proceedings at trial and appellate levels, including, without limitation, bankruptcy and probate proceedings.

Blackstone hereby waives: (i) notice of acceptance of this Guaranty; (ii) notice of creation of any obligation guaranteed hereby; (iii) diligence in collection and in realization of recovery from the security for the guaranteed obligations; and (iv) presentment, demand, protest, notice of dishonor and all other notices.

Blackstone hereby waives and agrees not to assert or take advantage of: (i) any defense that may arise by reason of the incapacity, lack of authority, death or disability of Buyer or Blackstone or any other person or entity, or the attempted revocation hereof by Blackstone or any other person or entity, or the failure of Sellers to file or enforce a claim against the estate (either in administration, bankruptcy or any other proceeding) of Blackstone or any other person or entity; (ii) any defense based on the failure of Sellers to give notice of the existence, creation or incurring of any new or additional obligation or of any action or non-action on the part of any other person whomsoever, in connection with any obligations hereby guaranteed; or (iii) any defense based upon the grounds that an election of remedies by Sellers has destroyed or otherwise impaired the subrogation rights of Blackstone or the right of Blackstone to proceed against Buyer for reimbursement.

Blackstone hereby makes the same Buyer Representations to Sellers with respect to this Guaranty and Blackstone as the Buyer Representations with respect to the Agreement and Buyer.

BLACKSTONE REAL ESTATE PARTNERS VII L.P.,
a Delaware limited partnership

By: Blackstone Real Estate Associates VII L.P., its general partner

By: BREA VII L.L.C., its general partner

By: /s/ A.J. Agarwal

Name: A.J. Agarwal

Title: Senior Managing Director

Exhibit 4.11

This First Amendment to Agreement of Purchase and Sale (the "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 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 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 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 Agreement. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Agreement, which subsequent information may or may not be fully reflected in the Registrant's public disclosures.

FIRST AMENDMENT TO

AGREEMENT OF PURCHASE AND SALE

This FIRST AMENDMENT TO AGREEMENT OF PURCHASE AND SALE (this ("Amendment") is entered into as of January 24, 2012, by and between each of the entities listed as "Sellers" on the signature pages hereto (collectively, "Sellers"), and BRE DDR Retail Holdings LLC, a Delaware limited liability company ("Buyer"). All capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed thereto in the Agreement (as defined below).

WHEREAS, Sellers and Buyer are parties to that certain Agreement of Purchase and Sale, dated as of January 10, 2012 (the "Agreement"), pursuant to which Buyer will acquire the Assets and assume the Assumed Loans from Sellers in accordance with terms therein; and

WHEREAS, the parties hereto desire to amend the Agreement as set forth below.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buyer and Sellers hereby agree as follows:

1. Amendments to the Agreement.

(a) Section 1.1 of the Agreement is hereby amended by deleting the definition of "Due Diligence Expiration Time" in its entirety.

(b) Section 1.1 of the Agreement is hereby amended by inserting the following defined terms:

"Buyer Objection Notice" shall have the meaning assigned thereto in Section 7.2(c)."

"Extended Due Diligence Expiration Time" shall have the meaning assigned thereto in Section 7.2(b)."

"Extended Diligence Matters" shall have the meaning assigned thereto in Section 7.2(b)."

"Initial Due Diligence Expiration Time" shall have the meaning assigned thereto in Section 7.2(b)."

"Initial Diligence Matters" shall have the meaning assigned thereto in Section 7.2(b)."

(c) Section 1.1 of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" in the definition of "Permitted Exceptions" and inserting the words "Initial Due Diligence Expiration Time" in its place.

(d) Section 2.7(b) of the Agreement is hereby amended by deleting each use of the words "Due Diligence Expiration Time" therein and inserting the words "Initial Due Diligence Expiration Time" in its place.

(e) Section 2.8 of the Agreement is hereby amended by inserting the following after the last grammatical sentence of said Section 2.8:

> "Notwithstanding the foregoing to the contrary, the Sellers shall have the right, in their sole and absolute discretion and without any obligation to exercise said right, to accelerate the Closing Date to any Business Day during the period beginning on, and including, June 20, 2012 and ending on, and including, June 27, 2012, by delivering written notice of such acceleration to the Buyer at least twelve (12) Business Days prior to the accelerated Closing Date selected by the Sellers. All references to the Closing Date in this Agreement shall be a reference to the Closing Date, as the same may be accelerated pursuant to the immediately preceding sentence."

(f) Section 3.3(g)(ii) of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" therein and inserting the words "Extended Due Diligence Expiration Time" in its place.

(g) Section 3.4(a) of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" therein and inserting the words "Extended Due Diligence Expiration Time" in its place.

(h) Section 3.4(e) of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" therein and inserting the words "Extended Due Diligence Expiration Time" in its place.

(i) Section 3.5 of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" therein and inserting the words "Extended Due Diligence Expiration Time" in its place.

(j) Section 3.6(b) of the Agreement is hereby amended by deleting the words "the Due Diligence Expiration Time" therein and inserting the words "Initial Due Diligence Expiration Time" in its place.

(k) Section 4.2(a) of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" therein and inserting the words "Extended Due Diligence Expiration Time" in its place.

(l) Section 7.2(b) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(b) For the period commencing on the date hereof and ending at (i) 5:00 p.m. (Eastern Time) on January 30, 2012 (the "Extended Due Diligence Expiration Time") with respect to the Diligence Matters designated on Schedule 7.2(b) as "EDM" (the "Extended Diligence Matters"), or (ii) 8:00 p.m. (Eastern Time) on January 24, 2012 (the "Initial Due Diligence Expiration Time") with respect to the Diligence Matters, excluding the Extended Diligence Matters (the "Initial Diligence Matters"), and with respect to the Open Schedules, the Buyer shall have the right to (A) conduct or cause to be conducted, at the Buyer's sole cost, risk and expense, the inspections, tests, examinations and studies in connection with the applicable Diligence Matters and to further examine all applicable records relating to the applicable Diligence Matters and (B) review and approve the Open Schedules, including, without limitation, the review and approval of the Title Affidavit by the Buyer and the Title Companies. The provisions of Section 7.1 above shall apply to any investigations or inspections to be made by the Buyer."

(m) Section 7.2(c) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(c) The Buyer may notify the Sellers in writing (each such notification, a "Buyer Objection Notice"), that the Buyer objects to (i) any Initial Diligence Matters on or before the Initial Due Diligence Expiration Time or any Extended Diligence Matters on or before the Extended Due Diligence Expiration Time, including, without limitation, objections to matters set forth in the applicable title reports or the surveys, zoning reports or environmental reports, (such objections are herein referred to as "Due Diligence Objections") or (ii) any of the Open Schedules delivered to Buyer (such objections are herein referred to as "Open Schedule Objections") on or before the Initial Due Diligence Expiration Time. With respect to any Due Diligence Objections, the Sellers may elect by written notice (such notice, a "Seller's Election") to the Buyer within ten (10) Business Days after receipt by the Sellers of the applicable Buyer Objection Notice (each such applicable date, a "Seller Election Response Date"), to either (X) undertake at its expense all necessary actions to cure the applicable Due Diligence Objections set forth in the applicable Buyer Objection Notice at or prior to Closing, or (Y) not to cure such Due Diligence Objections. With respect to any Open Schedule Objections, the Sellers may deliver a Seller's Election to the Buyer prior to the first Seller Election Response Date to either (X) modify such Open Schedule in a manner acceptable to the Buyer to cure the Open Schedule Objections or (Y) not modify the Open Schedule Objections. If the Sellers do not deliver written notice of Seller's Election on or before the applicable Seller Election Response Date, then the Sellers shall be deemed to have elected not to cure such Due Diligence Objections or Open Schedule Objections set forth in the applicable Buyer Objection Notice. If the Sellers elect (or are deemed to have elected) not to cure any Due Diligence Objections or Open Schedule Objections set forth in the applicable Buyer Objection Notice, then the Buyer may elect by written notice delivered to the Sellers within five (5) Business Days following the last occurring Seller Election Response Date (the "Buyer Election Response Date"), (1) to terminate this Agreement, in which event the Cash Deposit shall be returned to the Buyer, the Guaranty shall terminate and the parties hereto shall have no further obligations under this Agreement, except for the obligations of this Agreement that expressly survive the termination hereof; or (2) indicate to the Sellers that, notwithstanding the applicable Due Diligence Objections or Open Schedule Objections set forth in the applicable Buyer Objection Notice, the Buyer shall not terminate this Agreement as a result of such Due Diligence Objections or Open Schedule Objections, in which event such Due Diligence Objections and Open Schedule Objections set forth in the applicable Buyer Objection Notices that the Sellers have elected (or are deemed to have elected) not to cure at such time shall be deemed waived and the Buyer shall have no further right to terminate this Agreement in connection with the applicable Diligence Matters or Open Schedule Objections set forth in the applicable Buyer Objection Notices (other than as otherwise provided herein). If the Buyer does not deliver written notice of such election on or before the Buyer Election Response Date with respect to the applicable Diligence Matters set forth in the applicable Buyer Objection Notice, then the Buyer shall be deemed to have elected not to terminate this Agreement pursuant to this Section 7.2(c) with respect to only such Diligence Matters set forth in the applicable Buyer Objection Notice. If the Buyer does not deliver any Due Diligence Objections or Open Schedule Objections on or before the Initial Due Diligence Expiration Time or the Extended Due Diligence Expiration Time, as applicable, then the Buyer shall have no right to terminate this Agreement with respect to the Initial Diligence Matters or Extended Diligence Matters, respectively, or Open Schedule Objections (other than as otherwise provided herein). Notwithstanding the Buyer's right to deliver Due Diligence Objections or Open Schedule Objections or otherwise disapprove of the Initial Diligence Matters, Extended Diligence Matters or Open Schedules pursuant to this Section 7.2(c), the Buyer expressly waives its right to terminate this Agreement based solely upon a change in the Buyer's internal investment guidelines resulting in an increase in the rate of return on a proposed investment or the type of investment, and a change in the general market conditions (including capital markets and other external macro events). For the avoidance of doubt and without limiting the generality of the foregoing, Buyer acknowledges and agrees that Buyer has no right to deliver a Buyer Objection Notice with respect to the (A) Open Schedules after the Initial Due Diligence Expiration Time, (B) Initial Diligence Matters after the Initial Due Diligence Expiration Time, or (C) Extended Diligence Matters after the Extended Due Diligence Expiration Time."

(n) Section 8.6 of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" therein and inserting the words "Initial Due Diligence Expiration Time" in its place.

(o) Section 8.9 of the Agreement is hereby amended by deleting the words "Due Diligence Expiration Time" therein and inserting the words "Extended Due Diligence Expiration Time" in its place.

(p) Section 14.9 of the Agreement is hereby amended by inserting the words "or sent by email transmission" following the word "telecopied" therein.

(q) Schedule 7.2(h) shall be added to the Agreement as attached as Exhibit A hereto.

2. Riverchase Property Matters. Pursuant to Section 3.6(b) of the Agreement, the Sellers have notified the Buyer that the Sellers have agreed to use commercially reasonable efforts to cause the Property known as "Riverchase Promenade" ("Riverchase") to be enrolled in the ADERTF. In furtherance thereof, the Buyer and the Sellers acknowledge and agree as follows:

(a) The Buyer shall retain EMG Corp. ("EMG") in connection with the enrollment of Riverchase in the ADERTF pursuant to a contract (the "EMG Contract"), which provides that upon termination of the Agreement for any reason, the EMG Contract shall, at the election of the Sellers, in their sole and absolute discretion, be terminated or assigned to the Seller that owns Riverchase, in each case without any fees, penalties or other amounts required to be paid.

(b) The Buyer shall submit to the Sellers, for the Sellers' review and reasonable approval, the required notification of election coverage forms and enrollment forms necessary to enroll Riverchase in the ADERTF and such other information that is required to be submitted to the Alabama Department of Environmental Management (the "ADEM") as detailed in Chapter 335-16-4 of the Alabama Admin Code attached hereto as Exhibit B (collectively, the "ADERTF Submissions").

(c) The Sellers shall approve or disapprove (with specific comments) in its reasonable discretion the ADERTF Submissions on or before the later of February 1, 2012 or the date that is two (2) Business Days after the Sellers receive the ADERTF Submissions from the Buyer.

(d) The Sellers' approval of the ADERTF Submissions shall be considered Sellers direction to EMG to file the ADERTF Submissions to ADEM on behalf of the Seller that owns Riverchase.

(e) The Buyer shall submit to the Sellers, for the Sellers' review and reasonable approval, two alternative work proposals (the "ADERTF Work Proposals") with respect to the work to be performed by EMG in connection with the ADEM required "Initial Investigation" protocol; one alternative shall include the fewest total borings, the minimum depth of the borings and minimal sampling to satisfy the ADEM requirements pursuant to ADERTF enrollment (the work set forth in said alternative, the "Limited Alternative 1 ADERTF Work"), and the other alternative shall include the total borings, depth or borings and sampling that EMG reasonably determines would be required if ADEM does not accept the Limited Alternative 1 ADERTF Work (the work set forth in said alternative, the "Expanded Alternative 2 ADERTF Work").

(f) The Sellers shall approve or disapprove (with specific comments) in its reasonable discretion the ADERTF Work Proposals on or before the later of February 1, 2012 or the date that is two (2) Business Days after the Sellers receive the ADERTF Work Proposals from the Buyer.

(g) Once the ADERTF Work Proposal for the Limited Alternative 1 ADERTF Work has been approved by the Sellers, the Sellers will permit EMG to access Riverchase and conduct the Limited Alternative 1 ADERTF Work, subject to all of the terms and conditions of the Agreement.

(h) Once the Expanded Alternative 2 ADERTF Work has been approved by the Sellers and ADEM, the Sellers will permit EMG to access Riverchase and conduct the Expanded Alternative 2 ADERTF Work if required by the Buyer, subject to all of the terms and conditions of the Agreement.

(i) The Buyer must obtain the Sellers' prior written approval of any work that is not set forth in the ADERTF Works Proposals approved by the Sellers pursuant to this Section 2, which approval or disapproval (with specific comments) the Sellers shall in its reasonable discretion give within two (2) Business Days after the Sellers' receipt of a request by the Buyer to approve the same.

(j) Without limiting the generality of Section 3.6 of the Agreement, the Buyer shall pay all costs associated with (i) enrolling Riverchase in the ADERTF and (ii) performing the Limited Alternative 1 ADERTF Work, the Expanded Alternative 2 ADERTF Work and any other work approved by the Sellers pursuant to subclause (i) above, in each case at the time such costs are to be paid. Without limiting the generality of the foregoing and regardless of whether the Agreement is terminated, the Buyer shall pay the $5,000 fee required to be paid in connection with delivering the ADERTF Submissions to ADEM and the $10,000 deductible required under the ADERTF. Further, the Buyer acknowledges that any costs associated with any work conducted prior to obtaining ADEM's approval of such work may not be credited towards the deductible under the ADERTF, and Buyer is obligated to pay the costs associated with all such prior work. The Buyer's obligation to pay such costs shall survive any termination of the Agreement.

(k) The Buyer and the Sellers acknowledge and agree that the Buyer has not made, and shall have no right to make, a Due Diligence Objection with respect to environmental matters at Riverchase.

3. Governing Law; Waiver of Jury Trial; Submission to Jurisdiction. Sections 14.13 through 14.15 of the Agreement are hereby incorporated by reference herein.

4. Counterparts. This Amendment may be executed in two or more counterparts, including by electronic means, each of which shall be deemed an original, and all of which will be deemed the same instrument, and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

5. No Other Changes; Ratification. Except as expressly amended, modified or superseded by this Amendment, the terms of the Agreement shall remain in full force and effect and are hereby ratified by the Sellers and the Buyer.

(The remainder of this page is intentionally left blank)

IN WITNESS WHEREOF, this Amendment has been duly executed by the parties hereto as of the day and year first above written.

BUYER:

BRE DDR RETAIL HOLDINGS LLC

By: /s/ Nadeem Meghji
Name: Nadeem Meghji
Title: Vice President

SELLERS:

DDR MDT WOODFIELD VILLAGE LLC,
DDR MDT FAIRFAX TOWN CENTER LLC,
DDR MDT CARILLON PLACE LLC,
DDR RIVERCHASE LLC,
DDR RIVERCHASE II LLC,
DDR MDT PARKER PAVILIONS II LLC,
DDR MDT UNION ROAD PLAZA LLC,
each a Delaware limited liability company

By: EDT Fund LLC, a Delaware limited liability company, Each such Seller's sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

BG TRANSIT JA I, LLC,
a New York limited liability company

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT SHOPPERS WORLD LLC,
a Delaware limited liability company

By: DDR MDT SW Holdings LLC, a Delaware limited liability company, its sole member

By: EDT Fund LLC, a Delaware limited liability company,
Its sole member

By: EDT Management LLC, a Delaware limited liability
company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT HARBISON COURT LLC,
DDR MDT PIONEER HILLS LLC,
each a Delaware limited liability company

By: DDR Macquarie Longhorn Holdings LLC, a Delaware limited liability company, each such Seller's its sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT MACARTHUR MARKETPLACE LP,
a Delaware limited partnership

By: DDR MDT MacArthur GP LLC, a Delaware limited liability company, its general partner

By: DDR Macquarie Longhorn Holdings LLC, a Delaware limited liability company, its sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT BROOKFIELD LLC,
DDR MDT LAKE BRANDON VILLAGE LLC,
DDR MDT CONNECTICUT COMMONS LLC,
DDR MDT BROWN DEER CENTER LLC,
DDR MDT BROWN DEER MARKET LLC,
DDR MDT RIVERDALE VILLAGE INNER RING LLC,
DDR MDT RIVERDALE VILLAGE OUTER RING LLC,
each a Delaware limited liability company

By: DDR Macquarie Longhorn II Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company, its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT GRANDVILLE MARKETPLACE LLC,
DDR MDT PARKER PAVILIONS LLC,
each a Delaware limited liability company

By: DDR Macquarie Longhorn III Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT BELDEN PARK LLC,
DDR MDT BELDEN PARK II LLC,
DDR MDT GREAT NORTHERN LLC,
DDR MDT MIDWAY MARKETPLACE LLC,
DDR MDT MERRIAM TOWN CENTER LLC,
DDR MDT MONACA TOWNSHIP MARKETPLACE LLC,
DDR MDT COOL SPRINGS POINTE LLC,
DDR MDT LAKE WALDEN SQUARE LLC,
DDR MDT PIEDMONT PLAZA LLC,
DDR MDT WINTER PARK PALMS LLC,
each a Delaware limited liability company

By: DDR MDT Revolver Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company,
Its sole member

By: EDT Management LLC, a Delaware limited liability
company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT CHEEKTOWAGA WALDEN PLACE LLC,
DDR MDT ASHEVILLE RIVER HILLS LLC,
DDR MDT WALDEN AVENUE BOOKSTORE LLC,
DDR MDT WALDEN CONSUMER SQUARE LLC,
DDR MDT BATAVIA COMMONS LLC,
DDR MDT BATAVIA SJB PLAZA LLC,
DDR MDT FAYETTEVILLE SPRING CREEK LLC,
DDR MDT WILLIAMSVILLE PREMIER PLACE LLC,
DDR MDT FAYETTEVILLE STEELE CROSSING LLC,
DDR MDT UNION CONSUMER SQUARE LLC,
DDR MDT MURFREESBORO TOWNE CENTER LLC,
DDR MDT ERIE MARKETPLACE LLC,
each a Delaware limited liability company

By: DDR MDT Bison Holdings LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Fund LLC, a Delaware limited liability company,
Its sole member

By: EDT Management LLC, a Delaware limited liability
company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT SHOPS AT TURNER HILL LLC,
DDR MDT TURNER HILL MARKETPLACE LLC,
DDR MDT PLATACRES MARKETCENTER LLC,
DDR MDT OVERLAND POINTE MARKETPLACE LLC,
Each a Delaware limited liability company

By: DDR MDT PS LLC, a Delaware limited liability company, each such Seller's sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT MCKINNEY MARKETPLACE LP,
A Delaware limited partnership

By: DDR MDT McKinney Marketplace GP LLC, a Delaware limited liability company, its general partner

By: DDR MDT PS LLC, a Delaware limited liability company, Its sole member

By: EDT Management LLC, a Delaware limited liability company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT FRISCO MARKETPLACE LP

By: DDR MDT Frisco Marketplace GP LLC, a Delaware limited liability company, its general partner

By: DDR MDT PS LLC, a Delaware limited liability company,
Its sole member

By: EDT Management LLC, a Delaware limited liability
company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

DDR MDT MARKETPLACE AT TOWNE CENTER LP

By: DDR MDT Marketplace at Towne Center GP LLC, a Delaware limited liability company, its general partner

By: DDR MDT PS LLC, a Delaware limited liability company,
Its sole member

By: EDT Management LLC, a Delaware limited liability
company, its manager

By: /s/ Alexander Berman
Name: Alexander Berman
Title: Vice President

Acknowledged and Agreed as DDR:

DDR CORP.

By: /s/ David E. Weiss
Name: David E. Weiss
Title: Executive Vice President

DDR MDT HOLDINGS II TRUST

By: /s/ David E. Weiss
Name: David E. Weiss
Title: Executive Vice President

Acknowledged and Agreed as Deposit Guarantor:

BLACKSTONE REAL ESTATE PARTNERS VII L.P.,
a Delaware limited partnership

By: Blackstone Real Estate Associates VII L.P., its general partner

By: BREA VII L.L.C., its general partner

By: /s/ A.J. Agarwal

Name: A.J. Agarwal

Title: SMD

Exhibit 4.12

This Share Purchase Agreement (the "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 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 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 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 Agreement. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Agreement, which subsequent information may or may not be fully reflected in the Registrant's public disclosures.

SHARE PURCHASE AGREEMENT

BY
AND
AMONG

B.E.A. HOTELS N.V.
as Seller
AND

PPHE NETHERLANDS B.V.
as Buyer

AND

PPHE HOTEL GROUP LIMITED

TABLE OF CONTENTS

SHARE PURCHASE AGREEMENT

Made and entered into as of this 30th day of March, 2012

By and among

1. **B.E.A. Hotels N.V.**, a public limited liability company (*naamloze vennootschap*) incorporated and existing under the laws of the Netherlands, with its statutory seat (*statutaire zetel*) in Amsterdam, the Netherlands, having its registered office at Keizersgracht 241, 1016 EA Amsterdam, the Netherlands and registered with the Dutch Trade Register (*Handelsregister*) of the Chamber of Commerce (*Kamer van Koophandel*) with nr. 33300462 ("**Seller**");

2. **PPHE Netherlands B.V.**, a private company with limited liability (***besloten vennootschap met beperkte aansprakelijkheid***), incorporated under the laws of the Netherlands, with a statutory seat in Amsterdam, the Netherlands having its registered office at Vinoly Tower, Claude Debussylaan 14, 1082 MD Amsterdam the Netherlands and registered with the Dutch Trade Register under number 53168100 and a controlled indirect subsidiary (100%) of PPHE Hotel (the "**Buyer**"); and

3. **PPHE Hotel Group Limited** (f/k/a Park Plaza Hotels Limited), a company registered in Guernsey (registration no 47131), with a registered office at 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St. Peter Port, Guernsey GY1 1EW, Channel Islands ("**PPHE Hotel**");

(each of Buyer, PPHE Hotel and Seller, a "**Party**" and collectively, the "**Parties**").

WHEREAS, PPHE Hotel, indirectly through its wholly owned and controlled (100%) subsidiary(ies) (each, a "**PPHE Holding Subsidiary**"), and Seller are jointly the sole shareholders of **Victoria Monument B.V.**, a private company with limited liability (***besloten vennootschap met beperkte aansprakelijkheid***), incorporated under the laws of the Netherlands and registered with the Dutch Trade Register under number 34261169 ("**Victoria Monument**"); and

WHEREAS, Seller is the sole direct shareholder of (i) **Amalfa Investment B.V.**, a private company with limited liability (***besloten vennootschap met beperkte aansprakelijkheid***) incorporated under the laws of the Netherlands ("**Amalfa**"); and (ii) **Victory Enterprises II B.V.**, a private company with limited liability (***besloten vennootschap met beperkte aansprakelijkheid***) incorporated under the laws of the Netherlands ("**Victory Enterprises**", and together with Amalfa, the "**Seller Companies**" (and each, a "**Seller Company**") and the Seller Companies together with Victoria Monument, the "**Purchased Companies**" and each one, individually, a "**Purchased Company**"), and the shareholdings of Seller in each of the Purchased Companies are as set forth on **Exhibit A** (the "**Purchased Shares**"); and

WHEREAS, Victoria Monument wholly owns the asset known as art'otel amsterdam located in the Kadaster building at Amsterdam, the Netherlands (the "**art'otel amsterdam**"); and

WHEREAS, Amalfa indirectly owns, together with a wholly owned subsidiary of PPHE Hotel, the asset known as the Park Plaza Amsterdam Airport Hotel located at Melbournestraat 1, 1175 RM Lijnden, the Netherlands (the "**Airport Hotel**"); and

WHEREAS, Victory Enterprises indirectly owns, together with a wholly-owned subsidiary of PPHE Hotel, the assets known as: (i) Park Plaza Victoria Amsterdam Hotel located at Damrak 1-5 , Amsterdam, 1012LG, the Netherlands (the "**Victoria Hotel**") and (ii) Park Plaza Utrecht Hotel located at Westplein 50, Utrecht 3531 BL, the Netherlands (the "**Utrecht Hotel**" and together with art'otel amsterdam, the Airport Hotel and the Victoria Hotel, the "**Hotels**", and each one individually, a "**Hotel**"); and

WHEREAS, Victory Enterprises shall transfer the Astrid Activity in its entirety from Victory Enterprises to the Seller immediately prior to the Closing (subject to the Aareal Bank Release and Consent) and as a condition to the Closing; and

WHEREAS, subject to the completion of the Reorganization (with effect immediately prior to the Closing), the Seller has provided a loan to Victoria Monument, as detailed in **Exhibit B** (the "**Intercompany Loan**" as further defined below); and

WHEREAS, Seller desires to sell and transfer to Buyer, and Buyer desires to acquire from Seller all of the Purchased Shares, all in accordance with and subject to the terms and conditions of this Agreement; and

WHEREAS, Seller shall sell and assign to Buyer, and Buyer desires to acquire from the Seller the Intercompany Loan, all in accordance with and subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, covenants, terms and conditions and understandings set forth herein, and other good and valuable consideration (the receipt and adequacy and legal sufficiency of which are hereby mutually acknowledged) the Parties hereby agree as follows:

1. **The Preamble, Annexes & Headings**

1.1. The Preamble to this Agreement forms an integral part hereof and shall be binding upon the Parties as the Agreement itself.

1.2. The Schedules, Exhibits and other attachments to this Agreement and the Ancillary Agreements (as defined below) constitute an integral part hereof.

1.3. The headings of the Sections in this Agreement are for convenience of reference only and shall not affect or limit in any way the interpretation or construction of the provisions of this Agreement.

2. **Definitions and Terms**

2.1. The following expressions and terms shall have the meaning as hereinafter defined, unless the context otherwise requires:

"Aareal Bank "	-	means Aareal Bank, AG, a bank established as an *Aktiengesellschaft* duly organized and existing under the laws of the Federal Republic of Germany, having its principle place of business at Paulinenstrasse 15, D-65189 Wiesbaden, Germany.
"Aareal Bank Facility Agreement"	-	means the Secured Term Loan Facilities Agreement originally dated October 1, 2004, as amended by an Amendment and Restatement Agreement dated April 27, 2010, by and among Aareal Bank, as Lender, and Victoria Hotel C.V., Utrecht Victoria Hotel C.V., and The Mandarin Hotel B.V., as Borrowers, and Schiphol Victoria Hotel C.V. and Victoria Schiphol Holding B.V., as Acceding Obligors, and Utrecht Victoria Hotel C.V., Victoria Hotel C.V., The Mandarin Hotel B.V., Victory Enterprises I BV, Victory Enterprises II B.V., Victoria Hotel and Restaurant Investment B.V., and Victoria Hotel and Restaurant Management Services B.V. as Guarantors in the aggregate amount of EUR 111,000,000 (EUR One Hundred and Eleven Million) relating to the refinancing of the Hotels and the Mandarin Hotel and the acquisition of the Airport Hotel.
"Aareal Bank Release and Consent"	-	means the Deed of Release and Consent by and between Aareal Bank, the Purchased Companies, Seller, PPHE Hotel and Buyer which upon execution by Aareal Bank, will be attached hereto as **Exhibit** C.
"Admission"	-	has the meaning set forth in Section 12.1.4.2.
"Affiliate"	-	with respect to any particular Person means any Person directly or indirectly Controlling, Controlled by or under common Control with such particular Person.
"Agreement"	-	means this agreement, the Exhibits, Schedules and other appendices hereto, and instruments supplemental to or amending, modifying or confirming this agreement in accordance with the provisions of this Agreement.

"Airport Hotel"	-	has the meaning set forth in the preamble.
"Amalfa"	-	has the meaning set forth in the preamble.
"Ancillary Agreements"	-	means the Assignment and Assumption Agreement, the PPHE Deed of Guarantee, the Elbit Deed of Guarantee, the Internal Reimbursement Termination Agreements, and all the other documents required to be delivered at Closing and the Transfer Date hereunder, and any other documents or agreements executed and/or delivered in connection with the Transaction contemplated hereby.
"Articles of Association"	-	means articles of association, memorandum of association, bylaws, or any other formation and constitutional documents of the respective entity according to the applicable law.
"art'otel amsterdam"	-	has the meaning set forth in the preamble.
"Assignment and Assumption Agreement"	-	has the meaning set forth in Section 3.2.2 hereof.
"Astrid"	-	Astrid Hotel Holdings B.V., a private company with limited liability (***besloten vennootschap met beperkte aansprakelijkheid***) incorporated under the laws of the Netherlands, which is a wholly owned subsidiary of Victory Enterprises.
"Astrid Hotels"	-	means the "Radisson Blu Astrid Hotel" located at Koningin Astridplein 7, B-2018 Antwerp, Belgium and the "Park inn Hotel, Antwerp" located at Koningin Astridplein 14, Antwerp, Belgium, both owned by Astridplaza.
"Astrid Activity"	-	means (i) all Victory Enterprises' holdings in Astrid and all Victory Enterprises' rights, benefits, obligations and pending and contingent liabilities pertaining to Astrid, including Astrid's share capital, of any kind and nature; (ii) all Astrid's holdings, assets (tangible and intangible, movable and immovable), rights, benefits, obligations and liabilities (whether pending, contingent, existing and future) of any kind and nature; (iii) the Astrid Hotels and all and any rights, benefits, obligations and liabilities (whether pending, contingent, existing and future) pertaining thereto or derived therefrom; (iv) all the business activity of maintaining, developing and operating the Astrid Hotels, including all ancillary operations, businesses and activities; and (v) the assignment of the Astrid Intercompany Loans with effect from Closing subject to having obtained Aareal Bank Release and Consent.

"Astrid Intercompany Loans"	-	means any intercompany and shareholders loans made to Astrid and Astridplaza by Victory Enterprises which shall be assigned to Seller with effect from Closing, subject to the terms of that assignment and assumption agreement dated on or around the same date of this Agreement between Victory Enterprises and Astrid and Astridplaza.
"Astridplaza"	-	Astridplaza N.V., a company incorporated in Belgium with registered number 0446.394.988, whose registered office is located at 7 Koningin Astridplein, B-2018 Antwerpen, Belgium, which is a wholly owned subsidiary of Astrid.
"Bank Hapoalim"	-	means Bank Hapoalim BM, an Israeli bank having its principal place of business and Head Office at 23 Menachem Begin Road, Tel-Aviv 66183, Israel, and including Bank Hapoalim London Branch.
"Bank Hapoalim Credit Facility Agreement	-	means the Credit Facility Agreement between Bank Hapoalim BM and Elbit dated March 31, 2011, as amended from time to time.
"Bank Hapoalim London Branch"	-	means the London branch of Bank Hapoalim with an address at 25 Savile Row London W1S 2ES, England, which is the "Lender" in the Bank Hapoalim Victoria Monument Credit Facility Agreement.
"Bank Hapoalim Victoria Monument Credit Facility Agreement	-	means the Credit Facility Agreement entered into by and between Victoria Monument and Bank Hapoalim London Branch dated September 13, 2011.
"Banks"	-	means Aareal Bank and Bank Hapoalim.
"Bank Hapoalim Pledges"	-	means the Pledge Agreements dated March 15, 2012 (for (i) – (iii)) issued by: (i) Seller providing a second-ranking lien in favor of Bank Hapoalim, subject to Aareal Bank's rights under the Aareal Facility Agreement over the Seller's shareholdings in Victory Enterprises and issued in connection with the Bank Hapoalim Credit Facility Agreement; (ii) Victory Enterprises in favor of Bank Hapoalim providing a second-ranking lien, subject to Aareal Bank's rights under the Aareal Facility Agreement over Victory Enterprises' shareholdings in Victoria Hotel and Restaurant B.V. and issued in connection with the Bank Hapoalim Credit Facility Agreement; (iii) Seller providing a first-ranking pledge over Seller's shareholdings in Victoria Monument issued in connection with the Bank Hapoalim Credit Facility Agreement; and (iv) Seller, providing a first-ranking pledge in favor of Bank Hapoalim London Branch over Seller's shareholdings in Victoria Monument issued pursuant to the Bank Hapoalim Victoria Monument Credit Facility Agreement and dated September 13, 2011.

"Bank Hapoalim Release and Consent"	-	means the release and consent of Bank Hapoalim with respect to the Bank Hapoalim Pledges (save for the Continuing Encumbrances) and the consent to the Transaction contemplated hereby, which upon execution by Bank Hapoalim, will be attached hereto as **Exhibit D**.
"Bank Hapoalim Release of the Elbit VM Guarantees"	-	means the release and consent of Bank Hapoalim with respect to the termination of the Elbit VM Guarantees, which upon execution thereof by Bank Hapoalim, will be attached hereto as **Exhibit E**.
"Business Day"	-	means (i) a day other than Saturday and Sunday; and (ii) any day on which banks located in England, the Netherlands and Israel are open for business.
"Buyer"	-	has the meaning set forth in the preamble.
"Buyer's Financing Assignee"	-	has the meaning set forth in Section 15.3.
"Call Option"	-	has the meaning set forth in Section 5.1.
"Cash Payment"	-	means EUR 23,000,000 (twenty three million Euros).
"Closing"	-	means the closing and consummation of the transactions in accordance with Section 11 hereof.

"Closing Conditions"	-	means the conditions required to be satisfied in order for the Closing to occur, as set forth in Sections 11.2, 11.3 and 11.4 hereof.
"Closing Date"	-	shall have the meaning ascribed to it in Section 11.1 hereof.
"Completion Guarantee"	-	means the Completion Guarantee granted by Elbit in favor of Bank Hapoalim London Branch in connection with the Bank Hapoalim Victoria Monument Facility Agreement, dated September 13, 2011.
"Consideration"	-	means the aggregate consideration to be tendered and/or paid (as applicable) by Buyer and PPHE Hotel hereunder for Seller's transfer to Buyer of the Purchased Shares and the assignment by Seller of the Intercompany Loan, as set out in Clause 4.1.
"Continuing Encumbrances"	-	means the Encumbrances in favor of Bank Hapoalim London Branch in connection with the Bank Hapoalim Victoria Monument Credit Facility Agreement and in favor of Aareal Bank in connection with the Aareal Bank Facility Agreement.
"Continuing Guarantee"	-	means the Continuing Guarantee granted by Elbit in favor of Bank Hapoalim London Branch in connection with the Bank Hapoalim Victoria Monument Facility Agreement dated September 13, 2011.
"Control"	-	means the possession, directly or indirectly, of the power to direct the management and policies of a Person whether through the ownership of voting securities, by contract or otherwise.
"CREST"	-	means the Relevant System (as defined in the CREST Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form, in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in the CREST Regulations).
"Crest Regulations"	-	means the Uncertificated Securities Regulations 2001 (as amended) (SI 2001/3755)
"DCC"	-	means the Dutch Civil Code.

"Determining Factor"	- means, subject to Section 5.5 hereof: (1) if the PPH Market Price during the Measurement Period is the Target Price or more (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel) – the number of PPH Shares sold by the Seller during the Measurement Period (if any). The PPH Market Price for the purposes of this part (1) shall be deemed to be the Target Price or more, if the PPH Market Price during 90 consecutive dealing days at the LSE in the Measurement Period is equal to the Target Price or more; and (2) in all other cases – (A) if Seller has sold during the Measurement Period all or some of the PPH Shares at a price per share of the Target Price or more (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel) – the number of PPH Shares sold by the Seller at a price per share equal to the Target Price or higher prior to the Settlement Date; and (B) in all other cases in under this part (2) – zero.
"Dutch Powers of Attorney"	- shall have the meaning ascribed to it in Section 11.6.1.4 and attached as **Schedule 11.6.1.4** hereof.
"Elbit Deed of Guarantee"	- means the Deed of Guarantee issued by Elbit on even date herewith guaranteeing for the benefit of PPHE Hotel and the Buyer all of the obligations of the Seller pursuant to this Agreement and the Ancillary Agreements as set forth on **Schedule 4.3** hereof.
"Elbit VM Guarantees"	- means the Completion Guarantee and the Continuing Guarantee.
"Elbit"	- has the meaning set forth in the preamble.
"Encumbrances"	- means any and all third party rights, including, without limitation, preemptive rights, rights of first refusal, rights of first offer, proxy, voting agreement, voting trust, registration rights agreement, shareholders' agreement, or any other right or restriction on the use, enjoyment, transfer or sale of the asset, liens, pledges, debts, attachments, mortgages, preferential rights, encumbrances and limitations, tax pledges or lawsuits, disputes and/or court proceedings and/or any agreements with third parties which may impede, impair or restrict the free and unfettered use, enjoyment and possession of the relevant asset or any part thereof.

"EUR" or **"€"**	-	means the Euro, the legal currency of the European Union.
"Event"	-	means an event, act, transaction or omission, including, without limitation, a receipt or accrual of income or gains, distribution, failure to distribute, acquisition, disposal, transfer, payment, loan or advance.
"GBP" or **"£"**	-	means the British pound, the legal currency in the United Kingdom.
"Hotel" or **"Hotels"**	-	has the meaning set forth in the preamble.
"Intercompany Loan"	-	means that certain loan (including current accounts) granted by the Seller to Victoria Monument, including all rights and obligations under such loan, which Intercompany Loan is set forth on **Exhibit B**.
"Interim Period"	-	shall have the meaning ascribed to it in Section 3.3.3 below.
"Internal Reimbursement Agreements"	-	means the following agreements: (i) Internal Reimbursement Agreement dated September 14, 2011, by and among PPHE Hotel, Seller and Park Plaza Hotels Europe Holdings BV; (ii) Internal Reimbursement Agreement dated December 14, 2010, by and among Victoria Hotel C.V., Victoria Hotel and Restaurant Investment B.V., Utrecht Victoria Hotel C.V., The Mandarin Hotel B.V., Victory Enterprises I, B.V., Victory Enterprises, Victoria Hotel and Restaurant Management Services B.V., Schiphol Victoria Hotel C.V., Victoria Schiphol Holding B.V., Amalfa and Euro Sea Hotels N.V.; (iii) Internal Reimbursement Agreement by and among Victoria Hotel C.V., Victoria Hotel and Restaurant Investment B.V., Utrecht Victoria Hotel B.V., The Mandarin Hotel B.V., Victory Enterprises I B.V. and Victory Enterprises dated October 1, 2004; and (iv) Internal Reimbursement Agreement by and among Victoria Hotel C.V., Victory Hotel and Restaurant Investment B.V., Utrecht Victoria Hotel B.V., The Mandarin Hotel B.V., Victory Enterprises I B.V., Victory Enterprises and Victory Enterprises III B.V. dated February 7, 2000.
"Internal Reimbursement Termination Agreements"	-	has the meaning set forth in Section 3.5.

"London Hotels SPA"	-	means that certain share purchase agreement dated December 29, 2010, by and between Seller, PPHE Hotel and Park Plaza Hotels Europe Holdings B.V.
"London Shares"	-	means the PPHL Shares as such term is defined in the London Hotels SPA, namely, one million ordinary shares of nil par value each of PPHE Hotel, that were allotted to Seller under the London Hotels SPA.
"Long Stop Date"	-	has the meaning set forth in Section 14.2.
"LSE"	-	means the London Stock Exchange plc.
"Material Adverse Effect"	-	means an event affecting the Buyer and/or PPHE Hotel on a consolidated basis, which would, alone or in the aggregate, have a material adverse effect on (i) the financial conditions, operating results, assets liabilities, operations, condition (financial or otherwise) or business prospects of PPHE Hotel and/or the Buyer (on a consolidated basis); or (ii) the ability of PPHE Hotel and/or Buyer to consummate the Transaction and/or fulfill or perform any of its obligations under this Agreement (including payment in full of the Consideration) and/or under any of the Ancillary Agreements.
"Measurement Period"	-	means the period commencing on the Closing Date and ending on the Settlement Date.
"Notary"	-	Mr. Steven van der Waal, civil law notary (*notaris*) officiating in The Hague, the Netherlands, or one of his substitutes.
"Notary Letter"	-	shall have the meaning ascribed to it in Section 11.6.1.5 and attached as **Schedule 11.6.1.5** hereof.

"Notary Third Party Account"	-	means the notarial third party bank account with BIC Code ABNANL2A, with IBAN NL88ABNA0644141832, at ABN AMRO Bank under the name of Buren van Velzen Guelen N.V.
"Party" or **"Parties"**	-	means Seller, Buyer and/or PPHE Hotel, as applicable.
"Person"	-	means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, a governmental entity or any department, agency or political subdivision thereof and any other entity.
"PPHE Holding Subsidiary"	-	has the meaning set forth in the preamble.
"PPHE Hotel"	-	has the meaning set forth in the preamble.
"PPHE Deed of Guarantee"	-	means the Deed of Guarantee issued by PPHE Hotel on even date herewith guaranteeing for the benefit of Seller all of the obligations of Buyer and PPHE Hotel pursuant to this Agreement and the Ancillary Agreements as set forth on **Schedule 4.2** hereof.
"PPH Market Price"	-	means the market quotation for a PPH Share at close of trading on a dealing day as shown in the Daily Official List of the LSE.
"PPH Shares"	-	means 700,000 (seven hundred thousand) ordinary shares of nil par value each in the capital of PPHE Hotel.
"Pre-Closing Accounting Periods"	-	has the meaning set forth in Section 9.5.
"Purchased Companies"	-	has the meaning set forth in the preamble.
"Purchased Shares"	-	means all of the shares held by Seller in the Purchased Companies as further described in **Exhibit A** hereto.
"Registrar"	-	means the Trade Register of the Chamber of Commerce in Amsterdam, the Netherlands.
"Remaining Cash Payment"	-	means an amount equal to: 700,000 multiplied by the shortfall between (i) the Target Price and (ii) the Transfer Date Market Price per Share; subject to the adjustments set forth in Section 4 hereof.

"Reorganization"	-	means the performance of all the following actions: (i) sale and transfer of all the Astrid Activity (including, without limitation, the transfer of all Victory Enterprises' holdings in Astrid, and the assignment and transfer of the Astrid Intercompany Loans) to Seller; and (ii) waiver of certain intercompany loans granted by each of Victory Enterprises and Amalfa to Seller; immediately prior to Closing, subject to Aareal Bank Release and Consent.
"Seller"	-	has the meaning set forth in the preamble.
"Seller Breach"		means a breach of any of the representations and warranties of the Seller as referred to in Section 7 or any breach by the Seller of the other provisions of this Agreement.
"Seller Companies"	-	has the meaning set forth in the preamble.
"Seller's Group"	-	means the Seller and its Affiliates excluding the Purchased Companies and their Subsidiaries.
"Seller Nominee Account"	-	has the meaning set forth in Section 12.1.4.2.
"Settlement Date"	-	means the fourth anniversary of the Transfer Date.
"Settlement Date Market Price Per Share"	-	has the meaning set forth in Section 4.4.1.
"Shareholders Agreements"	-	shall have the meaning ascribed to it in Section 3.6 below.
"Subsidiaries"	-	means Victoria Hotel C.V., Victoria HRI B.V., Utrecht C.V., Victoria HRMS B.V., Schiphol Victoria Hotel C.V., Victoria Schiphol Holding B.V., Melbourne Holding B.V., Melbourne Onroerende Zaken B.V., Melbourne Personeel B.V., each of which Subsidiaries is owned directly or indirectly by PPHE Hotel and Seller jointly.
"Subsidiary Interests"	-	the interests held by the Purchased Companies in the Subsidiaries;

"Target Price"	-	means £4.17.
"Taxes"	-	means all taxes of any kind (including, without limitation, excise, stamp, value added, income, gross receipts, sales, use, transfer and property taxes), withholdings, assessments, levies, imposts, duties, governmental fees (including, without limitation, license, filing and registration fees), or other charges, of any nature whatsoever under any present or future laws, rules or regulation, together with any related penalties, fines, additions to tax or interest thereon imposed, withheld, levied or assessed by any country, taxing authority or governmental subdivision thereof or therein or by any international authority, including any taxes imposed on any natural or judicial person(s) as result of such person(s) being required to collect and pay over withholding taxes, whatsoever now or hereafter imposed.
"Tax Advisor"	-	has the meaning ascribed to it in Section 9.4.1.
"Tax Dispute"	-	has the meaning ascribed to it in Section 9.4.
"Transfer"	-	means the execution and completion of all the acts and deeds as set forth in Section 12.1.4 below.
"Transfer Conditions"	-	shall have the meaning ascribed to it in Section 12.1.3 below.
"Transfer Date"	-	shall have the meaning ascribed to it in Section 12.1 below.
"Utrecht Hotel"	-	has the meaning set forth in the preamble.
"UKLA"	-	means the Financial Services Authority acting in its capacity as the competent authority for listing pursuant to Part VI of the Financial Services and Markets Act 2000 of the United Kingdom.
"Transaction"	-	means the transactions contemplated hereby as detailed in Section 3 hereof.
"Transfer Date Market Price per Share"	-	means the PPH Market Price as at the Transfer Date.
"Transfer Deed"		has the meaning as set forth in Section 3.2.1.

"Victoria Monument"	-	has the meaning set forth in the preamble.
"Victory Enterprises"	-	has the meaning set forth in the preamble.
"Victoria Hotel"	-	has the meaning set forth in the preamble.

2.2. All capitalized terms used but not defined hereinabove, shall have the meaning ascribed in the preamble or as set forth below.

2.3. Where any statement refers to the knowledge, belief or awareness of the Seller, or any analogous expression, it shall be deemed to include an additional statement that:

2.3.1. it has been made after due enquiry by Seller and the relevant officers of Seller Companies and Seller's Group, and such other persons of whom the Seller might reasonably be expected to make enquiry given the subject matter of the relevant provision; and

2.3.2. the knowledge, belief and awareness of the Seller shall be deemed to include the knowledge (whether actual, imputed or constructive), belief and awareness of each such Person.

2.4. **Exhibits and Schedules to Agreement**

Exhibit A	-	Seller's Shareholdings in Purchased Companies
Exhibit B	-	Intercompany Loan
Exhibit C	-	Aareal Bank Release and Consent
Exhibit D	-	Bank Hapoalim Release and Consent
Exhibit E	-	Bank Hapoalim Release of the Elbit VM Guarantees
Schedule 3.2.1		Transfer Deed
Schedule 3.2.2	-	Assignment and Assumption Agreement
Schedule 3.3.3	-	Voting Power of Attorney with respect of the Purchased Companies.
Schedule 3.5	-	Internal Reimbursement Termination Agreements
Schedule 4.2		PPHE Deed of Guarantee
Schedule 4.3		Elbit Deed of Guarantee
Schedule 6.4	-	PPHE Financial Statements
Schedule 7.5.3	-	Subsidiary Interests
Schedule 7.6.1	-	Amalfa and Victory Enterprises Financial Statements
Schedule 7.7.1	-	Management Accounts
Schedule 11.6.1.3(a)-(f)	-	Purchased Companies' Board and Shareholders Resolutions
Schedule 11.6.1.4	-	Dutch Powers of Attorney
Schedule 11.6.1.5	-	Notary Letter
Schedule 11.6.1.6(1)-(16)	-	Internal Reimbursement Parties' Board and Shareholder Resolutions
Schedule 11.6.1.7	-	Buyer's Board and Shareholders Resolutions
Schedule 11.6.1.8	-	PPHE Hotel Board Resolutions
Schedule 11.6.1.9	-	PPHE Holding Subsidiary's Waiver
Schedule 11.6.2.1	-	Seller's Board and Shareholder Resolutions
Schedule 11.6.2.2	-	Confirmation of No Indebtedness

3. <u>The Transaction</u>

Subject to the terms and conditions of this Agreement, the Parties undertake that they shall consummate the Transaction as follows:

3.1. ***Sale of Purchased Shares and Intercompany Loan.*** Subject to the terms and conditions hereof (i) Seller sells to Buyer, and Buyer purchases from the Seller, the Purchased Shares and (ii) Seller shall assign the Intercompany Loan to the Buyer.

3.2. ***Transfer of Purchased Shares and assignment of Intercompany Loan.*** Subject to the terms and conditions hereof:

3.2.1. At the Closing the Buyer and Seller shall execute the Dutch Powers of Attorney empowering the Notary to execute the transfer deed attached hereto in the agreed form as **Schedule 3.2.1 ("Transfer Deed")**, by virtue of which, at the Transfer Date the Seller shall transfer the Purchased Shares to the Buyer and the Buyer shall accept transfer of the Purchased Shares free and clear of any and all Encumbrances save for the Continuing Encumbrances. It is hereby clarified and agreed that the Dutch Powers of Attorney shall authorize the Notary to execute the Transfer Deed autonomously and independently without any additional act on part of the Parties and without being required to obtain any further confirmation and/or authorization from the Parties save for Buyer's confirmation that the PPH Shares shall have been allotted to the Seller and the receipt of the Cash Payment in the Notary Third Party Account in accordance with the terms hereof. In addition, at the Closing, Buyer, Seller and PPHE shall sign the Notary Letter, which sets out the procedure to be followed on the Transfer Date and thereafter.

3.2.2. At the Closing the Seller and Buyer shall execute the assignment and assumption agreement attached hereto in the agreed form as **Schedule 3.2.2 ("Assignment and Assumption Agreement")**, by virtue of which the Intercompany Loan is assigned to the Buyer free and clear of any and all Encumbrances.

It is hereby confirmed and agreed that the Transaction does not include the Astrid Activity, which will be sold and transferred in its entirety from Victory Enterprises to Seller.

3.3. ***Transfer of Title, Ownership and Risk***

3.3.1. Title of ownership to the Purchased Shares shall pass to Buyer upon transfer thereof to it by the Notary by virtue of execution of the Transfer Deed by the Notary with payment of the Cash Payment to the Notary Third Party Account and subject to the issue of the PPH Shares to Seller (or whom Seller shall instruct) at the Transfer Date.

3.3.2. The risk of loss or damage to the Hotels (by virtue of the indirect holding thereof) as well as the right for all benefits derived therefrom, shall pass from Seller to Buyer upon execution of the Dutch Powers of Attorney at the Closing.

3.3.3. The control and management of the Purchased Companies shall be transferred from Seller to Buyer upon resignation of Seller's directors pursuant to Section 3.7 below at Closing. Furthermore, Seller shall deliver to Buyer a power of attorney to vote and act on behalf of Seller by virtue of its holdings of the Purchased Shares during the period commencing at Closing and ending at Transfer Date (the "**Interim Period**"), provided, however, that Buyer shall be entitled to act only in the ordinary course of such Purchased Companies (including, for the sake of clarity) the ongoing management of the Hotels), in the form attached as **Schedule 3.3.3** hereof.

3.3.4. During the Interim Period Buyer undertakes, guarantees and warrants to Seller that the Purchased Companies: (i) conduct its business solely in the ordinary course of business; and (ii) not take a resolution for their winding up.

3.3.5. During the Interim Period Seller undertakes, guarantees and warrants to Buyer that the Purchased Shares shall be held for the risk and benefit of Buyer and the Seller shall not conduct any transaction in respect of or in connection with the Purchased Shares.

3.4. ***Release of Elbit's Obligations under Elbit VM Guarantees.*** Subject to the terms and conditions hereof, at Transfer Date, pursuant to the Bank Hapoalim Release and Consent, Elbit shall be released from all of its obligations under the Elbit VM Guarantees.

3.5. ***Termination of Internal Reimbursement Agreements.*** At Closing, Seller, Buyer and PPHE Hotel shall cause the relevant parties to the Internal Reimbursement Agreements to enter into termination agreements in the form attached hereto as **Schedule 3.5**, terminating the Internal Reimbursement Agreements and all rights and obligations amongst such parties with respect to such agreements and consenting to the Transaction ("**Internal Reimbursement Termination Agreements**").

3.6. ***Termination of Shareholders Agreements.*** Subject to the terms and conditions hereof, as from the Closing but subject to the completion of the Transfer pursuant to Section 12.1 hereof, all the provisions included in shareholders agreements, joint-ventures agreements or other similar agreements between PPHE Hotel, Buyer and/or any of their respective Affiliates on the one part and Seller and/or any of its Affiliates on the other part, related to the Purchased Companies and/or their subsidiaries, as applicable (the "**Shareholders Agreements**"), shall be automatically terminated and be of no further effect, except for such provisions that are intended to survive termination (such as confidentiality). The Parties hereby confirm that effective as from the Closing (and subject to its occurrence) they do not have any claims or demands under any of the Shareholders Agreements or any management agreement in place for any of the Hotels.

3.7. ***Resignation of Directors.*** Subject to the terms and conditions hereof, at Closing, (i) Seller shall cause B.E.A. Hotels Management B.V., as managing director of each of the Seller Companies, to deliver letters of resignation pertaining to the resignation of B.E.A. Hotels Management B.V. as managing director of the Seller Companies with immediate effect and shall deliver letters of resignation pertaining to the Seller's resignation as managing director of Victoria Monument with immediate effect. Seller hereby represents and warrants that each of Seller and B.E.A. Hotels Management B.V. has no claims or demands in connection with the termination of - or otherwise in relation to - its services as managing director of each of the Purchased Companies and Seller shall fully indemnify and hold each of the Purchased Companies, the Buyer and PPHE Hotel harmless from any such claim; (ii) each of the Purchased Companies shall adopt a resolution in which it accepts the resignation of the relevant management director and granting such managing director full and final discharge and appointing the directors as indicated by Buyer.

4. Consideration

4.1. In consideration for Seller's sale and transfer to Buyer of the Purchased Shares and the sale and assignment by Seller of the Intercompany Loan to the Buyer, subject to the terms and conditions of this Agreement, Buyer and PPHE Hotel shall pay (or tender, as the case may be), to Seller the Consideration as follows:

4.1.1 By no later than the Transfer Date, Buyer shall pay the Cash Payment in immediately available funds by wire transfer into the Notary Third Party Account.

The Cash Payment shall be held by the Notary in the Notary Third Party Account for the benefit and at the instruction of the Buyer until the execution of the Deed of Transfer effecting the transfer of the Purchased Shares from the Seller to the Buyer, in accordance with the Dutch Powers of Attorney.

Immediately following the execution of the Deed of Transfer, the Cash Payment shall be held by the Notary in the Notary Third Party Account for the benefit and at the instruction of the Seller.

4.1.2. By no later than the Transfer Date, PPHE Hotel shall issue to Seller the PPH Shares credited as fully paid and free and clear of any and all Encumbrances and on terms that they rank equally in all respects with the other ordinary shares of PPHE Hotel, including the right to receive all dividends or other distributions in respect of the ordinary shares of PPHE Hotel declared or paid after the date of their issue; and

4.1.3. Five Business Days following the Settlement Date, Buyer shall pay the Remaining Cash Payment, subject to adjustment pursuant to the provisions of Section 4.4 below.

For avoidance of doubt, the Remaining Cash Payment shall not constitute a consideration paid by PPHE Hotel for the allotment of the PPH Shares.

It is hereby further agreed that if and in the event that at the due date of the Remaining Cash Payment (namely, five Business Days following the Settlement Date) Seller be in breach of its payment obligation under Section 9.2, Buyer shall be entitled to set-off an amount equal to the amount due and outstanding under Section 9.2 from the Remaining Cash Payment.

4.2. ***PPHE Deed of Guarantee.*** In addition, at Closing, in consideration of, and as an inducement to, the execution of this Agreement and the consummation of the Transaction thereunder, PPHE Hotel shall deliver to Seller a duly executed copy of the PPHE Deed of Guarantee, attached hereto as **Schedule 4.2**.

4.3. ***Elbit Deed of Guarantee.*** In addition, at Closing, in consideration of, and as an inducement to, the execution of this Agreement and the consummation of the Transaction thereunder, the Seller shall procure that Elbit delivers to Buyer a duly executed copy of the Elbit Deed of Guarantee, attached hereto as **Schedule 4.3**.

4.4. ***Remaining Cash Payment Adjustment.*** Subject to Sections 4.5 and 5.5 below, the Remaining Cash Payment shall be adjusted as follows:

4.4.1. In the event that on the Settlement Date the PPH Market Price per share as calculated in accordance with Section 4.5 (the "**Settlement Date Market Price Per Share**") shall equal the Target Price or more (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel), then the Remaining Cash Payment shall be reduced to zero.

4.4.2. Subject to Section 4.4.3, in the event that the Settlement Date Market Price Per Share shall be less than the Target Price (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel), the Remaining Cash Payment shall be reduced by:

4.4.2.1. The difference between the Settlement Date Market Price and the Transfer Date Market Price per Share (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel), multiplied by seven hundred thousand; and

4.4.2.2. The difference between the Target Price and the Settlement Date Market Price per Share (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel), multiplied by the Determining Factor.

4.4.3. In the event that the Call Option is exercised and consummated, the Remaining Cash Payment shall be reduced to zero, save that subject to Section 4.4.1 in the event that during the Measurement Period the PPH Market Price per share shall not equal the Target Price or more (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel), the Remaining Cash Payment will be the amount calculated as the number of shares sold by Seller prior to the exercise of the Call Option multiplied by the lower of (i) the difference between the Target Price and the Settlement Date Market Price per Share (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel), and (ii) the difference between the Target Price and the Transfer Date Market Price per Share (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel). The PPH Market Price for the purposes of this Section 4.4.3 shall be deemed to be the Target Price or more if the PPH Market Price during 90 consecutive dealing days in the Measurement Period shall equal the Target Price or more.

In the event that PPHE Hotel (or its assignee) does not exercise the Call Option, then the preceding provisions of this Section 4.4 shall apply.

4.5. ***Calculation of Settlement Date Market Price Per Share***. The Settlement Date Market Price Per Share shall be calculated as the average of the closing mid-market PPH Market Price over the 60 trading days preceding the Settlement Date.

4.6. ***Delisting of the PPH Shares***. In the event that the shares of PPHE Hotel are no longer listed on the LSE or any other stock exchange due to a tender offer in which the Seller sold the PPH Shares held by it, then the "Settlement Date Market Price Per Share" for the purposes of this Section 4 shall be deemed to be the price per share actually paid under the tender offer and the "Measurement Period" for the purpose of this Section 4 be deemed to be the period commencing on the Closing Date and ending on the day on which the shares of PPHE Hotel are no longer listed on the LSE or any other stock exchange, and the other provisions of this Section 4 shall apply accordingly.

In the event that the shares of PPHE Hotel are no longer listed on the LSE or any other stock exchange due to any reason other than a tender offer in which the Seller sold the PPH Shares held by it (subject to Section 5.5 hereof), then the Remaining Cash Payment shall be set as a fixed amount equal to (i) the Target Price *less* (ii) the Transfer Date Market Price per Share, *multiplied* by the number of the PPH Shares held by Seller at the time of delisting, which will be due and payable at the Settlement Date.

5. <u>Provisions Relating to the PPH Shares</u>

5.1. **Lock-Up.** Seller shall not sell, transfer, assign, lend, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right (other than a pledge, lien or a similar type of right), or warrant to purchase or otherwise dispose of the PPH Shares, other than an assignment to an Affiliate of the Seller (in accordance with Section 5.4) or in connection with the exercise of the Call Option, until the earlier of (i) the registration of the PPH Shares for trading on main market of the LSE with premium listing; or (ii) June 30, 2012, provided that this shall not preclude the Seller from accepting an offer which is made for the whole of the share capital of PPHE Hotel or which becomes or is declared unconditional as to acceptances.

5.2. *Call Option.* PPHE Hotel (or its assignee) shall have the right to purchase all, but not less than all, of the PPH Shares then held by Seller (subject to Section 5.5 hereof) at the Target Price per share (as adjusted for subdivision, combination, capital reorganization, recapitalization, reclassification or similar change in the share capital of PPHE Hotel) (the "**Call Option**"). The Call Option may be exercised by PPHE Hotel (or its assignee) at any time during the Measurement Period by delivery of a written notice to the Seller (the "**Exercise Notice**"). The closing of the sale of the PPH Shares shall take place on the tenth Business Day following receipt of the Exercise Notice and as part of such closing the Seller shall deliver the PPH Shares free and clear of any Encumbrances against payment of the purchase price thereof.

5.3. ***Right of First Refusal.*** In the event that a third party ("**Offeror**"), other than an Affiliate of Seller, offers to purchase or acquire the PPH Shares or any portion thereof then held by Seller (subject to Section 5.5 hereof; the "**Offered Shares**"), PPHE Hotel (or its assignee, each of PPHE Hotel and the assignee, shall be referred to in this Section as the "**PPH Purchaser**") shall have a right of first refusal to purchase the Offered Shares, but not less than all of them, at the same price and terms as offered by the Offeror ("**Right of First Refusal**"). Seller shall provide PPHE Hotel with a written notice ("**Transfer Notice**") of the Offeror's intent to purchase the Offered Shares, which notice shall include the number of PPH Shares to be purchased and the price per share to be paid by the Offeror and any other terms deemed relevant by Seller. PPH Purchaser shall have 10 days from the date PPHE Hotel receives the Transfer Notice to notify Seller in writing of its intention to purchase all of the Offered Shares on the same terms and conditions as those offered by the Offeror and the identity of the PPH Purchaser. To the extent that the PPH Purchaser notifies Seller of its intention to so purchase the Offered Shares in accordance with the foregoing within such 10 day period, the PPH Purchaser shall purchase all of the Offered Shares on the same terms and conditions as those of the Offeror no later than 5 days from the date the PPH Purchaser provides Seller with its written notice of its intent to purchase the Offered Shares. In the event that the PPH Purchaser does not notify Seller within such 10 day period that it intends to purchase the Offered Shares in accordance with the foregoing, or PPHE Hotel notifies Seller in writing that it will not purchase the Offered Shares within such 10 day period, then Seller shall be entitled to consummate the sale and transfer of the Offered Shares with the Offeror, provided that if Seller does not consummate the sale of the Offered Shares within 60 days of providing the Transfer Notice it will offer to PPHE Hotel again the Right of First Refusal. The Right of First Refusal hereunder shall not derogate from the right to exercise the Call Option in accordance with the provisions of Section 5.1.

5.4. Notwithstanding anything to the contrary herein, Seller shall have a right, in its sole and absolute discretion, to transfer the PPH Shares to any of its Affiliates, including Elbit, in accordance with the procedures set forth in the Articles of Association of PPHE Hotel, and the foregoing Right of First Refusal of PPHE Hotel shall not apply in such case, provided that the transferee shall assume in writing the obligation of Seller under Sections 5.2, 5.3 and 5.5.

5.5. It is hereby recorded that under the London Hotels SPA the Seller has been allotted the London Shares subject to certain price adjustment mechanism. In light of the above it is hereby agreed that for the purposes of this Agreement and the London Hotels SPA (to the extent still valid and/or applicable), any sale or disposition of PPH Shares and/or London Shares shall be counted as follows: 60% of the shares so sold will account and be taken in consideration as a sale of London Shares under the provisions of the London Hotels SPA (regardless whether those share are London Shares or PPH Shares) and 40% of the shares so sold will account and be taken in consideration as a sale of PPH Shares under the provisions of this Agreement (regardless whether those share are London Shares or PPH Shares). Accordingly, any reference herein to "PPH Shares sold by the Seller" shall mean such 40% of the aggregate number of the shares of PPHE Hotel sold by Seller as aforesaid, and any reference in the London Hotels SPA to "PPHL Shares sold by the Seller" shall mean such 60% of the aggregate number of the shares of PPHE Hotel sold by Seller as aforesaid.

6. **Representations and Warranties of PPHE Hotel and the Buyer**

As a material inducement to Seller to enter into this Agreement and to consummate the Transaction, PPHE Hotel and Buyer, severally and not jointly, hereby represent and warrant to Seller, and acknowledge that Seller is entering into this Agreement in reliance thereon, as follows:

(In this Section 6, each of Buyer and PPHE Hotel shall be referred to also as the "**Company**"; and each such reference, representation or warranty shall be read and construed as applying at its fullest extent both to Buyer and PPHE Hotel).

6.1. Organization

6.1.1. PPHE Hotel is duly incorporated, validly existing and in good standing under the laws of Guernsey, and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and as proposed to be conducted.

6.1.2. Buyer is duly incorporated, validly existing under the laws of the Netherlands, and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and as proposed to be conducted.

6.1.3. PPHE Hotel and Buyer have not taken any action or failed to take any action, which action or failure would preclude or prevent it from satisfying each of their obligations under this Agreement.

6.2. Buyer Subsidiary of PPHE Hotel

Buyer is a controlled subsidiary of PPHE Hotel and the shares in the capital of the Buyer are indirectly held by PPHE Hotel.

6.3. PPH Shares

6.3.1. Each of the PPH Shares will be, as of the Transfer Date, validly issued to Seller, fully paid and nonassessable, and PPHE Hotel shall convey to the Buyer good and marketable title to such PPH Shares, free and clear of all and any Encumbrances and other third party rights whatsoever, other than the Lock-Up in Section 5.1 and such PPH Shares will be issued by PPHE Hotel in compliance with all applicable laws and stock exchange regulations.

6.3.2. All the PPH Shares will be, as of the Transfer Date, admitted for trading and freely tradable on the main market of the LSE, without any lock-up or selling restrictions imposed pursuant to any agreement or law (other than standard regulatory lock-up or other restrictions, which are normally imposed on such registrations by any LSE traded companies under the applicable law and the restrictions set forth in this Agreement).

6.4. PPHE Hotel Financial Statements

PPHL has furnished to Seller its audited, consolidated annual financial statements for the financial year ended 31 December 2011 (the "**PPHE Financial Statements**" and are attached hereto as **Schedule 6.4**).

The PPHE Financial Statements (including the related notes, where applicable) so provided are true and accurate in all material respects, and fairly and accurately present the financial position of PPHE Hotel and its consolidated group of companies for the respective financial period.

6.5. Authorization; Approvals

Each of PPHE Hotel and Buyer has the full corporate power and authority to enter into this Agreement and the Ancillary Agreements and to perform all of its obligations hereunder and thereunder and to consummate the Transaction. The execution, delivery and performance of this Agreement and the Ancillary Agreements by PPHE Hotel and Buyer have been duly and validly authorized by all necessary corporate action. Each of this Agreement and the Ancillary Agreements constitutes a legal, valid and binding obligation of PPHE Hotel and Buyer enforceable in accordance with their terms, and subject to the fulfillment and satisfaction of the Closing Conditions specified therein. Subject to the fulfillment and satisfaction of the Closing Conditions and the Transfer Conditions specified therein, no consent, approval, order, license, permit, action by, or authorization of or designation, declaration, or filing with any governmental authority or any other Persons is required that has not been, or will not have been, obtained by PPHE Hotel and/or Buyer, as applicable, as of the Closing in order to effect the valid execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation of the Transaction by PPHE Hotel and the Buyer as contemplated hereby.

6.6. Compliance with other Instruments: No Breach

Neither PPHE Hotel nor Buyer is in violation of its Articles of Association, the effect of which would create an obstacle to or prevent the closing of the Transaction as contemplated hereby. Subject to the fulfillment of the Closing Conditions and the Transfer Conditions, neither the issuance of the PPH Shares to Seller, nor the execution and delivery of this Agreement and/or the Ancillary Agreements, nor the consummation of the Transaction contemplated hereby or thereby, will: (i) conflict with or constitute a breach or violation of the terms, conditions or provisions of, or constitute a default under the Articles of Association of PPHE Hotel or Buyer; or (ii) constitute a breach of the terms, conditions or provisions of or default under or violation in any material respect of any law, statute, stock exchange regulations, rule, any other regulation, judgment, order or decree applicable to PPHE Hotel or Buyer; or (iii) constitute a breach by PPHE Hotel or Buyer of any contract, agreement or undertaking to which PPHE Hotel and/or Buyer is a party or by which any of such Party's property is bound, which breach under any of (i) to (iii) would have a Material Adverse Effect on PPHE Hotel or Buyer.

6.7. Brokers

No agent, broker, investment banker, person or firm acting in a similar capacity on behalf of or under the authority of PPHE Hotel and/or Buyer is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, on account of any action taken by PPHE Hotel and/or the Buyer in connection with the Transaction as contemplated under this Agreement. PPHE Hotel and Buyer, severally and not jointly, will indemnify and hold Seller and any of its Affiliates harmless from and against any claim or liability resulting from any party claiming any such commission or fee contrary to the foregoing statement.

6.8. Effectiveness; Survival

Each representation and warranty herein is deemed to be made on the date of this Agreement, at Closing and at the Transfer Date by PPHE Hotel and Buyer and shall survive for a period of 24 months after the Closing.

7. **Representations and Warranties of Seller**

As a material inducement to PPHE Hotel and Buyer entering into this Agreement, Seller hereby represents and warrants to PPHE Hotel and Buyer, and acknowledges that PPHE Hotel and Buyer are entering into this Agreement in reliance thereon, as follows:

7.1. Organization

Each of Seller, Amalfa and Victory Enterprises is duly incorporated and validly existing under the laws of the Netherlands. Each of Seller, Amalfa, Victory Enterprises have all requisite power and authority to execute and deliver this Agreement, the Ancillary Agreements and the other agreements contemplated hereby or thereby and to consummate the Transactions as contemplated hereby and thereby.

7.2. Approvals; Authorization

Seller has the full corporate power and authority to enter into this Agreement and the Ancillary Agreements and to perform all of their obligations hereunder and thereunder and to consummate the Transaction. The execution, delivery and performance of this Agreement and the Ancillary Agreements by Seller and, as applicable, each of Amalfa and Victory Enterprises, have been duly and validly authorized by all necessary corporate action. Each of this Agreement and the Ancillary Agreements constitutes a legal, valid and binding obligation of Seller, and, as applicable, of Amalfa and Victory Enterprises, enforceable in accordance with their terms, and subject to the fulfillment and satisfaction of the Closing Conditions specified therein. Subject to the fulfillment and satisfaction of the Closing Conditions specified therein, no consent, approval, order, license, permit, action by, or authorization of or designation, declaration, or filing with any governmental authority or any other Persons is required that has not been, or will not have been, obtained by Seller as of the Closing in order to effect the valid execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation of the Transaction by Seller, and, as applicable, Amalfa and Victory Enterprises, as contemplated hereby.

7.3. Compliance with other Instruments; No Breach

Neither Seller, nor Amalfa, nor Victory Enterprises is in violation of its Articles of Association, the effect of which would create an obstacle to or prevent the Closing. Subject to the fulfillment of the Closing Conditions, the execution, delivery and of this Agreement and/or the Ancillary Agreements, and the consummation of the Transaction contemplated hereby or thereby, will not: (i) conflict with or constitute a breach or violation of the terms, conditions or provisions of, or constitute a default under the Articles of Association of Seller, Amalfa or Victory Enterprises; or (ii) constitute a breach of the terms, conditions or provisions of or default under or violation in any material respect of any law, statute, stock exchange regulations, rule, any other regulation, judgment, order or decree applicable to Seller, Amalfa or Victory Enterprises; or (iii) constitute a breach by Seller, Amalfa or Victory Enterprises of any contract, agreement or undertaking to which such entity is a party or by which such entity's property is bound, which breach would obstruct or prevent the consummation of the Transaction contemplated hereby.

7.4. Brokers

No agent, broker, investment banker, person or firm acting in a similar capacity on behalf of or under the authority of Seller is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, on account of any action taken by Seller in connection with any of the transactions contemplated under this Agreement. Seller will indemnify and hold PPHE Hotel and Buyer harmless from and against any claim or liability resulting from any Party claiming any such commission or fee based upon an act or omission of Seller contrary to the foregoing statement.

7.5. Purchased Shares and Intercompany Loan

7.5.1. Seller is the sole legal and beneficial owner of each of the Purchased Shares and upon sale and transfer of the Purchased Shares as provided herein, Seller will convey to the Buyer good and marketable title to the Purchased Shares. Each of the Purchased Shares has been validly issued, is fully paid, free of any Encumbrance and other third party rights, other as set forth in **Schedule 7.5.1** hereof, and have been issued in compliance with all applicable laws.

7.5.2. No Person (other than PPHE Hotel or its Affiliates) has any agreement, option or any right capable of becoming an agreement or option for the purchase from the Seller of any of the Purchased Shares, nor have there been issued depositary receipts for any of the Purchased Shares.

7.5.3. Amalfa and Victory Enterprises are the sole legal and beneficiary holders of the Subsidiary Interests as set out in **Schedule 7.5.3**. The Subsidiary Interests are free of any Encumbrance and other third party rights. No Person (other than PPHE Hotel and its Affiliates) has any agreement, option or any right capable of becoming an agreement or option for the purchase from Amalfa or Victory Enterprises of any of these Subsidiary Interests, nor have there been issued depositary receipts for any of these foregoing Subsidiary Interests.

7.5.4. Seller is the legal and beneficial owner of the Intercompany Loan, and upon sale and transfer of the Intercompany Loan as provided herein, Seller shall convey the Intercompany Loan, free and clear of any and all Encumbrances and/or any other third party rights whatsoever. Seller hereby confirms that subject to the Reorganization, there are no other intercompany loans between Seller's Group and Seller Companies save for the Intercompany Loan.

7.5.5. Amalfa and Victory Enterprises each solely function as a holding company and do not perform any other activity. **Exhibit A** sets forth the entire list of companies held by Amalfa and Victory Enterprises.

7.5.6. Each of Amalfa and Victory Enterprises is not employing any employee, does not have or maintain bank accounts, and does not directly own any real property and/or intellectual property rights (including domain names), nor engaged in any commercial agreements, transaction or ongoing, pending or threatened litigation, arbitration, mediation or similar proceedings, subject to Section 7.5.7 below, save for the Intercompany Loan and shareholders agreements with respect to the holding of the Hotels, as well as agreements to which Buyer and/or PPHE Hotel or any of their Affiliates are parties.

7.5.7. Subject to the completion of Reorganisation and the transfer the Astrid Activity, the Purchased Companies shall not have any liability with respect to the Astrid Activity.

7.5.8. Each of Amalfa and Victory Enterprises is not a tenant of, or a guarantor in respect of, leasehold property other than as may relate to the Hotels.

7.6. Financial Statements of Amalfa and Victory Enterprises

7.6.1. Seller has furnished to Buyer the audited annual financial statements for the financial year ended on December 31, 2011 of Amalfa and Victory Enterprises (the "**Amalfa and Victory Enterprises Financial Statements**" and are attached hereto as Schedule 7.6.1).

7.6.2. The Amalfa and Victory Enterprises Financial Statements (including the related notes, where applicable) so provided are true and accurate in all material respects, and fairly and accurately present the results of and the financial position of Amalfa and Victory Enterprises.

7.6.3. Neither Amalfa nor Victory Enterprises has any liability or obligation of any nature exceeding an aggregate amount of €50,000 (Euro fifty thousands) (whether absolute, accrued, contingent or otherwise), including a liability relating to Taxes, except to the extent provided for in the Amalfa and Victory Enterprises Financial Statements.

7.7. Management Accounts of Amalfa and Victory Enterprises

7.7.1. Seller has furnished to Buyer pro-forma (unaudited) financial statements for the period ending on March 31, 2012 of Amalfa and Victory Enterprises (the "**Management Accounts**") and are attached hereto as **Schedule 7.7.1**.

7.7.2. The Management Accounts: (i) were prepared in accordance with the same accounting policies as the Amalfa and Victory Enterprises Financial Statements; (ii) were prepared on the basis of Seller's estimations as for the results of Amalfa and Victory Enterprises for the period ending on March 31, 2012, and, so far as the Seller is aware, do not contain any material inaccuracies; and/or (iii) fairly state the assets and liabilities of each of Amalfa and Victory Enterprises at the date to which they are made up and the results of its operations for the aforementioned period.

7.7.3. There are no liabilities exceeding an aggregate amount of €50,000 (Euro fifty thousands) (including contingent, disputed, unquantified or otherwise but excluding Tax liabilities) of Amalfa and Victory Enterprises except as disclosed in the Management Accounts.

7.7.4. Since 31 December 2011: (i) the business of Amalfa and Victory Enterprises (i.e., as holding companies with respect to the Hotels as set forth herein) has been continued in the usual course without any material interruption or material alteration in the nature, scope or manner of the business; (ii) no dividend or other distribution has been declared, made or paid by Amalfa or Victory Enterprises; and (iii) no resolution of shareholders of Amalfa and/or Victory Enterprises has been passed, save for those representing the ordinary business of an annual general meeting and/or with respect to the grant of the Encumbrances as set forth herein or in connection with the Aareal Bank Facility Agreement, Bank Hapoalim Credit Facility Agreement and/or Bank Hapoalim Victoria Monument Credit Facility Agreement.

7.8. PPH Shares

7.8.1. In agreeing to accept the PPH Shares Seller has relied only on publicly available information relating to PPHE Hotel and has not relied on any warranty or representation made by PPHE Hotel, or any of its directors, employees, agents or advisers, all the above, save for any expressly given in this Agreement.

7.8.2. Seller has consented to receiving information which would make it an "insider" for the purposes of Part V of the UK Criminal Justice Act 1993 (the "**CJA**") and Chapter 5.4. of the Dutch Act on the financial supervision (*Wet op het financieel toezicht*) and it is aware of, and has complied with, the obligations it has under the CJA and Chapter 5.4. of the Dutch Act on the financial supervision (*Wet op het financieel toezicht*) and section 118 of the UK Financial Services and Markets Act ("**FSMA**"), to the extent applicable to it in relation to PPHE Hotel and the PPH Shares.

7.8.3. Seller agrees to comply with any applicable rules and regulations of the LSE, the FSMA and any rules and regulations from the UK Financial Services Authority and the UKLA.

7.9. Taxes

7.9.1. All Tax due and payable, deducted, or withheld by any Seller Company prior to the date hereof has been paid or, to the extent should have been deducted or withheld, deducted or withheld. Sufficient provisions have been made for Tax in accordance with the relevant accounting principles applied and used in the Victory Enterprises and Amalfa Financial Statements and the Management Accounts.

7.9.2. Each Seller Company has duly, and within any appropriate time limits (including any extensions of filing obligations if applicable), made all material returns required to be made to all relevant Tax Authorities and all such returns were complete and accurate in all material respects.

7.9.3. No Seller Company is involved in any current dispute with any Tax authority or has in the last three years been the subject of any dispute with any Tax authority nor, as far as Seller is aware it subject to an investigation by any Tax authority or has been so in the last three years.

7.9.4. The Seller Companies are not registered for VAT purposes and none of the Seller Companies is or has been a member of a group of companies with any member of the Seller's Group for VAT purposes.

7.9.5. Save for the restructuring of Utrecht Hotel holding entity (e.g., the transformation thereof from a limited liability company to a partnership), in the current financial year and the previous five (5) financial years, no Seller Company has claimed or has been granted an exemption from Tax in connection with a reorganisation or a merger. A reorganisation or merger coming into effect before the Transfer Date will not give rise to the assessment or payment of Tax after the Transfer Date.

7.9.6. No Seller Company is subject to a special regime in relation to Tax.

7.9.7. All documents which may influence the Tax position of a Seller Company (including all agreements, rulings and compromises with a Tax Authority) have been fairly disclosed in the tax due diligence.

7.10. Information

To Seller's best knowledge, all information that is or reasonably could be relevant to the Buyer and/or PPHE Hotel in relation to Amalfa, Victory Enterprises, the Purchased Shares, the Subsidiary Interests of Amalfa and Victory Enterprises and the Intercompany Loan have been fairly disclosed to the Buyer and/or PPHE Hotel by (or on behalf of) the Seller.

7.11. Effectiveness; Survival

Each representation and warranty herein is deemed to be made on the date of this Agreement, at Closing and at the Transfer Date by Seller, save for the representations and warranties set forth in Sections 7.6.3 and 7.7.3 herein which will be deemed to be made on the date of this Agreement and at Closing and subject to any obligation and/or liability which shall be incurred by the Purchased Companies under the management of Buyer following the Closing. Each representation and warranty in this Section 7 (except for 7.5.1, 7.5.2, 7.5.3, 7.5.4 and 7.97.9) shall survive for a period of 24 months after the Closing. Each representation and warranty in Sections 7.5.1, 7.5.2, 7.5.3, 7.5.4 and 7.8 shall survive for a period of six months following the expiry of the applicable statute of limitations and in any event for not less than seven years after Closing.

8. **Disclaimer**

8.1. Each of PPHE Hotel and Buyer further represents to Seller that it acknowledges and confirms, and hereby waives any rights or claim it has or shall have in this respect, that other than the express representations set forth above the Purchased Shares are sold and transferred and the Intercompany Loan is sold and assigned "As Is", with no other representations and/or warranties whatsoever from the Seller, whether express or implied, including without limitation with respect to the Purchased Shares, Purchased Companies, Hotels, the Intercompany Loan, the business activity and financial status of the Purchased Companies and/or any indebtedness thereof than set out in this Agreement.

8.2. In this regard, it is further clarified and declared by PPHE Hotel and Buyer that PPHE Hotel, through its Affiliates and the PPHE Holding Subsidiaries:- (i) is a substantial shareholder of the Subsidiaries and Victoria Monument together with Seller; (ii) has appointed key officers at Victoria Monument, the Subsidiaries and the Hotels; (iii) has full transparency and access to all the information and documents that related to the Victoria Monument, the Subsidiaries and the Hotels; (iv) its representatives has joint signatory rights with respect to Victoria Monument and the Subsidiaries; (v) has designated representatives who are acting as Directors in the Board of Directors of Victoria Monument and the Subsidiaries; and (vi) is deeply involved in the day-to-day operation of Victoria Monument, the Subsidiaries and Hotels, is fully acquainted and well informed and updated with all the relevant data and information in all aspects relating to Victoria Monument, the Subsidiaries, and the Hotels, and save as set forth in Section 7, has no need for any further disclosure, representations and warranties.

9. **Indemnification**

9.1. Without prejudice to any other rights or remedies Buyer and PPHE Hotel may have under this Agreement or applicable law, subject, however, to Section 10 hereof and provided that all such remedies, either under this Agreement or by law, shall be alternative and not cumulative and in no event Buyer and/or PPHE Hotel shall be entitled to more than its actual direct damages (*vermogensschade*) as referred to in sections 6:95 and 6:96 DCC and Section 10 below, Seller hereby undertakes to indemnify and hold harmless (*vrijwaren en schadeloosstellen*) each of the Buyer and PPHE Hotel and their successors and permitted assigns (in accordance with this Agreement), Amalfa and Victory Enterprises, from and against all actions, claims, costs and expenses (including reasonable fees of legal and other advisors) for and in relation to:

9.1.1. any Tax liability of the Seller Companies and, to the extent allocable on a pro rata ownership basis, Victoria Hotel CV (so long as such Tax Liability is attributed to Seller Companies or its holdings in Victoria Hotel CV (direct and indirect)), as a result of any Event occurring before the Transfer Date, or with respect to any income, profits or gains which were earned, accrued or received before the Transfer Date, to the extent not provided for in the Amalfa and Victory Enterprises Financial Statements and/or Management Accounts;

9.1.2. any Tax liability which is primarily a liability of the Seller's Group, for which a Seller Company is held liable as a result of the failure by any member of the Seller's Group to pay the relevant Tax Liability pursuant to articles 39 and 43 of the Tax Collection Act 1990 (*Invorderingswet 1990*);

9.1.3. any set-off of any right of Buyer and/or its Affiliates to a repayment of Tax relating to the period after the Transfer Date, against a liability to Tax of any member of the Seller's Group pursuant to article 24 of the Tax Collection Act 1990 (*Invorderingswet 1990*);

9.1.4. in addition and without derogating from Section 9.1.1, any Tax liability which is primarily the liability of a third party not being a Purchased Company, one of the Subsidiaries, PPHE Hotel, PPHE Holding Subsidiary, Buyer and/or any Affiliate of PPHE Hotel, PPHE Holding Subsidiary and Buyer, for which a Seller Company is liable as a result of having entered into any agreement or arrangement on or before the Closing Date, to the extent not provided for in the Amalfa and Victory Enterprises Financial Statements and/or Management Account, including, but not limited to:

9.1.4.1. any such liability pursuant to sections 34 and 35 of the 1990 Tax Collection Act (*Invorderingswet 1990*); or

9.1.4.2. any such liability pursuant to a tax indemnity or tax sharing arrangement; and

9.1.5. any liability with respect to and/or in connection with the Astrid Activity, including any claim in connection with the sale and transfer of the Astrid Activity and the Reorganization.

9.1.6. any direct damages as referred to in sections 6:95 and 6:96 DCC in connection with any claim to be made by a creditor of the Seller Companies with respect to or in connection with the Seller Companies' non-compliance with section 2:408 DCC.

This indemnity also covers any financial loss to Amalfa and Victory Enterprises resulting from the joint and several liability with Seller for fiscal unity corporate income tax and VAT liabilities;

(all the above, collectively, "**Claim**").

9.2. Subject to the remaining provisions of this Section 9, a payment to be made by the Seller under this Section 9 shall be made by the earlier of:

9.2.1. on the date which is five (5) Business Days prior to the last date on which the payment of Tax may be made (subject to any right to object or appeal such Tax imposition) in order to avoid incurring a liability to interest or penalties; or

9.2.2. upon reaching a settlement agreement with the Tax authorities regarding such Tax imposition, in accordance with the terms of the settlement agreement; or

9.2.3. upon receiving a conclusive judgment from the competent judicial authority with respect to such Tax imposition, in accordance with provisions of the said judgment.

9.3. The Seller shall not be liable for any Claim unless the Seller receives from the Buyer written notice containing reasonable details of the Claim as soon as reasonably practicable after the date on which the Claim comes to the notice of the Buyer (and, in any event, in the case of a Claim which requires an appeal to be made against it or other action to be taken within a specified period of time, within three Business Days); provided, however, that the failure to so deliver a notice to the Seller shall not affect the Buyer and/or PPHE Hotel's right to indemnification hereunder, unless (and solely to the extent) the Seller's interests are actually and materially prejudiced thereby.

9.4. Within ten Business Days (and, in any event, in the case of a Claim which requires an appeal to be made against it or other action to be taken within a specified period of time, within three Business Days) from Buyer's aforementioned notice, Seller shall notify Buyer whether it elects to pay the Tax due, negotiate or challenge it. Should Seller elect to negotiate a settlement with the Tax authorities or to initiate legal proceedings to challenge it (e.g., appeal or take other legal action against it; a "**Tax Dispute**"), the following provisions shall apply:

9.4.1. The Parties shall appoint KPMG (the "**Tax Advisor**"; and if KPMG will be unable or shall not agree to be the Tax Advisor, than such other Person(s) as KPMG shall recommend out of which the Buyer shall elect the Tax Advisor to be nominated according to this Section 9) to handle and manage the care of the Tax Dispute. Should the Tax Advisor determine that the obtainment of a legal advice and/or initiation of legal proceedings is required or recommended, the Tax Advisor shall recommend on the appointment of the appropriate and suitable law firm to handle the legal aspects of the Tax Dispute, and the Parties shall appoint the law firm so recommended to represent the Purchased Companies as aforesaid, under the Tax Advisor's directions and supervision. Seller shall bear the fees, costs and expenses of the Tax Advisor and law firm so appointed.

9.4.2. The Parties shall fully cooperate and coordinate any decision required to be taken in the management and settlement of the Tax Dispute, bona-fide and in good faith.

9.4.3. In any event of dispute with respect to the handling or management of the Tax Dispute or a failure by the Parties to reach a mutual decision, position or strategy with respect to the Tax Dispute, the Tax Advisor shall decide on the subject matter in questions on an arm's length basis. The Tax Advisor shall act in the capacity of third party expert (and not arbitrator). The Tax Advisor shall prepare and submit its decision in writing to both Parties within 30 days from its appointment (or longer period if so agreed by both Parties, such agreement shall not be unreasonably denied or withheld). The Tax Advisor's decision shall be final and binding upon the Parties, except in the case of fraudulent act or willful misconduct.

9.4.4. Notwithstanding anything contained herein, neither Party (nor the Tax Advisor) shall take any position or action with respect to any Claim or Tax Dispute, that may result with any criminal or administrative indictment, sanction, penalty or liability by any authority, governmental body or tribunal, on the former, current or future directors and officers of the Purchased Companies or on the former, current or future directors and officers of the Parties or Elbit Group.

9.4.5. Neither the Buyer, PPHE Hotel, nor the Seller Companies shall be obliged to take any action in accordance with this Section 9.4, or make any settlement or compromise: (i) which is likely, in the opinion of the Buyer or the Seller Companies, to have a material adverse effect on the Tax liability of the Purchased Companies or involve or may result with any criminal or administrative indictment, sanction or penalty by any governmental body, (ii) unless where an appeal cannot be made without the Tax the subject of the Claim being paid to the relevant Tax authority, the Seller pays such amount to the applicable Tax authority, (iii) if the Seller is unable to pay its debts as they fall due, starts negotiations with creditors with a view to the general readjustment or rescheduling its indebtedness or other steps are taken or legal proceedings are started for its bankruptcy; or (iv) where action would constitute or involve providing any incorrect or misleading information or information which the Buyer or the Seller Companies consider, acting reasonably, after having consulted with the Seller and having had due regard to the comments of the Seller in relation to such correspondence, to be incorrect or misleading, in which case the Buyer shall be free to act at its discretion, acting reasonably, and the Seller shall be liable to indemnity the Buyer in accordance with this Section 9 and the provisions of Sections 9.4.1 to9.4.3 shall not apply.

9.5. The Seller or its duly authorised agent is responsible for the preparing, submitting, negotiating and agreeing with the relevant Tax authority, all Tax returns of each Seller Company for each accounting period ending on or before the Closing Date (the "**Pre-Closing Accounting Periods**").

9.6. In relation to any action as is referred to in Section 9.4 above, the Seller shall:

9.6.1. keep Buyer and PPHE Hotel fully informed of all matters relating thereto and deliver to the Buyer copies of all correspondence with Tax authorities relating thereto;

9.6.2. submit to Buyer and PPHE Hotel for approval (which approval shall not be unreasonably withheld or delayed) all correspondence and documents which it intends to submit to a Tax authority and take into account all such reasonable comments as the Buyer may make;

9.6.3. not submit to a Tax authority any such correspondence or documents, or agree any matter in relation to the Pre-Closing Accounting Periods without the prior written approval of the Buyer not to be unreasonably withheld or delayed and for the avoidance of doubt the Buyer's approval shall be deemed not to be unreasonably withheld where the Buyer reasonably considers that:

9.6.3.1. such documents or correspondence are not true, accurate and lawful; or

9.6.3.2. such documents, correspondence or agreement is reasonably likely to prejudice the amount of liability of a Seller Company in respect of Tax for which the Seller is not liable under this Agreement.

9.7. The Buyer shall provide or shall procure the provision of all access to such information and assistance which may reasonably be required by the Seller to prepare, submit and agree all Tax returns, in each case relating to the Pre-Closing Accounting Periods.

9.8. All payments made by the Seller under this Section 9 shall be made gross and without deduction of withholding Tax.

9.9. If a payment under Section 9 will be or has been subject to Tax, the Seller shall pay to the Buyer and PPHE Hotel the amount (after taking into account Tax payable in respect of the amount) that will ensure that the Buyer and PPHE Hotel receives and retains a net sum equal to the sum it would have received had the payment not been subject to Tax.

9.10. After the Closing, the Buyer and PPHE Hotel and the Seller shall make available to the other, as reasonably requested, all information, records or documents relating to the liability for Tax or potential liability of the Seller Companies for Tax for all periods prior to or including the Transfer Date and will preserve such information, records or documents until ninety (90) days after the expiration of any applicable statute of limitations or extensions thereof.

10. <u>Limitation of Liability</u>

10.1. Notwithstanding anything to the contrary in this Agreement, each Party (including PPHE Hotel as guarantor of Buyer and Elbit as guarantor of Seller) shall be liable solely and exclusively to direct damages (*vermogensschade*) as referred to in sections 6:95 and 6:96 DCC. In no event a Party to this Agreement (including PPHE Hotel as guarantor of Buyer and Elbit as guarantor of Seller) shall be liable, and indemnify the other Party (including Buyer and/or PPHE Hotel), for consequential, indirect, derived (*afgeleide*) or incidental damages or diminution in value or lost profits, and less any benefits as referred to in section 6:100 DCC, losses, deficiencies, liabilities, costs and expenses. Without limitation to the foregoing, the applicability of Title 1 Book 7 DCC, and section 6:228 DCC, are hereby specifically excluded.

10.2. In addition and without prejudicing the foregoing, the Seller shall not be liable in respect of a Seller Breach if and to the extent that such Seller Breach is attributable to, or arises or is increased as a result of any change in accounting policies or any change in legislation or regulations not in force at the date hereof.

11. <u>Closing and Consummation</u>

11.1. <u>Closing</u>

Subject to the satisfaction or waiver of each of the Closing Conditions set forth in Sections 11.2 (the waiver of which shall be at a mutual agreement by all Parties), 11.3 (the waiver of which shall be at Seller's sole discretion) and 11.4 (the waiver of which shall be at Buyer and PPHE Group's sole discretion), the acts and deeds set forth in Section 11.6 shall take place on a date which is two Business Days after the date of the satisfaction or waiver of any and all of the Closing Conditions or such other date agreed by the Parties (the "**Closing Date**"), which, subject to Section 14.1, is targeted to occur by no later than March 31, 2012, at such time and place as shall be mutually agreed. Each Party shall use its best efforts to cause the satisfaction of the Closing Conditions applicable to such Party prior to March 31, 2012.

11.2. Both Parties' Conditions for Closing

The Closing and the obligations of the Parties to consummate transactions set forth in Section 11.6, are subject to the fulfillment of the following conditions precedent, any one or more of which may be waived in whole or in part by all Parties, on or before the respective Closing Date:

11.2.1.1. Representations and Warranties. The representations and warranties made by each of the Parties in this Agreement and in each Ancillary Agreement to which it is a party shall have been true and correct when made, and shall be true and correct at Closing.

11.2.1.2. Performance of Covenants. All covenants, agreements, conditions contained in this Agreement and in the Ancillary Agreements, to be performed or complied with by each of the Parties prior to or at the Closing shall have been performed or complied with by such Party;

11.2.1.3. Legal Action. There shall not have been instituted or threatened any legal proceeding seeking to prohibit the consummation of the Transaction, and no Party hereto shall be prohibited by any law, regulation, order, writ, injunction or decree of any governmental body of competent jurisdiction from consummating the Transaction.

11.2.1.4. Consents, Approvals etc. All approvals for the consummation of the Transaction, including the approval of the Banks pursuant to their relevant Release and Consent shall have been obtained as of Closing including, without limitation, all consents and approvals required by agreement, operation of law and stock exchange regulations in any relevant jurisdiction or otherwise for the execution and delivery of all the Closing transactions stipulated in Section 11.6 hereof and the Post-Closing Events stipulated in Section 12 below (unless explicitly specified otherwise in the said Section 12).

11.2.1.5. Reorganization and Transfer of the Astrid Activity. Buyer and PPHE Hotel each acknowledge and agree that, with effect immediately prior to the Closing, Seller and Victory Enterprises shall transfer the Astrid Activity in its entirety, to Seller, and neither Astrid Activity nor Astrid Hotels shall be transferred to Buyer hereunder, and that the Reorganization shall be executed and perform with effect immediately prior to the Closing.

11.2.1.6. Bank Hapoalim Release and Consent. Seller, Buyer and PPHE Hotel shall have received the Bank Hapoalim Release and Consent.

11.3. Seller's Conditions for Closing

The closing and consummation of the transactions set forth in Section 11.6 and the obligations of Seller to consummate the Closing, are subject to the fulfillment of the following conditions precedent to Seller's sole satisfaction, any one or more of which may be waived in whole or in part by Seller, which waiver shall be at the sole discretion of Seller, on or before the respective Closing Date:

11.3.1.1. Delivery of Documents. All of the documents and items to be delivered to Buyer and PPHE Hotel pursuant to Sections 11.6.1 and 11.6.2 shall have been delivered in a form and substance reasonably satisfactory to Seller.

11.4. **PPHE Hotel and Buyer Closing Conditions**

The closing and consummation of the transactions set forth in Section 11.6 at the Closing, and the obligations of PPHE Hotel and Buyer to consummate the Closing are subject to the fulfillment of the following conditions precedent, any one or more of which may be waived in whole or in part by PPHE Hotel and Buyer, which waiver shall be at the sole discretion of the Buyer, at or before the Closing Date:

11.4.1.1. Delivery of Documents. All of the documents to be delivered by Seller pursuant to Sections 11.6.1 and 11.6.2 hereof shall have been delivered in a form and substance reasonably satisfactory to PPHE Hotel and Buyer.

11.4.1.2. Reorganization and Transfer of the Astrid Activity Buyer and PPHE Hotel shall have received evidence satisfactory to each of them that the Astrid Activity in its entirety, has been sold and transferred to Seller immediately prior to Closing, and that the Reorganization shall have been completed (subject to certain conditions subsequent that needs to be satisfied at or before the Transfer Date as set forth in the Reorganization documents, a copy of which shall be delivered to Buyer), without any representation, warranty, indemnification or any other obligation or liability of Victory Enterprises or any other Purchased Company or Subsidiary.

The Conditions set forth in Sections 11.2, 11.3 and 11.4, collectively, the "**Closing Conditions**".

11.5. Cooperation

Each of the Parties shall use its best efforts to cooperate with the other Party to perform any actions necessary to fulfill the Closing Conditions which it is required to fulfill as such conditions are aforementioned, as soon as possible after the execution of this Agreement, including the submission, response and filing of any regulatory forms, applications and information required of the applicable regulatory authorities for the consummation of the Transaction contemplated hereby.

11.6. **Acts and Deeds at Closing**

At the Closing, the acts and deeds set forth below shall take place, which acts and deeds shall be deemed to take place simultaneously and no act or deed by any Party shall be deemed to have been completed or any document delivered until all such acts and deeds have been completed and all required documents have been delivered:

11.6.1. At the Closing, the Parties shall:

11.6.1.1. Assignment and Assumption Agreement. Procure the duly execution of the Assignment and Assumption Agreement in the form set forth on **Schedule 3.2.2**;

11.6.1.2. Termination of Internal Reimbursement Agreements. The Parties shall cause the parties to the Internal Reimbursement Agreements to enter into the Internal Reimbursement Termination Agreements as set forth on **Schedule 3.5**.

11.6.1.3. Purchased Companies Board and Shareholder Resolutions. Duly and validly execute board and shareholder resolutions of each of the Purchased Companies in the forms attached hereto as **Schedules 11.6.1.3(a)–(f)** authorizing, *inter alia*, the assignment and transfer of the Intercompany Loans, the resignation and discharge of the directors appointed by Seller, and the appointment of new directors as designated by Buyer, to the boards of directors of each of the Purchased Companies, and the sale and transfer of the Purchased Shares to Buyer; and

11.6.1.4. Dutch Powers of Attorney. Each of Buyer and Seller shall duly execute a Dutch power of attorney to authorize the Notary to execute the Transfer Deed, in substantially the form attached as **Schedule 11.6.1.4** hereof (the **"Dutch Powers of Attorney"**).

11.6.1.5. Notary Letter. Each of Buyer and Seller shall duly execute a notary letter which shall set forth the authorization and instructions to the Notary to use the Dutch Powers of Attorney and execute the Transfer Deed and to deliver the Cash Payment in terms of the provisions of Section 12.1 hereof, in substantially the form attached as **Schedule 11.6.1.5** hereof (the **"Notary Letter"**).

11.6.1.6. Board and Shareholder Resolutions of Parties Terminating the Internal Reimbursement Agreements. Cause the parties terminating the Internal Reimbursement Agreements to duly and validly execute board and shareholder resolutions of each of such entities in the forms attached hereto as **Schedules 11.6.1.6(1)–(16)** authorizing, *inter alia*, the termination of the Internal Reimbursement Agreements and the consent to the Transaction.

11.6.1.7. Buyer Board and Shareholder Resolutions. Buyer shall deliver to Seller true and correct copies of the duly and validly executed resolutions of the Buyer's board of directors and the Buyer's shareholder(s) in the form attached hereto as **Schedule 11.6.1.7(a)** and **Schedule 11.6.1.7(b)**, each authorizing, inter alia, the consummation of the Transaction by Buyer and the Buyer's execution, delivery and performance of this Agreement, including the Ancillary Agreements;

11.6.1.8. PPHE Hotel Board Resolutions. PPHE Hotel shall deliver to Seller a true and correct copy of the duly and validly executed resolutions of PPHE Hotel's board committee in the form attached hereto as **Schedule 11.6.1.8** authorizing, *inter alia*, the consummation of the Transaction by PPHE Hotel subject to the terms and conditions hereof, the execution and delivery of, and the performance by PPHE Hotel of this Agreement, including the Ancillary Agreements, including specifically, the Deed of Guarantee;

11.6.1.9. Shareholder's Waiver. PPHE Hotel shall cause the PPHE Holding Subsidiary which is the direct shareholder of Victoria Monument, to execute and deliver to Seller, in respect of art'otel amsterdam: a shareholders' resolution pertaining to compliance with the statutory share transfer restrictions of Victoria Monument in respect of the transfer of shares in such Purchased Company, in the form attached hereto as **Schedule 11.6.1.9**;

11.6.1.10. PPHE Deed of Guarantee. PPHE Hotel shall deliver to Seller the duly executed PPHE Deed of Guarantee;

11.6.1.11. Additional Documents. Deliver to Seller all other documents reasonably requested by Seller in order to consummate the transactions set out in this Section 11.6.1 as contemplated hereby.

11.6.2. At the Closing Seller shall:

11.6.2.1. Seller's Board and Shareholder Resolutions. Deliver PPHE Hotel and Buyer true and correct copies of the resolutions of Seller's board of directors and shareholders in the forms attached hereto as **Schedule** 11.6.2.1, authorizing *inter alia*, the consummation of the Transaction by Seller subject to the terms and conditions hereof, the execution delivery and performance by Seller of this Agreement, including the Ancillary Agreements, and the transfer and sale of the Purchased Shares and the assignment and transfer of the Intercompany Loan to Buyer;

11.6.2.2. Confirmation of No Indebtedness. Deliver to the Buyer and PPHE Hotel a confirmation in the form attached here as **Schedule 11.6.2.2** that, following execution of the Ancillary Documents, as at the Closing Date and the Transfer Date:

11.6.2.2.1. There are no subsisting guarantees, indemnities or similar arrangements given by the Purchased Companies or their Subsidiaries in favour of the Seller's Group;

11.6.2.2.2. That neither the Seller nor the other members of the Seller's Group are indebted to the Purchased Companies or any of their Subsidiaries;

11.6.2.2.3. There are no amounts owing to the Seller's Group by the Purchased Companies and/or any of their Subsidiaries; and

11.6.2.2.4. To the extent that there are any such guarantees, indemnities, similar arrangements, indebtedness or other amounts, the Seller (for itself and for each of member of the Seller's Group) hereby irrevocably and unconditionally (i) waive any liability of the Purchased Companies and their Subsidiaries in respect of the same, and (ii) release each of the Purchased Companies and their Subsidiaries from any liabilities in respect thereof.

11.6.2.3. Elbit Deed of Guarantee. Seller shall procure that Elbit delivers to Buyer and PPHE Hotel the duly executed Elbit Deed of Guarantee.

11.6.2.4. Additional Documents. All other documents reasonably requested by Buyer and/or PPHE Hotel in order to consummate the transactions set out in this Section 11.6.2 as contemplated hereby.

11.7. The Parties shall take such additional steps and perform such additional acts as are required or mandated by operation of applicable law so as to ensure that each of the Closing transactions are properly performed and that such transactions are properly and finally consummated in accordance with the intention of the Parties. In particular, and without prejudicing the above, PPHE Hotel and Buyer shall comply with the requests of, and shall assure the receipt of approvals from, the regulatory authorities, and PPHE Hotel, Buyer and Seller shall comply with the requests of Bank Hapoalim, and Aareal Bank, as shall be required to fulfill and complete the above transactions as set forth above.

12. **Post-Closing Events**

12.1. Transfer Date

12.1.1. Subject to the satisfaction or waiver of each of the Transfer Conditions set forth in Section 12.1.3, the acts and deeds set forth in Section 12.1.4 shall take place on a date which is two Business Days after the date of the satisfaction of all of the Transfer Conditions or such other date agreed by the Parties (the "**Transfer Date**"), at the offices of the Notary or at such place as shall be mutually agreed. Each of the Seller, Buyer and PPHE Hotel shall use its reasonable commercial efforts to cause the satisfaction of the Transfer Conditions prior to April 30, 2012, provided however that should the Transfer Conditions will not be satisfied as of such date, the aforementioned date shall be automatically postponed to May 15, 2012 (subject to further agreed extensions).

12.1.2. The closing and consummation of the acts and deeds set forth in Section 12.1.412.1.4 at the Transfer Date, and the obligations of PPHE Hotel and Buyer to consummate such acts and deeds, are subject to the fulfillment of the following Transfer Conditions, any one or more of which may be waived in whole or in part by PPHE Hotel and Buyer, which waiver shall be at the sole discretion of PPHE Hotel and Buyer , at or before the Transfer Date: (i) Aareal Bank Release and Consent. Buyer and PPHE Hotel shall have received the Aareal Bank Release and Consent in form and substance satisfactory to Buyer and PPHE Hotel at their reasonable discretion; (ii) Evidence confirming the Release of Bank Hapoalim Pledges. Seller and PPHE Hotel shall have received evidence satisfactory to each of them that the Bank Hapoalim Pledges have been fully and finally released (subject to the Continuing Encumbrances which as and from the Transfer Date shall apply to Buyer); (iii) Bank Hapoalim Release of the Elbit VM Guarantees. the Bank Hapoalim Release of the Elbit VM Guarantees that has been received by Seller, is satisfactory to Buyer and PPHE Hotel at their reasonable discretion; (iv) the Closing shall have occurred; and (v) Legal Action. There shall not have been any law, regulation, order, writ, injunction or decree of any governmental body of competent jurisdiction and there shall not have been instituted or threatened any legal proceeding seeking to prohibit the performance of the acts and deeds set forth in Section 12.1.4 hereof.

12.1.3. The closing and consummation of the acts and deeds set forth in Section 12.1.412.1.4 at the Transfer Date, and the obligations of Seller to consummate such acts and deeds, are subject to the fulfillment of the following Transfer Conditions, any one or more of which may be waived in whole or in part by Seller, which waiver shall be at the sole discretion of Seller, at or before the Transfer Date: (i) Aareal Bank Release and Consent. Seller and PPHE Hotel shall have received the Aareal Bank Release and Consent in form and substance satisfactory to Seller at its reasonable discretion; (ii) Bank Hapoalim Release of the Elbit VM Guarantees. Seller shall have received the Bank Hapoalim Release of the Elbit VM Guarantees in form and substance satisfactory to Seller at its sole discretion; (iii) the Closing shall have occurred; and (iv) Legal Action. There shall not have been any law, regulation, order, writ, injunction or decree of any governmental body of competent jurisdiction and there shall not have been instituted or threatened any legal proceeding seeking to prohibit the performance of the acts and deeds set forth in Section 12.1.412.1.4 hereof.

(the preconditions set forth in Sections 12.1.2 and 12.1.3 above, shall be referred to herein, collectively, as the "**Transfer Conditions**").

12.1.4. At the Transfer Date PPHE Hotel and/or the Buyer shall:

12.1.4.1. pay the Cash Payment in immediately available funds by wire transfer into the Notary Third Party Account, following which the Notary is hereby irrevocably instructed, by both Parties and in accordance with the Dutch Powers of Attorney, to execute the Deed of Transfer and transfer the Purchased Shares to the Buyer.

12.1.4.2. Issuance of PPH Shares. Simultaneously with the Cash Payment in accordance with clause 12.1.4.1, PPHE Hotel shall issue and allot to Seller the PPH Shares credited as fully paid up and shall: (i) procure that Capita registers the PPH Shares on that date in uncertificated form at the CREST system (i.e. in an electronic registration through Capita as PPHE Hotel's CREST registration agent) to the CREST nominee account designated by Seller in writing prior to the Transfer Date as the nominee account through which Seller shall hold the PPH Shares (the "**Seller Nominee Account**"); (ii) procure that the PPH Shares are on that date admitted to listing on the Official List and to trading on the Main Market of the LSE ("**Admission**"); and (iii) provide Seller on that date with a written confirmation that all of the PPH Shares have been allotted and issued to Seller credited as fully paid up, pari passu with the other ordinary shares of PPH and registered in the name of the Seller Nominee Account (through CREST) and that Admission has taken place, in accordance with the provisions of this Agreement.

12.1.5. The Parties shall take such additional steps and perform such additional acts as are required or mandated by operation of applicable law so as to ensure that each of the Transfer Date acts and deeds are properly performed and that the Transaction is properly and finally consummated in accordance with the intention of the Parties, the Purchased Shares are transferred to the Buyer and the Consideration is fully paid or tendered to Seller.

12.2. Delivery of Financial Statements.

12.2.1. For the purpose of preparing Elbit's consolidated financial statements, no later than 45 days as from the Closing Date, PPHE Hotel and Buyer shall deliver to Seller reviewed financial statements of Victoria Monument and each of the Subsidiaries for the financial quarter ending as of March 31, 2012.

12.2.2. The Seller shall provide the Seller Companies with an opening balance sheet for Dutch corporate income tax purposes as from the fiscal unity dissolution date.

12.3. Filings and Corporate Actions

12.3.1. PPHE Hotel shall, immediately after the Transfer Date, make all filings and reports, and make all the registrations, relating to the sale and issuance of the PPH Shares at the name of Seller (or Elbit, as Seller shall direct) as the lawful and beneficial owner thereof, and the registration of the PPH Shares for trading at the LSE, as required under all applicable laws and stock exchange regulations.

12.3.2. Seller and each of the Purchased Companies shall, immediately after the Transfer Date, make all filings and reports, and make all the registrations, relating to the sale and transfer of the Purchased Shares at the name of Buyer as the lawful and beneficial owner thereof, as required under all applicable laws.

12.4. Delivery of Books and Records.

Seller shall deliver to the address of Buyer (which will be at that moment the address of Victory Enterprises and Amalfa) all books and records (including, without limitation, copies of tax returns, financial statements, minutes of shareholders meetings and such other statutory documents) of Victory Enterprises and Amalfa which are at its possession.

13. **Taxation**

All Taxes, impositions and other duties whatsoever that shall be due as a result of and/or in connection with this Agreement and/or the Transaction contemplated herein (if any), shall be borne and paid by the Party obliged to pay same in accordance with the applicable law, unless specified otherwise.

14. **Term & Termination**

14.1. This Agreement shall become effective upon the execution thereof by all Parties hereto.

14.2. In the event that, prior to the completion of the Transfer in accordance with Section 12.1.4, despite the Parties' reasonable commercial efforts to satisfy the Transfer Conditions, such Transfer shall not have taken place or been completed by May 31, 2012 (the "**Long Stop Date**"), subject to agreed extensions, then, the Buyer shall be entitled, but not obliged, to terminate this Agreement by written notice to the Seller, effective immediately, with no further obligations to either Party and without sanction, penalty or other adverse consequence.

14.3. Notwithstanding anything to the contrary, Seller shall be entitled to terminate this Agreement (including the Ancillary Agreements):-

14.3.1. the Transfer Conditions shall not have been satisfied by the Long Stop Date;

14.3.2. prior to the Transfer Date – if PPHE Hotels and/or Buyer becomes insolvent or admits in writing its inability to pay its debts as they mature, or applies for, consents to or acquiesces in the appointment of a trustee or receiver or liquidator (or any analogue officer) for such entity or any property thereof; or, in the absence of such application, consent or acquiescence, a trustee or receiver or liquidator (or any analogue officer) is appointed for such entity or for a substantial part of the property thereof and is not discharged within 90 (ninety) days; or, any bankruptcy, insolvency or other proceeding under any bankruptcy or insolvency law is instituted by or brought against such entity, and if instituted against such entity is consented to or acquiesced in by the Company or remains for 90 (ninety) days undismissed; or such entity shall commence winding-up by reason of insolvency or shall make assignment for the benefit of creditors; and

14.3.3. if Buyer shall fail to pay the Cash Payment and allot the PPH Shares in accordance with the terms of this Agreement at or before the Long Stop Date.

14.4. Effect of Termination. Termination by either Party of this Agreement in terms of Section 14.2 or 14.3 above shall be without sanction or penalty or other adverse consequence to either Party. Upon termination of this Agreement, the Assignment and Assumption Agreement, the PPHE Deed of Guarantee, the Elbit Deed of Guarantee and the Internal Reimbursement Termination Agreements that have been signed at Closing shall automatically be terminated and shall be deemed not to have been entered into.

14.5. No right to rescind or nullify Agreement following the Transfer Date

To the extent permitted by law, the Parties hereby waive their rights, if any, upon the completion of the acts and deeds set forth in Section 12.1hereof at the Transfer Date and subject to their occurrence, to annul, rescind or nullify, in whole or in part (*gehele danwel partiële ontbinding en vernietiging*), or to demand in legal proceedings the rescission (*ontbinding*) in whole or in part, or nullification (*vernietiging*) of, this Agreement, whether on the basis of error (*dwaling*) or otherwise, or to cancel or terminate (*opzeggen*) this Agreement.

15. **Miscellaneous**

15.1. Further Assurances

Each of the Parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

15.2. Governing Law; Jurisdiction

15.2.1. This Agreement shall be governed by and construed according to the laws of the Netherlands.

15.2.2. Unless explicitly agreed otherwise, any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be one. The seat, or legal place, of arbitration shall be Amsterdam, the Netherlands. The language to be used in the arbitral proceedings shall be the English language. The governing law of the Agreement shall be the substantive law of the Netherlands. The Parties shall be bound by the decision of the arbitrator, whose decision shall be final and enforceable in any court of competent jurisdiction. The arbitrator shall be bound by Section 10 (Limitation of Liability) above and accordingly, shall not be empowered to award punitive or consequential damages to either Party, as set forth therein. The arbitrator's judgment shall be surrendered in writing in English and the arbitrator shall have to reason his/her award.

15.3. Successors and Assigns; Assignment

Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the Parties hereto. None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred without the prior consent in writing of each Party to this Agreement, with the exception of assignment by Seller of its right to receive the Cash Payment and Remaining Cash Payment from Buyer.

Notwithstanding the foregoing, Buyer may grant a security interest in any of its rights under this Agreement in whole or in part to any other Person who shall (i) be a reputable bank or financial institution; and (ii) finance the Consideration or any part thereof (the "**Buyer's Financing Assignee**"). The Parties acknowledge and agree that if the Buyer grants a security interest in any of its rights under this Agreement in whole or in part to such Buyer's Financing Assignee, the Seller (and Elbit as its guarantor) shall be under no greater obligation or liability thereby than if such security interest had never been granted and the amount of loss or damage recoverable by the Buyer's Financing Assignee shall be calculated as if that Person was originally named as the Buyer in this Agreement (and, in particular the amount of loss or damage recoverable by the Buyer's Financing Assignee shall not exceed the sum which would have been recoverable hereunder by the Buyer in respect of the relevant fact, matter or circumstance).

15.4. Entire Agreement; Amendment and Waiver

15.4.1. This Agreement, the Ancillary Agreements and the Schedules and Exhibits hereto constitute the full and entire understanding and agreement between the Parties with regard to the subject matters hereof and thereof. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of all of the Parties to this Agreement.

15.4.2. The Schedules and Exhibits to this Agreement are an integral part hereof and shall be in full force and effect as provisions of this Agreement.

15.5. Notices

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing in the English or Hebrew languages and shall be mailed by registered mail, by fax or otherwise delivered by hand or by messenger, and shall be addressed to the respective Party as follows (or at such other address as the Party shall notify each other Party in writing as herein provided):

To PPHE Hotel and Buyer:

PPHE Hotel Group Ltd.
1st and 2nd Floors, Elizabeth House
Les Ruettes Brayes
St. Peter Port
Guernsey GY1 1EW
Channel Islands

With a copy to:

Mr. Boris Ivesha, President & CEO
12 David Mews
London
WIU 6EG, UK

And

Mr. Chen Moravsky, CFO
Vinoly Tower, 5th floor
Claude Debussylaan 14
1082 MD Amsterdam
The Netherlands

To Seller: **B.E.A. Hotels, N.V.**
Keizersgracht 241, EA1016 Amsterdam
the Netherlands

With a copy to:

Elbit Imaging Ltd.
2 Weitzman Street,
Tel Aviv 64239, Israel
Attention: Mr. Zvi Maayan, Adv.
Tel No.: 03-6086019
Fax No.: 03-6086050
Email: zvim@elbitimaging.com
And to the attention of:
Mr. Doron Moshe, CFO
Email: doronm@elbitimaging.com

Any notice sent in accordance with this Section shall be effective - (a) if mailed, fourteen (14) Business Days after mailing; (b) if by fax, together with a confirmation of such transmission, ; and (c) if sent by messenger, upon delivery.

Notwithstanding anything to the contrary above, any notice of change of address shall only be valid upon receipt.

15.6. Delays or Omissions

No delay or omission to exercise any right, power, or remedy accruing to any Party upon any breach or default under this Agreement, shall be deemed a waiver of any rights, powers or remedies accruing in connection with any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any Party of any breach or default under this Agreement, or any waiver on the part of any Party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless where explicitly specified otherwise in this Agreement, all remedies, either under this Agreement or by law or otherwise afforded to any of the Parties, shall be cumulative and not alternative.

15.7. Severability

If any provision of this Agreement shall be found or be held to be invalid or unenforceable, the meaning of such provision shall be construed, to the extent feasible, so as to render the provision enforceable, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Agreement, which shall remain in full force and effect unless the severed provision is essential and material to the rights or benefits received by any Party hereto. In such event, the Parties shall use their best efforts to negotiate in good faith, a substitute, valid and enforceable provision or agreement which most nearly effectuates the Parties' intent in entering into this Agreement.

15.8. Confidentiality

15.8.1. The terms and conditions of this Agreement and the transactions described herein, including the existence hereof and thereof, shall be confidential information and shall not be disclosed to any third party except as required by applicable law and stock exchange regulation and other than to such Party's advisors or employees on a need to know basis and provided such Persons are already bound or agree to be bound by similar confidentiality provisions.

This confidentiality obligation shall not apply to information which the Parties lawfully received from third parties or which is in the public domain. Each of the Parties hereby acknowledge that PPHE Hotel and Elbit are publicly traded companies and are therefore subject to reporting liabilities under securities laws and regulations and that such mandatory disclosure shall not be deemed as a breach of the aforementioned confidentiality obligation by the reporting party. In the event of a disclosure required by law other than securities laws and regulations, the disclosing party shall use all reasonable efforts to obtain confidential treatment of materials so disclosed and to timely coordinate all such reports and filings (both scope and substance) with the other Party to this Agreement.

15.9. Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and enforceable against the Parties actually executing such counterpart, and all of which together shall constitute one and the same instrument.

[Intentionally left blank]

IN WITNESS WHEREOF the parties have signed this Share Purchase Agreement as of the date first hereinabove set forth:

B.E.A. Hotels N.V.

By: Doron Moshe
Title:____________________
Signature: /s/ Doron Moshe
and
By: Zvi Maavan
Title:____________________
Signature: /s/ Zvi Maavan

PPHE Hotel Group Limited

By: Nigel Jones
Title: /s/ Director
Signature: /s/ Nigel Jones
and
By: K. McAuliffe
Title: Director
Signature: /s/ K. McAuliffe

PPHE Netherlands B.V.

By: Euro Sea Hotels N.V.
Title:Director
Signature:/s/ Chen Carlos Moravsky
and
By: ____________________
Title: ____________________
Signature: ______________

Exhibit A

Seller's Shareholdings in Purchased Companies

1. 5,000 ordinary shares (nominal value per share NLG 100), numbered 1 through 5,000, issued and paid up in the share capital of Victory Enterprises II B.V.
2. 18,000 ordinary shares (nominal value per share EUR 1), numbered 1 through 18,000, issued and paid up in the share capital of Amalfa Investments B.V.
3. 9,000 Ordinary shares (nominal value per share EUR 1), numbered 9,001 through 18,000, issued and paid up in the share capital of Victoria Monument B.V.
4. Following the transfer of the Astrid Activity, Victory Enterprises and Amalfa are the shareholders and lawful owners of the legal entities as set forth in the following holdings chart, with the holding percentage as set forth therein:

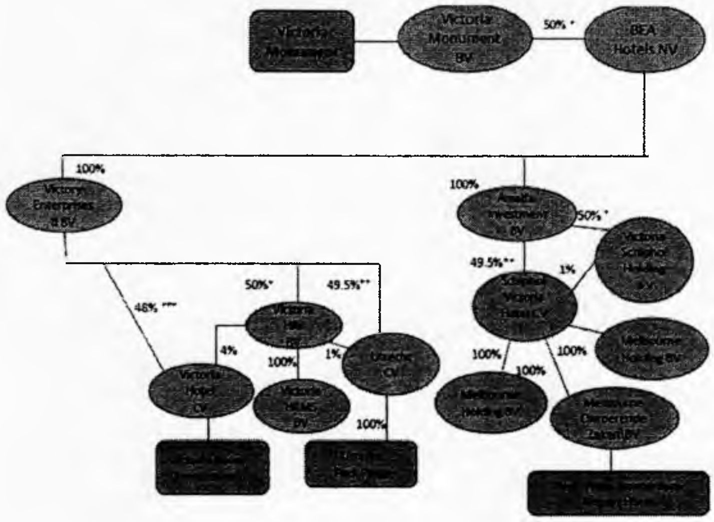
Victoria Monument BV
50% *
BEA Hotels NV
100%
100%
50% *
49.5%**
1%
48% ***
50%*
49.5%**
4%
100%
1%
100%
100%
100%
100%
Victoria Hotel CV
Utrecht CV

Exhibit B

Intercompany Loan

As set forth in the Assignment and Assumption Agreement

Schedule 4.2

PPHE Deed of Guarantee

In consideration of, and as an inducement to, the execution of the above Share Purchase Agreement, we the undersigned, **PPHE Hotel Group Limited** ("**PPHE Hotel**" or "**Guarantor**"), hereby irrevocably and unconditionally executing this deed and hereby guarantees to **B.E.A. Hotels N.V.**, its successors and assigns ("**Seller**"), the fulfillment of **PPHE Netherlands B.V.**'s ("**Buyer**") representations, warranties, obligations and undertakings under the above Share Purchase Agreement dated March 30, 2012, entered into by all such parties in connection with the sale and transfer of all of Seller's shareholdings to Buyer in Victory Enterprises, Amalfa and Victoria Monument, and the transfer and assignment of the Intercompany Loan (which share purchase agreement shall include all Ancillary Agreements relating hereto, including, without limitation, the Assignment and Assumption Agreement, as defined in such agreement, as may be amended by the Parties from time to time; collectively, the "**Agreement**"). Capitalized terms used in this Deed of Guarantee and not otherwise defined herein shall have the respective meanings ascribed to them in the Agreement.

Guarantor consents and agrees that: (1) this Guarantee is a direct and immediate liability of Guarantor; (2) this liability will not be contingent or conditioned upon Seller's pursuit of any remedies against Buyer or any other party; (3) unless expressly specified otherwise in writing, this liability will not be diminished, relieved, or otherwise affected by any extension of time, credit, or other indulgence which Seller may from time to time grant to Buyer or to any other party, including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which will in any way modify or amend this Deed of Guarantee, which will be continuing and irrevocable for so long as any performance is or might be owed under the Agreement by Buyer, and for so long as Seller have any cause of action against Buyer; (4) this Deed of Guarantee will enter into force at the Transfer Date upon the consummation of the acts and deeds set forth in Section 12.1.4 of the Agreement, and will continue in full force and effect for (and as to) any extension or modification of the Agreement and despite any transfer of any interest in the Agreement or Buyer in accordance with the Agreement. If and in the event that the Transfer Conditions shall not be satisfied or waived at or before the Long Stop Date and the Agreement is terminated by either party, and consequently, the acts and deeds set forth in Section 12.1.4 of the Agreement shall not take place as of such date, than this Deed of Guarantee shall automatically be terminated and be deemed not to have been entered into; and (5) Guarantor waives notice of any and all renewals, extensions, modifications, amendments, or transfers.

Guarantor waives: (i) all rights to payments and claims for reimbursement or subrogation which it may have against Seller arising as a result (and only as a result) of its execution of and performance under this Deed of Guarantee; and (ii) notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed, protest and notice of default to Buyer or any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed, and any other notices to which Guarantor may be entitled.

Accordingly, Seller shall be entitled to take all steps to realize its rights under the Agreement, in whole or in part, from Guarantor independently from any other right or proceeding vis-à-vis Buyer, as if Guarantor was a party to such representations, warranties, obligations and undertakings instead of Buyer. Additionally, Seller shall have no requirement to seek or exhaust remedies from Buyer prior or as a precondition to seeking remedy and relief from Guarantor, and Guarantor hereby irrevocably waives any right or remedy available to guarantors under any law at any jurisdiction, requiring a creditor to initiate proceedings and/or exhaust remedies from a debtor prior or as a precondition to the pursue of remedies from a guarantor, if and to the extent such law applies to Guarantor's undertakings hereunder.

Governing Law; Jurisdiction. This Guarantee shall be governed by and construed according to the laws of the Netherlands. Unless explicitly agreed otherwise, any dispute arising out of or in connection with this Guarantee, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be one. The seat, or legal place, of arbitration shall be Amsterdam, the Netherlands. The language to be used in the arbitral proceedings shall be the English language. The governing law of the Guarantee shall be the substantive law of the Netherlands. The parties shall be bound by the decision of the arbitrator, whose decision shall be final and enforceable in any court of competent jurisdiction. The arbitrator shall be bound by Section 10 (Limitation of Liability) of the Agreement and accordingly, shall not be empowered to award punitive or consequential damages to either party, as set forth therein. The arbitrator's judgment shall be surrendered in writing in English and the arbitrator shall have to reason his/her award. Notwithstanding the foregoing, if Guarantor is alleged to have breached this Guarantee, and the alleged breach is likely to result in irreparable injury and/or continuing damage to the Seller for which there will be no other adequate remedy at law, then the Seller shall be entitled to seek injunctive relief or any other interim remedy from any court of competent jurisdiction.

Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto. None of the rights, privileges, or obligations set forth in, arising under, or created by this Guarantee may be assigned or transferred without the prior consent in writing of each party to this Guarantee, with the exception of assignments and transfers from Seller to any of its Affiliates permitted under the Agreement.

Amendment and Waiver. Any term of this Guarantee may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of all of the parties to this Guarantee.

Notices. All notices and other communications required or permitted hereunder to be given to a party to this Guarantee shall be in writing in the English or Hebrew languages and shall be mailed by registered mail, by fax or otherwise delivered by hand or by messenger, and shall be addressed to the respective party as follows (or at such other address as the Party shall notify each other Party in writing as herein provided):

To PPHE Hotel:

PPHE Hotel Group Ltd., 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes

St. Peter Port, Guernsey GY1 1EW, Channel Islands

With a copy to:

Mr. Boris Ivesha, President & CEO, 12 David Mews, London,W1U 6EG, UK

And Mr. Chen Moravsky, CFO, Vinoly Tower, 5th floor, Claude Debussylaan 14, 1082 MD Amsterdam, The Netherlands

To Seller:

B.E.A. Hotels, N.V., Keizersgracht 241, EA1016 Amsterdam, the Netherlands

With a copy to:

Elbit Imaging Ltd., 2 Weitzman Street, Tel Aviv 64239, Israel

Attention: Mr. Zvi Maayan, Adv., Tel No.: 03-6086019, Fax No.: 03-6086050, Email: zvim@elbitimaging.com

And to the attention of: Mr. Doron Moshe, CFO,

Email: doronm@elbitimaging.com

Any notice sent in accordance with this Section shall be effective - (a) if mailed, fourteen (14) Business Days after mailing; (b) if by fax, together with a confirmation of such transmission, ; and (c) if sent by messenger, upon delivery. Notwithstanding anything to the contrary above, any notice of change of address shall only be valid upon receipt.

Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Guarantee, shall be deemed a waiver of any rights, powers or remedies accruing in connection with any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Guarantee, or any waiver on the part of any party of any provisions or conditions of this Guarantee, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless where explicitly specified otherwise in the agreement or in this Guarantee, all remedies, either under this Guarantee or by law or otherwise afforded to any of the Parties, shall be cumulative and not alternative.

Severability. If any provision of this Guarantee shall be found or be held to be invalid or unenforceable, the meaning of such provision shall be construed, to the extent feasible, so as to render the provision enforceable, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Guarantee, which shall remain in full force and effect unless the severed provision is essential and material to the rights or benefits received by any party hereto. In such event, the parties shall use their best efforts to negotiate in good faith, a substitute, valid and enforceable provision or agreement which most nearly effectuates the parties' intent in entering into this Guarantee.

Signed as a deed by PPHE Hotel Group Limited acting by ___________
[NAME OF AUTHORISED SIGNATORY] and ___________ [NAME OF AUTHORISED SIGNATORY]

____
Authorized signatory

____
Authorized signatory

Schedule 4.3

Elbit Deed of Guarantee

In consideration of, and as an inducement to, the execution of the above Share Purchase Agreement, we the undersigned, **Elbit Imaging Limited** ("**Elbit**" or "**Guarantor**"), hereby irrevocably and unconditionally executing this deed and hereby guarantees to **PPHE Netherlands B.V.**, its successors and assigns ("**Buyer**"), the fulfillment of **B.E.A. Hotels N.V.**'s ("**Seller**") representations, warranties, obligations and undertakings under the above Share Purchase Agreement dated March 30, 2012, entered into by all such parties in connection with the sale and transfer of all of Seller's shareholdings to Buyer in Victory Enterprises, Amalfa and Victoria Monument, and the transfer and assignment of the Intercompany Loan (which share purchase agreement shall include all Ancillary Agreements relating hereto, including, without limitation, the Assignment and Assumption Agreement, as defined in such agreement, as may be amended by the Parties from time to time; collectively, the "**Agreement**"). Capitalized terms used in this Deed of Guarantee and not otherwise defined herein shall have the respective meanings ascribed to them in the Agreement.

Guarantor consents and agrees that: (1) this Guarantee is a direct and immediate liability of Guarantor; (2) this liability will not be contingent or conditioned upon Buyer's pursuit of any remedies against Seller or any other party; (3) unless expressly specified otherwise in writing, this liability will not be diminished, relieved, or otherwise affected by any extension of time, credit, or other indulgence which Buyer may from time to time grant to Seller or to any other party, including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which will in any way modify or amend this Deed of Guarantee, which will be continuing and irrevocable for so long as any performance is or might be owed under the Agreement by Seller, and for so long as Buyer have any cause of action against Seller; (4) this Deed of Guarantee will enter into force at the Transfer Date upon the consummation of the acts and deeds set forth in Section 12.1.4 of the Agreement, and will continue in full force and effect for (and as to) any extension or modification of the Agreement and despite any transfer of any interest in the Agreement or Seller in accordance with the Agreement. If and in the event that the Transfer Conditions shall not be satisfied or waived at or before the Long Stop Date, and consequently, the acts and deeds set forth in Section 12.1.4 of the Agreement shall not take place as of such date and the Agreement is terminated by either party thereto, than this Deed of Guarantee shall automatically be terminated and be deemed not to have been entered into; and (5) Guarantor waives notice of any and all renewals, extensions, modifications, amendments, or transfers.

Guarantor waives: (i) all rights to payments and claims for reimbursement or subrogation which it may have against Buyer arising as a result (and only as a result) of its execution of and performance under this Deed of Guarantee; and (ii) notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed, protest and notice of default to Seller or any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed, and any other notices to which Guarantor may be entitled.

Accordingly, Buyer shall be entitled to take all steps to realize its rights under the Agreement, in whole or in part, from Guarantor independently from any other right or proceeding vis-à-vis Seller, as if Guarantor was a party to such representations, warranties, obligations and undertakings instead of Seller. Additionally, Buyer shall have no requirement to seek or exhaust remedies from Seller prior or as a precondition to seeking remedy and relief from Guarantor, and Guarantor hereby irrevocably waives any right or remedy available to guarantors under any law at any jurisdiction, requiring a creditor to initiate proceedings and/or exhaust remedies from a debtor prior or as a precondition to the pursue of remedies from a guarantor, if and to the extent such law applies to Guarantor's undertakings hereunder.

Governing Law; Jurisdiction. This Guarantee shall be governed by and construed according to the laws of the Netherlands. Unless explicitly agreed otherwise, any dispute arising out of or in connection with this Guarantee, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be one. The seat, or legal place, of arbitration shall be Amsterdam, the Netherlands. The language to be used in the arbitral proceedings shall be the English language. The governing law of the Guarantee shall be the substantive law of the Netherlands. The parties shall be bound by the decision of the arbitrator, whose decision shall be final and enforceable in any court of competent jurisdiction. The arbitrator shall be bound by Section 10 (Limitation of Liability) of the Agreement and accordingly, shall not be empowered to award punitive or consequential damages to either party, as set forth therein. The arbitrator's judgment shall be surrendered in writing in English and the arbitrator shall have to reason his/her award. Notwithstanding the foregoing, if Guarantor is alleged to have breached this Guarantee, and the alleged breach is likely to result in irreparable injury and/or continuing damage to the Buyer for which there will be no other adequate remedy at law, then the Buyer shall be entitled to seek injunctive relief or any other interim remedy from any court of competent jurisdiction.

Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto. None of the rights, privileges, or obligations set forth in, arising under, or created by this Guarantee may be assigned or transferred without the prior consent in writing of each party to this Guarantee.

Amendment and Waiver. Any term of this Guarantee may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of all of the parties to this Guarantee.

Notices. All notices and other communications required or permitted hereunder to be given to a party to this Guarantee shall be in writing in the English or Hebrew languages and shall be mailed by registered mail, by fax or otherwise delivered by hand or by messenger, and shall be addressed to the respective party as follows (or at such other address as the Party shall notify each other Party in writing as herein provided):

To PPHE Hotel:

PPHE Hotel Group Ltd., 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes

St. Peter Port, Guernsey GY1 1EW, Channel Islands

With a copy to:

Mr. Boris Ivesha, President & CEO, 12 David Mews, London,W1U 6EG, UK

And Mr. Chen Moravsky, CFO, Vinoly Tower, 5th floor, Claude Debussylaan 14, 1082 MD Amsterdam, The Netherlands

To Seller:

B.E.A. Hotels, N.V., Keizersgracht 241, EA1016 Amsterdam, the Netherlands

With a copy to:

Elbit Imaging Ltd., 2 Weitzman Street, Tel Aviv 64239, Israel

Attention: Mr. Zvi Maayan, Adv., Tel No.: 03-6086019, Fax No.: 03-6086050, Email: zvim@elbitimaging.com

And to the attention of: Mr. Doron Moshe, CFO,

Email: doronm@elbitimaging.com

Any notice sent in accordance with this Section shall be effective - (a) if mailed, fourteen (14) Business Days after mailing; (b) if by fax, together with a confirmation of such transmission, ; and (c) if sent by messenger, upon delivery. Notwithstanding anything to the contrary above, any notice of change of address shall only be valid upon receipt.

Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Guarantee, shall be deemed a waiver of any rights, powers or remedies accruing in connection with any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Guarantee, or any waiver on the part of any party of any provisions or conditions of this Guarantee, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless where explicitly specified otherwise in the agreement or in this Guarantee, all remedies, either under this Guarantee or by law or otherwise afforded to any of the Parties, shall be cumulative and not alternative.

Severability. If any provision of this Guarantee shall be found or be held to be invalid or unenforceable, the meaning of such provision shall be construed, to the extent feasible, so as to render the provision enforceable, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Guarantee, which shall remain in full force and effect unless the severed provision is essential and material to the rights or benefits received by any party hereto. In such event, the parties shall use their best efforts to negotiate in good faith, a substitute, valid and enforceable provision or agreement which most nearly effectuates the parties' intent in entering into this Guarantee.

Signed as a deed by **Elbit Imaging Limited** acting by Mr. Doron Moshe and
Mr. Adar Shashouh

Authorized signatory

Authorized signatory

EXHIBIT 8.1

LIST OF SUBSIDIARIES

NAME OF COMPANY	COUNTRY OF ORGANIZATION	DIRECT/INDIRECT OWNERSHIP PERCENTAGE
BEA Hotels N.V.	The Netherlands	100%
Elbit Medical Technologies Ltd.	Israel	89.97% (1)
InSightec Ltd.	Israel	65.9% (2)
Gamida Cell Ltd.	Israel	31.6% (3)
Elbit Plaza India Real Estate Holdings Limited	Cyprus	50% (4) (5)
Elbit Plaza USA, L.P.	USA	100% (6)
Elbit USA, LLC	USA	100% (7)
Elbit USA II, LLC	USA	100% (7)
Plaza USA, LLC	USA	100% (8)
EPN GP, LLC	USA	43.3% (9)
EPN EDT Holding II, LLC	USA	47.3% (9)
Elbit Fashion Ltd.	Israel	100%
Elbit Ultrasound (Luxembourg) B.V. / S.a.r.l.	Luxembourg	100%
Plaza Centers N.V.	The Netherlands	62.52% (10)

(1) 93.47% on a fully diluted basis.

(2) 53.05% on a fully diluted basis, including warrants granted by InSightec contingent upon certain rates of return as well as certain options exercisable into InSightec's ordinary shares. Held through Elbit Medical.

(3) Held through Elbit Medical.

(4) 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."

(5) For details as to the grant of 5% of EPI's equity to Mr. Abraham (Rami) Goren, our former 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 Former Executive Vice Chairman."

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

(7) We hold 50% in Elbit USA, LLC and Elbit USA II, LLC directly and an additional 50% indirectly through PC (although all of the risks and benefits with respect to those entities are vested with us).

(8) We hold 50% in Plaza USA, LLC directly and an additional 50% indirectly through PC (although all of the risks and benefits with respect to those entities are vested with PC).

(9) Indirectly held through PC, Elbit Plaza USA., Elbit USA, LLC, Elbit USA II, LLC and Plaza USA, LLC, provided that only 21.64% is owned by us and the remaining 21.64% is owned by PC.

(10) Approximately 56.90% on a fully diluted basis.

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: April 25, 2012

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: April 25, 2012

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: April 25, 2012

By: /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, 2011, 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: April 25, 2012

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, 2011, 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: April 25, 2012

By: /s/ Ran Shtarkman
Name: Ran Shtarkman
Title: Co-Chief Executive Officer

EXHIBIT 13.3

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, 2011, 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: April 25, 2012

By: /s/ Doron Moshe
Doron Moshe
Chief Financial Officer

Exhibit 15.2

Deloitte.
Brightman Almagor Zohar

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, 2011 and 2010, 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, 2011. 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 an associate accounted for by the equity method, the Company's investments in which as of December 31, 2011 and 2010 amounted to NIS 16 million and NIS 21 million, respectively, and the Company's share in its losses amounted to NIS 6 million, NIS 4 million and NIS 4.9 million for each of the three years in the period ended December 31, 2011, respectively. The financial statements of that associate were audited by other auditors, and our opinion, insofar as it relates to the amounts relating thereto, is based 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, 2011 and 2010, 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, 2011, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte.
Brightman Almagor Zohar

As discussed in Note 23B, claims have been filed against Group companies for some of which petitions have been applied to certify as class actions suits.

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, 2011, 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 March 29, 2012 expressed an 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
March 29, 2012

Exhibit 15.3

Deloitte.
Brightman Almagor Zohar

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, 2011, 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.

Deloitte.
Brightman Almagor Zohar

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, 2011, 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, 2011 of the Company, and our report dated March 29, 2012, 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 applied to certify as class actions suits.

/s/ Brightman Almagor Zohar & Co.
Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Tel-Aviv, Israel
March 29, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of **March 2013**

Commission File Number 000-28996

ELBIT IMAGING LTD.

(Translation of Registrant's Name into English)

2 WEITZMAN STREET, TEL AVIV 64239, ISRAEL
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

EXHIBIT 99.1 OF THIS REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO ELBIT IMAGING LTD.'S REGISTRATION STATEMENT ON FORM F-3 (REGISTRATION STATEMENT NO. 333-172122) AND REGISTRATION STATEMENTS ON FORM S-8 (REGISTRATION STATEMENTS NOS. 333-117509, 333-130852, 333-136684 AND 333-152820), AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS SUBMITTED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

CONTENTS

This Report on Form 6-K of Elbit consists of the following document, which is attached hereto and incorporated by reference herein:

Exhibit No.	Description
99.1	Annual Consolidated Financial Statements for the years ended December 31, 2012, 2011 and 2010
99.2	Operating and Financial Review and Prospects for the year ended December 31, 2012
99.3	Consent of Brightman Almagor Zohar & Co.
99.4	Table of advisors relied upon in the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010
99.5	Consent of Colliers International
99.6	Consent of Financial Immunities Ltd.
99.7	Consent of Financial Immunities Ltd.
99.8	Consent of Financial Immunities Ltd.
99.9	Consent of Financial Immunities Dealing Room Ltd.
99.10	Consent of Financial Immunities Dealing Room Ltd.
99.11	Consent of Financial Immunities Dealing Room Ltd.
99.12	Consent of Giza Zinger Even
99.13	Consent of Jones Lang LaSalle Kft
99.14	Consent of Giza Zinger Even
99.15	Consent of Giza Zinger Even
99.16	Consent of Giza Zinger Even
99.17	Consent of Giza Zinger Even
99.18	Consent of Giza Zinger Even
99.19	Consent of Giza Zinger Even
99.20	Consent of De-Kalo Ben-Yehuda
99.21	Consent of Financial Immunities Dealing Room Ltd.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELBIT IMAGING LTD.
(Registrant)

Date March 21, 2013

By: /s/ Shimon Yitzhaki
Shimon Yitzhaki
Executive Chairman

EXHIBIT INDEX

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Exhibit 99.1

ELBIT IMAGING LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012

ELBIT IMAGING LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012

Contents

Deloitte
Brightman Almagor Zohar

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of
Elbit Imaging Ltd.

We have audited the accompanying consolidated balance sheets of Elbit Imaging Ltd. and its subsidiaries (the "Company") as of December 31, 2012 and 2011, 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, 2012. 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 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide a reasonable basis for our opinion.

In our opinion, based on our audits, 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, 2012 and 2011, and the consolidated results of their operations, and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte.
Brightman Almagor Zohar

The Company's financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, in the period commencing February 1, 2013 through February 1, 2014 the Company is to repay its debenture holders NIS 599 million (principal and interest). Said amount includes NIS 82 million originally payable on February 21, 2013, that its repayment was suspended following a resolution of the Company's Board of Directors. The Company's Board also resolved to suspend any interest payments relating to all the Company's debentures. In addition, as of December 31, 2012, the Company failed to comply with certain financial covenants relating to bank loans in the total amount as of such date of NIS 290 million. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Notes 23B and 31D, claims have been filed against Group companies for some of which petitions have been applied to certify as class actions suits, and one of which was certified as a class action.

s/ Brightman Almagor Zohar & Co.
Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Tel-Aviv, Israel March 20, 2013

ELBIT IMAGING LTD.
CONSOLIDATED BALANCE SHEETS

		December 31		
		2012	2011	2012
				Convenience translation (note 2D)
	Note	(in thousand NIS)		U.S.$'000
Current Assets				
Cash and cash equivalents		535,070	602,292	143,335
Short-term deposits and investments	(4)	327,830	409,338	87,819
Trade accounts receivables	(5)	47,528	72,049	12,732
Other receivables	(6)	136,276	101,566	36,506
Prepayments and other assets	(7)	246,850	262,861	66,126
Inventories		14,616	48,043	3,915
Trading property	(8)	4,198,705	4,556,616	1,124,754
		5,506,875	6,052,765	1,475,187
Deposits, loans and other long-term balances	(9)	55,116	380,077	14,765
Investments in associates	(10)	164,025	10,556	43,939
Property, plant and equipment	(12)	1,185,485	1,167,646	317,569
Investment property	(13)	123,723	2,672,571	33,143
Other assets and deferred expenses	(14)	12,469	13,037	3,340
Intangible assets	(15)	46,718	74,415	12,515
		1,587,536	4,318,302	425,271
		7,094,411	10,371,067	1,900,458

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
CONSOLIDATED BALANCE SHEETS

	Note	December 31 2012	December 31 2011	2012 Convenience translation (Note 2D)
		(in thousand NIS)		U.S.$'000
Current Liabilities				
Short-term credits	(16)	1,195,063	1,079,736	320,135
Borrowings relating to trading property	(16)	1,212,321	1,124,031	324,758
Suppliers and service providers		75,887	219,229	20,329
Payables and other credit balances	(17)	135,689	261,744	36,348
Other liabilities	(18)	116,275	160,085	31,147
		2,735,235	2,844,825	732,717
Non-Current Liabilities				
Borrowings	(19)	2,796,337	5,650,170	749,086
Other financial liabilities	(20)	14,021	215,752	3,756
Other liabilities	(21)	14,380	12,808	3,853
Deferred taxes	(22)	113,309	108,642	30,353
		2,938,047	5,987,372	787,048
Commitments, Contingencies, Liens and Collaterals	(23)			
Shareholders' Equity	(24)			
Share capital and share premium		902,870	902,870	241,862
Reserves		(502,593)	(605,132)	(134,635)
Retained earnings		77,850	230,413	20,855
Treasury stock		(168,521)	(168,521)	(45,144)
Attributable to equity holders of the Company		309,606	359,630	82,938
Non controlling interest		1,111,523	1,179,240	297,755
		1,421,129	1,538,870	380,693
		7,094,411	10,371,067	1,900,458

The accompanying notes form an integral part of the financial statements.

Doron Moshe
Chief Financial Officer

Mordechay Zisser
CEO

Approved by the Board of Directors on: March 20, 2013

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENTS OF INCOME

	Note	December 31 2012	2011	2010	2012 Convenience translation (Note 2D)
		(in thousand NIS) (Except for per-share data)			U.S.$'000
Revenues and gains					
Commercial centers	(26A)	302,262	115,270	102,895	80,970
Hotels operations and management	(26B)	222,828	286,548	403,822	59,692
Sale of fashion merchandise and other		145,996	185,082	174,817	39,109
Total revenues		671,086	586,900	681,534	179,771
Gain from changes of shareholding in investees		9,369	-	-	2,510
Gain from sale of real estate assets		53,875	-	198,777	14,432
		734,330	586,900	880,311	196,713
Expenses and losses					
Commercial centers	(26C)	272,810	159,626	156,745	73,081
Hotels operations and management	(26D)	202,158	240,784	341,291	54,154
Cost of fashion merchandise and other	(26E)	155,772	211,743	197,574	41,728
General and administrative expenses	(26F)	48,886	61,857	65,292	13,096
Share in losses of associates, net		8,726	7,568	8,275	2,337
Financial expenses	(26G)	175,778	164,001	316,706	47,088
Financial income	(26H)	(31,083)	(65,571)	(40,927)	(8,327)
Change in fair value of financial instruments measured at fair value through profit and loss	(26I)	50,229	(275,537)	53,016	13,455
Write-down, charges and other expenses, net	(26J)	411,625	290,276	83,660	110,267
		1,294,901	794,747	1,181,632	346,879
Loss before income taxes		(560,571)	(207,847)	(301,321)	(150,166)
Income tax expenses (tax benefit)	(22)	(10,248)	63,283	3,992	(2,745)
Loss from continuing operations		(550,323)	(271,130)	(305,313)	(147,421)
Profit from discontinued operations, net	(29)	94,823	24,101	378,838	25,401
Profit (loss) for the year		(455,500)	(247,029)	73,525	(122,020)

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENTS OF INCOME

	Note	December 31 2012	2011	2010	2012 Convenience translation (Note 2D)
		(in thousand NIS) (Except for per-share data)			U.S.$'000
Attributable to:					
Equity holders of the Company		(293,590)	(264,919)	61,998	(78,647)
Non-controlling interest		(161,910)	17,890	11,527	(43,373)
		(455,500)	(247,029)	73,525	(122,020)
Loss from continuing operations					
Equity holders of the Company		(391,947)	(284,610)	(308,924)	(104,995)
Non-controlling interest		(158,376)	13,480	3,611	(42,426)
		(550,323)	(271,130)	(305,313)	(147,421)
Profit from discontinued operation, net					
Equity holders of the Company		98,357	19,691	370,922	26,348
Non-controlling interest		(3,534)	4,410	7,916	(947)
		94,823	24,101	378,838	25,401
Earnings (loss) per share - (in NIS)	(26K)				
Basic earnings per share:					
From continuing operation		(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations		3.95	0.79	14.67	1.06
		(11.80)	(10.65)	2.45	(3.16)
Diluted earnings per share:					
From continuing operation		(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations		3.95	0.79	14.41	1.06
		(11.80)	(10.65)	2.13	(3.16)

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	December 31			
	2012	2011	2010	2012
				Convenience translation (Note 2D)
	(in thousand NIS)			U.S.$'000
Profit (loss) for the year	(455,500)	(247,029)	73,525	(122,020)
Exchange differences arising from translation of foreign operations	(61,546)	41,726	(391,583)	(16,487)
Gain (loss) from cash flow hedge	(13,893)	(41,577)	37,441	(3,722)
Gain (loss) from available for sale investments	13,164	(6,346)	(864)	3,526
Adaption of the revaluation model -				
Beginning of the year	470,852	-	-	126,284
Additions during the year	43,090	-	-	11,391
Loss on hedging instruments designated in hedges of the net assets of foreign operations	37,971	-	-	10,172
Reclassification adjustments relating to foreign operations disposed of in the year	(102,035)	-	(34,291)	(27,333)
Income tax expenses (tax benefits) (see note 22)	(106,243)	(1,480)	24,093	(28,461)
	281,360	(7,677)	(365,204)	75,370
Comprehensive loss	(174,140)	(254,706)	(291,679)	(46,650)
Attributable to:				
Equity holders of the Company	(49,837)	(264,454)	(128,992)	(13,351)
Non-controlling interest	(124,303)	9,748	(162,687)	(33,299)
	(174,140)	(254,706)	(291,679)	(46,650)

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Stock-based compensation reserve	Foreign currency translation reserve	Retained earnings	Gross amount	Treasury stock	Attributable to share-holders of the company	Non Controlling interest	Total shareholders' equity
	(in thousand NIS)										
Balance - January 1, 2010	38,038	835,269	(36,458)	57,090	(242,304)	433,334	1,084,969	(138,519)	946,450	1,201,721	2,148,171
Profit for the year	-	-	-	-	-	61,998	61,998	-	61,998	11,527	73,525
Other comprehensive income (loss)	-	-	38,699	-	(229,689)	-	(190,990)	-	(190,990)	(174,214)	(365,204)
Purchase of Company's shares by a subsidiary	-	-	-	-	-	-	-	(30,002)	(30,002)	-	(30,002)
Issuance of shares to non controlling interest of subsidiary	-	-	(36,145)	-	-	-	(36,145)	-	(36,145)	22,431	(13,714)
Purchase by non controlling interest	-	-	-	-	-	-	-	-	-	149,093	149,093
Initially consolidated subsidiary	-	-	-	-	-	-	-	-	-	182,843	182,843
Exercise of shares by employees	13	2,473	-	(2,486)	-	-	-	-	-	-	-
Employee stocks expired	-	6,832	-	(6,832)	-	-	-	-	-	-	-
Stock-based compensation expenses	-	-	-	9,429	-	-	9,429	-	9,429	23,380	32,809
Balance - December 31, 2010	38,051	844,574	(33,904)	57,201	(471,993)	495,332	929,261	(168,521)	760,740	1,416,781	2,177,521

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves (*)	Stock-based compensation reserve	Foreign currency translation reserve	Retained earnings	Gross amount	Treasury stock	Attributable to share-holders of the company	Non Controlling interest	Total shareholders' equity
						(in thousand NIS)					
Balance - January 1, 2011	38,051	844,574	(33,904)	57,201	(471,993)	495,332	929,261	(168,521)	760,740	1,416,781	2,177,521
Loss for the year	-	-	-	-	-	(264,919)	(264,919)	-	(264,919)	17,890	(247,029)
Other comprehensive income (loss)	-	-	(42,411)	-	42,876	-	465	-	465	(8,142)	(7,677)
Dividend paid to the non controlling interest by a subsidiary	-	-	-	-	-	-	-	-	-	(56,529)	(56,529)
Purchase of unit holdings from non controlling interest by a subsidiary	-	-	(155,102)	-	-	-	(155,102)	-	(155,102)	(226,634)	(381,736)
Issuance of shares to the non controlling interest by a subsidiary		-	7,741	-	-	-	7,741	-	7,741	(12,170)	(4,429)
Initially consolidated subsidiary	-	-	-	-	-	-	-	-	-	11,766	11,766
Exercise of shares by employees	8	20,237	-	(20,245)	-	-	-	-	-	-	-
Stock-based compensation expenses	-	-	-	10,705	-	-	10,705	-	10,705	36,278	46,983
Balance - December 31, 2011	38,059	864,811	(223,676)	47,661	(429,117)	230,413	528,151	(168,521)	359,630	1,179,240	1,538,870

(*) includes with non-controlling interest and hedging reserve.

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves (*)	Revaluation of property, plant and equipment	Stock-based compensation reserve	Foreign currency translation reserve	Retained earnings	Gross amount	Treasury stock	Attributable to share-holders of the company	Non Controlling interest	Total shareholders' equity
	(in thousand NIS)											
Balance -												
January 1, 2012	38,059	864,811	(223,676)	-	47,661	(429,117)	230,413	528,151	(168,521)	359,630	1,179,240	1,538,870
Loss for the year	-	-	-	-	-	-	(293,590)	(293,590)	-	(293,590)	(161,910)	(455,500)
Other comprehensive income (loss)	-	-	34,737	(**)190,690	-	(126,087)	(***)144,414	243,754	-	243,754	37,605	281,359
Transaction with non controlling interest	-	-	(9,954)	-	-	-	-	(9,954)	-	(9,954)	12,583	2,629
Reclassification of a derivative (option) to equity following change in terms	-	-	7,193	-	-	-	-	7,193	-	7,193	-	7,193
Stock-based compensation expenses	-	-	-	-	2,174	399	-	2,573	-	2,573	44,005	46,578
Balance -												
December 31, 2012	38,059	864,811	(191,700)	190,690	49,835	(554,805)	81,237	478,127	(168,521)	309,606	1,111,523	1,421,129

(*) Includes with non-controlling interest and hedging reserve.

(**) Net of related tax expenses in the amount of NIS 61 million.

(***) Net of related tax expenses in the amount of NIS 45 million.

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves (*)	Revaluation of property, plant and equipment	Stock-based compensation reserve	Foreign currency translation reserve	Retained earnings	Gross amount	Treasury stock	Attributable to share-holders of the company	Non Controlling interest	Total shareholders' equity
	Convenience translation (Note 2D), U.S.$'000											
Balance - January 1, 2012	10,195	231,666	(59,919)	-	12,768	(114,952)	61,723	141,481	(45,144)	96 338	315,896	412,234
Loss for the year	-	-	-	-	-	-	(78,647)	(78,647)	-	(78,647)	(43,373)	(122,020)
Comprehensive income (loss)	-	-	9,305	(**)51,082	-	(33,777)	(***)38,686	65,296	-	65,296	10,074	75,370
Transaction with non controlling interest		-	(2,666)	-	-	-	-	(2,666)	-	(2,666)	3,370	705
Reclassification of a derivative (option) to equity following change in terms	-	-	1,927	-	-	-	-	1,927	-	1,927	-	1,927
Stock-based compensation expenses		-	-	-	582	107	-	689	-	689	11,788	12,477
Balance - December 31, 2012	10,195	231,666	(51,353)	51,082	13,350	(248,622)	21,762	128,080	(45,144)	82,938	297,755	380,693

(*) Includes with non-controlling interest and hedging reserve.
(**) Net of related tax expenses in the amount of USD 16 million.
(***) Net of related tax expenses in the amount of USD 12 million.

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2012	2011	2010	2012
				Convenience translation (Note 2D)
	(in thousand NIS)			U.S.$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the year from continued operations	(550,323)	(271,130)	(305,313)	(147,421)
Income tax expenses (tax benefit) recognized in profit and loss	(10,248)	63,283	3,992	(2,745)
Finance expenses (income) recognized in profit and loss	194,924	(177,107)	328,795	52,216
Income tax paid in cash	-	(3,376)	(1,555)	-
Depreciation and amortization (including impairment)	461,568	339,412	114,539	123,645
Gain from fair value adjustment of investment property	(9,930)	(19,700)	(2,324)	(2,660)
Profit from realization of investments in subsidiaries (Appendix B)	(62,608)	-	(198,777)	(16,771)
Share in losses of associates, net	8,726	7,568	8,275	2,338
Profit from realization of assets and liabilities	-	-	(5,739)	-
Stock based compensation expenses	18,497	39,691	27,632	4,955
Other	2,737	(1,949)	12,416	733
Trade accounts receivables	(9,112)	(7,662)	3,113	(2,441)
Receivables and other debit balances	7,791	(12,630)	67,585	2,087
Inventories	7,287	(8,240)	(1,664)	1,952
Trading property and payment on account of trading property	(113,135)	(403,624)	(349,714)	(30,307)
Suppliers and service providers	(105,691)	106,503	(33,610)	(28,313)
Payables and other credit balances	42,989	69,397	(31,829)	11,516
Net cash used in operating activities of continuing operations	(116,528)	(279,564)	(364,178)	(31,216)
Net cash provided by (used in) discontinued operating activities	(32,096)	38,675	31,167	(8,598)
Net cash used in operating activities	(148,624)	(240,889)	(333,011)	(39,814)

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2012	2011	2010	2012 Convenience translation (Note 2D)
	(in thousand NIS)			U.S.$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in initially-consolidated subsidiaries (Appendix C)	-	(2,197)	(5,173)	-
Purchase of property plant and equipment, investment property and other assets	(24,227)	(34,410)	(72,925)	(6,490)
Proceeds from realization of property plant and equipment	2,000	1,018	31,282	536
Proceeds from realization of investments in subsidiaries (Appendix B)	139,827	-	(21,349)	37,457
Investments in associates and other companies	(11,567)	-	(2,591)	(3,099)
Proceed from realization of long-term deposits and long-term loans	277,436	33,431	119,489	74,320
Investment in long-term deposits and long-term loans	(29)	46,133	(11,925)	(8)
Interest received in cash	37,542	65,375	57,239	10,057
Investments in debt security	-	-	(39,206)	-
Proceeds from repayment of debt security	-	-	47,207	-
Proceed from sale of available for sale marketable securities	154,943	45,051	50,576	41,506
Purchase of available for sale marketable securities	(82,239)	(46,325)	(108,692)	(22,030)
Loans granted to a former subsidiary	-	(54,444)	(62,431)	-
Short-term deposits and marketable securities, net	62,511	333,136	(170,415)	16,746
Net cash provided by (used in) continued investing activities	556,197	386,768	(188,914)	148,995
Net cash provided by (used in) discontinued investing activities	1,289,831	(61,416)	(178,463)	345,521
Net cash provided by (used in) investing activities	1,846,028	325,352	(367,377)	494,516
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from re-issuance of debentures	58,080	-	-	15,559
Dividend paid to non-controlling interest	-	(56,772)	-	-
Repurchase of debentures and treasury stock	(184,342)	(202,439)	(30,002)	(49,382)
Interest paid in cash	(348,946)	(390,442)	(328,559)	(93,476)
Proceeds from long-term borrowings	52,895	1,116,030	1,379,556	14,170
Repayment of long-term borrowings	(770,898)	(1,226,102)	(923,753)	(206,509)
Proceeds from selling derivatives	59,040	222,543	45,834	15,816
Proceeds from transactions with non-controlling interests, net	-	-	121,218	-
Proceed from short-term credit	203,990	411,484	275,218	54,645
Repayment of short-term credit	(255,175)	(157,850)	(131,160)	(68,357)
Net cash provided by (used in) continued financing activities	(1,185,356)	(283,548)	408,352	(317,534)
Net cash used in discontinued financing activities	(584,789)	(297,092)	(39,991)	(156,654)
Net cash provided by (used in) financing activities	(1,770,145)	(580,640)	368,361	(474,188)
Decrease in cash and cash equivalents	(72,741)	(457,538)	(332,027)	(19,486)
Cash and cash equivalents at the beginning of the year	602,292	1,040,797	1,508,301	161,343
Net effect on cash due to currency exchange rate changes	5,519	57,672	(135,477)	1,478
Cash and cash equivalents at the end of the year	535,070	602,292	1,040,797	143,335

The accompanying notes form an integral part of the financial statements.

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2012	2011	2010	2012
				Convenience translation (Note 2D)
	(in thousand NIS) (Except for per-share data)			U.S.$'000
Appendix A - Non-cash transactions				
Long-term loans assumed by the purchaser of investment property	1,114,521	-	122,338	298,559
Acquisition of property plant and equipment, investment property and other assets by credit	804	-	8,539	215
Appendix B - Proceeds from realization of investments in subsidiaries				
Working capital (excluding cash), net	(25,431)	-	(90,387)	(6,812)
Property, plant equipment and other assets	382,344	-	456,102	102,423
Long term receivable	(7,529)	-	(104,205)	(2,017)
Long term liabilities	(272,165)	-	(470,628)	(72,908)
Foreign currency transaction	-	-	(11,008)	-
Profit from realization of subsidiaries	62,608	-	198,777	16,771
	139,827	-	(21,349)	37,457
Appendix C - Initially consolidated subsidiaries				
Working capital (excluding cash), net	-	(134)	(1,539)	-
Prepayment lease rights	-	-	-	-
Investment in investee company	-	(8,265)	-	-
Intangible asset	-	25,341	-	-
Property plant and equipment	-	-	77,223	-
Long term liabilities	-	-	(70,420)	-
Share Capital	-	-	(91)	-
Gain on disposal of interest in former associate	-	(2,736)	-	-
Non-controlling interest	-	(12,009)	-	-
	-	2,197	5,173	-

The accompanying notes form an integral part of the financial statements.

NOTE 1 - GENERAL

A. Elbit Imaging Ltd. ("the Company") was incorporated in Israel. The Company's registered office is at 2 Weitzman Street Tel Aviv, Israel. The Company's shares are registered for trade on the Tel Aviv Stock Exchange and in the United States on the NASDAQ Global Select Market.

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 shopping 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 their sale.

- Hotels - hotels operation and management, primarily in major European cities. For the sale of the Group's hotels in Netherland and UK, see note 12C and D.

- Medical industries and devices - (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment, and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine.

- Residential projects - initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India.

- Fashion apparel - distribution and marketing of fashion apparel and accessories in Israel. With respect to the selling of GAP operation, see note 11E.

- During 2012, the Company closed a transaction to sale all its investments in commercial centers in the US (see note 29B) and lost control over its holding in the subsidiary holding the medical industry and devices (see note 10B(2)). Accordingly, these operations are presented in these financial statements as discontinued operations.

C. **Financial position:**

With respect to the Company's financial position and the going concern assumption, including managements plans for re-structuring its borrowing, see note 3.

NOTE 1 - GENERAL (CONT.)

D. **Definitions:**

The Company	-	Including Elscint
Elscint	-	A formerly 100% subsidiary of the Company, merged with the Company in 2010.
Group	-	The Company and its Investees
Investees	-	Subsidiaries, joint ventures and associates
PC	-	Plaza Centers N.V. Group, a material subsidiary (62.5%) operating in the field of commercial and entertainment centers.
Elbit Medical	-	Elbit Medical Technologies Ltd., a public Israeli company traded on the TASE, as for December 31, 2012, the Company holds 96% of Elbit Medical on a fully diluted basis.
InSightec Ltd.	-	As of December 31, 2012, an associate (48%) operating in the field of development, manufacturing and marketing of medical treatment systems (see note 10 B).
EPN Group	-	EPN GP, LLC, and EPN EDT Holdings II and their affiliates jointly ventures (45%), the Group's U.S. real estate investment funds.
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. Mordechay Zisser, who through December 31, 2011 served as the Company's Executive President, and as a director and during 2012 was nominated as the CEO of the Company, the Company's Executive President and as a director.
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) financial instruments which are measured at fair value; (ii) certain trading property measured at net realizable value (see note 2AF.(1)a.); (iii) certain property, plant and equipment (hotels) that were presented until 31.12.2011 at the cost model and commencing January 1, 2012 are presented at the revaluation model (based on fair value) (see note 2AF.(1)a and note 2AF (1) f.) and (iv) investment property measured at fair value (see note 2AF (1)f.) 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 revenue (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, 2012 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 ($1.0 = NIS 3.733). 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 convenience translation of reported NIS amounts into U.S. Dollar, 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 eight 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 non-controlling interest in excess of its share in the subsidiary's equity are charged to non-controlling interest in any case, while ignoring its obligations and ability to make additional investments in the subsidiary.

(ii) Business combination - goodwill is measured as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Non-controlling interests are measured on a transaction-by-transaction basis at fair value or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree (at fair value), at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that incur in connection with a business combination are expensed as incurred.

(iii) Transactions with non-controlling interest shareholders, in the context of which the Company retains control before and after the transaction, are treated as capital transactions.

(iv) Transactions in which the Group attained control through step acquisitions of an entity which do not meet the definition of a business combination, are accounted for based on the cost of the asset acquired at each step.

(v) When a control over a subsidiary is lost, a gain or loss is recognised in profit or loss and is measured as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in that subsidiary, if any, and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 each joint venture.

With respect to the effect of IFRS 11 "Joint Arrangements", see note AG.

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 the financial statements of the Company 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.

In circumstances where the Group's interest in an investee company is in the form of mixed securities (such as ordinary shares, preferred shares or other senior securities, or loans), the Group records equity losses in excess of the Group's investment in the ordinary shares of the investee based on the priority liquidation mechanism, that is, allocating the loss to the other components in reverse to the their seniority.

Where necessary, adjustments are made to the financial statements of associates to adjust their accounting policies with those of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 using 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. Non-monetary assets and liabilities carried at fair value that are denominated at foreign currency are translated at the exchange rates prevailing at the date when the fair value was determined.

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 2AB); (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.)(iv) exchange rate differences charge to revaluation of property plant and equipment carried at fair value (see note 2N)

(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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. **Foreign currency: (Cont.)**

(ii) **Financial statements of foreign operations (cont.):**

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in the equity reserve in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in loss of control by the Group over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(iii) **Rates of exchange of NIS, in effect, in relation to foreign currency (in NIS) are as follows:**

	December 31	
	2012	2011
U.S. Dollar ($)	3.733	3.821
EURO (€)	4.921	4.938
Romanian New Lei (RON)	1.108	1.139
Indian Rupee (INR)	0.068	0.072

Scope of change in the exchange rate, in effect, of the NIS in relation to the foreign currencies (%):

	December 31		
	2012	2011	2010
U.S. Dollar ($)	(2)	8	(6)
EURO (€)	(0.5)	4	(13)
Romanian New Lei (RON)	(3)	3	(2)
Indian Rupee (INR)	(5)	(9)	6

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 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 based on the effective interest rate.

Available for sale ("AFS") financial assets

Listed redeemable notes and shares 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

K. **Financial assets: (cont.)**

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 is considered immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are examined for 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 asset 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 with respect to redeemable notes is the difference between the acquisition cost, net of any principal repayment and amortization and the current, fair value, less any impairment loss recognized previously in profit or loss.

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 and loss.

If in a subsequent period, the amount of impairment with respect to financial instruments carried at amortized cost 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. In such cases, the impairment is reversed up to the amortized cost that would have been recorded had the impairment not been recognized. Changes in impairment provision attributable to application of the effective interest method are reflected as component of interest income. If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired AFS equity security is recognized in other comprehensive income.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 to 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).

M. Trading property and prepayment:

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 to completion and the estimated costs necessary to execute the sale (including borrowing cost), 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 execute the sale. Costs of trading properties include costs directly associated with their purchase (including payments for the acquisitions of leasehold rights, borrowing cost, wages and stock-based compensation expenses) and all subsequent direct expenditures for the development and construction of such properties. Advance payments on account of trading property are recorded at their cost price and classified as trading property only after the purchase.

As for borrowing costs capitalized to trading property - see note 2AB.

As for write down of trading property - see note 2AF (1)a.

As for the operating cycle of trading property - see note 2E.

Cost of trading property 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).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. **Property plant and equipment:**

(i) In 2012, the Group selected to change the accounting policy with respect to property, plant and equipment (hotels), and to adopt the revaluation model as oppose to the cost model applied until December 31, 2011. The change in the accounting policy was prospectively applied commencing January 1, 2012.

According to the revaluation model, the hotels are presented in the consolidated balance sheets based on their fair value as of January 1, 2012, which in turn become as their carrying amount. The valuation uplift as of such date was initially recorded in the other comprehensive income under "revaluation of property, plant and equipment" reserve.

Revaluations are carried out on a regular basis (generally each half year).

A change in the value of the hotels resulting from revaluation or from exchange rate differences is attributable to other comprehensive income (any revaluation reserve is net of applicable deferred taxes).

The reserve derived from the revaluation of the hotels is transferred to retained earnings over the period for which the hotels are used by the Group. The transferred amounts equal the difference between the depreciation charge based on the revalued carrying amounts of the hotels and the depreciation charge based on the hotels' original cost. When a revaluated hotel is sold, the remaining amount in the revaluation reserve with respect to the same hotel (including any tax expenses) is directly transferred to retained earnings.

For the effect of the initial application of the revaluation model, see note 12 .

Hotels as of December 31, 2011 and other property plant and equipment that are not hotels as of December 31, 2012 and 2011 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 2AB. Improvements and renovations are charged to cost of assets. Maintenance and repair costs are charged to the statement of income as incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. **Property plant and equipment (cont.):**

(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:

	%
Hotels	1-4
Other buildings	2.0 - 2.5
Building operating systems	7.0 (average)
Others (*)	6.0 - 33.0

(*) Consists mainly motor vehicles, office furniture and equipment, machinery and equipment, electronic equipment, computers and peripheral equipment.

O. **Investment property:**

Investment property is real estate (land or a building or both) held by the Group in order to earn rental income or for capital appreciation or both, rather than use for administrative purposes or sale in the ordinary course of business (hereafter: "investment property"). The Group includes in the framework of investment property, among others, real estate of the following category:

- Land acquired with no defined and final designation. 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 investment property and/or property plant and equipment and/or to trading property as the case may be.

Investment property is initially recognized at acquisition cost, which includes the direct transaction costs, such as fees of legal and economic advisors and purchase taxes. In periods subsequent to initial recognition, investment property is measured at fair value. Gains or losses derived from adjustments of fair value of the investment property are recorded in the statement of income.

The costs of realizing investment property are charged to the statement of income as of the date on which the property is sold. The difference between the consideration received from the realization of the investment property and the fair value as included in the latest financial statements (including interim financial statements) is recorded as of the date of closing the transaction to the statement of income and is presented as gain or loss from realization of investment property. The direct costs of realizing the investment property are offset from this gain or loss.

Determination of fair value of investment property

The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is neither a forced seller nor one prepared to sell at a price not considered reasonable in the current market. The fair value is determined regardless of transaction costs, which might be incurred at the time of sale or realization of the investment property.

See more information in AF (1) f below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

P. **Lease:**

Lease payments under finance lease are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's policy on borrowing costs (see AB below). Contingent rentals are recognized as expenses in the periods in which they are incurred.

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:**

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 and intangible asset:**

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.

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. **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 deferred 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 to be settled or the asset is to be 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 in the future.

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.)

S. 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.

T. 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 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.

U. 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 are 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.)

U. **Financial liabilities and equity instruments issued by the Group (cont.):**

Treasury stocks (cont.)

Convertible debentures

The components of convertible notes are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.

Convertible instrument that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

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 at an amortized cost basis until conversion or the financial 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 hedging instruments and financial liabilities designated at initial recognition to FVTPL if such designation at that date eliminates or significantly reduces a measurement of recognition inconsistency that would otherwise arise ("accounting mismatch"). The designation is not revoked even if the instrument giving rise to an accounting mismatch is derecognized. This category includes mainly debentures issued by a subsidiary under terms described in note 19 F1 Fair value is determined in the manner described in note 30.

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.

(ii) Other financial liabilities

Other financial liabilities of the Group consist of short-term credits, current maturities of long-term borrowing 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 2012 was 1.4% (2011- increase of 2.5%; 2010 - increase of 2.3%).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

U. **Financial liabilities and equity instruments issued by the Group (cont.):**

Buyback of debenture

The Group removes a financial liability from its statement of financial position when repurchasing its debentures. The difference between the carrying amount of the debentures repurchased at the repurchase date and the consideration paid is recognized in profit or loss. See note 19E (2) and F(3)

V. **Derivative financial instruments and hedge accounting:**

The Group enters into a variety of derivative financial instruments, some of which are intended to mitigate its exposure to interest rate and foreign exchange rate risks, 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.

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 in respect of exposure to interest and non-derivatives (borrowings) in respect of foreign currency risk, at either cash flow hedges and interest 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 used in a hedging relationship is highly effective in offsetting changes foreign currency or cash flows of the hedged item. Movements in the hedging reserve in equity are detailed in the statement of other comprehensive income ("OCI").

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Derivative financial instruments and hedge accounting (cont.):

Hedge accounting (cont)

- *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 of net investments in foreign operations. Hedges of net investments in foreign operations relating to the effective portion of the hedge are 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 of the foreign operation.

W. Provisions; Contingent Asset:

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 associated with 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.

Contingent Asset - 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

X. **Grants from the Office of Chief Scientist ("OCS"):**

Government grants are recognized when reasonable assurance exists about the receipt of the same, and about the Group complying with all the related terms and conditions. Grants received from the OCS for research and development, which the Group is required, under certain conditions, to repay with interest through the payment of royalties to the State of Israel, which are subject to future revenues derived from the sale of products underlying the financed research and development activities, are recognized as a financial liability on the date of their receipt, unless reasonable assurance exists in the opinion of the management of the Group that the grants, in part or in whole, will not be repaid.

The liability associated with government grants is measured at fair value on the date of its initial recognition, based on the present value of the cash flows expected to repay the grants, discounted at a rate reflecting the level of risk of the specific research and development project. The difference between the government grant received and its fair value on the date of its receipt is charged to the statement of income and deducted from research and development expenses. Amounts paid as royalties are recognized as settlement of the government grants liability. At subsequent periods, government grant liabilities are measured at fair value, whereby changes in fair value (those derived from updating the estimated cash flows expected to repay the grants received, as well as those derived from updating the interest rate used for discounting that expected cash flows) are charged to the statement of income.

In the event that reasonable assurance exists that government grants shall not be repaid, in whole or in part, as detailed in the preceding paragraph, the grants are recognized to statement of income on the date on which the Group is entitled thereto, and off-set from research and development expenses.

Y. **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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. **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.

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 cases where the exercise price is not established at the grant date, management determines the exercise price based on its understanding of the mechanism by which that price is to be determined.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AA. Revenue recognition:

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

Revenues from commercial centers and investment property rental income - Revenues from leasing of property and management fees, as well as revenues relating to the operations of commercial and entertainment centers are measured at the fair value of the consideration received or receivable.

The lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

The leases generally provide for rent escalations throughout the lease term. For these leases, the revenue is recognized on a straight line basis so as to produce a constant periodic rent over the term of the lease. Accordingly, accrued rental revenue recognized on a straight line basis, represents unbilled rent receivables that the Group will receive only if the tenant makes all rent payments required through the expiration of the initial term of the lease.

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

(ii) Revenues from hotel operations are recognized upon performance of service.

(iii) Revenues on sales of real estate assets (including hotels), property, plant and equipment 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);

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AA. Revenue recognition: (Cont.)

(iii) (Cont.)

For the Group, these conditions are usually fulfilled upon the closing of a binding sale contract.

For sale 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.

(iv) Revenues from the sale of goods in the retail industry are recognized upon delivery.

AB. 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 include 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 of swap and IRS 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 substantially all the activities necessary to prepare the asset for its designated use or sale (i.e when the commercial center is ready for lease).

In certain cases, the Group ceases to capitalize borrowing cost if management decides that the assets can no longer be defined as a "qualified asset". In other circumstances, capitalization is suspended for certain time periods, generally where the efforts to develop a project are significantly diminished due to inter-alia lack of external finance, or ongoing difficulties in obtaining permits. The conclusions whether an asset is qualified for capitalization or not, or whether capitalization is to be suspended, involve also management plans with regard to the specific asset, such as the ability to raise bank loans, find anchors and local market conditions that support or deny the construction of the project.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AC. **Earnings (loss) per share:**

The Company presents basic and diluted earnings (loss) per share with respect to continued and discontinued operation. 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 adjusts 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. In addition, the Company adjusts the weighted average outstanding ordinary shares for the effects of all the dilutive potential ordinary shares of the Company.

AD. **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, interest paid on the Group's borrowings (including interest capitalized to qualifying assets) and cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control are included as cash flow from financing activities.

AE. **Discontinued operation**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

1. represents a separate major line of business or geographical area of operations;

2. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

3. is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. **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, that management has made while 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 (mainly trading property) 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.

Until December 31 2011, for the Group's property plant and equipment (mainly hotels), the Group evaluated 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 were present. Such evaluation was 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"). As from January 1, 2012, with respect to hotels the Company initially adopted the revaluation model (see N above).

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, whereby all such items are take undiscounted ("Net Realizable Value") (see note 8 G). Estimations of the Recoverable Amount and/or Net Realizable Value involve, in general, critical estimation and takes into account special assumptions in the valuations, many of which are difficult to predict, 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. In cases where there are material uncertainties in respect of the future development of the project the Group applies the comparable model. Actual results could be significantly different than the estimates and could have a material effect on the financial results.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. 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. In addition the process of construction is long, and subject to approvals and authorization from local authorities. It may occur that building permits will expire and will cause the Company additional preparations and costs, and can cause construction to be delayed or abandoned.

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, or where such transactions do not exist, based on external appraisers.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. Critical judgment in applying accounting policies and use of estimates: (Cont.)

(1) Use of estimates (Cont.)

b. Litigation and other contingent liabilities

The Group is involved in litigation, tax assessments 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 estimation. The Group periodically evaluates these estimations and makes appropriate adjustments to the provisions recorded in the consolidated financial statements. In addition, as facts concerning contingencies become known, the Group reassesses its position and makes appropriate adjustments to the consolidated financial statements. In rare circumstances, mainly with respect to class actions, when the case is unique, complicated and involves prolong and uncommon proceedings, the Group cannot reliably estimate the outcome of said case.

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. See also note 23 B5.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. Critical judgment in applying accounting policies and use of estimates: (Cont.)

(1) Use of estimates (Cont.)

e. Valuations of derivative, embedded derivative and share based payment arrangements

The Group is involved in derivative transactions, (mainly PC's swaps transactions, and Park Plaza option ((see note 9A(iv), 17 (1) and note 20 ii) and share based payment arrangement adopted by the Group (see note 25). The derivatives and the cash settled share based arrangements are measured at fair value at each balance sheet date.

Equity settled share 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: with respect to PC's swaps transactions: mainly the interest rate yield curves of the EURO.
- With respect to Park Plaza option: the expected volatility of Park Plaza share; 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 valuations of third party experts.

f. Fair value of investment property and hotels

As of December 31, 2012, the Group determined the fair value according to accepted evaluation methods for real estate properties. The factors taken into account in assessing valuations may include:

Assuming a transaction/price between willing buyer and a willing seller, without duress and an appropriate time to market the property to maximize price;

- Capitalization rates used to value the asset, market rental levels and lease expiries;
- Average room rate of the hotels;
- Discounted cash flow models;
- Available sales evidence; and
- Comparisons to valuation professionals performing valuation assignments across the market.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. Critical judgment in applying accounting policies and use of estimates: (Cont.)

(1) Use of estimates (Cont.)

f. Fair value of investment property and hotels (Cont.)

When the fair value of investment property and hotels is determined based upon the discounted cash flows ("DCF") approach, which is the major model the Group implements, the assumptions underlying the model, as well as the ability to support them by means of objective and reasonable market benchmarks, so they can be viewed as assumptions that market participants may have used, are significant in determining the fair value of the investment property and hotels. Among the predominant assumptions that may cause substantial changes in the fair value, while using the DCF model one can point to the capitalization rate, the expected net operating income and the interest rate for discounting the cash flows. All together, considering the degree of certainty, or uncertainty, of the markets in which the Group operates.

The Group endeavors to determine an objective fair value to the extent possible, however, the process of evaluating the fair value of investment property and hotels also involves subjective factors, derived from, among other things, the past experience of the Group's management, and its understanding of the anticipated development in the real estate markets as of the date on which the estimate of the fair value is being determined. For sensitivity analyses, see note 12 H.

Fair value of investment property and hotels is determined based on management's estimation. For that purpose, management uses its experience and internal experts, and takes into consideration and partially relies on appraisals performed by external local knowledgeable independent real estate appraisers or use appropriate valuation techniques adopted by the Group based on the experience and experts of the Group.

As of December 31, 2011 the Group determined the fair value of 47 assets representing approximately 90% of the total fair value of the Group's portfolio investment properties as of such date based on the asset fair value as reflected in an agreement mentioned in note 29 B

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. Critical judgment in applying accounting policies and use of estimates: (Cont.)

(1) Use of estimates (Cont.)

g. Fair value of associate

Following the Group loss of control over Insightec in December 2012 (see note 10B), the Company ceased to consolidate Insightec's financial statements. Commencing that date, the Company accounts for the remaining of its investment in Insightec based on the equity method, whereas the cost of the remaining investment was determined based on the fair value of Insightech as of such date.

As a result, in 2012 the Company has recorded a gain in the amount of NIS 216 million, which was presented under discontinued operations. The fair value of the Group's remaining investment in InSightec, amounted to NIS 150 million ($40.4 million).

The Company determined the fair value of InSightec using third party appraiser who has the required skills, experience and ability, based on the value reflected in GE's last round of investment in InSightec. In the opinion of the Company, which is based, inter alia, on the opinion of the appraiser, it is more appropriate to use that value, as oppose to other economic models, even though GE is an existing shareholder in InSightec.

The total value of Insightech was allocated to the Company's interest, based on the liquidation preference of each type of Insightec's shares held by the Group, as illustrated in InSightec's article of association, given the occurrence of certain events such as sale, liquidation, merger, initial prospectus offering (Organic Change"). The Company used the B&S model for the valuation process.

In light of the Group's investment in various shares of InSightec, the forecast of the Company's management as for the timing of an any Organic Change, as well as for determining the probability of the occurrence of each change, requires broad judgmental consideration, and therefore has a material effect on InSightec's fair value and accordingly, on the gain recognized by the Company and on its shareholders' equity as of December 31, 2012.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. **Critical judgment in applying accounting policies and use of estimates: (Cont.)**

(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 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 considerable degree of judgment and estimations. In addition, management's need to determine whether 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, is a critical judgment. Furthermore, suspension of capitalization of borrowing costs during periods in which a disrupt of the development of activities occurs, if the disrupt prolongs over a significant period of time, is a critical judgment. Also the determination that a real estate asset is no longer designated for development or construction requires judgmental considerations.

b. **Classification of investment as held to maturity**

As of December 31, 2011 the Group has an investment of NIS 188 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 was presented in the financial statements as for December 31, 2011 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 December 31, 2011) in approximately 29% (NIS 55 million) below their cost. Following said examination, the Group concluded that, as of the balance sheet date of December 31, 2011, there was no objective evidence which should lead to impairment of these Notes. During 2012 the company realized all its financial Notes.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. Critical judgment in applying accounting policies and use of estimates: (Cont.)

(2) Critical judgment in applying accounting policies (Cont.)

c. Effective control

See note 29B with respect to the Company's management opinion that as of December 31, 2010 the Group had de facto control over EDT (As of December 31, 2011 the Group reached the control over EDT and as for December 2012 the Group sold its investment in EDT), that is the power to govern the financial and operating policies of EDT, based on which the Company presents its indirect investment in EDT on a proportional consolidation basis based on 45% (as of December 31, 2011).

d. Revenue recognition from sale of property, plant and equipment

Revenues from sale of property plant and equipment, including hotels, are recognized when all the criteria mentioned in note 2 AA are met. Determination whether these criteria have been met for each sale transaction, requires a significant judgment by the Group management. In particular, significant judgment is made in determining whether, as of the balance sheet date, it is probable that the economic benefits associated with the transaction will flow to the Group and whether the Group transferred to the buyer the significant risks and rewards associated with the asset sold.

Such determination is based on a thorough 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 asset sold. Also are taken into consideration are the Company's management estimation as of the buyer's financial ability to pay the total consideration as agreed in the sale agreement and to what extent the buyer's initial and continuing investment is adequate to demonstrate its future commitment to pay the total consideration under the sale agreement.

e. Classification of investment property as held for use

With respect to the investment property portfolio in the U.S., which totaled NIS 2,557 million as of December 31, 2011, according to IFRS 5 *"Non-current Assets held for Sale and Discontinued Operations"*, an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable (highly probable means "significantly more likely than more-likely-than-not"). Amongst the aggregate conditions that must be satisfied for a sale of a non-current asset (or disposal group) to qualify as highly probable is that the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AF. Critical judgment in applying accounting policies and use of estimates: (Cont.)

(2) Critical judgment in applying accounting policies (Cont.)

e. Classification of investment property as held for use (Cont.)

With respect to the transaction to sell the Group's investment properties in the U.S., as mentioned in note 29 B), Group's management is of the opinion that while some of the conditions to qualify for classifying the Group's U.S. investment property portfolio as held for sale have been met as of December 31, 2011 (EPN's management did in fact have a plan in place to sell the assets and had negotiated a sales price for the portfolio during December 2011), as of such date it was not highly probable that the sale of said assets was expected to qualify for recognition as a completed sale within a 12-month period subsequent to December 31, 2011.

Management's primary arguments include: (i) being the transaction one of significant size in terms of total consideration and number of assets to be sold – $1.43 billion (of which $639 million assumed borrowings) and 47 assets, (ii) the lack of potential of buyers for a portfolio of the size of EPN's, (iii) as of December 31, 2011 recession in the real estate markets, both in the U.S. and globally economy, and stress in the capital markets, which raise significant uncertainty for a transaction of that size to be completed within one year, (iv) the closing of the transaction is subject to the consent of four different lenders with respect to borrowings in the total of $639 million to be assumed as part of the transaction, (v) non-refundable deposit was not paid by the potential purchaser as of December 31, 2011, (vi) EPN management's own experience with past transactions it has been involved in, and (vii) a purchase and sale agreement, nor letter of intent, were executed as of December 31, 2011, hence some significant business terms were not agreed upon as of such date.

Based on the above, as of December 31, 2011 the investment properties of the U.S. portfolio were classified as held for use.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AG. **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:

- **IFRS 9, Financial Instruments**

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective from annual period beginning on January 1, 2015. 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AC. New accounting standards and clarifications issued that are not yet effective: (Cont.)

- **IFRS 10, Consolidated Financial Statements**

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation - Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 10 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 assess that the effect of implementing the standard will be immaterial.

- **IFRS 11, Joint Arrangements**

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 could be accounted for using the equity method of accounting or proportionate consolidation accounting.

IFRS 11 is effective from annual period beginning on January 1, 2013.

As a result of applying IFRS 11, group companies, operating mainly in the commercial centers (trading property) segment, that through December 31, 2012 were presented based on the proportionate consolidation method, would be, commencing January 1, 2013, presented based on the equity method.

The management of the Company assess that the effect of implementing the standard in its financial statements will have a material effect on its financial position as of December 31, 2012 and results of operation for the year then ended, as illustrated in the following net amounts: total assets are expected to decrease in approximately NIS 330 million, long- and short-term liabilities are expected to decrease in approximately NIS 300 million, shareholder's equity is expected to decrease in approximately NIS 30 million, revenues and gains are expected to decrease in approximately NIS 70 million and the net loss is expected to increase in approximately NIS 30 million.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AG. **New accounting standards and clarifications issued that are not yet effective: (Cont.)**

- **IFRS 12, Disclosure of Interests in Other Entities**

  IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

  IFRS 12 is effective from annual period beginning on January 1, 2013. Earlier application is permitted with certain relief.

- **IFRS 13, Fair Value Measurement**

  IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

  At this stage, the management of the Company estimates that the effect of implementing the standard is not to have a material effect on the Company's financial condition and results of operations.

- **Amendments to IAS 1, Presentation of Items of Other Comprehensive Income**

  The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

  The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AG. **New accounting standards and clarifications issued that are not yet effective: (cont.)**

- **Annual Improvements 2009-2011 (May 2012)**

  IAS 1 - Clarification of the requirements for comparative information.

  According to the amendment, in cases in which the entity perform restatement accounting policies and/or perform reclassification in its financial statements, which significantly affects the balance sheets as for the beginning of the period preceding the reporting year, it should present in the balance sheets for that date. In addition, the amendment clarifies that companies are not required to present notes with respect to the additional statement in the balance sheets.

  The amendment is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The amendments will be implemented retrospectively in accordance with IAS 8.

- **Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements to:**

  - provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement

  - require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries

  - require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

  The amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

  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 operation.

NOTE 3 - FINANCIAL POSITION AND GOING CONCERN ASSUMPTION

(1) Until February 2013, the Company repaid all the principal and interest payments relating, inter alia, to its debenture and bank loans according to their schedules. According to the repayment schedules of the Company's Series 1 and Series A to Series G debentures (collectively, the "Notes"), the Company is required to repay the Note holders principal and interest in the aggregate amount of NIS 599 million for the period commencing February 1, 2013 until February 1, 2014. In addition, as of December 31, 2012, the Company failed to comply with certain financial covenants under Israeli long-term bank loans in the total amount as of such date of NIS 290 million. Accordingly, said amount is presented as short-term liability (see also note 31C). All said amounts relate to the Company on a standalone basis.

(2) During 2012 and 2011, the Company recorded loss in the amount of NIS 456 million and NIS 247 million, respectively, out of which an amount of NIS 406 million and NIS 371 million, respectively, is attributable to non-cash write downs of Plaza's trading properties, mainly in the CEE.

(3) In the Beginning of February 2013, management's original cash collecting plan confronted delays, inter alia, due to the postponement in the distribution of dividend from Plaza as well as decline in the recent period in the price of Plaza's stock.

(4) On February 5, 2013, the Company's Board of Directors decided to delay, at this stage, the payments of principal to Series A and Series B Note holders (scheduled for February 21, 2013) in the total amount of NIS 82 million. In addition, the Board resolved to authorize the management of the Company to commence accelerated negotiations with the trustees and representatives of all the Notes holders, in an attempt to formulate an agreement with all the debenture holders that will enable the Company to meet all its obligations.

(5) On February 19, 2013, the Board of Directors of the Company resolved to suspend also any interest payments relating to all the Notes.

(6) As a result of the above mentioned, as for the date of the approval of these financial statement, the Company is allegedly in cross default with respect to loans received by subsidiaries, for which the Company is a guarantor, and debentures in the total amount of NIS 2,831 million. As of the approval date of the financial statements none of the abovementioned loans or debentures were called for immediate repayment.

NOTE 3 - FINANCIAL POSITION AND GOING CONCERN ASSUMPTION (Cont.)

(7) On February 27, 2013, a summary of principle terms was reached among the Company, York Capital Management Global Advisors, LLC ("York") and Davidson Kempner Capital Management LLC ("DK", and collectively with York, the "Funds"). The summary of principles outlines a proposed restructure relating to all the Notes (the "Proposed Restructuring"). The Funds hold, in the aggregate, approximately 35% of the outstanding balance of the Notes (as defined below).

Main principals of the Proposed Restructuring

Pursuant to an arrangement under Sections 350-351 of the Israeli Companies Law, the outstanding balance under the Company's Notes and any other unsecured loans of the Company (which together, as of February 26, 2013, equaled approximately NIS 2,464 million (approximately $660 million) (principal and interest) would be converted into (a) Ordinary Shares of the Company, representing immediately following such conversion 86% of the total share capital of the Company on a fully diluted basis (excluding any new warrants to purchase Ordinary Shares that may be issued to the Company's current controlling party and CEO) and (b) new notes (the "New Notes") with an aggregate face amount of NIS 300 million (approximately $80 million) bearing interest at the rate of 8% per annum payable on a semi-annual basis, with principal repayable in a single payment at the end of five years

The Ordinary Shares and New Notes to be issued would be allocated among the various series of the Notes in proportion to the outstanding balance (pari) under each such series. The new Ordinary Shares would be listed for trading on both the Tel Aviv Stock Exchange and the NASDAQ Global Select Market free of any restrictions or limitations on trade and the New Notes to be issued would be listed for trading on the Tel Aviv Stock Exchange only. The New Notes would be secured by a negative pledge and would include mandatory prepayment provisions in the event the Company secures corporate-level financing (using only the proceeds of such new financing), and may be prepaid at any time without penalty.

Cash-out

Under the summary of terms, the Funds would offer to purchase Notes from those Note holders who wish to sell, immediately prior to the closing of the Restructuring, for an aggregate amount of $75 million in cash (the "Cash-Out"). The structure, terms and conditions of the Cash-out have yet to be determined

The participation of the Funds in, and the terms of, the Cash-Out would be conditioned on the satisfactory outcome of a due diligence review of the Company, as well as other conditions precedent to be agreed upon by the parties.

Secured Debt

The Proposed Restructuring contemplates that the secured debt owed by the Company to an Israeli bank the balance of which as of December 31, 2012 amounted to NIS 238 million would remain outstanding and payable in accordance with its existing repayment schedule and other terms.

(8) The Company's ability to meet all its obligations in the foreseeable future is highly dependent the Company's ability to restructure its debt as above mentioned. The aforesaid, together with the above described matters and the profound complexity associated with the negotiation process to reach the debt restructuring raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For additional information, see note 31 A.

NOTE 4 - SHORT-TERM DEPOSITS AND INVESTMENTS

A. Composition:

	December 31		
	2012		2011
	Interest rate		
	%	(in thousand NIS)	
Deposits at banks and financial institutions:			
U.S. Dollar (i)	see (i) below	122,744	130,200
EURO (ii)	see (ii) below	46,957	86,017
NIS (iii)	see (iii) below	11,937	9,054
Credit linked note (see Note 19 E(3))		43,306	-
Others restricted deposits		5,169	17,899
		230,113	243,170
Marketable securities held for trading:			
Shares		10,675	21,466
		10,675	21,466
Available for sale financial assets (iv)	see (iv) below	87,042	144,702
		327,830	409,338

(i) As of December 31, 2012, deposits in a total amount of NIS 34 million are restricted in respect of bank facilities requirements, which bear interest of 0%. An additional NIS 54 million are restricted in respect of tax and wind up payments expected following the US transaction, and bears annual interest of 0.3%.

As of December 31 2011, an amount of NIS 31.9 million is restricted due to bank facility agreements signed to finance investment property in USA.

An amount of NIS 33.9 million and NIS 20.3 million as of December 31, 2012 and 2011, respectively, is restricted due to bank facility agreements. (Refer to note 19). This amount carries an annual interest rate approximately 1.1%-0.6%. An amount of NIS 75 million as of December 31, 2012 carries an annual interest rate approximately of 0.98%.

(ii) An amount of NIS 32 million and NIS 20.2 million as of December 31, 2012 and 2011, respectively, is restricted due to bank facility agreements signed to finance projects in Eastern Europe. These amounts carry an annual interest rate ranging between 0% and overnight LIBOR. An amount of NIS 10 million and NIS 10.3 million as of December 31, 2012 and 2011, respectively, is restricted in respect of IRS transaction. This amount is carrying fixed interest rate of 3.2%. An amount of NIS 48 million as of December 31, 2011 is pledged as security for derivative and financial instrument transactions with banks and financial institutions which bears an interest of 1 month Euribor.

(iii) As of December 31, 2012 an amount of NIS 12 million is restricted in respect of bank facility agreement signed. The restricted amount is not carrying interest.

As of December 31, 2011 an amount of NIS 9 million is restricted due to bank credit to finance the Retail operation.

NOTE 4 - SHORT-TERM DEPOSITS AND INVESTMENTS

A. **Composition (cont.):**

(iv) Interest-bearing available-for-sale financial assets with a face value of NIS 58 million and NIS 123 million are outstanding as of December 31, 2012 and 2011, respectively. The available-for-sale financial assets have stated interest rates of 1% to 13%. As at December 31, 2012, part of the AFS Portfolio in the amount of NIS 3 million is pledged against secured bank loan.

The balance includes in addition NIS 24 million and NIS 13 as of December 31, 2012 and 2011, respectively, representing 1.7 million and 1 million shares of Park Plaza Hotels Limited as of December 31, 2012 and 2011, respectively (see note 12 C and D).

B. **For Liens - see note 23D.**

NOTE 5 - TRADE ACCOUNTS RECEIVABLES

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Outstanding accounts	57,661	88,175
Less - allowance for doubtful accounts	(10,133)	(16,126)
	47,528	72,049

NOTE 6 - OTHER RECEIVABLES

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Income taxes	7,320	5,800
Governmental institutions (i)	11,754	32,485
Related parties	5,715	6,151
Loans to third parties (ii)	65,013	38,595
Insurance company receivable (refer to note 8C)	37,454	-
Other	9,020	18,535
	136,276	101,566

(i) As of December 31 2011, Includes mainly VAT receivable due to projects in Poland.

(ii) The balance as of December 31, 2012 and 2011, respectively includes current maturities in the amount of NIS 46 million and NIS 13 million with respect to loans denominated in EURO provided to Park Plaza's subsidiary regarding the sale of the Group's hotels in UK in 2010 (see note 9A (v) and 12 C)).

The remaining balances as of December 31, 2012 and 2011 include loans mainly to partners in jointly controlled entities.

NOTE 7 - PREPAYMENTS AND OTHER ASSETS

	December 31 2012	December 31 2011
	(in thousand NIS)	
Advance for plot purchase (i)	223,760	237,922
Advance to suppliers	13,325	8,115
Prepaid expenses	9,765	16,824
	246,850	262,861

(i) Include mainly advances in the amount of NIS 219 million (2011: NIS 230 million) for the purchase of plots in India (see note 8D).

NOTE 8 - TRADING PROPERTY

A. Composition:

	December 31 2012	December 31 2011
	(in thousand NIS)	
Balance as of January 1	4,556,616	4,192,241
Acquisition and construction costs	139,664	422,241
Disposal during the year	(108,629)	-
Capitalized borrowing costs	134,288	192,993
Write-down to net realizable value (see C, G below and note 26J)	(453,835)	(272,990)
Foreign currency translation adjustments	(69,399)	22,131
Balance as of December 31 (1)	4,198,705	4,556,616

(1) The balance as of December 31, 2012 includes cost of large scale projects (Bangalore in India, Casa Radio in Romania and Dream Island in Hungary) in a total amount of NIS 1,253 million (as of December 31, 2011 - NIS 1,471 million). The abovementioned projects are expected to generate an operating cycle closer to eight years (refer to note 2E comparing other projects held by the Group).

NOTE 8 - **TRADING PROPERTY (Cont.)**

B. Additional information:

	December 31	
	2012	2011
	(in thousand NIS)	
Accumulated write-down to net realizable value	995,635	541,800
Composition of trading property per stages of development:		
Under operation (*)	1,454,693	1,006,443
Under construction	90,241	608,688
Under planning and design	2,653,771	2,941,485
Total	4,198,705	4,556,616

(*) In accordance with PC's strategic business model which is to construct commercial centers for sale while producing gains, commercial centers for which construction has been completed but not yet sold due to market condition as of the balance sheet date, are under operation but still designated for sale. See C below.

Regarding business segments and geographical areas, see note 28.

Composition of trading property distinguished between freehold and leasehold rights:

	December 31	
	2012	2011
	(in thousand NIS)	
Freehold	3,011,593	3,290,518
Leasehold	1,187,112	1,266,098
	4,198,705	4,556,616

NOTE 8 - TRADING PROPERTY (Cont.)

C. Additional information in respect of PC's trading property:

Commercial centers - As of December 31, 2012 PC, has seven commercial centers under operation, two of which has been completed during 2012 in Kragujevac, Serbia and in Koregaon, India.

Office buildings - During 2012, PC started the sale of office space in Kharadi 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.

Fire at the shopping center of the Company's subsidiary in India

In June 2012, a fire event occurred at a shopping center of the PC's subsidiary in Pune, India, which resulted in a temporary close-down of the shopping center.

The subsidiary maintains comprehensive general liability and property insurance, including business interruption insurance, with loss limits that the PC's subsidiary is of the opinion will entitle it with substantial and broad coverage for the currently foreseeable losses arising from this event.

As a result of the fire event, the Company recorded an impairment of NIS 50 million to its trading property asset. Based on the insurance company's valuator report, management of the Company determined that it is virtually certain that the subsidiary would be reimbursed by the insurance company. Accordingly, the Group recorded a receivable in the amount of NIS 37 million (see note 6).

Disposal of a projects in Bulgaria and Hungary

In July 2012, PC sold its stake (51%) in a plot of land located in Sofia, Bulgaria for a total consideration of NIS 0.5 million. According to the terms of the transaction, bank loans and other liabilities in a total amount of NIS 65 million were assumed by the buyer. No gain or loss was recorded as a result of this transaction.

In October 2012, PC, through its jointly held subsidiary in Hungary, disposed of a plot of land adjacent to its Dream Island property plot in Budapest, Hungary. As part of the transaction, a loan in the amount of EUR 5.9 million (NIS 29 million) (Company portion) was assigned to the buyer, and the plot in a total book value of EUR 4.5 million (NIS 22 million) was disposed of. As a result of this transaction a gain of EUR 1.4 million (NIS 7 million) was included in 2012 income statement.

The following table summarises general information regarding PC's significant trading property projects (excluding trading property projects in India which are held jointly by PC and the Company (see D below).

NOTE 8 - TRADING PROPERTY (Cont.)

C. Additional information in respect of PC's trading property: (Cont.)

			As of December 31, 2012			
Project	Location	Purchase / transaction date	Rate of ownership by PC (%)	Nature of rights	Status of registration of land	Status of the project
Suwalki Plaza	Poland	Jun-06	100	Ownership	Completed	Operational
Zgorzelec Plaza	Poland	Dec-06	100	Ownership	Completed	Operational
Torun Plaza	Poland	Feb-07	100	Ownership	Completed	Operational
Lodz residential	Poland	Sep-01	100	Ownership/ Perpetual usufruct	Completed	Planning and development stage
Lodz – plaza	Poland	Sep-09	100	Perpetual usufruct	Completed	Planning and development stage
Kielce Plaza	Poland	Jan-08	100	Perpetual usufruct	Completed	Planning and development stage
Lesnzo Plaza	Poland	Jun-08	100	Perpetual usufruct	Completed	planning and development stage
Liberec Plaza	Czech Republic	Jun-06	100	Ownership	Completed	Operational
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	Operational
Kharadi	India	Feb-07	50	Ownership	Completed	Under construction
Trivandrum	India	Jun-07	50	Ownership	Completed	Planning and development stage
Casa Radio	Romania	Feb-07	75	Leasing for 49 years	Completed	Planning and development stage
Timisoara Plaza	Romania	Mar-07	100	Ownership	Completed	Planning and development stage
Miercurea Csiki Plaza	Romania	Jul-07	100	Ownership	Completed	Planning and development stage
Iasi Plaza	Romania	Jul-07	100	Ownership	Completed	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
Hunedoara 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	Ownership	Completed	Planning and development stage
Kragujevac Plaza	Serbia	Oct-07	100	Lease for 99 years	Completed	Operational
Sport-Star Plaza	Serbia	Dec-07	100	Ownership	Completed	Planning and development stage
Shumen Plaza	Bulgaria	Nov-07	100	Ownership	Completed	Planning and development stage
Dream Island	Hungary	Sep-03	43.5	Ownership	Completed	Planning and development stage
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

NOTE 8 - TRADING PROPERTY (Cont.)

D. **Additional information in respect of trading property in India:**

The following information relates to trading property held by Elbit-Plaza India Real Estate Holding Limited ("EPI"), the total amount of which as of December 31, 2012 amounts to NIS 614 million. EPI is jointly controlled by the Company and PC (see note 11D).

(1) **Chennai, India**

In December 2007, EPI executed agreements for the establishment of a special purpose vehicle ("Chennai Project SPV") together with one of the leading real estate developers in Chennai ("Local Partner"). Subject to the fulfillment of certain conditions, the Chennai Project SPV undertook to acquire the ownership and development rights in and up to 135 acres of land situated in the Sipcot Hi-Tech Park in the Siruseri District of Chennai, India. Under the agreement, EPI's investment in the Chennai Project SPV will be a combination of investment in shares and compulsory convertible debentures. Due to changes in market conditions, EPI and Chennai Project SPV later decided to limit the extent of the project to 83.4 acres.

Under these agreements, EPI is to hold 80% of the equity and voting rights in the Chennai Project SPV, while the Local Partner will retain the remaining 20%. The project land is to be acquired by the SPV in stages subject to such land complying with certain regulatory requirements and the due diligence requirements of EPI. Through December 31, 2012 the Chennai Project SPV has completed the purchase of approximately 75 acres out of the total 83.4 acres for consideration of a total of INR 2,367 million (NIS 161 million) (EPI share). In addition, as of such date, EPI paid advances in the amount of INR 564 million (NIS 38 million) in order to secure acquisition of an additional 8.4 acres.

The parties have entered into a shareholders' agreement in respect of the management of the Chennai Project SPV, which provides, among other matters, for a five member board of directors, with one member appointed by the Seller for so long as it maintains a 10% holding in the Chennai Project SPV and four members appointed by EPI. The shareholders' agreement also includes pre-emptive rights and certain restrictions pertaining to transferring of securities in the Chennai Project SPV. Profit distributions declared by the Chennai Project SPV will be distributed in accordance with the parties' proportionate shareholdings, subject to EPI's entitlement to receive certain preferential payments out of the Chennai Project SPV's cash flow, as determined in the agreements.

The consummation of the agreements will be accomplished in stages, and is subject to the fulfillment of certain regulatory requirements, as well as to the Company's satisfactory due diligence investigations, in respect of each stage. However, EPI is currently negotiating certain changes in the project's implementation plan and holding structure, which would require changes also in the respective agreements. Among other things, should those changes be accepted, EPI shall not be required to advance more financing to the project in addition to the amounts mentioned above and shall hold all the issued and outstanding share capital of the SPV. Further, EPI is currently operating to secure a joint development agreement with local developer(s) for the development of the project land, in accordance with the aforementioned guidelines.

NOTE 8 - TRADING PROPERTY (Cont.)

D. **Additional information in respect of EPI's trading property: (Cont.)**

(2) **Bangalore, India**

Amended Framework Agreement (March 2008)

In March, 2008 EPI entered into an amended and reinstated share subscription and framework agreement (the "Amended Framework Agreement"), with a third party (the "Partner"), and a wholly owned Indian subsidiary of EPI ("SPV"), to acquire, through the SPV, up to 440 acres of land in Bangalore, India (the "Project Land") in certain phases as set forth in the agreement. As of December 31, 2012, the Partner has surrendered land transfer deeds in favour of the SPV to a trustee nominated by the parties for approximately 54 acres for a total aggregate consideration of approximately INR 2,843 million (NIS 194 million), presented in the statement of financial position as of December 31, 2012 and 2011 as trading property. Upon the actual transfer of title of such 54 acres, the Partner will be entitled to receive 50% of the shareholdings in the SPV.

In addition, the SPV has paid to the Partner advances of approximately INR 2,536 million (NIS 173 million) on account of future acquisitions by the SPV of a further 51.6 acres. Such amount is presented in the statement of financial position as of December 31, 2012 and 2011 as other receivables, as prepayment and other assets (refer to note 7).

As detailed below, on July 22, 2010, EPI, the SPV and the Partner entered into a new framework agreement which has not yet come into force (the "New Framework Agreement"). The New Framework Agreement provides that in case it does not eventually come into full force and effect, the terms of the Amended Framework Agreement will govern, according to which the Group's additional investments in the Project Land may reach up to INR 10,500 million (NIS 716 million). Nonetheless, although certain conditions precedent under the New Framework Agreement has not been met, EPI, the SPV and the Partner are actually pursuing the project in accordance with the provisions of the New Framework Agreement (for a description of the New Framework Agreement, please see the next paragraph).

NOTE 8 - TRADING PROPERTY (Cont.)

D. Additional information in respect of EPI's trading property: (Cont.)

(2) Bangalore, India (cont.)

New Framework Agreement (July 2010)

On July 22, 2010, a new set of arrangements was entered into between, EPI, the SPV and the Partner (the "New Framework Agreement" as defined above) which established new commercial understandings pertaining, *inter alia*, to the joint development of the Project Land and its magnitude and financing, the commercial relationships and working methods between the parties and the distribution mechanism of the revenues from the Project Land.
In accordance with the New Framework Agreement, the following commercial terms have been, *inter alia*, agreed between the parties:

- EPI will remain the holder of 100% of the shareholdings and the voting rights in the SPV.
- The scope of the new Project will be decreased to approximately 165 acres instead of 440 acres (the "New Project").
- The Partner undertakes to complete the acquisitions of the additional land and/or the development rights therein in order to obtain the ownership and/or the development rights over the said 165 acres.
- The SPV and/or EPI will not be required to pay any additional amounts in respect of such acquisitions or with respect to the Project and its development.
- The project will be re-designed as an exclusive residential project.

The Project will be executed jointly by the Partner and the SPV. The Partner (or any of its affiliates) will also serve as the general contractor of the Project and the marketing manager of the Project. Under the New Framework Agreement the Partner is committed to a maximum construction costs threshold, minimum sale prices and a detailed timeline and budget with respect to the development of the Project.

The net proceeds from the Project (including the proceeds from any sale by the Partner or any transaction with respect to the original lands which do not form part of the said 165 acres) will be distributed (following a reserve mechanism to enable the Partner to utilize a portion of the proceeds for construction costs and expenses) in a manner by which the Group's share will be approximately 70% until such time that EPI's investment in the amount of INR 5,780 million (approximately NIS 0.4 billion) ("EPI's Investment") plus an internal return rate of 20% per annum calculated from September 30, 2009 ("IRR") is paid to the SPV (on behalf of EPI) (the "Discharge Date").

NOTE 8 - TRADING PROPERTY (Cont.)

D. **Additional information in respect of EPI's trading property: (Cont.)**

(2) **Bangalore, India (cont.)**

***New Framework Agreement (July 2010)* (cont.)**

Following the Discharge Date, EPI will not be entitled to receive any additional profits from the Project and it will transfer to the Partner the entire shareholdings in the SPV for no consideration. In addition, the Partner has a call option, subject to applicable law and regulations, to acquire the entire shareholdings of the SPV, at any time, in consideration for EPI's Investment plus the IRR calculated on the relevant date of acquisition.

The terms of the New Framework Agreement will enter into full force and effect upon execution of certain ancillary agreements as set forth therein, however, EPI, the SPV and the Partner are actually pursuing the project in accordance with the New Framework Agreement.

As of December 31, 2012 and 2011, the SPV 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 Partner.

Planning Status

In January 2011, the Partner has submitted the development plans pertaining to approximately 84 acres included in the scope of the new project of 165 acres to the local planning authority, the Bangalore Development Authority ("BDA"). In October 2011, the BDA had notified the Partner that the development plans cannot be considered due to a future eminent domain proceedings with respect to the lands on which the new project is proposed to be situated (among other lands in the same area). The government has not yet published any notice in that respect, as required by law in order to validate such eminent domain plan.

In January 2012, the Partner applied to the State High Court, requesting to issue a court order directing the BDA to consider the development plans. In March 2012, the court awarded a judgement pertaining to approximately 49 Acres, ordering the BDA to consider the development plan relating to such 49 Acres ("Development Plan"), while ignoring any future eminent domain program that may be considered by the state authorities. In December 2012, the BDA decided to submit the development plans pertaining to aforementioned 49 acres to the Sensitive Zone Sub-Committee of the BDA and in January 2013, the Sensitive Zone Sub-Committee of the BDA granted its approval to the aforementioned Development Plan. As of the approval date of the financial statements, the Group awaits the court's judgement with respect to the remaining 35 acres.

E. As of December 31, 2012 the Group pledged trading property in the amount of NIS 1,613 million in order to secure borrowings provided to the Group by financial institutions in the total amount of NIS 1,212 million. See also note 23D.

F. As for commitments in respect of construction services and purchase of plots, see note 23A (3).

NOTE 8 - TRADING PROPERTY (Cont.)

C. Most projects classified as trading property were valued as of December 31, 2012 by independent third party appraisers. PC's management made adjustments to the fair values determined by the relevant appraiser to reflect the net realizable value of each trading property by neutralizing the developer's expected profits on costs from the valuations (apart from projects that for determining the impairment charge associated therewith their fair value was set as their net realizable value, see note 2M).

Significant assumptions regarding the value of the projects upon completion (on the basis of weighted averages) used in the valuations as of December 31, are presented below:

	Retail		Offices	
	2012	2011	2012	2011
Estimated rental prices per sqm per month (in EURO)				
Romania	6-24	10-30	10.5	11
Czech Republic	N/A	10-15	N/A	13
Serbia	16-34	10-24	14	14
Latvia	N/A	16	N/A	N/A
Poland	8-18	9-20	N/A	N/A
Greece	27	27	N/A	N/A
Hungary	15	8-25	11-11.75	11.75
India	5-19	8-22	N/A	N/A
Average risk adjusted yield used (in percentage)				
Romania	8-9.75	8.00-8.75	8.5	8.50
Czech Republic	8.35-8.66	7.25	N/A	7.25
Serbia	9-9.75	9.00-9.75	9.25	9.25
Latvia	8.75	8.40	N/A	N/A
Poland	7.5-8.5	7.25-8.00	N/A	N/A
Greece	8.5	8.25	N/A	N/A
Hungary	7.5-9	8.25-8.75	8.5	8.50
India	12	11	N/A	N/A

NOTE 9 - DEPOSITS, LOANS AND OTHER LONG-TERM BALANCES

A. **Composition:**

	December 31 2012	December 31 2011
	(in thousand NIS)	
Deposits at banks and financial institutions (i)	71,532	57,519
Held to maturity financial instruments (ii)	-	187,648
Financial instruments designated at FVTPL (iii)	-	62,701
Derivative measured at FVTPL (iv)	22,934	15,148
Loans to third parties (v)	46,057	60,296
Loans to associates	-	3,126
Others	3,956	6,843
	144,479	393,281
Less - current maturity	(89,363)	(13,204)
	55,116	380,077

(i) December 31, 2012: Comprised mainly of NIS 10 million linked to the EURO and bearing annual interest rate of 0.2%-1.2% per annum and NIS 18 million linked to the NIS bearing interest of 1.5% per annum. Also include NIS 45 million credit link note (see Note 19 E(3)). December 31, 2011: Comprised mainly of NIS 27 million linked to the EURO and bearing annual interest rate of 0.2%-3.2% per annum, and NIS 23 million linked to the NIS bearing interest of 2.4% per annum. All deposits are mainly pledged as security for the repayment of 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) An amount of €38.0 million (NIS 188 million) was invested by PC in financial note ("Note") for a period of 15 years. The Note 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. In June 2012, PC sold the Note for a total consideration of EUR 37.2 million (NIS 183 million). PC used the proceeds to repay a loan granted from issuer of the Note of a total amount of EUR 26.2 million (NIS 129 million).

(iii) An amount of €13 million (NIS 64 million) was invested by PC in financial notes ("Notes") which pays a variable interest linked to the 10 year EURO CMS (Constant Maturity Swap, which is the mid-market annual swap rate) rate subject to a minimum annual interest rate of 6.25% and a maximum annual interest rate of 12.50%. In June 2012, PC sold the Note for a total consideration of EUR 13.5 million (NIS 66 million). PC used the proceeds to repay a loan granted from issuer of the Notes of a total amount of EUR 10 million (NIS 49 million), and the net proceeds totaled NIS 14.5 million.

(iv) The balance as of December 31, 2012 and 2011 includes an amount of GBP 2.5 and 2.6 million (NIS 15) with regard to the sale of the Group's hotels in UK. As of December 31, 2012, the balance also include amount of GBP 1.2 (NIS 8) with regard to the sale of the Group's hotels in The Netherland. Said amounts determined by a third party expert and represents the fair value of a derivative contemplated in the sale agreements (see note 12 C and D).

(v) The balance as of December 31, 2012 and 2011 includes an amount of NIS 46 million and NIS 59 million respectively, with respect to long-term loans provided to Park Plaza's subsidiary regarding the sale of the Group's hotels in London (see Note 6 (ii) and 12 C). As for collateral of this loan see note 23 D (1).

B. **Liens** - see note 23D.

NOTE 10 - INVESTMENTS IN ASSOCIATES

A. **Composition:**

	December 31 2012	December 31 2011
	(in thousand NIS)	
Cost	75,330	82,058
Accumulated losses, net	(55,768)	(54,576)
Initial recognition of investment in associate due to loss of control over a subsidiary (ii)	150,752	-
Disposal of an associate	-	(11,097)
Foreign currency translation adjustments	(6,289)	(5,829)
Total (i)	164,025	10,556
(i) Including goodwill	18,795	19,851

	December 31 2012	December 31 2011
	(in thousand NIS)	
Equity Investment	315,032	322,458
Company's share in losses of associates	(522,008)	(496,080)
Reserve related to Company's loan	15,875	-
Reserve from transaction with non controlling interest	8,873	8,991
Conversion of loans into shareholders' equity	116,406	-
Gain from loss of control over a subsidiary	216,574	-
	150,752	(164,632)
Investments in associates are comprised of:		
Insightec (48%) (ii)	150,752	-
Gamida (31%)	18,864	16,085
Other	(5,591)	(5,529)

B. **InSightec Ltd. ("InSightec")**

(1) InSightec Ltd. is engaged in the development, manufacturing and marketing of medical treatment systems, based on a unique technological platform, which combines the use of a focused ultrasound beam and a magnetic resonance imaging guided focused ultrasound treatment equipment ("MRgFUS technology") intended for the treatment of non-invasive tumors in the human body.

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 December 31, 2011, the Group held 65.9% in InSightec and 53.05% on a fully diluted basis.

NOTE 10 - INVESTMENTS IN ASSOCIATES (Cont.)

B. InSightec Ltd. ("InSightec") (cont.)

(2) **Loss of control over Insightec**

During 2012 the Group has entered into a share purchase agreement with GE and certain other shareholders of InSightec ("Other Investors") and an investment agreement with GE pursuant to which GE and the Other Investors invested a total amount of approximately US$ 44 million in InSightec. The main terms of the Transaction are as follows:

(i) GE invested US$ 27.6 million in cash in exchange for InSightec's series C preferred shares. Simultaneously, Other Investors invested approximately US$ 3.3 million in cash in consideration for InSightec's series C preferred shares.

(ii) GE and the Group converted all outstanding shareholder loans which have been granted to InSightec, into InSightec's series B-1 preferred shares in accordance with the terms of such loans.

(iii) The Transaction reflects a post money valuation of InSightec of approximately US$ 105.9 million (or pre money valuation of US$ 75 million and following the conversion of the loans as described in II above).

(iv) As part of the Investment Agreement GE and InSightec signed a Technology, Co-operation and Distribution Agreement. This agreement replaced the 2005 Global Distribution Agreement and two other prior agreements between InSightec and GE. According to the agreement, GE was awarded world-wide distribution rights for marketing and sales of InSightec's products. The Agreement also requires that the InSightec's products be compatible with GE imaging equipment for a period of five years or earlier upon the occurrence of certain events. This Agreement also provides GE with: (i) a right of first negotiation for exclusive distribution of new InSightec's products; (ii) a first priority right to quote and sell to new GE customers; and (iii) a first priority right to quote and sell new products to existing GE customers. The agreement also sets up a framework pursuant to which InSightec and GE will cooperate regarding mutual technology alignment and development.

(v) As for December 31, 2012 the Group holdings in InSightec reduced to approximately 48%, and 41% on a fully diluted basis.

Upon the closing of the Transaction in December 2012, the Group will no longer have the right to appoint the majority of InSightec's directors and therefore Group ceased to present its investments in InSightec on a fully consolidated basis but rather the investments therein are presented in these financial statements based on the equity method of accounting. In addition, upon the closing of the Transaction the Group recorded based on external independent valuator a gain in the amount of NIS 216 million which is presented in the discontinued operation results.

NOTE 10 - INVESTMENTS IN ASSOCIATES (Cont.)

C. Gamida Cell Ltd. ("Gamida"):

Gamida is engaged in the development of stem cell therapeutics based on its proprietary technologies for stem cells expansion. As of December 31, 2012, the Group holds 30.8% in Gamida's voting and equity rights (28.8% 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 May, 2012 Gamida completed her internal investment round, held by the existent shareholders, in the frame of which, a sum of $10 million raised for the financing of Gamida's activity ("the Investment Round").

In the frame of the Investment Round, the Company invested in Gamida an amount of approximately $3 million, in order to preserve its ownership percentage in Gamida.

D. The following is summarized data outlining items extracted from the associates' financial statements:

	Gamida		Insightec	
	As at December 31			
	2012	2011	2012	2011
	(in thousand NIS)		(in thousand NIS)	
Assets	29,950	31,947	106,928	24,940
Liabilities	(16,687)	(34,851)	(81,368)	(284,791)
Net assets	13,263	(2,904)	25,560	(259,851)

	Gamida			Insightec		
	Year ended December 31					
	2012	2011	2010	2012	2011	2010
		(in thousand NIS)			(in thousand NIS)	
Revenues	-	-	-	69,457	56,602	33,621
Loss	(26,364)	(33,252)	(26,917)	(59,914)	(101,913)	(77,032)

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF

A. **Elbit Medical Technologies:**

In November 2010, the Company closed a transaction to restructure its holdings in the medical companies InSightec Ltd. ("InSightec") and Gamida Cell Ltd. ("Gamida"), under Elbit Medical Technologies Ltd., an Israeli company traded on the TASE ("Elbit Medical"). In consideration for the Group's holdings in InSightec representing as of the closing date of the transaction 69.3% of InSightec's outstanding share capital (see note (10 B above) below) and the Group's shares of Gamida representing as of the closing date of the transaction 31.6% of Gamida's outstanding share capital (see note 10 C above), the Company was issued with Elbit Medical shares representing a 90% interest in Elbit Medical and was granted options at zero exercise price to acquire shares of Elbit Medical, which together with the aforesaid shares constitute as of the closing date of the transaction 97.9% of Elbit Medical's share capital (on a fully diluted basis). As for December 31, 2012, the Company holds 95.63% of Elbit Medical on a fully diluted basis.

In addition, in December 2010, Elbit Medical issued shares in a private placement in the aggregate amount of NIS 19 million (approximately $4.8 million), including a two year option to invest an additional aggregate amount of NIS 19 million (approximately $4.8 million).

B. **Plaza Center N.V. ("PC"):**

(1) PC conducts its activities in the field of establishing, selling and operating (until their sale) shopping and entertainment centers, as well as other mixed use projects (retail, office, residential) in Central and Eastern Europe, and India. As of December 31, 2012 the Group holds 62.52% in PC (56.24% on a fully diluted basis).

(2) PC share repurchase program

In August 2010, the Company sold 15 million shares of PC in consideration for approximately NIS 98 million. The difference between the book value of the shares sold and the consideration received resulted in a loss of approximately NIS 48 million which was recognized to the equity holders of the Company.

During 2011, the Company purchased 788,100 of PC shares representing approximately 0.3% of PC's share capital for the total amount of NIS 2.6 million. The difference between the consideration and book value of the shares (resulted in a gain) is approximately NIS 5.3 million recognized to the equity holders of the Company.

In September 2011, PC distributed an interim dividend payment to its shareholders of €30 million (NIS 148 million). Of this, the Company and its wholly owned subsidiary have received a total distribution amount of €18.6 million (NIS 92 million).

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN SUBSIDIARIES AND CHANGES THEREOF (Cont.)

B. Plaza Center N.V. ("PC"): (Cont.)

(3) PC Bondholder agreement

In September 2011, PC reached an agreement with holders of its Series A and B Bonds (the "Bondholders") with regards to PC dividend distributions in the years 2012-2013, should any be declared.

The agreement, which was approved by vast majority of PC's Bondholders, places certain covenants and conditions on dividend payments by PC during 2012-2013. A summary of the major terms in the agreement is as follows:

- The total dividend will be capped at €30 million (NIS 148 million) per annum for each of the years 2012 and 2013.
- Distribution of dividends will be made only from the net cash flows derived from the realization of assets and will be capped at 50% of net cash flows received.
- Should a dividend be distributed while the average market yield of PC's series A and B bonds exceeds a certain threshold, PC shall retain, for a period of 12 months following the dividend payment, a sum of not less than €70 million (NIS 346 million) in reserve accounts, of which a sum equal to the dividend payment can be used solely for the repurchase of bonds and / or making principal and interest payments to PC's bondholders.
- Should a dividend be paid while the average market yield of PC's series A and B bonds is below a certain threshold, PC shall be entitled to distribute dividends of up to €50 million (NIS 247 million) per annum. Should this occur, the sum of the dividend exceeding €30 million (NIS 148 million) will be held in a reserve account, to be used solely for the repurchase of bonds and / or making principal and interest payments to PC's bondholders.

C. BEA Hotels N.V. ("BH"):

As of December 31, 2012 the Group, through its wholly owned subsidiary, Bea Hotels N.V ("BH"), holds the rights in the following hotels:

(1) 100% of the voting and equity rights in a company that holds and operates the Radisson Astrid and Park Inn hotels in Antwerp, Belgium,

(2) Approximately 77% of SC Bucuresti Turism S.A. ("Bucuresti") which owns the Radisson hotel complex consisting of the Radisson hotel and the Centrivlle hotel (an apartment hotel), located 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.

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN SUBSIDIARIES AND CHANGES THEREOF (Cont.)

D. **Elbit- Plaza India Real Estate Holding Ltd. ("EPI"):**

In August 2008, the Company has entered into a joint venture agreement with PC (the "EPI Agreement"), under which, inter alia, PC was allotted 47.5% of the shares of the Company's subsidiary Elbit Plaza India Real Estate Holdings Limited ("EPI"). As of the closing date EPI held plots in Bangalore and Chennai, India (see note 8D). As of the time of the execution of the EPI Agreement, the Kochi Island was (and still is) held though an SPV other than EPI, it was agreed that the 50% of the holding rights in the Kochi Island project will be held in favor of PC. The Company undertook and guaranteed to transfer the holdings in the Kochi project to EPI or PC within 12 months following the execution of the EPI Agreement, or alternatively to repay the consideration paid by PC for the rights in this project. The remaining 5% equity rights are held by the Company's former Executive Vice Chairman of the Board (see note 27B (5). The Company and PC each have the right to appoint 50% of the board members of EPI.

In addition, under the EPI Agreement, PC had paid the Company approximately $126 million, reflecting 50% of all loans and financing invested by the Company in the Bangalore, Chennai and Kochi projects as of such date (see note13B). The Company will hold in trust 50% of the rights in the Kochi 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 Kochi Island to EPI (or alternatively to transfer 50% of the said rights to PC). The guarantee will expire in August 2013.

E. **Elbit Fashion**

Elbit Fashion Ltd. is wholly owned by the Company and is the franchisee of the MANGO ™ in Israel.

Elbit Fashion currently operates 27 retail stores in Israel.

In January 2012, the Company and Elbit Trade & Retail Ltd ("Elbit Trade") previously wholly owned by the Company, entered into an agreement with Gottex Models Ltd. ("Gottex"), for the sale of all its shares in Elbit Trade and all their interests in GB Brands, Limited Partnership ("GB Brands"), which is the franchisee of the GAPTM brand in Israel. The sale transaction was closed in April 2012. The purchase price paid by Gottex under the agreement was NIS 25 million, plus the agreed value of the GAP inventory as of the closing date and adjustments based on the agreed value of the working capital attributed to the GAP activity as of the closing date. The Company recorded a gain in the amount of NIS 9.4 million.

F. **Varcode**

Varcode is a start-up company engaged in the research, development and manufacturing of the FreshCode™: smart TTI (Time Temperature Indicator) barcode labels, designed to monitor the cold chain of temperature sensitive products such as food and pharmaceutical. During 2011, the Company gained control over Varcode (56%), following the minority's waiver on its veto right. The said waiver was approved in the frame of an agreement for future control and investment, which was signed between the Company, Varcode and the remaining shareholders.

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN SUBSIDIARIES AND CHANGES THEREOF (Cont.)

G. As of December 31, 2012, the Group holds 7 joint ventures companies which are in various stage of development and construction of trading property in Eastern Europe and India; 2 joint venture companies which hold plots in India;

The following is summarized data outlining the items of the proportionately consolidated companies' financial statements as included in the Company's consolidated financial statements based on the Company's share. For the effect of IFRS 11 in force commencing January 1, 2013, which will result in the cessation of the proportionately consolidated method in the Company's financial statements, see note 2AG.

	At December 31 and for the year then ended		
	(in thousand NIS)		
	2012	2011	2010
Current assets	1,037,067	1,215,140	1,251,942
Non-current assets	57,810	2,850,195	2,401,327
Current liabilities	(329,854)	(673,061)	(629,941)
Non-current liabilities	(3,710)	(1,706,270)	(1,555,770)
Net assets	761,313	1,686,004	1,467,558
Revenues	81,883	475,593	808,060
Expenses	(190,801)	(454,011)	(364,716)
Net profit (loss)	(108,918)	21,582	443,344

The main differences between the years is attributed to the sale of the U.S operations in 2012 (see note 29), the sale of the Dutch hotels in 2012 (see note 12D), and to the sale of the U.K hotels in 2010 (see note 12C).

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

A. Composition:

	December 31, 2012				
	Real estate				
	Hotels at revaluation model (*) (**)		At cost model		
	Operating	Under construction	Other	Other fixed assets	Total
			(in thousand NIS)		
Cost:					
Balance as of January 1	1,154,525	107,708	33,505	174,390	1,470,128
Adjustment of Depreciation and amortization balance as of January 1	(196,130)	-	-	-	(196,130)
Additions during the year	14,761	1,294	-	6,373	22,428
Revaluation of hotels as of January 1, 2012	470,832	-	-	-	470,832
Revaluation of hotels during the year	50,396	-	-	-	50,396
Disposals during the year	(311)	-	-	(6,399)	(6,710)
Disposals in respect of realized assets	(359,537)	(50,558)	-	(54,620)	(464,715)
Foreign currency translation adjustments	(30,395)	150	(119)	(963)	(31,327)
Balance as of December 31	1,104,141	58,594	33,386	118,781	1,314,902
Accumulated depreciation:					
Balance as of January 1	179,957	-	5,204	85,735	270,896
Adjustment to cost as of January 1, 2012 due to revaluation model	(179,957)	-	-	-	(179,957)
Additions during the year	47,549	-	523	12,577	60,649
Disposals during the year	(224)	-	-	(4,810)	(5,034)
Disposals in respect of realized assets	(3,626)	-	-	(35,613)	(39,239)
Foreign currency translation adjustments	(4,180)	-	(19)	(508)	(4,707)
Balance as of December 31	39,519	-	5,708	57,381	102,608
Provision for impairment:					
Balance as of January 1	16,173	-	6,810	16,243	39,226
Adjustment to cost as of January 1, 2012 due to revaluation model	(16,173)	-	-	-	(16,173)
Impairment loss recognized (i))	-	-	5	4,105	4,110
Foreign currency translation adjustments	-	-	(30)	(324)	(354)
Balance as of December 31	-	-	6,785	20,024	26,809
Net book value	1,064,622	58,594	20,893	41,376	1,185,485

(*) There may be restrictions on the Company's ability to distribute dividends to its shareholders from the revaluation reserve, since it was not charged to retained earnings through profit and loss.

(**) Had the Group continued to present the hotels based on the cost model, their net book value as of December 31, 2012 would have been NIS 680 million.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONT.)

A. **Composition (cont.):**

	December 31, 2011				
	Real estate at cost				
	Hotels				
	Operating	Under construction	Other	Other fixed assets at cost	Total
	(in thousand NIS)				
Cost:					
Balance as of January 1	1,093,514	99,213	32,147	163,202	1,388,076
Additions during the year	20,876	6,588	-	4,510	31,974
Subsidiaries initially consolidated during the year		-	-	462	462
Disposals during the year	(641)	-	-	(8,684)	(9,325)
Foreign currency translation adjustments	40,776	1,907	1,358	14,900	58,941
Balance as of December 31	1,154,525	107,708	33,505	174,390	1,470,128
Accumulated depreciation:					
Balance as of January 1	134,861	-	4,133	59,036	198,030
Additions during the year	40,729	-	919	17,734	59,382
Disposals during the year	(413)	-	-	(5,229)	(5,642)
Foreign currency translation adjustments	4,780	-	152	14,194	19,126
Balance as of December 31	179,957	-	5,204	85,735	270,896
Provision for impairment:					
Balance as of January 1	29,731	-	7,107	7,466	44,304
Impairment loss recognized (de-recognised) (see note 26J)	(14,930)	-	(602)	9,017	(6,515)
Foreign currency translation adjustments	1,372	-	305	(240)	1,437
Balance as of December 31	16,173	-	6,810	16,243	39,226
Payment on account of fixed assets	-	-	-	7,640	7,640
Net book value	958,395	107,708	21,491	80,052	1,167,646

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONT.)

B. Composition of real estate assets included in property plant and equipment distinguished between freehold and leasehold rights:

	December 31	
	2012	2011
	(in thousand NIS)	
Freehold rights	1,084,347	1,021,614
Leasehold rights	48,000	65,980
Net book value	1,132,347	1,087,594

C. **Disposal of UK hotels:**

In December 2010 BH has entered into a Share Purchase Agreement and Loan Agreements with Park Plaza Hotels Limited group ("**Park Plaza**"), with regard to the sale of its holdings in three companies, which owned three hotels in London, England (the "**Hotels**"). Prior to this transaction, these hotels were jointly owned by the Company and Park Plaza and were managed by Park Plaza.

The transaction was fully closed in December 2010, and the total capital gain recorded in the Company's 2010 statement of income amounted to NIS 199 million. For additional financial data regarding the effect of the disposal of the UK hotels on the financial statements, see note 28C(1)(ii).

The total consideration for the transaction in the amount of £21 million (NIS 115 million), is payable in the following manner: (i) two loans provided by BH to Park Plaza, each in the amount of £8 million bearing an annual interest at the rate of 7%. As for December 31 2012 the first loan was fully repaid, and as for the second loan, the entire principal amount is payable in December 2012; (ii) issuance and allotment of one million ordinary shares of Park Plaza, with a market price as of the closing date of £2.38 million (NIS 14 million); and (iii) an additional payment in the aggregate amount of up to £3.5 million, that shall be made on the fifth anniversary of the closing date (December 31, 2015) and shall be subject to certain adjustments, based on the market price of Park Plaza's shares, as set forth in the agreement. Based on its terms, this additional payment is classified as a derivative and its fair value as of December 31, 2012 and 2011 amounted to NIS 15 million.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONT.)

D. **Disposal of the Netherlands hotels:**

In March 2012, BH entered into and closed a Share Purchase Agreement with Park Plaza with regard to the sale of its holdings in certain subsidiaries which owned a 50% interest in four hotels in the Netherlands. The hotels were jointly owned by the Company and Park Plaza and managed by it.

The total net consideration that was paid to the Company in May 2012 was approximately €26.5 million. The consideration was paid in the following manner: (i) €23 million in cash, (ii) Park Plaza issued and allotted to the Company 700,000 ordinary shares of Park Plaza , with current market price as of the closing date of approximately €1.7 million (NIS 10 million), based on the quotation of such shares' price on the London Stock Exchange; and (iii) an additional payment in the aggregate amount of up €1.6 million that shall be made on the fourth anniversary of the transfer date (March 2016) and shall be subject to certain adjustments, based on Park Plaza shares' market price, as set forth in the Agreement Based on its terms. This additional payment is classified as a derivative and its fair value as of December 31, 2012 amounted to NIS 8.

The total profit generated from the sale of the hotels, amounted to approximately NIS 188 million, out of which NIS 134 million has been recognized in the shareholders equity of the Company following the application of the revaluation model (see note 2N (i)) and NIS 54 million has been recognized in the income statement for 2012, hence the characteristic of the transaction is the sale of interest in the subsidiaries that held the hotels in oppose to selling the assets held by them.

E. Annual depreciation rates - see note 2N (ii).

F As of December 31, 2012 the Group pledged property plant and equipment in the amount of NIS 1,053 million in order to secure borrowings provided to the Group by financial institutions, mainly with respect to the hotels. See also note 23D.

G. Within the framework of a lease agreement with the Israeli Land Authority ("ILA") in respect of plot located in, Tiberias Israel, the Company has undertaken to finalize the construction, as extended, in July 2013. As for December 31 2012, the Company believes that an extension will be obtained. Within the framework of the lease agreement the Company has provided the 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.

H. Operating Hotels valuation sensitivity analysis is detailed below:

Change in Discount rate	**change in hotel FV** (NIS '000)
+0.5%	(11,316)-(16,531)
-0.5%	12,792-16,974
+1%	(21,648)-(32,668)
-1%	27,552-32,915

NOTE 13 - INVESTMENT PROPERTY

A. **Composition:**

	December 31	
	2012	2011
	(in thousand NIS)	
At fair value		
Balance as of January 1	2,672,571	2,232,322
Additions during the year	20,492	59,116
Additions due to increase in holding rate	-	111,932
Net gain (loss) from fair value adjustments (see note 29)	(10,937)	100,819
Disposal during the year (see note 29)	(2,623,673)	-
Foreign currency translation adjustments	65,270	168,382
	123,723	2,672,571

Refer to note 23D (2) for information on non-current assets pledged as security.

As for commitments in respect of construction services and purchase of plots see note 23A (3).

B. **Land plot in Kochi, India:**

In September 2006, the Company together with an Indian corporation ("Project SPV") wholly owned by certain unrelated third parties (the "Third Parties Shareholder") entered into an transaction (as amended in January 2007), comprising of a land purchase agreement and a share subscription agreement, for the purchase of a land located in Kochi, India. In accordance with the terms of the land purchase agreement, the Project SPV acquired 13 acres ("Property A") for a total consideration of INR 1,495 million (NIS 118 million) payable subject to fulfillment of certain obligations and conditions 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"), out of which an advance of app. 25% of the total purchase price was paid to the seller in consideration for the transfer of title in Property A to the Project SPV. The land purchase agreement further provides that 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 on Property B. As of December 31, 2012, the seller has failed to transfer Property B and accordingly, the seller was not awarded any percentage out of the planned constructed area. The agreement also provides that if the seller fails to comply with the aforementioned conditions precedent by an agreed date, the Project SPV and the Company shall have the right to terminate the agreement. As of December 31, 2012, the net book value of the project totaled NIS 52 million.

Under the share subscription agreement, the Company will be allotted 50% shareholding and voting rights in the Project SPV, subject to obtainment of certain regulatory provisions in respect of the land and securing of sanctioned plans for the project, which as of December 31, 2012 have not been fully obtained. 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, 2012 and 2011 and for each of the three years in the period ended December 31, 2012.

NOTE 14 - OTHER ASSETS AND DEFERRED EXPENSES

Composition:

	December 31 2012	December 31 2011
	(in thousand NIS)	
Cost		
Prepaid leasehold rights	8,747	13,542
Other	12,647	9,778
	21,394	23,320
Accumulated amortization		
Prepaid leasehold rights	8,747	10,160
Other	178	123
	8,925	10,283
Amortized cost	12,469	13,037

NOTE 15 - INTANGIBLE ASSETS

Composition:

	December 31 2012	December 31 2011
	(in thousand NIS)	
Cost		
Goodwill (i)	41,242	61,753
Intangible assets - Intellectual property and other	10,620	25,325
Distribution rights	1,040	2,427
	52,902	89,505
Accumulated amortization of Intangible assets and impairment	6,184	15,090
Amortized cost	46,718	74,415

(i) The goodwill is attributable mainly to the following cash generating units: As for December 31, 2011 and 2012: an amount of NIS 14 million is attributable to the activities of Varcode (note 11 F) an amount of NIS 27 million is attributable to the Bucuresti hotel (note 11 C (2)) and in 2011 an amount of NIS 20 million is attributable 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 in December 2012 and 2011 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 goodwill attributable to Varcode was tested for impairment based on independent third party appraiser who used the net operational cash flow expected to be generated from the activity discounted in applicable interest rate. The rate used as for December 31, 2012 and 2011 was 25%.

During 2012, the Group recorded an impairment loss in the amount of NIS 3 million in respect of its goodwill as a result of these impairment tests.

NOTE 16 - SHORT-TERM CREDITS AND BORROWING RELATING TO TRADING PROPERTY

A. **Composition short-term credits:**

	December 31		
	2012		2011
	Interest rate		
	%	(in thousand NIS)	
U.S. Dollar		1,044	-
EURO	Euribor + 0.4-5.5	-	212,787
NIS (i)	Prime + 1.5-1.75	8,124	14,566
		9,168	227,353
Current maturities (*)		1,185,895	852,383
		1,195,063	1,079,736

The balance as of December 31, 2012 includes bank loans in the total amount of NIS 290 million that are presented as short-term liabilities due to incompliance with financial covenants – see note 23 E(3)).

B. **Composition of borrowings relating to trading property:**

EURO	Euribor + 1.85-5.5	1,045,365	980,746
Others, mainly Indian Rupi	13.25-15	166,956	143,285
		1,212,321	1,124,031

As described in note 2E, the Group's operating cycle in respect of trading property is more than twelve months. Accordingly, specific borrowings directly related to the trading property are classified as current liabilities.

C. **Liens and financial covenants** - see note 23D and 23E respectively.

NOTE 17 - PAYABLES AND OTHER CREDIT BALANCES

	December 31	
	2012	2011
	(in thousand NIS)	
Income taxes	31,658	12,283
Other governmental institutions	3,790	9,531
Wages and fringe benefits	16,868	30,473
Accrued interest payable	27,593	39,504
Real estate taxes payable	-	25,021
Derivative measured at fair value through profit and loss (i)	16,335	-
Related parties	763	2,900
Liability in respect of acquisition of trading property	8,863	7,148
Loan from third parties	6,127	39,521
Accrued expenses, commissions and others (*)	23,692	95,363
	135,689	261,744

(*) The balance as of December 31, 2012 was decreased mainly due to a provision with respect to the settlement described in note 23 B 6 and to accrued expenses that as for December 31 2012 were classified to discontinued operation.

(i) PC is paying a fixed interest of 6.98%% based on a nominal EUR amount of EUR 15.1 million and receiving an interest of six months WIBOR + 4.5% with the same amortization schedule as the Polish bonds. As of December 31, 2012 and 2011 (see note 20) the fair value of the EURO-PLN cross-currency swap, based on independent valuation, was negative in the amount of NIS 4 million and NIS 10 million, respectively.

NIS 12 million as of December 31, 2012 relates to hedge transactions with respect to three commercial centers according to which the project companies will pay fixed interest rate of 1.00%-2.13% and receive EURIBOR three months.

NOTE 18 - OTHER LIABILITIES

	December 31	
	2012	2011
	(in thousand NIS)	
Liability in respect of construction services (i)	76,747	77,020
Income in advance	39,528	80,124
other	-	2,941
	116,275	160,085

(i) Within the framework of an agreement for the acquisition of 75% holding in a company which holds the Casa Radio 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. Aggregately, and as of December 31, 2012, an amount of EUR 1.5 million (NIS 7 million) was utilized from the provision.

NOTE 19 - BORROWINGS (Cont.)

D. **The following table provides breakdown of the Group's loans from banks and financial institutions:**

	December 31	
	2012	2011
	(in thousand NIS)	
Loans provided to the Company (i)	290,396	318,501
Loans provided to PC	116,573	74,903
Loans provided to Group Companies in the hotels segment (ii)	399,336	692,401
Loans provided to Group Companies mainly in the investment property segment (see note 29B)	-	1,587,482
	806,305	2,673,287

(i) For collaterals and financial covenants see also note 23 D (1) and E (3). As of December 31, 2012 the Company is non-compliant with these financial covenants.

(ii) In October, 2011 a subsidiary holding the Bucharesti hotel in Bucharest, Romania ("Bucuresti") consummated a refinancing of its loan. According to the Facilities Agreement, the bank ("Lender"), has granted Bucuresti a loan of up to €71.5 million (the "Loan"). Tranche A in the amount of approximately €62.5 million has been drawn down in September 2011 and tranche B in the amount of approximately €9.0 million is drawable until March 31, 2013. As of the date of approval of these financial statements Tranche B hasn't been drown down.

The Loan bears interest at the rate of 3 months Euribor rate plus a margin of 4.6% per annum. According to the facility agreement, approximately 20% of the principal will be paid during the term of the Loan in quarterly installments with the remainder to be paid as a bullet repayment at the end of the term. The final maturity date of the Loan is June 30, 2016.

The Loan will be secured by, inter alia, a first-ranking mortgage over the Radisson Blu Hotel, Bucharest and the Centreville Apart Hotel, and other commercial areas within such hospitality complex (the "Mortgage"). In addition, the Company is guarantee for (i) the annual debt service payments of Bucuresti (including interest, but excluding the final bullet repayment (an amount of €58 million); (ii) the principal amounts required to be prepaid by Bucuresti in order for it to meet certain financial covenants during the term of the Loan to the extent such financial covenants are not satisfied; and (iii), the obligations of Bucuresti towards the Lender solely in the event that the Lender is unable to exercise its rights under the Mortgage due to invalidity or other defects in respect of the Mortgage as set forth in the guarantee.

NOTE 19 - BORROWINGS (Cont.)

E. Company's debentures

With respect to management's plans to re-finance its debentures, see note 31E.

(1) Following are the significant terms of the Company's debentures as of December 31, 2012:

Series	Linkage basis	Interest rate	Repayment terms	Amortized cost as at December 31, 2012	2011
		%		(in thousand NIS)	
A (ii)	Israeli CPI (i)	6.0	10 semi-annual equal installments commencing August 2009	197,515	338,142
B (ii)	U.S. Dollar	Libor+2.65	10 semi-annual equal installments commencing August 2009	15,366	28,083
C (ii)	Israeli CPI (i)	5.3	10 annual installments commencing September 2009	260,064	342,221
D (ii) (iii)	Israeli CPI (i)	5.0	8 annual installments commencing April 2013	781,293	858,804
E (ii)	Israeli CPI (i)	6.3	10 annual installments commencing July 2012	59,575	73,243
F (ii)	Israeli CPI (i)	5.7	6 annual installments commencing October 2010	272,221	371,224
G (ii)	Israeli CPI (i)	5.08	5 annual installments commencing December 2014	464,292	468,341
				2,050,326	2,480,058

Series A through G debentures are un-secured and non-convertible and are registered for trade on the Tel Aviv Stock Exchange ("TASE").

(i) Linked to the increase in the Israeli CPI over the base index as of the date the debentures were issued.

(ii) The debentures terms provide that the debentures will be prepaid by the Company at the discretion of the holders of the debentures under certain circumstances, including: (i), if the Company's securities are de-listed from trade on both the TASE and the Nasdaq Global Select Market, (except for series E, F and G) (ii) if forced payment is required of another series of the Company's debentures, (iii) if a stay of proceedings is imposed by a court upon the Company and not rescinded within 45 days, and (iv) if the Company ceases to make payment on its debentures or if there is a material risk that it will cease to make such payments.

(iii) In March 2011, the Company issued additional unsecured non-convertible Series D debentures to investors in Israel, by expanding the existing series, in an aggregate principal amount of approximately NIS 96 million for gross proceeds of approximately NIS 108 million (USD 29 million).

NOTE 19 - BORROWINGS (Cont.)

E. **Company's debentures (Cont.)**

(2) **Buyback plan of Company's debentures**

In May 2011, the Company's board of directors approved the repurchase of up to NIS 150 million (approximately $43 million) of its series A through G debentures. In November 2012 the board of directors of the Company approved the increase of the bond repurchase program to allow repurchase of up to an additional NIS 125 million (approximately $33 million) of the Company's Series A through G and Series I Notes.

The repurchases will be made either on an arm's length basis through brokerage trading services. The board approval should not be deemed a commitment to purchase any debentures. The timing and amounts of any debentures repurchased will be determined by the Company's management, based on its evaluation of market conditions and other factors. The repurchase programme may be suspended or discontinued at any time.

As for December 31, 2011 and 2012, the Company directly or by a subsidiary purchased NIS 67.6 million and NIS 157.8 million par value, respectively, from various series, for a total consideration of NIS 53 million and NIS 93.4 million respectively, resulting in a gain of NIS 25 million and NIS 92 million, which was recorded in the statement of income. NIS 23.7 million par value of the debentures repurchased have been fully redeemed.

Series	Par Value	Debentures repurchased that have been redeemed and removed from trading
A	19,467,003	3,380,000
B	1,747,463	-
C	58,289,688	3,611,497
D	92,395,506	4,910,157
E	8,146,801	1,810,000
F	22,707,088	5,000,000
G	18,995,130	5,000,0000
Convertible debentures	3,642,561	-
	225,391,240	23,711,654

(3) **Transactions with financial institutions for financing repurchase of bonds**

(i) In August 2012, the Group entered into a NIS 75 million bond structured transaction with a leading global financial institution (the "Transaction" and the "Counterparty" respectively), pursuant to which, the Group has purchased a NIS denominated zero-coupon credit linked note (the "CLN") from the Counterparty. The CLN references a portfolio of the Company's bonds (having a market value of NIS 75 million) (the "Bond Portfolio"). In the framework of the Transaction, the Group has sold the Bond Portfolio to the Counterparty. In consideration, the Counterparty has paid the Group, the market value of the Bond Portfolio and arranged for the issuance of the CLN, at an issue price of NIS 37.5 million.

NOTE 19 - BORROWINGS (Cont.)

E. **Company's debentures (Cont.)**

(3) **Transactions with financial institutions for financing repurchase of bonds (cont.)**

(i) (Cont.)

During the term of the CLN, all the proceeds derived from the Bond Portfolio (principal and interest) shall be retained by the Counterparty. At maturity of the CLN, subject to no early termination event having occurred, the CLN shall be redeemed by delivery to the Group (as note holder) of the remaining, unamortized portion of the Bond Portfolio.

As of December 31, 2012, the bonds and the CLN are presented at fair value. As for an early termination of the transaction in February 2013, due to default event, see note 31B.

(ii) In November 2012, the Group, entered into a NIS 150 million bond structured transaction with a leading global financial institution (the "Transaction" and the "Counterparty" respectively), pursuant to which, the Group was granted a NIS 75 million credit line for the purchase of a portfolio of the Company's bonds having an aggregate market value of up to NIS 150 million (the "Bond Portfolio"). As of December 31, 2012 the Company utilized approximately NIS 21 million of the credit line.

During the term of the Transaction, all the proceeds derived from the Bond Portfolio (principal and interest) shall be retained by the Counterparty.
Upon the occurrence of an early termination event, the Counterparty may sell the Bond Portfolio and shall be entitled to receive an agreed upon IRR plus unwind costs, and thereafter the parties shall execute a cash settlement with respect to any remainder derived from the sale of the Bond Portfolio. The bonds and the CLN are presented at fair value. As for an early termination of the transaction in February 2013, due to default event, see note 31B.

As a result of the above described transactions, the following Company's debentures are measured at fair value through profit and loss ("FVTPL"):

	Fair value as of December 31,		Payments to be paid contractually at maturity as of December 31,	
Series	2012(ii)	2011(ii)	2012(ii)	2011(ii)
	(In thousand NIS)		(In thousand NIS)	
A	8,896	-	13,601	-
B	920	-	1,110	-
C	23,446	-	55,828	-
D	42,705	-	104,274	-
E	2,522	-	7,316	-
F	7,212	-	17,063	-
G	5,031	-	15,033	-
	90,732	-	214,225	-

NOTE 19 - BORROWINGS (Cont.)

F. PC's debentures

PC's debentures are un-secured and non-convertible and are registered for trade in both the Tel Aviv Stock Exchange ("TASE") and in Warsaw, Poland.

The debentures traded in TASE 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 are the significant terms of PC's debentures as of December 31, 2012:

(1) **PC's debentures measured at fair value through profit and loss ("FVTPL"):**

Series	Linkage basis	Interest rate	Repayment terms	Fair value as of December 31,		Payments to be paid contractually at maturity as of December 31,	
				2 0 1 2(ii)	2 0 1 1(ii)	2 0 1 2(ii)	2 0 1 1(ii)
		%		(In thousand NIS)		(In thousand NIS)	
A	Israeli CPI (i)	4.5	8 annual equal installments commencing December 2010	138,363	170,839	203,124	266,986
B	Israeli CPI (i)	5.4	5 annual equal installments commencing July 2011	433,147	536,545	549,491	722,212
				571,510	707,384	752,615	989,198

(i) The debentures are linked (principal and interest) to the increase of the Israeli CPI over the base index at the date of the debentures' issuance.

(ii) PC's debentures (except the additional Notes issued during 2009-2011 see (2) below) were designated to FVTPL in accordance with the provisions stipulated in note 2U. The Fair value of PC's debentures as of December 31, 2012 and 2011 was determined based on their quoted market price in the TASE (see note 30D(2)d).

NOTE 19 - BORROWINGS (Cont.)

F. PC's debentures (cont.)

Significant terms of PC's debentures as of December 31, 2012 (cont.):

(2) PC's debentures measured at amortized cost

In Israel - During 2009-2011, PC issued to Israeli investors approximately an additional amount of NIS 88 million (approximately $23.0 million) in principal amount of Series A debentures for an aggregate consideration of approximately NIS 99 million (approximately $26 million), and an additional NIS 631.5 million principal amounts of Series B Notes (the "Additional Notes") for an aggregate consideration of approximately NIS 683 million. The terms of the Additional Notes are identical to PC's terms of the Series A and Series B debentures as described above.

In Poland - In November 2010, PC completed the first tranche of a bond offering to the Polish institutional investors. PC raised a total of PLN 60 million (approximately NIS 72 million). The unsecured bearer bonds governed by Polish law (the "Bonds") have a three year maturity and will bear interest rate of six months Polish Wibor plus a margin of 4.5% (8.48% as of December 31, 2012). Interest will be paid to holders every six months.

Under the offering memorandum certain circumstances shall be deemed events of default giving the Bondholders the right to demand Early Redemption, which includes among others the following covenants:

a) Breach of the Cash Position as a result of the payment of dividend or the buy-back program- if at any time during a period of 90 days from the payment of dividend, or the acquisition of its own shares, the Cash Position falls below €50 million.

b) Breach of financial ratios - the Net Capitalization Ratio exceeds 70%; Net Capitalization Ratio is the Net Debt divided by the Equity plus the Net Debt, as calculated by the PC's auditor; "Net Debt" mean the PC's total debt under: loans and borrowings, lease agreements, bonds, other debt securities and other interest bearing or discounted financial instruments in issue, less related hedge derivatives, cash and cash equivalents, short and long-term interest bearing deposits with banks or other financial institutions, available for sale marketable securities and restricted cash, calculated based on the Consolidated Financial Statements.

c) Failure to repay material debt - PC fails to repay any matured and undisputable debt in the amount of at least €100 million (NIS 492 million) within 30 days of its maturity.

NOTE 19 - BORROWINGS (Cont.)

F. PC's debentures (Cont.)

(3) **Buyback plan of PC's debentures**

In May and December 2011, PC's Board of Directors approved a buyback plan in the total amount of up to NIS 300 million of its Series A and Series B Debentures, which are traded on the Tel Aviv Stock Exchange.

On November 20, 2012, PC's Board approved the extension of the PC bond buyback programme to be concluded by 31 December 2014 with a maximum amount to be purchased of up to NIS 750 million.

PC's board approval should not be deemed a commitment to purchase any of its debentures. The timing and amounts of any debentures repurchased will be determined by PC's management, based on its evaluation of market conditions and other factors. The repurchase plan may be suspended or discontinued at any time.

A company within the Group which is engaged in the debenture buyback programme of PC has secured its credit facility awarded by the financing bank in a total amount of EUR 17.3 million (NIS 85 million), as of December 31, 2012, by providing a first ranking charges on the debentures owned thereby.

As of December 31, 2012, PC directly and by a subsidiary has purchased a total of NIS 271 million par value Debentures (with adjusted value of NIS 315 million), for a total consideration of NIS 247 million resulting in a gain of NIS 39 million and NIS 28 million recorded in the statement of income in 2011 and 2012, respectively. 38.6 million par value of the debentures repurchased have been fully redeemed.

Series	Par Value	Debentures repurchased that have been redeemed and removed from trading
A	100,256,975	10,161,662
B	170,684,843	28,486,672

G. **Company's convertible debenture**

Series 1 convertible debenture issued by the Company in 2009 bearing a fixed interest rate of 6.25% per annum, without linkage. 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 pershare until July 31, 2013 and at the price of NIS 200 per share thereafter.

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 was calculated based on reports of a third party expert in accordance with the provisions mentioned in note 2U. Such equity component was recorded directly to the Company's 2009 shareholders' equity as share premium. The effective interest rate, while taking into consideration the equity component and issuance costs, is 4.9%.

H. **Liens and financial covenants** - see note 23D and 23E.

NOTE 20 - OTHER LONG-TERM FINANCIAL LIABILITIES

Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Grants from the Israeli Office of Chief Science ("OCS") (i)	-	24,827
Embedded derivative financial liability carried at fair value through profit and loss	-	2,417
Derivative measured at fair value through profit and loss (ii)	11,250	24,860
Loan from third parties (iii)	2,771	163,648
	14,021	215,752

(i) The balance for 2011 reflects the fair value of the total grants received from the OCS by InSightec net of royalties paid up to such date discounted at the applicable interest rate for similar loans having the same terms and conditions (27%). 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 3.5% of the revenues from said products and up to the amount of the grants received. As for the decrease of the Company's holdings in Insightec, see note 10 B.

(ii) a) As for December 31, 2011: Within the framework of a credit agreement executed in September 2011 (See iii below) the Company granted to the Lender a warrant to purchase the Company's ordinary shares at an exercise price of $3.00 per share during a two-year period commencing on March 31, 2012. The warrant was entitled the lender to purchase up to 9.9% of the Company's outstanding shares.

in April 2012, the Company and the lender agreed to amend the warrant granted by the Company in the way that the lender is entitled to purchase from the Company, at any time and from time to time during the period commencing on March 31, 2012 and ending on March 31, 2014, up to 3.3% (instead of 9.9%) of the Company's outstanding shares at a purchase price of 0.00$ (instead of 3.00$) per share, subject to the terms and conditions set forth in the warrant. As for December 31, 2012 the warrant was classified to the equity of the Company

b) As of December 31, 2011, PC had interest rate and EURO/NIS swap with notional amount of NIS 127 million. PC paid a fix interest of 6.82 % and received 4.5% interest linked to the Israeli CPI. The swaps were measured at fair value. Changes in the fair value were charged to the statement of income. This swap was settled in January 2012.

c) In respect to loan agreement drown by a subsidiary holding the Radisson Blu, Bucharest ("BUTU") (see Note 19 D (ii)), BUTU entered into IRS transaction in which it will pay fixed interest rate of 1.4% and receives three months Euribor on a quarterly basis starting on January 1, 2013 and ending on June 30, 2016.

(iii) As for December 2011, DDR has originated a USD 14 million (NIS 49 million) loan, to a subsidiary of EDT, at a fixed interest rate of 10%. The loan was assigned as part of selling the US operation (see note 29 B).

In September, 2011, the Group, entered into a loan agreement with Eastgate Property LLC, ("Lender"), pursuant to which the Group received a $30 Million (NIS 110 Million) loan, bearing interest at the rate of 11.4% per annum. The effective interest of the loan, taking into account the cost of raising the loan as well as the derivatives mention in note (ii) above was 25%. The loan was settled during 2012 as part of selling the U S operation (see note 29 B).

NOTE 21 - OTHER LONG TERM LIABILITIES

A. **Composition:**

	December 31	
	2012	2011
	(in thousand NIS)	
Provisions	6,243	6,881
Retirement benefit obligation (see B below)	6,983	4,953
Other	1,154	974
	14,380	12,808

B. **Retirement benefit obligation**

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 CEO terms of employment by EIL shall be taken into consideration in calculating the period of his employment with the Company, for all purposes. EIL undertook 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 CEO's employment with EIL. As of December 31, 2012, balances of approximately 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:

	December 31	
	2012	2011
	(in thousand NIS)	
Present value of funded defined benefit obligation	19,469	14,965
Fair value of plan assets	(12,486)	(10,012)
Net liability arising from defined obligation	6,983	4,953

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2012	2011
	%	%
Discount rates	4.7-5.1	5-5.6
Expected return on plan assets	2.4-7	2.7-7.8
Expected nominal salaries increase	5	5

NOTE 22 - INCOME TAXES

A. **Composition:**

	Year ended December 31		
	2012	2011	2010
		(in thousand NIS)	
Current	7,276	1,659	771
Deferred	(21,480)	61,038	3,312
In respect of prior years	3,956	586	(91)
	(10,248)	63,283	3,992

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 with the provisions of the Israeli 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 consumer price index. Commencing from 2008, the provisions of that law would no longer apply, except for transitional provisions intended to avoid distortions in the tax computations.

Corporate tax rate applicable to companies in Israel in 2012 is 25% (in 2011 and 2010 - 24% and 25%, respectively).

In December 2011, new legislative amendments came into force according to which:

(1) Planned reductions in corporate tax rates for the years 2012-2016 were fully cancelled.

(2) Increase of the corporate tax rate in 2012 to 25%.

NOTE 22 - INCOME TAXES (Cont.)

B. Principle tax laws applicable to the major Group companies in their country of residence: (Cont.)

(1) Israel (cont.)

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 as a dividend representing its respective share in such profits ("Deemed Dividend").

(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, effective 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.

NOTE 22 - INCOME TAXES (Cont.)

B. Principle tax laws applicable to the major Group companies in their country of residence: (Cont.)

(1) Israel (cont.)

d. In August 2010, the Israeli Tax Authority approved the request made by the Company for restructuring (hereinforth - "restructuring approval. Within the framework of the restructuring, the Tax Authority approved the execution of a procedure composed of several stages, at the end of which Elbit Medical Technologies Ltd., a direct subsidiary of the Company, became the owner of the Group's entire holdings in InSightec and Gamida.

(2) The Netherlands

a. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 25% (25.5% prior to the year 2011). The first €200,000 of profits are taxed at a rate of 20%. Tax losses may be carried backwards for one year and carried forward for nine years. Taxpayers can elect for an extension of the loss carry backwards period to three years (instead of one year). The election is only available for losses suffered in the taxable years 2009, 2010 and 2011. If a taxpayer makes use of the election, two additional limitations apply: (i) the loss carry forward period for the taxable years 2009, 2010 and/or 2011 will be limited to a maximum of six years (instead of nine years); and (ii) the maximum amount of loss that can be carried backwards to the second and third year preceding the taxable year will be limited to €10 million per year. The amount of loss that can be carried back to the year directly preceding the taxable year for which the election is made will remain unrestricted. As of the taxable year 2012, the election for extended loss carry back is not available anymore and the regular loss carry back and carry forward limitations apply.

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 nonresident investee companies, is exempt from Netherlands corporate income tax provided the conditions as set under these rules have been satisfied. Such conditions require, among others, a minimum percentage ownership interest in the investee company and require the investee company to satisfy at least one of the following tests:

(i) Motive Test, the investee company is not held as passive investment;

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

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

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

NOTE 22 - INCOME TAXES (CONT.)

B. Principle tax laws applicable to the major Group companies in their country of residence: (Cont.)

(3) India

The corporate income tax applicable to the income of Indian subsidiaries is 32.445%. Minimum alternate tax (MAT) of 20% is applicable to the book profits (i.e. profits shown in the financial statements), if the final tax payable is higher of the MAT liability or corporate tax payable. If taxes are paid under MAT, then credit to the extent of MAT paid over corporate tax is available (MAT credit). MAT Credit will be credited if the company has taxable profits in the following ten years. Capital gains on sale of fixed assets (on which tax depreciation has not been claimed) and real estate assets are taxed at the rate of 21.63% provided that they were held for more than 36 months immediately preceding the date of the transfer, or 32.445% if they were held for less than 36 months. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.2225%. There is no withholding tax on dividends distributed by an Indian company. Business losses can be offset against taxable income for a period of eight years from the incurrence year's end. There is no limit for carry forward of unabsorbed depreciation.

(4) 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.

(5) USA

a. The US federal corporate income tax rate is 35%. Some states may also impose corporate income taxes, which vary from zero to approximately 12%, resulting in an effective corporate tax rate of generally around 40%. The federal tax rate on corporate capital gains is the same as that of ordinary income.

b. The statutory withholding tax rate on US sourced income is generally 30%, which may be lowered under a relevant tax treaty. The US-Israel Tax Treaty sets a 17.5% withholding tax on interest payments to Israeli corporations, and a 25% or 12.5% withholding on dividends (depending on share of ownership).

c. Due to EPN's acquisition of the remaining shares of EDT in September 2011, the REIT election status of REIT I and REIT II were terminated effective January 1, 2011 as a result of the closely-held nature of EPN Group. As such, the REITs are subject to US income taxes as a C-corporation at maximum of 35% of taxable income.

NOTE 22 - INCOME TAXES (CONT.)

C. Effective tax rate:

The following is reconciliation between the income tax expenses computed on the pretax income at the ordinary tax rates applicable for the Company ("the theoretical tax") and the tax amount included in the consolidated statement of operations:

	Year ended December 31		
	2012	2011	2010
		(in thousand NIS)	
Israeli company's statutory tax rate (%)	25	24	25
Loss before income taxes	(560,571)	(207,847)	(301,321)
The theoretical tax	(140,143)	(49,883)	(75,330)
Differences in tax burdeu iu respect of:			
Exempt income, net of unrecognized expenses	1,351	17,646	(63,335)
Prior-year losses for which deferred taxes had not previously been recorded, including utilization	6,420	(29,295)	(10,114)
Losses and other timing differences for which deferred taxes had not been recorded	34,417	130,652	135,946
The effect of different measurement principles applied for the financial statements and those applied for income tax purposes (including exchange differences)	45,010	(52,390)	(43,036)
Differences in tax rates on income of foreign subsidiaries	40,720	46,614	59,045
The Group's share in results of associated companies	2,180	267	1,610
Taxes for prior years	3,956	586	(1,463)
Other differences, net	(4,159)	(914)	669
	(10,248)	63,283	3,992

NOTE 22 - INCOME TAXES (CONT.)

D. Carry forward losses and deductions:

As of December 31, 2012 the Group companies had accumulated tax losses and deductions amounting to NIS 2,721 million, which may be utilized in the coming years against taxable income at rates ranging from 10% to 35% 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. Utilizing InSightec's losses at the amount of approximately NIS 82 million is limited as a result of a merger pursuant to section 103 of the Income Tax Ordinance.

Tax laws in respect of certain Group subsidiaries operating outside of Israel have set a time limitation on the utilization of losses. Accordingly, the right to utilize carry-forward losses in the amount of NIS 2,721 million, against taxable income, will gradually expire over the following years:

	December 31 2012 (in thousand NIS)
2013	109,073
2014	80,944
2015	88,911
2016	94,215
2017 and thereafter	2,347,747
	2,720,890

NOTE 22 - INCOME TAXES (CONT.)

E. **Deferred income taxes:**

(1) **Composition:**

	Year ended December 31, 2012						
	Balance as of January 1, 2012	Charge to profit and loss account	Charged to foreign currency translation reserve	Charge to AFS reserve	Foreign currency translation adjustments	out of consolidation/ Discontinued operations	Balance as of December 31, 2012
				(In thousand NIS)			
Accelerated depreciation differences in respect of property plant and equipment	(79,852)	2,220	(59,072)	-	(30)	52,359	(84,375)
Differences between fair value of real estate at acquisition and related cost for income tax purposes	(20,802)	606	-	-	(120)	1,595	(18,721)
Timing differences - income and expenses	(77,838)	24,038	1,805	(3,120)	73	534	(54,508)
Carry forward tax losses and deductions	73,224	(5,384)	-	-	317	(22,839)	45,318
Net deferred taxes	(105,268)	21,480	(57,267)	(3,120)	240	31,649	(112,286)

NOTE 22 - INCOME TAXES (CONT.)

E. **Deferred income taxes: (Cont.)**

(1) **Composition: (Cont.)**

	Year ended December 31, 2011							
	Balance as of January 1, 2011	**Charge to profit and loss account**	**Charged to foreign currency translation reserve**	**Charge to AFS reserve**	**Foreign currency translation adjustments**	**Discontinued operations**	**Changes in the tax rates**	**Balance as of December 31, 2011**
	(In thousand NIS)							
Accelerated depreciation differences in respect of property plant and equipment and fair value adjustments of investment property	(34,294)	2,480	-	-	(1,163)	(46,875)	-	(79,852)
Differences between fair value of real estate at acquisition and related cost for income tax purposes	(20,704)	545	-	-	(511)	(132)	-	(20,802)
Timing differences - income and expenses	(645)	(76,212)	(3,695)	2,215	499	-	-	(77,838)
Carry forward tax losses and deductions	38,608	9,906	-	-	1,004	23,993	(287)	73,224
Net deferred taxes	(17,035)	(63,281)	(3,695)	2,215	(171)	(23,014)	(287)	(105,268)

NOTE 22 - INCOME TAXES (CONT.)

E. Deferred income taxes: (cont.)

(2) The deferred taxes are presented as follow:

	December 31 2012	December 31 2011
	(in thousand NIS)	
Long-term liabilities	(113,309)	(108,642)
Long-term receivables	1,023	3,374
	(112,286)	(105,268)

(3) The Group did not record deferred tax assets in respect of the following items:

	December 31 2012	December 31 2011
	(in thousand NIS)	
Accelerated depreciation differences in respect of property plant and equipment and investment property	15,044	(9,375)
Timing differences - income and expenses	88,981	52,878
Carry forward tax losses and deductions	534,283	670,205
	638,308	713,708

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, 2012, the Group did not record deferred tax liability, in respect of gains from realization of certain investee companies or upon receiving their retained earnings as dividend, in the amount of NIS 224 million.

H. The total accumulated current and deferred taxes expenses, which were charged directly to the shareholders' equity, as of December 31, 2012, 2011, and 2010 is NIS 60,387 NIS 1,480 and NIS 24,093 thousands, respectively.

NOTE 22 - INCOME TAXES (CONT.)

I. Tax Merger:

In March 2011, the Company and Elscint have completed a tax merger according to which the Company has merged Elscint ("Merger"). In accordance with a pre ruling from the Israeli Tax Authorities, the Merger will not impose any tax liability on the Company and Elscint. The merger however is subject to several conditions as specified below:

(1) Majority of the assets transferred to the Company in the Merger and majority of the assets owned by it immediately prior to the Merger will not be sold during the period of two years following the Merger date. For this purpose, "majority of the assets" are the assets which market value at the Merger date was more than 50% of the total market value of the Company's assets on that date;

(2) The Controlling Shareholder of the Company is not allowed to sell more than 10% of the Company's total shares, and/or to dilute its rights in the company under 25.29%, at any time during the two years following the Merger date.

J. **Tax assessments under inspection**

With respect to tax assessments inspection of the Company and other two Israeli subsidiaries, according to which the Israeli Tax Authority claims for additional tax payments of NIS 287 million, see note 23 B (5).

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS

A. **Commitments:**

(1) **Hotels' management fees**

In 2010 a new management agreement with Rezidor was signed relating to Radisson Blu Bucuresti hotel and apartment hotel complex in Bucharest, Centreville. The new agreement will be effective till 31/12/2033.

Upon the termination of the management agreements by the Group, the companies owning the respective hotel (except the Bucharesti 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.

(2) **Minimum future rental payments**

Minimum future rental payments due under the Group's current operating leases as of December 31, 2012 are as follows:

Year ended December 31,	(in thousand NIS)
2012	27,567
2013	27,184
2014	26,451
2015	25,802
2016	23,843
Thereafter	128,428
	259,275

(3) **Commitments in respect of construction services**

The aggregate amount of the Group's commitments in respect of construction services and in respect of purchase of plots totaled, as of December 31, 2012, approximately NIS 682 million including estimated payments to related party see note 27 A (1).

(4) **Elbit Trade - franchise agreements**

Elbit Fashion Ltd. (formerly Trade and Retail) ("Elbit Fashion") is a party to a distribution, support and service agreements signed in May 2005 with a third party for a 10-year period, which entitled it to market the brand name MANGO-MNG™ in Israel.

(5) As for commitments to related parties, see note 27.

(6) In relation to commitments deriving from lease agreement with Israel Land Authority, see note 12G.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims:

Certain legal claims have been filed against the Group's companies, including two claims that have been applied to certify as class actions suits.

In the opinion of the managements of the Group, which is based, inter alia, on legal opinions as to the probability of the claims, including the applications for their approval as class actions, appropriate provisions have been included in the financial statements (including provisions in respect of discontinued operation), with respect to the exposure involved in such claims. As of December 31, 2012 the Group provision for claims (including claims in respect of discontinued operation) in the total amount of approximately NIS 10 million.

In the opinion of the managements of the Group's companies, the amount of the additional exposure as of December 31, 2012, in respect of claims their chances to be realized are not remote, amounts to approximately NIS 10 million, excluding class actions. Said amount does not include interest. In respect to motions 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 and B2 below.

Following are the Group's material claims as of December 31, 2012:

(1) The Company - application for 1999 class action

In November 1999, a number of institutional and other investors (the "Plaintiffs"), 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 a motion 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 submission of the claim, excluding the Company and certain other shareholders. The claim alleges suppression of the minority shareholder rights, causing monetary damage due to, inter-alia, the sale of the control over Elscint to the Company's controlling party (who serves also as its CEO) and a breach of a tender offer made by the Company to purchase the minority share in Elscint and an agreement between the Company and the Company's CEO for the sale of the business of Elscint to the Company at a lower value The Plaintiffs allege that the value of Elscint's shares dropped during the period between February 24, 1999 and the date at which the claim was instituted from $13.25 per share to $7.25. The relief sought is an order for the Company to consummate the purchase offer for $14 per share, and alternatively, to purchase Elscint's shares held by the Plaintiffs at a price to be set by the court. In January 2009, the district court dismissed the Plaintiffs' motion to certify the claim as a class action, which was appealed by them in March 2009.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (Cont.)

(1) The Company - application for 1999 class action (Cont.)

The motion for Discovery

In May 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. In June 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.

In November 2009, 18 out of 31 plaintiffs (two of them later withdrew their claims) filed their position, according to the court's decision of June 30, 2009, regarding the question whether the claim should be dismissed in limine. The remaining 13 Plaintiffs have not filed their position. The Plaintiffs claimed that all proceedings before the district court should be postponed until the Supreme Court gives its decision on the appeal.

In May 2012, the Israeli Supreme Court upheld the plaintiff's motion to certify the claim as a class action, and certified the claim as a class action, with regard to the execution of an agreement by and between Elscint and the Company's mother Company (Europe-Israel (M.M.S.) Ltd., or EIL) for the acquisition of EIL's hotels portfolio and the execution of an agreement by and between Elscint and Control Centers Ltd. EIL's mother company ("Control Centers") for the acquisition of the Arena commercial center in Israel ("September 99 Transactions"), allegedly, at a higher value than the actual value of the properties sold, which is part of the Plaintiff's claim for alleged oppression of the minority shareholders in Elscint. In addition, the Supreme Court has upheld certain other claims that related to other defendants and rejected certain other claims that were included in the original proceedings.

Taking into account the significant change in the course of this proceedings after the Supreme Court's resolution (namely, the certification of part of the claim as a class action), the fact that the certified causes of actions and their scope with regard to each of the defendants are not yet fully clear, the fact that the plaintiffs should now file a new and amended statement of claim, and the low number of case precedents with regard to certified class actions which were trialled on their merits, the Company's management, based on the Company's legal consultants' opinion, cannot estimate, at this stage, the prospects of this litigation.

As for a dispute with an insurer which insured this law suit, see C 5 below.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (Cont.)

(2) The Company - application for 2006 class action

In September 2006, a third party (the "Plaintiff") 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 are almost identical to the claim detailed in section (1) above and the Plaintiff asked to combine the hearings of these statements with 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 motions have been served asking to certify 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 main relief sought in the claim is compensation, which 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 for 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 clarifications, due to the wording of the claims. In addition, the court asked the parties to refer to the issue of the overlap between the claims lodged by the Plaintiff and the institutional claim detailed in section (1) above. See Court's decision in this matter in note 31 F.

The Group's legal counsels are of the opinion that- in light of the early legal 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, management estimates, based on the Group's legal counsels belief 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%.

For subsequent resolution of the court relating to the class actions under (1) and (2) above, see note 31G.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (Cont.)

(3) **The Company and its subsidiaries - other claims**

The Company 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 $ 9.3 million (NIS 35 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 believes, based-inter alia- on legal opinions and/or on past experience that no material 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.

(4) **Claims filed by a former employee of EIL group**

In May 2006, the Plaintiff instituted an action against the Company, the Company's Chairman of the board at that time 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, as described in (a) above, dealing with the grant of any benefits to the Company's chairman of the board and/or to Control Centres 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 Centres and all with respect to the Company's general meeting held on May 31, 2006.

Alternatively, the court was asked to rule that at every meeting convened as aforementioned, the shares which are the subject of the alleged rights of the plaintiff would be counted in the part objecting to the passage of such resolutions, while 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 rule that at every meeting to be convened to pass such resolutions as aforementioned, the shares which are the subject of the plaintiffs' alleged rights will not be counted as agreeing with the said resolutions and not as part of the objecting votes, while maintaining the plaintiff's rights to institute such proceedings. Underlying this action is a factual base which is similar to additional claims made by the plaintiff against the Company's CEO & Executive President and companies controlled by him as described in (a) above. Following the defendant's request, in December 2008 the court handed down its decision to postpone the proceeding in this matter until the Court's ruling upon the other actions filed by the plaintiff.

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.

Management estimates, based on the Company's legal counsels belief, that- to the best of their understanding (and also considering, inter alia, that this matter is in its preliminary legal 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 have not yet interviewed all the relevant entities - the probability of the claim being upheld is not greater than 50%.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (Cont.)

(5) **Tax assessments under inspection**

The Company and its subsidiaries received from the Israeli Tax Authorities ("ITA") corporate tax and VAT assessments in the total amount of NIS 287 (including interest and CPI linkage). As of December 31, 2012, all issues raised by the ITA are being discussed at court. The main arguments by the ITA are as follows:

- The financial expenses, initiation expenses, general and administrative expenses and selling and marketing expenses are nondeductible for tax purposes, as in view of the ITA, the Company is a holding company, and these expenses were not incurred in the process of generating of business income.
- Business loss shouldn't be allowed to set off against financial incomes, since for tax purposes providing loans is not the Company's business.
- Gain from sale of the Company's shares by a subsidiary, is not tax exempt although the sale transaction was recorded as re-issuance of shares in the Company's financial statement.
- Undistributed gains of a subsidiary accumulated through December 31, 2005, which is incorporated in Netherland and was classified as a Controlled Foreign Corporation ("CFC") until such date should be taxed in Israel. In 2005, the subsidiary entered into a preliminary agreement for a future sale of commercial centers. The ITA argues that profits derived from this agreement in 2006-2008 should be recognized for tax purposes in the year in which the preliminary agreement was signed, that is, 2005. The Company recognized the gains from selling the underlying assets in the tax years 2006-2008, which are the dates in which the actual sales have occurred and all conditions precedent have been fulfilled. In 2006, PC was registered as a public company, and accordingly the CFC rules are not applicable commencing 2006. Accordingly, the subsidiary's classification as a CFC argument is not applicable.

ITA claims, in addition, that accumulated losses of the CFC are not deductible against those gains.

Management estimates, based on tax advisors that the probability of the majority of the ITA's arguments being upheld is not greater than 50%. Accordingly, an appropriate provision has been recorded in the financial statements.

(6) In April 2010, a lawsuit was filed in the US ("Litigation") by former customers of InSightec (the "Plaintiffs") who in 2005 and 2006 purchased systems from InSightec. The lawsuit asserted claims based on alleged representations by the defendants in connection with, and following, the sale of the systems to the Plaintiffs.

On June 12, 2012 the settlement agreement has been completed, leading to the dismissal of all claims and prejudice, without an admission of either side to the other side's allegations. The full effect of the settlement has been reflected in the Company's financial statements as of December 31, 2011.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (Cont.)

(7) One of the Group's subsidiary, Fantasy Park So. Zo.o. ("Fantasy Park"), is involved in several legal proceedings with Klepierre S.A subsidiaries ("Klepierre") in Poland relating to certain terms of the lease agreements signed between the parties and certain amendments related thereto ("Lease"). As of the date of the approval of these financial statements, a settlement agreement is in a final stage of negotiation between the parties (under which Fantasy Park shall pay to Klepierre EUR 0.5 million (NIS 2.5 million) and shall vacate the premises that would settle all the pending disputes, as well as any other disputes that may arise in the future in connection with the Lease referred to above.

(8) Other legal proceedings in the ordinary course of business

The Company and its subsidiaries are currently involved in various legal proceeding relating to their ordinary course of business. 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, individually and in the aggregate, are not expected to materially impact the Company's financial statements.

C. Other contingent liabilities

(1) Indemnification to directors and officers of the Company

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 million, and all in excess of an amount paid (if paid) by insurance companies under certain risk policies. The Company's Board of directors and Audit committee also approved an exemption of officers from liability for any damage caused by breach of a duty of care towards the Company.

(2) Indemnification to directors and officers of Elscint

Elscint 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.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. Other contingent liabilities (Cont.)

(3) Indemnification to directors and officers of Plaza Centers

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 as the chairman of the Company, and to the Company's CEO who serves as PC's Executive of the Board and its controlling shareholder, save that the maximum indemnification -shall not exceed 25% of the shareholders equity of PC based on PC's last consolidated financial statements prior to such payment.

(4) a. Indemnification to directors and officers of InSightec

InSightec (associated company) is obliged to indemnify and to hold harmless its directors and officers (including InSightec's chairman of the board of director who is also the Company's CEO and controlling shareholder and some of the Company's officers), to the fullest extent permitted by the laws of any relevant jurisdiction, against any liability. The total indemnity for each of InSightec's directors and officers, in accordance with the letter of indemnity (in addition to the amounts received from the insurers), will not exceed the lower of $10 million and $3 million with the addition of 25% of InSightec's shareholders' equity, in accordance with its latest audited financial statements (as long as its equity is positive) with the addition of the reimbursement of legal expenses totaling $1 million, subject to the terms and conditions laid down in the letter of indemnity.

Furthermore, InSightec granted its 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. Letter of indemnity and exemption provision constitutes a transaction with the controlling shareholder of the Company, as is defined in the Corporate Act, and requires the approval of the Company's general shareholders' meeting.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. **Other contingent liabilities (Cont.)**

(4) (Cont)

b. **Indemnification to directors and officers of Gamida**

In May 2012, Gamida (associated company) granted its Board members including the Company's CEO and controlling shareholder, a letter of indemnity for any monetary obligation with respect to a claim, including a compromise agreement or arbitration verdict, carried out in respect to actions taken by the director during the time of the service as Gamida's or Gamida's Subsidiary or Affiliate's (as such terms defined therein) Director and in such capacity, as well as with respect to reasonable legal expenses including payments of legal fees expended by the Directors as a result of an investigation or proceeding instituted against the Director. Following the activation of the Amendment No. 16 (the "Amendment") to the Israeli Companies Law, the general meeting of Elbit Technologies approved in July 2012 the amendment of the letter of indemnity to the Company's CEO and controlling shareholder.

c. **Indemnification to directors and officers of Elbit Technologies**

In November 2010, the shareholders' of Elbit Technologies approved an exemption and indemnification to directors and officers of Elbit Technologies (including representatives of the Company's CEO and controlling shareholder and some of the Company's officers). In the framework of the exemption and indemnification letter, Elbit Technologies exempted the recipients of the indemnification letter from liability for actions performed while on duty as officers of Elbit Technologies or its subsidiaries or a company in which Elbit Technologies is an interested party. The total indemnity that Elbit Technologies shall pay to each of the recipients of the indemnification letter (in addition to amount received from the insurance companies according to the insurance policies) shall not exceed USD 40 million. The maximum amount of indemnification shall not be affected by payment according to the insurance policies or from their existence. Receiving indemnity shall not prejudice the rights of the recipients of the indemnification document to receive insurance money, unless the indemnity amount was already covered by the insurance companies or by any third party.

The undertakings of Elbit Technologies towards the directors and officers (including the representatives of Company's CEO and controlling shareholder and some of the Company's officers) as set forth above, in the framework of the indemnification document, shall remain in effect also after the end of tenure of the later provided that the liability is due to acts performed during their tenure as directors and officers as aforementioned.

On July 2012, the general meeting of Elbit Technologies approved the amendment of the Indemnification letters to its directors and officers (including the Company's CEO and controlling shareholder and additional Company's officer), mainly due to the recent activation of the Amendment No. 16 (the "Amendment") to the Israeli Companies Law.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. **Other contingent liabilities: (cont.)**

(5) 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 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 In March 2003, rejecting all allegations. The parties conducted discussions between them pertaining to the matter referred to herein to negotiate a settlement. No notice of cancellation has been issued.

(6) **Indemnifications relating to sale of real estate assets**

In the framework of the transactions for the sale of the Group's commercial centers, 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 free 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 sale 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 caped to 25% to 50% of the purchase price.

The Tax authorities have challenged the applied tax treatment in two of the entities previously sold in Hungary Currently the issue is partially being examined by the competent tax authorities. In respect of one of the former subsidiary of the Company, the tax authorities decision of reducing the tax base by HUF 427 million (NIS 7 million), was challenged by one of the previously held entities, with the next hearing is scheduled for 29 March 2013. The Group's management estimates that no significant costs will be born thereby, in respect of these indemnifications.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. **Other contingent liabilities: (cont.)**

(7) **Pending lease payments to a purchaser of a commercial center**

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 32.7 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.

(8) PC is retaining the 100% holding in all its projects in Serbia after it was decided to discontinue the negotiations with a Serbian developer. PC has an obligation to pay the developer in any case there is major progress in the projects. The total remaining obligation is €0.9 million (NIS 4.5 million).

(9) 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 of Elezra (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.)

C. **Other contingent liabilities: (cont.)**

(10) Waiver and reimbursement to Gamida and/or its officers

In November 2010, the general meeting of Elbit Medical Technologies Ltd. approved assignment of obligations granted by the Company for indemnification of Gamida, and its affiliated parties, from the Company to Elbit Technologies, without the right of reimbursement from the Company, as set forth hereunder.

Accordingly, in November 2010, Elbit Technologies irrevocably undertook towards Gamida and/or its officers, that they shall not be under liability, of any kind, directly or indirectly, towards it, its interested parties, its officers and towards any other person and/or third party, regarding the outline published by Elbit Technologies with respect to the transaction according to which the Company acquired control over Elbit Technologies (hereinafter, respectively the "Outline" and the "Transaction") and/or its preparation and/or publication and/or the process of completing the transaction and/or reports of the company and Elbit Technologies as future reporting companies and/or any actions or other implications by virtue of the aforementioned, except: the undertaking and responsibility of Gamida to provide the information in good faith, provided however that such information must be at all times complete and accurate. Likewise Elbit Technologies has irrevocably undertaken, towards Gamida and its officers that, subject to the conditions specified in the undertaking document, it shall reimburse them, for any liability and/or damage and/or expense and/or loss that is caused to any of the aforementioned due to any law suit, claim and/or demand, of any kind and type, that is directed at them, directly or indirectly, in favor of another person and/or body, with respect to the process of completing the transaction, the outline, as well as any report or other action of the company with respect to the aforementioned information and/or to Gamida, its activities, its business etc (including through subsidiaries and affiliated companies) after completing the transaction and any presentation given in its framework or to any other entity and/or reliance on such presentation, and all provided that Gamida and/or its officers do not bear liability as set forth in the undertaking document with respect to the offering of their securities to the public and/or transforming any of them into a reporting company.

Similarly Elbit Technologies has undertaken to grant Gamida Cell - Teva Joint Venture Ltd. (hereinafter: "Gamida Cell"), a company held by Gamida, an irrevocable undertaking, according to which, inter alia, Elbit Technologies shall undertake to indemnify Gamida and Teva Pharmaceutical Industries Ltd. (hereinafter: "Teva"), which together hold the shares of Gamida Cell, as well as, Gamida Cell for any damage, expense or loss that they incure due to a law suit, claim or demand against Gamida Cell and/or against Gamida and/or against Teva, pertaining to transfer of information and/or description of Gamida Cell in the outline.

The undertakings of Elbit Technologies toward Gamida and Gamida Cell as set forth above are instead of a similar undertaking granted to Gamida and Gamida Cell on behalf of the Company. As of December 31, 2012 the Group holds 96% in Elbit Technologies on fully diluted basis.

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

D. **Liens, collateral and guarantees:**

(1) **Corporate loans**

As security for a loan the balance of which as of December 31, 2012 amounted to NIS 238 million granted to the Company by an Israeli bank the Company has pledged: (i) 86 million shares of PC, representing approximately 29% of PC's issued and outstanding shares, (ii) all of its holdings in Elbit Fashion (iii) a deposit equals next year's principal and interest amount (iv) the last installment of loan provided to PP as mentioned in note 12 C in the amount of €9.36 million (NIS 46 million). As for December 31, 2012, the Company is incompliant with certain covenants stipulated in the loan agreement.

(2) **Credit facilities financing real estate projects**

Certain Project Companies which engaged in the purchase, construction or operation of hotels, investment property and/or trading property ("Project Companies") have secured their respective credit facilities awarded by financing banks, in a total amount of NIS 1,636 million, by providing the first or second ranking (fixed or floating) charges on property owned thereby, including, mainly: rights in the real estate property as well as the financed projects revenues and profits derived from the projects; goodwill and other intangible assets; rights pertaining to certain contracts (including lease, operation and management agreements); and 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 the Project Companies are subordinated to the respective credit facilities, and repayment of such shareholders loans is subject to fulfilling 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.

Company's and PC's guarantees - The Company is a guarantor to certain Project Companies' obligations under loan agreements up to an aggregate amount of NIS 205 million. In some loans the Company guarantees the interest as well. In addition, PC is a guarantor to obligations under loan agreements in respect of its project companies up to an aggregate amount of NIS 261 million. PC also guaranteed fulfilment of other transaction entered into by three of its subsidiary for a total aggregate amount of NIS 4 million

(3) **Secured bank deposits** - As to bank deposits made to secure long term borrowings, short term credits and other liabilities of the Group - see note 30C.(7).

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

D. **Liens, collateral and guarantees: (Cont.)**

(4) **Standby letters of credit** - Within the framework of the franchise and support agreements executed by Elbit Fashion with third parties (see note 23A (4)), as for December 2012, Elbit Fashion has furnished the third parties with letters of credit in the aggregate amount of €3.75 million (NIS 18.9 million) in order to secure payments to the third parties under the agreements.

(5) Within the framework of PC cross currency interest rate swap ("IRS") transactions, selling call options and regular swaps (refer to note 17 i), executed between PC and commercial banks (the "Banks"), PC agreed to provide the Banks with a cash collateral deposit which will be calculated in accordance with a specific mechanism provided in each swap transaction agreement. Accordingly, as of December 31, 2012, PC has pledged, a security deposit in the amount of NIS 15 million and also established a bail mortgage up to NIS 20 million encumbering the real estate project.

E. **Financial covenants**

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, investment property and/or commercial centers), the Project Companies have undertaken to comply with certain financial and operational covenants. As of December 31, 2012, substantially all of the Group's borrowings from banks are subject to various financial and operational covenants and ratios, such as: complying with a "minimum debt service cover ratio," "loan to value"; complying with certain restrictions on interest rates; maintaining certain cash balances for current operations; maintaining an equity to project cost ratio and EBITDA to current bank's debt ratio; 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, the bank is entitled to demand immediate repayment of the loans.

As of December 31, 2012 the Group is in compliance with its financial covenants except with respect to the following:

(1) Company loans in the amount of NIS 238 million (see (3)) below and NIS 52 million (see note 31).

(2) PC's subsidiaries, which have been granted with loans the balance of which as of December 31, 2012, amounted to €88 million (NIS 433 million) for financing construction of trading property, are not in compliance with certain covenants included in the loans agreements. PC is negotiating with the financing banks in respect of settling the bank requirement and agreeing on new covenants and/or waivers. PC obtained waiver in place in respect of two of the secured bank facilities, and is in negotiations to secure waiver or agreement in respect of the remaining two facilities.

All the above mentioned loans are presented are .non-recourse loan agreements. In the event of default of such a loan, the impact could be that the lender would have recourse only to that the specific property but not to any other assets (since the agreements do not contain cross-collateral provisions).

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

E. Financial covenants (cont.)

(3) As for December 31, 2012 the financial covenants that may materially impact the Company's operations and financial position are presented in the table below:

Segment	Financial covenants	Actual ratio	Comments	Balance as of December 31, 2012 (NIS '000)
The Company	Total shareholders' equity higher than NIS 1,500 million	NIS 1,421 million	As for collaterals, see D (1) above. See also note 31C	238
	LTV (loan to value) < 0.75 (according to certain adjustments specified in the loan agreement)	0.93		
	Total financial assets (solo) > $50 million	$74 million		
	Ratio Net Debt / Cap < 85%	74%		
	PC's total financial assets > $80 million	$134 million		
	Ratio Equity/Total Assets of PC > 25%	47%		
Hotels	LTV (loan to value) < 0.6	0.34		289
	DSCR (debt service coverage ratio) > 1.2	1.82		
Commercial centers	LTV < 0.7	0.45		244
	LTV < 0.7	0.69		160
	LTV < 0.75	1.14	Waiver in place	106
	LTV < 0.65	0.73	Under Negotiation	152
	LTV < 0.85	0.72		105
	LTV < 0.70	0.75	Waiver in place	157

NOTE 24 - SHARE CAPITAL

A. **Composition:**

	Ordinary shares of NIS 1.00 par value each		
	December 31		
	2012	2011	2010
Authorized share capital	50,000,000	50,000,000	50,000,000
Issued and outstanding (*)	24,885,833	24,885,833	24,885,691

(*) December 31, 2012, 2011 and 2010 excluding 3,388,910 treasury shares held by the Company.

In May 2010, the Company approved a plan to repurchase ordinary shares of the Company on the Tel Aviv Stock Exchange (the "TASE") from time to time for an aggregate amount of up to NIS 30 million (approximately $7.8 million), subject to market conditions. During 2010 the Group repurchased 588,910 ordinary shares in the aggregate amount of approximately NIS 28 million.

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 the Company's Articles and the Israeli 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 the Company's Articles. All Ordinary Shares rank pari passu in all respects with each other.

B. **Company's Dividend policy:**

In January 2007, the Company's board of directors adopted a dividend distribution policy (the "Policy"), pursuant to which the Company will distribute a cash dividend of at least 50% of its net profits accured 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 determined in accordance with the Company's audited and consolidated annual financial statements.

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 prescribed in the Israeli Companies Law, as may be from time to time, and in any other applicable law. In making such determination, the Company's board of directors will consider, 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 constitute any undertaking towards any third party to dividend distribution.

In June 2011, the Board of Directors of the Company resolved not to distribute any dividends for at least a 12 month period ending in June 2012. In June, 2012, the Board of Directors of the Company has resolved to extend its decision not to distribute any dividends for an additional period of at least 12 months.

NOTE 25 - OPTIONS PLANS

A. **Options plan adopted by the Company:**

2006 option plan

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 were granted to the employees, directors and officers of the Company and companies under its control ("Offerees") for no consideration. The Exercise Price of each option will be reduced upon distributions of dividend by the dividend per share net of tax.

Following amendments to the 2006 Option Plan approved by the Company's board of directors in August 2008 and March 2010, the number of options issuable under the 2006 Option Plan was increased to 2,300,000.

In September, 2011 the Board of Directors following the recommendation of the Audit Committee resolved to amend the exercise price per share to 1,248,295 outstanding options granted by the Company in accordance with the 2006 Plan to offerees still employed by the Company, to the average trading price during the 30 days period following the date of such resolution, and to extend the expiration date of such options to December 31, 2015.
As of December 31, 2012, 1,729,251 options were outstanding under 2006 Option Plan, at an average exercise price of NIS 18.

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 a summary of the Company's 2006 Option Plan:

	Number of options					
	Year ended December 31					
	2012		2011		2010	
	Number of options	Weighted average exercise price (NIS)	Number of options	Weighted average exercise price (NIS)	Number of options	Weighted average exercise price (NIS)
Balance at the beginning of the year	1,709,251	18	2,148,917	53	1,780,917	52
Granted	20,000	10.25	-		399,500	55
Exercised	-		-		(30,500)	53
Forfeited	-		(439,666)	90	(1,000)	32
Balance at the end of the year (*)	1,729,251	18	1,709,251	18	2,148,917	53
Options exercisable at the year end	1,576,084	17	1,399,918	19	1,431,583	57
(*)Includes options granted to other Company's key personnel	185,000	32	557,500	17.47	771,000	54.9

NOTE 25 - OPTIONS PLANS (CONT.)

A. **Options plan adopted by the Company: (cont.)**

2006 option plan (cont.)

The weighted average contractual life of the options outstanding as of December 31, 2012 is 2.4 years. The average exercise price is NIS 198. The average estimated fair value of the options was calculated based on the Binominal model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31	
	2011	2010
Risk free interest rate (%)	3.75	3.59
Exercise coefficient	2.34	2.34
Contractual term	4.3	5
Expected volatility (%)	67.8	61.91
Expected dividend yield	None	None
Forfeited (%)	-	-
Total cost of benefit (NIS thousand)	3,971	9,756

InSightec plan

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 up to 35 employees of the Company exercisable into 500,000 ordinary shares of InSightec. Each option is exercisable into one share of InSightech 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. As of December 31, 2012 430,000 options were granted to the Company's employees and directors.

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. The options will expire 7 years following the date of grant.

	Number of options					
	Year ended December 31					
	2012		2011		2010	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Balance at the beginning of the year	430,000	2	430,000	2	430,000	2
Granted	-		-		-	
Balance at the end of the year (*)	430,000	2	430,000	2	430,000	2
Options exercisable at the year end	286,667	2	143,000	2	-	-
(*)Includes options granted to the Company's key personnel	80,000	2	180,000	2	180,000	2

NOTE 25 - OPTIONS PLANS (CONT.)

A. **Options plan adopted by the Company: (cont.)**

InSightec plan

The weighted average contractual life of the options outstanding as of December 31, 2012 is 4.23 years. The average estimated fair value of the options was calculated based on the Binominal model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31 2010
Risk free interest rate (%)	3.15
Exercise coefficient	2.5-3.5
Contractual term	7
Expected volatility (%)	75.86
Expected dividend yield	None
Forfeited (%)	0-3
Total cost of benefit (NIS thousand)	11,635

Elbit Medical plan

In April 2011, the Company's board of directors adopted an option plan ("option plan") for the grant of up to 158,637,000 options exercisable into 79,443,500 ordinary shares of Elbit Medical for an exercise price of NIS 0.4. The exercise price of each option will be reduced upon distribution of dividend, stock dividend etc. The exercise mechanism of the options into the Elbit Medical'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 price of Elbit Medical's shares on the TASE on the exercise date, provided that if such price exceeds 100% of the Exercise Price, the opening price shall be set as 100% of the Exercise Price ("Capped Exercise Price"); less (B) the Exercise Price of the options; and the result (A minus B) will be divided by the Capped Exercise Price. In November, 2012, the Company's board of directors adopted an amendment to the Option Plan increasing the number of options issuable from 158,637,000 to 187,708,000 and resolved to amend the exercise price per share to NIS 0.133 and to extend the expiration date of such options to November 29, 2017. As of December 31, 2012 159,304,500 options were granted to the Company's employees and officers and additional 28,153,500 are subject to approval of the Company shareholder meeting.

NOTE 25 - OPTIONS PLANS (CONT.)

A. **Options plan adopted by the Company: (cont.)**

Elbit Medical plan (cont.)

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 amendment date grant. The options will expire 5 years following the date of grant.

	Year ended December 31			
	2012		2011	
	Number of options (*)	Weighted average exercise price	Number of options (*)	Weighted average exercise price
		(NIS)		(NIS)
Balance at the beginning of the year	130,233,500	0.4	-	
Granted	29,071,000	0.13	130,483,500	0.4
Exercised	-		(250,000)	0
Balance at the end of the year (*)	159,304,500	0.14	130,233,500	0.4
Options exercisable at the year end	-		-	
(*)Includes options granted to the Company's key personnel	-	-	43,639,000	0.4

The weighted average contractual life of the options outstanding as of December 31, 2012 is 4.9 years. The average estimated fair value of the options was calculated based on the Binominal model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31	
	2012	2011
Risk free interest rate (%)	3	4.83
Exercise coefficient	None	None
Contractual term	5	5
Expected volatility (%)	54.5	53.1
Expected dividend yield	None	None
Forfeited (%)	0	0
Total cost of benefit (NIS thousand)	6,127	19,924

NOTE 25 - OPTIONS PLANS (CONT.)

B. Options plan adopted by PC:

In October 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.

In November 2011, PC's general shareholders meeting and its Board of Directors approved to amend the 1st employee share option plan (ESOP) to extend the Option Term, being the term during which options can be exercised under the 1st ESOP) from 7 to 10 years from the Date of Grant. Furthermore, 2nd ESOP plan was adopted in November 2011 which is based on the terms of the 1st ESOP as amended in accordance with the terms as referred to above, with a couple of amendments, the most important of which is the total number of options to be granted under the 2nd ESOP is fourteen million (14,000,000) and a cap of GBP 2.

The immediate effect of the modification on the 2011 profit and loss statement was an expense of approximately NIS 5 million.

In November 2012, PC's general shareholders meeting and the Board of Directors approved to amend the 1st ESOP to extend the Option Term (i.e., as defined in the 1st ESOP, being the term during which options can be exercised under the 1st ESOP) from ten to fifteen years from the Date of Grant. As a result the Company recorded an incremental fair value of EUR 0.5 million which is included in the consolidated income statement.

Exercise of the options is subject to the following mechanism: on exercise date the Company shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of the Company's shares on the LSE (or WSE under certain conditions) on the exercise date, provided that if the opening price exceeds GBP 3.24, the Exercise Price the opening price shall be set at GBP 3.24 (Except 2nd ESOP as stated above) of the Exercise Price; less (B) the Exercise Price of the Options; and such difference (A minus B) will be divided by the opening price of the Company's Shares on the LSE (or WSE under certain conditions) on the exercise date. The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Following the modification of the option plan, the maximum number of shares issuable upon exercise of all outstanding options, as of December 31, 2012 is 33,176,682

NOTE 25 - OPTIONS PLANS (CONT.)

B. Options plan adopted by PC: (Cont.)

Following is a summary of PC's option plan.

	Number of options					
	Year ended December 31					
	2012		2011		2010	
	Number of options (i)	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		(GBP)		(GBP)		(GBP)
Balance at the beginning of the year	26,905,132	0.46	24,889,225	0.61	26,255,482	0.532
Granted	(108,335)	0.42	6,169,000	0.46	2,789,000	1.23
Exercised	(2,989,557)	0.96	(951,564)	0.53	(3,954,541)	0.52
Forfeited	1,190,000	0.47	(3,201,529)	1.4	(200,716)	0.52
Balance at the end of the year (*)	24,997,240	0.43	26,905,132	0.43	24,889,225	0.61
Options exercisable at the year end	12,471,556	0.43	19,380,778	0.458	15,279,330	0.527
(*) Includes:						
Options granted to the Company's CEO & Executive President	3,907,895	0.43	3,907,895	0.43	3,907,895	0.52
Options granted to other Company's key personnel	2,116,541	0.43	14,566,917	0.43	14,566,917	0.64

(i) The options outstanding at 31 December 2012 have an exercise price in the range of GBP 0.39 to GBP 1.32 and have weighted average remaining contractual life of 10.3 years. The weighted average share price at the date of exercise for share options exercised in 2012 was GBP 0.48 (2011: GBP 0.88).

NOTE 25 - OPTIONS PLANS (CONT.)

B. Options plan adopted by PC: (Cont.)

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		
	2012	2011 (i)	2010
Risk free interest rate (%)	0.24-4.13	0.46-5.49	0.55-5.65
Expected life of options (years)	9-10	7-10	5-7
Expected volatility (%) (ii)	40-60	33-52	40-58
Expected dividend yield	-	-	-
Forfeited (%)	2.5-5.9	2.5-5.9	2.5-5.9
Suboptimal exercise multiple	1.5-2	1.5-2	1.5-2
Total cost of benefit for options granted (or modified) during the year (NIS thousands)	3,783	11,897	7,164

(i) Not including information in respect of the modification of the option plan in November 2011 (see above).

(ii) Since PC has been a publicly traded company since October 2006, there is not enough information concerning PC share price. Therefore, in order to derive the expected stock price volatility, analysis was performed based on the data of PC, and of three other companies operating in the similar segment, which have similar market capital and are traded at the Warsaw Stock Exchange. The weight of the standard deviation for PC was ranging between 45% - 65% and the weight of the average of standard deviations of comparative companies was 35% - 55% (2011: the same).

NOTE 25 - OPTIONS PLANS (CONT.)

C. **Options plan adopted by EPUS**

In August 2011, EPUS 2011 Incentive Plan (the "2011 EPUS Incentive Plan") that provides for the grant of options exercisable into up to 500,000 Participation Units of EPUS to employees, directors and officers of the Company and of affiliate companies, at an exercise price per option of USD 17. The exercise price of each option will be reduced upon any event that EPUS makes cash distributions of the proceeds to all Partners or repays the Partners and/or any Affiliate any outstanding loan, interest, charges and/or current debt, etc.

Under the 2011 EPUS Incentive Plan, upon winding up of EPUS the entire amount of 500,000 Participation Units shall entitle their holders to receive 5% of an amount which equals to any and all amounts that EPUS has received from all sources of income less the costs and expenses pertaining to the applicable transaction and less any and all taxes paid or payable if any with respect to such transaction.

	Year ended December 31			
	2012		2011	
	Number of options (*)	Weighted average exercise price	Number of options (*)	Weighted average exercise price
		(USD)		(USD)
Balance at the beginning of the year	488,750	12.74	-	-
Granted	11,250	12.74	488,750	17
Exercised (*)	(500,000)	1.9		
Balance at the end of the year (**)	-		488,750	12.74
Options exercisable at the year end	-	-	-	-
(**)Includes options granted to the Company's key personnel	-	-	300,000	12.74

(*) During 2012 and as part of the U.S transaction (see note 29) the Administration of the plan accelerated the vesting period

The average estimated fair value of the options was calculated based on the Binominal model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31
	2012
Risk free interest rate (%)	0.48
Exercise coefficient	None
Contractual term	3.5
Expected volatility (%)	51.1
Expected dividend yield	None
Forfeited (%)	0
Total cost of benefit (USD thousand)	8,060

NOTE 25 - OPTIONS PLANS (CONT.)

D. Options plan adopted by PC India and Elbit India real estate

In March 2011 ("Date of grant") the Company's subsidiaries PCI ("PC India Holdings Public Company Ltd.") and EPI ("Companies") granted non-negotiable Options, exercisable into the Companies' Ordinary Shares, to employees, directors and officers of the Companies and/or Affiliates of the Companies. The options were granted for no consideration and have 3 years of vesting with contractual life of 7 years following the Date of Grant. PCI had granted 14,212 (out of which 3,306 were granted to Company's key personnel) Share options with exercise price of €227 per option. EPI had granted 51,053 share options (out of which 11,835 were granted to Company's key personnel) with exercise price of €0.01 per option. PCI and EPI common shares valuation methodology was based on net asset value Model. The expected stock price volatility was based on 5 Indian publicly traded real estate companies and set to range 43.31%-54.4%. The Annual risk free Interest rate range was: 1.25% -4.03%. The suboptimal exercise multiple for Key management personnel were set to 2 and for Employees 1.5 in 2011.

As a result the Company recorded options costs of €0.75 (NIS 4 million) in the income statement.

The Option Plans include, among others, a Cashless Exercise mechanism prior to/following IPO and Conversion upon the Listing of a Subsidiary.

The total number of Underlying Shares reserved for issuance under PCI Plan and EPI Plan and any modification thereof shall be 14,697 Underlying Shares and 52,600 Underlying Shares, respectively (representing approximately 5% of the share capital of the Companies on a fully diluted basis, inclusive of all Underlying Shares).

E. Options plan adopted by Investee Company

InSightec has adopted several options plans exercisable to its ordinary shares to be granted to InSightec's board members, employees and other persons who provide services to InSightec including employees of the Group ("Offerees"). Based on the these plans, 250,000 options with $6 exercise price were granted to the Company's CEO & Executive President and 100,000 with $3 exercise price were granted to other Compan's key personnel.

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT

	Year ended December 31		
	2012	2011	2010
		(in thousand NIS)	
A. Revenues from commercial centers			
Sale of trading property	127,109	3,525	4,345
Rental income and management fees	141,025	76,300	61,260
Other	34,128	35,445	37,290
	302,262	115,270	102,895
B. Revenues from hotel operations and management			
Rooms	137,146	179,396	259,894
Food, beverage and other services	69,370	92,009	129,195
Rental of commercial space	16,312	15,143	14,733
	222,828	286,548	403,822
C. Cost of commercial centers			
Direct expenses:			
Cost of trading property sold	109,628	3,203	5,185
Wages and fringe benefits	10,341	9,089	10,019
Allowance for doubtful debts	-	-	3,223
Energy costs	22,250	18,676	18,375
Taxes and insurance	10,281	6,595	5,168
Maintenance of property and other expenses	29,627	26,418	23,672
	182,127	63,981	65,642
Other operating expenses:			
Wages and fringe benefits	22,952	24,086	25,380
Stock-based compensation expenses	7,755	19,000	13,366
Professional services	23,933	19,756	17,830
Advertising	20,063	12,931	14,637
Other	12,705	14,845	13,845
	87,408	90,618	85,058
Depreciation and amortization	3,275	5,027	6,045
	272,810	159,626	156,745

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (Cont.)

	Year ended December 31		
	2012	2011	2010
		(in thousand NIS)	
D. Cost of hotel operations and management			
Direct expenses:			
Wages and fringe benefits	55,575	77,814	107,574
Food and beverages	17,235	22,483	28,806
Other	56,669	67,814	95,352
	129,479	168,111	231,732
Other operating expenses:			
Wages and fringe benefits	573	834	499
Management fees and reimbursement expenses	12,677	15,252	21,884
Business taxes, insurance and lease payments	8,592	11,838	25,536
Other	3,819	3,432	7,746
	25,661	31,356	55,665
Depreciation and amortization	47,018	41,317	53,894
	202,158	240,784	341,291
E. Cost of fashion merchandise			
Direct expenses:			
Inventories - opening balance	36,140	28,504	26,652
Purchases	61,620	101,550	78,222
Less disposal during the year	19,982	-	-
Less - inventories closing balance	10,676	36,140	28,330
	67,102	93,914	76,544
Other operating expenses:			
Wages and fringe expenses	32,562	38,417	38,512
Rental, management fee and shops' maintenance	39,281	56,485	54,899
Advertising	5,397	11,788	14,398
Depreciation and amortization	6,064	7,379	8,520
Other	5,366	3,760	4,701
	88,670	117,829	121,030
	155,772	211,743	197,574
F. General and administrative expenses			
Wages and fringe benefits	24,718	24,262	30,274
Stock-based compensation expenses	11,853	22,644	13,980
Depreciation and amortization	1,752	1,852	1,990
Other	10,563	13,099	19,048
	48,886	61,857	65,292

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (Cont.)

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
		(in thousand NIS)	
G. Financial expense			
Interest and CPI linkage on borrowings (i)	393,941	463,500	417,539
Gain from buy back of debentures	(112,857)	(64,110)	-
Sub Total	281,084	399,390	417,539
Loss (gain) from foreign currency translation differences (net of exchange results recorded in foreign currency translation reserve)	21,483	(42,754)	55,451
Other financial expenses	7,507	4,968	7,954
Total financial expenses	310,074	361,604	480,944
Financial expenses capitalized to qualified assets (ii)	(134,296)	(197,603)	(164,238)
	175,778	164,001	316,706
(i) Including results of swap transactions designated as cash flow hedge for the years ended December 31, 2010. In addition interest on debentures measured at FVTPL in the amount of NIS 61 million, NIS 56 million and NIS 51 for the years ended December 31, 2012, 2011 and 2010, respectively.			
(ii) The rate applicable to non-specific credit	7.3%	8.0%	7.2%
H. Financial incomes			
Interest on deposits and receivables	27,974	65,017	59,169
Gain (loss) from foreign currency translation differences	3,109	554	(18,242)
	31,083	65,571	40,927
I. Change in fair value of financial instruments at FVTPL			
Change in fair value of embedded derivative	-	2,158	9,146
Change in fair value of financial instruments measured at FVTPL (mainly debentures)	98,798	(353,368)	236,837
Change in fair value of derivatives (mainly swap and forward transactions)	(57,888)	60,857	(173,813)
Gain (loss) on marketable securities	9,319	14,816	(19,154)
	50,229	(275,537)	53,016
J. Write down, charges and other expenses, net			
Write down, other property and other receivables (i)	413,564	263,720	44,446
Initiation expenses (ii)	15,454	22,159	37,832
Other, net (iii)	(17,393)	397	1,382
	411,625	286,276	83,660

(i) Includes mainly impairment related to PC trading property based on external expert valuations.

(ii) Includes mainly cost and expenses in respect of the Group's operations in India.

(iii) The balance for 2012 includes NIS 37 million receivable from insurance company (see note 8 C)

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (Cont.)

	Year ended December 31		
	2012	2011	2010
	(in thousand NIS)		
K. Earnings per share			
1. Basic earnings per share: The earnings and weighted average number of ordinary shares used in the calculation of the basic earning per share are as follows:			
Loss from continuing operations	(391,947)	(284,610)	(308,924)
Profit from discontinued operation	98,357	19,691	370,922
Weighted average number of shares used in computing basic earnings per share (thousands)	24,886	24,883	25,291
2. Diluted earnings per share: The earnings and weighted average number of ordinary shares used in the calculation of the diluted earnings per share are as follows:			
Profit (loss) from continuing operations	(391,947)	(284,610)	(308,924)
Profit from discontinued operation	98,357	19,691	370,922
Weighted average number of shares used in computing diluted earnings per share (thousands)	24,886	24,883	25,737
Effect of diluted options on the number of shares (thousands)	-	-	-

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, its subsidiaries and its jointly controlled companies, which are related parties of the Company, have been eliminated on consolidation and therefore are not disclosed in this note.

(1) As of December 31, 2012 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").

NOTE 27 - RELATED PARTIES (Cont.)

A. **Transactions with related parties: (Cont.)**

(1) (Cont.)

a. (Cont.)

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, the Company may either terminate the agreement with respect to the said project or conduct a settlement of accounts on the basis of the actual project's costs as of such date as if the project had been terminated (as per the termination settlement method appearing below), and thereafter, any additional payment milestones shall be calculated on the basis of the new budget of the project following the change of designation. If the development of the real estate project is terminated for any reason (including its sale or as a result of a change in the designation of the project), the payment for the Services to CC will be calculated as a percentage of the budget of the project as of such date provided however, that the rate upon which the consideration is calculated, shall not exceed the rate determined for the next milestone of the project had it 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 b. below).

The agreement with CC has expired in May, 2011, but it continues to apply to Services with respect to projects that commenced prior such date.

b. An agreement between the Company and 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. This aviation services agreement has expired in May 2011.

c. In October 2011 PC extended for additional four-years term an agreement between PC and Jet Link Ltd under which the PC and/or its affiliates may use the airplane for their operational activities up to 275 flight hours per annum. PC will pay Jet Link Ltd. in accordance with its price list, deducted by a 5% discount.

NOTE 27 - RELATED PARTIES (Cont.)

A. **Transactions with related parties: (Cont.)**

(2) The Group furnished a local municipality with a bank guarantee in a principal 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). The above sum, including the interest and index accrued thereupon, as of December 31, 2012 amounted to NIS 9.6 million. In December 2012, the court, based its decision on the assessment of the valuator that was appointed by it, decided to reject the betterment tax demand. Consequently the bank guarantee was canceled.

B. **Benefits to key management personnel:**

In July 26, 2012 the Company's board of directors approved a 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 August 1, 2012.

(1) **CEO & Executive President's services for the Company**

On May 31, 2006, the Company's shareholders' approved a service agreement with a company controlled by the Company's CEO & Executive President (the "Management Company") pursuant to which, the Company's CEO & Executive President, who at time served as the Company's Executive Chairman, commencing January 1, 2010, serves in addition as Executive President, and commencing August 1, 2012 serves in addition as the Company's CEO, provides the Company with services (the "Services") via the Management Company. The agreement was for a five-year term commencing retroactively on August 1, 2005. In September, 2010 the Company's shareholders' approved an extension of the agreement for an additional five-year term commencing in August 2010 ; however, pursuant to the Israeli Companies Law, 1999-5759, this agreement will require shareholder approval again in the Company's shareholder meeting in 2013. The Management Company may also provide the Services to private subsidiaries and/or affiliates of the Company. Under the agreement, the Services will be provided by the CEO & Executive President only, as an employee of the Management Company and the CEO & Executive President will devote at least 80% of his time, skills and efforts to his role as CEO & Executive President and CEO. During the term of the agreement the Management Company may not affect any change of control of its shareholders. In consideration for the Services, the Company pays the Management Company a monthly fee of $50,000 (NIS 185 million as of December 31, 2012) as well as reimbursement of direct expenses incurred directly with the provision of the Services. 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. Under the agreement, the Management Company will be the sole employer of the CEO & Executive President and no employer-employee relationship will exist between the CEO & Executive President 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 CEO & Executive President including legal fees, in connection with any determination by the labor court and/or any other competent authority that the CEO & Executive President was or is an employee of the Company during the term of the agreement. The CEO & Executive President 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.

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (Cont.)

(2) Executive Director services for PC

On November 1, 2007, the Company's shareholders approved a service agreement between PC and the CEO & Executive President, according to which, the CEO & Executive President will serve as PC's Executive Director of the board of directors in consideration of monthly salary of $25,000 (NIS 93,000 as of December 31, 2012) as well as reasonable expenses incurred by the Executive Director 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 Executive Director has waived his right to any entitlement to 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 PC may be exposed to potential additional payments to the Executive Director in an aggregate amount which is estimated as immaterial, should the agreement be regarded as an employment agreement. The service agreement commenced on October 26, 2006. Each party may terminate the service agreement by a 12-month prior notice.

(3) Company's CEO & Executive President Bonus

On November 1, 2007 the Company's shareholders approved an annual bonus payment for the CEO & Executive President 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 CEO & Executive President 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. Notwithstanding the above, the annual bonus the CEO & Executive President is entitled to shall not exceed NIS 18.0 million. Pursuant to an amendment to the Israeli Companies Law, 5759-1999, the effectiveness of this bonus is subject to re-approval by the Company's shareholders

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(4) Company's Chairman Bonus

On May 31, 2006, the Company's shareholders approved bonus payments for the fiscal years commencing 2006 to the Company's Chairman, 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.

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.

(5) Company's agreement with its former executive vice chairman

On January 17, 2008, the Company's shareholder's approved an agreement with an officer who served as the Company's executive vice chairman of the board ("VC") according to which the Company has undertaken to allot the VC 5% 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 December 31, 2012, 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. Effective as of December 31, 2010, the VC resigned from his position with the Company, and accordingly the Sourcing Period will end in June 2013.

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(6) PC's agreement with the Company's former executive vice chairman

On October 27, 2006, PC has entered into an agreement with an officer who 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 up to 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 December 31, 2012, the VC's right to receive the shares in each holding company is fully vested.

The Options may be exercised at any time, for cash or on a cashless basis, 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 a put 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.

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 organs as required under applicable law.

The agreement was approved by the Company's shareholders meeting on January 17, 2008. As of the balance sheet date, a liability of NIS 2 million was recorded in the consolidated financial statements in respect of this agreement.

Effective as of December 31, 2010, the VC resigned from his position with the Company. The agreement is still valid.

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(7) a. Insurance policy for the Company's directors and officers

The directors and officers of the Company and of companies (excluding PC and its subsidiaries which are covered under a separate policy , 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 allocation of the insurance costs between the Company and its subsidiaries (90%) and EIL (10%) was approved by the Company's shareholders. In addition, the directors and officers of the Company and of PC (excluding their respective subsidiaries) are covered under an umbrella policy, up to a $20.0 million per occurrence and in the aggregate. The shareholders of the Company approved the renewal of such policies and the purchase of other directors and officers policy and the purchase of any other policy upon the expiration of such policies, 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 2011 approved the coverage of liability of the Executive Chairman under the above insurance policy.

b. Insurance policy for PC's directors and officers

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.

c. Insurance policy for the InSightec's directors and officers

InSightec's directors and officers are covered by two insurance policies: (i) Run Off policy, which is valid for a period of 7 years commencing December 2012, covering damages occurring until December 2012, and (ii) a second policy covering damages occurring from December 2012, which is valid for 12 months commencing December 2012. Each policy is up to $20.0 million, including a component of special coverage for risk management (up to an amount of $100 thousands) and they are valid worldwide (Insurance Policy). In July 2012, Elbit Technologies' Audit Committee and Board of Directors has approved the Insurance Policy applicability the Company's CEO and controlling shareholder and another Director in the Company, the latter of which is subject to the approval of Elbit Technologies' general meeting.

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(7) (cont.)

d. Insurance policy for the Gamida's directors and officers

Gamida's directors and officers (including the Company controlling shareholding and some of the Company's officers) are covered by a policy including 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. 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 (1-4).

(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 (including bonus) granted to the Group's key management personnel:

	Year ended December 31		
	2012	2011	2010
		(in thousand NIS)	
a. Benefits to key management personnel			
Salaries, management fees, directors' fees and bonuses (i) (*)	9,927	13,038	15,485
Post employment benefits	186	1,261	2,855
Amortization of stock based compensation expenses	19,234	22,085	15,720
	29,347	36,384	34,060
(*) Number of recipients (excluding directors)	1	4	5
b. Project expenses (coordination, supervision and aviation services) - charged, mainly to cost of trading property and property plant and equipment (see note 27 A(1))	8,211	21,960	44,332

NOTE 27 - RELATED PARTIES (CONT.)

D. **Balances with related parties:**

	Year ended December 31	
	2012	2011
	(in thousand NIS)	
Assets:		
Receivables and other debit accounts	5,715	6,151
Deposit, loans and other long-term receivables	1,082	1,082
	6,797	7,233
Liabilities:		
Payables and other credit accounts	759	2,900
Benefits payable to former key management personnel	3,332	5,841
	4,091	8,741

E. **Liens and guarantees** - see notes 23D.

NOTE 28 - SEGMENTS REPORTING

A. **General:**

The Group's Chief Operating Decision-Maker ("CODM") has been identified as the CEO & Executive President. 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:

NOTE 28 - SEGMENTS REPORTING (cont.)

A. General: (cont.)

- Commercial and entertainment centers - Initiation, construction and sale, shopping 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.

- Medical Industries and devices - (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine;

- 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.

- Other activities - venture-capital investments - investments in high tech companies which are mainly engaged in research and development operations.

During 2010 the Company decided to suspend its investment activities in hospitals and farm and dairy plants in India, until the Company is satisfied that the economy has recovered sufficiently to resume such activities.

The Group's reportable segments for each of the years ended December 31 2012, 2011 and 2010 are: Commercial and Entertainment Centers, Hotels, Medical Industries and devices, 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 (with respect to the Hotels and fashion apparel segments), investment property attributable to the U.S. Real Property segment, and 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, investment property 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 rose by the Company and PC) were considered as unallocated liabilities.

The accounting policies of the reportable segments are the same as those of the Group described in note 2.

In June 2012, the Company fully realized the U.S Real Property segment. Therefore this segment is no longer considered as a reportable segment, and accordingly was excluded from segmental disclosure for each of the years ended December 31 2012, 2011 and 2010 (see note 29).

NOTE 28 - SEGMENTS REPORTING (CONT.)

B. Data regarding business segments

Year ended December 31, 2012

	Commercial and entertainment Centers (i) (ii)	Hotels	Medical industries and devices	Residential	Fashion Apparel	Other activities and allocations	Total
				(in thousand NIS)			
Revenues	300,541	276,703	69,457	1,622	152,470	(66,463)	734,330
Gain from loss of control over a subsidiary	-	-	216,574	-	-	(216,574)	-
							734,330
Segment profit (loss)	(378,419)	81,396	174,793	(8, 135)	(3,302)	(174,370)	(308,037)
Financial expenses	(57,861)	(35,966)	-	-	(1,569)	48	(95,348)
Share in losses of associates, net	(427)	-	(8,299)	-	-	-	(8,726)
Unallocated general and administrative expenses							(48,886)
Unallocated financial expenses							(80,428)
Financial income							31,083
Change in fair value of financial instruments measured at FVTPL							(50,229)
Profit before income taxes							(560,571)
Income taxes							10,248
Profit from continuing operations							(550,323)
Profit from discontinued operation							94,823
Loss for the year							(455,500)
Purchase cost of segment assets	138,846	2,897	73	-	3,626	2,674	148,116
Unallocated Purchase cost							-
							148,116
Depreciation and amortization of segment assets	3,275	47,018	-	-	6,064	253	56,610
Unallocated depreciation and amortization							1,752
							58,362
Provision for impairment of segment assets	406,249	(8, 223)	-	-	-	(8, 157)	389,869
Unallocated provision for impairment							6,303
							396,172
December 31, 2012:							
Segment assets	3,436,990	1,267,412	106,928	1,046,965	47,339	290,296	6,195,930
Investment on the equity basis	(5,680)	-	18,952	-	-	150,752	164,024
Unallocated assets							734,456
							7,094,411
Segment liabilities	1,158,185	434,510	81,368	1,753	38,011	(56,489)	1,657,338
Unallocated liabilities							4,015,944
							5,673,282

(i) Includes mainly revenues from commercial centers under operation until their sale and consideration from sales of trading property.

(ii) Includes trading property and payments on accounts of trading property.

NOTE 28 - SEGMENTS REPORTING (CONT.)

B. Data regarding business segments

Year ended December 31, 2011

	Commercial and entertainment Centers (i) (ii)	Hotels	Medical industries and devices	Residential	Fashion Apparel	Other activities and allocations	Total
				(In thousand NIS)			
Revenues	111,726	286,548	53,324	3,544	183,552	(51,794)	586,900
Segment profit(loss)	(320,949)	58,812	(112,807)	(12, 579)	(29,532)	101,526	(315,529)
Financial expenses	(34,058)	(37,045)	654	-	(3,294)	(728)	(74,471)
Share in losses of associates, net	(743)	-	(6,130)	-	-	(695)	(7,568)
Unallocated general and administrative expenses							(61,857)
Unallocated financial expenses							(89,530)
Financial income							65,571
Change in fair value of financial instruments measured at FVTPL							275,537
Profit before income taxes							(207,847)
Income taxes							63,283
Profit from continuing operations							(271,130)
Profit from discontinued operation							24,101
Loss for the year							(247,029)
Purchase cost of segment assets	404,028	27,464	-	14,881	3,087	2,956	452,416
Unallocated Purchase cost							58,123
							510,539
Depreciation and amortization of segment assets	5,027	41,317	1,273	-	7,379	1,242	56,238
Unallocated depreciation and amortization							1,852
							58,090
Provision for impairment of segment assets	274,563	(13,048)	-	-	1,341	(2,377)	260,479
Unallocated provision for impairment							7,638
							268,117
December 31, 2011:							
Segment assets	3,357,612	1,227,194	39,873	1,061,866	99,888	150,731	5,937,164
Investment on the equity basis	(5,657)	-	16,213	-	-	-	10,556
Unallocated assets							4,423,347
							10,371,067
Segment liabilities	1,248,294	745,624	115,435	956	70,026	(89,042)	2,091,293
Unallocated liabilities							6,740,904
							8,832,197

(i) Includes mainly revenues from commercial centers under operation until their sale .

(ii) Includes trading property and payments on accounts of trading property.

NOTE 28 - SEGMENTS REPORTING (CONT.)

B. **Data regarding business segments (Cont.)**

Year ended December 31, 2010

	Commercial and entertainment Centers (i) (ii)	Hotels	Medical industries and devices	Residential	Fashion Apparel	Other activities and allocations	Total
				(in thousand NIS)			
Revenues	102,895	602,599	33,631	-	174,817	(33,631)	880,311
Segment profit(loss)	(97,536)	276,369	(88,856)	(19,480)	(28,081)	58,625	101,041
Financial expenses	(19,490)	(87,715)	(1,073)	-	(3,482)	1,073	(110,687)
Share in losses of associates, net	(1,899)	-	-	-	-	(6,376)	(8,275)
Unallocated general and administrative expenses							(65,292)
Unallocated financial expenses							(206,019)
Financial income							40,927
Change in fair value of financial instruments measured at FVTPL							(53,016)
Profit before income taxes							(301,321)
Income taxes							3,992
Profit from continuing operations							(305,313)
Profit from discontinued operation							378,838
Profit for the year							73,525
Purchase cost of segment assets	375,554	99,965	3,379	66,607	11,605	17,182	574,292
Unallocated Purchase cost							2,441,795
							3,016,087
Depreciation and amortization of segment assets	6,044	53,894	628	-	8,520	(628)	68,458
Unallocated depreciation and amortization							2,618
							71,076
Provision for impairment of segment assets	43,686	(15,061)	-	5,466	3,580	-	37,671
Unallocated provision for impairment							5,833
							43,504
December 31, 2010:							
Segment assets	4,071,426	1,204,159	43,141	1,046,146	95,873	39,377	6,500,122
Investment on the equity basis	(4,697)	-	-	-	-	29,824	25,127
Unallocated assets							4,177,465
							10,702,714
Segment liabilities	1,726,315	622,775	61,596	1,069	75,870	(54,485)	2,433,140
Unallocated liabilities							6,092,052
							8,525,192

(i) Includes mainly revenues from commercial centers under operation until their sale.

(ii) Includes trading property and payments on accounts of trading property.

NOTE 28 - SEGMENTS REPORTING (CONT.)

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		
	2012	2011	2010
		(in thousand NIS)	
East and central Europe(i)	400,325	246,860	232,044
West Europe (ii)	169,319	171,359	484,617
Israel	152,470	183,552	171,275
Other and allocations	12,216	(14,871)	(7,625)
	734,330	586,900	880,311

(i) The following table provides an additional information in respect of the revenues in east and central Europe per countries:

	Year ended December 31		
	2012	2011	2010
		(in thousand NIS)	
Hungary	42,152	8,638	6,993
Poland	89,852	66,134	56,345
Czech Republic	18,178	14,305	18,321
Romania	136,473	136,103	126,050
Latvia	23,947	19,372	15,245
Serbia	21,228	-	-
Bulgaria	68,495	2,308	9,090
	400,325	246,860	232,044

(ii) The following table provides additional information in respect of the revenues in west Europe per countries:

	Year ended December 31		
	2012	2011	2010
		(in thousand NIS)	
England	-	-	338,944
Netherland	69,849	81,635	73,404
Belgium	72,002	72,352	64,200
Other	27,468	17,372	8,069
	169,319	171,359	484,617

NOTE 28- SEGMENTS REPORTING (CONT.)

C. **Data regarding geographical areas:**

(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 2012	Segment assets December 31 2011
	(in thousand NIS)	
East and central Europe	4,310,458	3,736,362
West Europe	330,376	583,180
Israel	446,183	247,624
India	1,431,761	1,414,232
Other	(140,537)	(33,675)
	6,378,241	5,947,723

NOTE 29 - DISCONTINUED OPERATION

In June 2012, the Group sold its shopping centres in the U.S. as detailed in B below, and consequently this operation was classified as discontinued operation.

In December 2012, the Group lost control over InSightec, due to a new shareholder's agreement, and consequently the Group ceased to consolidate InSightec's financial statements in its financial statements, and the investment in Insightec is presented on the equity method (see note 10B(2)). Accordingly, the medical industry and devices operations are considered discontinued operation. The Group represent prior period's results and cash flows from the operations discontinued as discontinued operations.

A. **Significant accounting policies related to discontinued operations**

(i) **Revenue recognition of medical devices:**

Revenues from sale of medical devices 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.

NOTE 29 - DISCONTINUED OPERATION

A. **Significant accounting policies related to discontinued operations (cont.)**

(i) **Revenue recognition (cont.):**

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 total 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.

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 rewards 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 rewards 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, and accordingly 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 (net basis).

(ii) **Research and development costs:**

Research costs are charged to the statement of income, as incurred.

NOTE 29 - DISCONTINUED OPERATION

A. **Significant accounting policies related to discontinued operations (cont.)**

(iii) Critical Judgment in applying accounting policies

As for 31, December 2011: according to the Company's management judgment the rights specified in InSightec's shareholders agreement which stipulated several limitations on the execution of certain material transactions or activities not in the ordinary course of business of InSightech, without obtaining GE's prior approval and the approval of certain transactions that require the vote of 70% (of InSightec's preferred B shares of which as of December 31, 2011 the Company held 65.9%) do not confer rights to the non-controlling interests to participate in operational and financial decisions of InSightec in the ordinary course of business, and therefore would not overcome the presumption of the Company's control over InSightec as of such date.

B. **Discontinued operations:**

Investment in US real estate market - EPN

In June 2010, EPN Group completed a transaction to hold 43.35% interest in a company which at that time held 47 retail shopping centers in the United States. In August 2011, the Group completed full takeover of those assets. As described below, in June 2012, EPN Group completed the sale of the entire of its retail shopping centers portfolio. Accordingly, the US operations were classified in these financial statements as discontinued operations.

Sale of investment property during 2012

In January 2012, certain indirect subsidiaries of EPN Group entered into an agreement to sell 47 (out of total of 49) shopping centers to BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Partners VII L.P. and/or its affiliates and DDR Corp. and/or its affiliates, for a purchase price of $1.43 billion.

The sale transaction was closed in June 2012. In addition, EPN Group posted an escrow of $14.2 million for the benefit of the buyer in the event any of the representations and warranties in the purchase and sale agreement are violated. The escrow balance is expected to be released to EPN Group by March 31 2013.

As a result of the transaction, the Group recognized net expenses relating to realization of investment property, fair value adjustment and realization of foreign currency translation reserve In the amount of NIS 76 million. In July 2012, the remaining 2 shopping centers were sold for the total amount of $ 41 million.

NOTE 28 - SEGMENTS REPORTING (CONT.)

B. Discontinued operations (cont.):

Results of discontinued operations:

	December 31			
	2012	2011	2010	2012
				Convenience translation (Note 2D)
	(in thousand NIS) (Except for per-share data)			U.S.$'000
Revenues and gains				
Gain from bargain purchase	-	-	397,082	-
Gain from changes of shareholding in investee	216,574	15,450	-	58,016
Gain from fair value adjustment of investment property	-	81,118	42,550	-
Investment property rental income	133,640	254,806	122,462	35,800
Sale of medical systems	69,901	53,324	33,631	18,725
	420,115	404,698	595,725	112,541
Expenses and losses				
Investment property expenses	58,063	112,262	50,571	15,554
Expenses relating to realization of investment property and fair value adjustment	76,104	-	-	20,387
Cost and expenses of medical systems operation	67,742	101,498	63,973	18,147
Research and development expenses	44,192	58,776	58,514	11,838
Financial expenses	85,567	94,183	47,327	22,922
other expenses (income), net	(452)	(9,391)	(4,426)	(121)
	331,216	357,328	215,959	88,727
Profit from discontinued operations before income taxes	88,899	47,370	379,766	23,814
Income tax (income) expenses	(5,924)	23,269	928	(1,587)
Profit from discontinued operations	94,823	24,101	378,838	25,401
Basic earnings per share	3.95	0.79	14.67	1.06
Diluted earnings per share	3.95	0.79	14.41	1.06

NOTE 29 - DISCONTINUED OPERATION (CONT.)

B. Discontinued operations (cont.):

Statement of Cash flows

The statement of cash flows includes the following amounts relating to discontinued operations, the majority of which are attributable to the discontinued U.S. operations:

	December 31			
	2012	2011	2010	2012
				Convenience translation (Note 2D)
	(in thousand NIS)			U.S.$'000
	Reconcile to CF statement			
Operating activities	(32,096)	38,675	31,167	(8,598)
Proceeds from sale of investment property	1,361,965	-		364,844
Other investment activities	(72,134)	(61,416)	(178,463)	(19,323)
Repayment of investment property loans	(597,953)	-	-	(160,180)
Other financing activities	13,164	(297,092)	(39,991)	3,526
Net cash provided by (used in) discontinued operations	672,946	(397,183)	(187,287)	180,269

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:**

	December 31	
	2012	2011
	(in thousand NIS)	
Financial assets		
Cash and cash equivalents	535,070	602,292
Loans and receivables	429,499	493,668
Financial assets held for trading	10,675	21,466
Available for sale financial instruments	87,044	144,702
Held to maturity financial instruments	-	187,648
Financial assets designated at fair value through profit and loss	-	62,701
Derivative financial assets at fair value through profit and loss	22,934	15,148
	1,085,222	1,527,625
Financial Liabilities		
Derivative financial liabilities at fair value through profit and loss	27,585	27,277
Financial liabilities designated at fair value through profit and loss	662,242	732,212
Financial liabilities at amortized cost	4,704,044	7,747,286
	5,393,871	8,506,775

(2) **Additional information:**

a. As for financing income and expenses resulting from the aforementioned financial instruments -see note 26G.

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, 2012 and 2011 amount to revenue of NIS 14 million and loss of NIS 297 million respectively.

The accumulated change in fair value which is attributable to the change in the credit risk of PC's debentures measured at FVTPL from its issuance amount to income of NIS 133 million.

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.

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

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 or 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 mitigate 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 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.

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 liablities. in order to minimize such exspsure the Group policy is to hold financial assets and liablities 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, Indian Rupee, U.S. Dollar and the RON). In addition, part of the Company's long term loans (mainly U.S. Dollar) were used to hedge the exposure of the Company's investments in foreign operations. As for foreign currency risk in respect of PC's debentures, for which PC executed swap transactions in order to mitigate such risk, see C.(4) below.

Forward transactions

PC entered into a Forward transaction to mitigate its foreign currency exposure risk in respect of Series B debentures. In January 2010 PC settled the Forward for a total consideration of NIS 29.6 million (approximately €5.6 million).

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. **Management of financial risks: (cont.)**

(1) **Foreign currency risk (cont.)**

Foreign Currency Mitigate using selling options

During 2011, PC decided to use selling options strategy (through major Israeli and foreign banks) in order to mitigate its foreign currency risk (EURO-NIS) inherent in its long term debentures series A and series B issued in NIS which are not mitigated by other derivative instruments (e.g. cross currency interest rate swaps, forwards).

During 2011, PC wrote call and put options with an expiration date of December 28, 2011. The options activity generated a net cash gain of NIS 25.9 million.

During 2012, PC wrote call and put options with an expiration date of December 31, 2012. The options activity generated a net cash gain of NIS 57.8 million.

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 capitlizing any exchange results to qualfied assets):

As of December 31, 2012:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss)
				In thousand NIS
Assets				
Cash and deposits	NIS	U.S. Dollar	+10%	24,306
Cash and deposits	EURO	PLN	+10%	1,966
Cash and deposits	NIS	EURO	+10%	1,002
Cash and deposits	EURO	NIS	+10%	2,312
Available for sale assets	EURO	U.S. Dollar	+10%	17,264
Loan to third party	EURO	GBP	+10%	4,606
				51,456
Financial liablities				
Loans at amortized cost	NIS	U.S. Dollar	+10%	(29,032)
Loans at amortized cost	EURO	NIS	+10%	(8,496)
Debentures at amortized cost	NIS	U.S. Dollar	+10%	(1,537)
Debentures at amortized cost (i)	EURO	NIS	+10%	(36,016)
Loans at amortized cost	EURO	U.S. Dollar	+10%	(1,368)
Loans at amortized cost	RON	EURO	+10%	(28,878)
				(105,327)

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. **Management of financial risks: (cont.)**

(1) **Foreign currency risk (cont.)**

(i) In respect of PC's series B debentures and series A debentures which are represented at amortized cost.

Regarding the foreign currency risk of PC's debenures at FVTPL, see C (4) below.

As of December 31, 2011:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss)
				In thousand NIS
Assets				
Cash and deposits	NIS	U.S. Dollar	+10%	13,603
Cash and deposits	EURO	PLN	+10%	5,127
Cash and deposits	NIS	EURO	+10%	713
Cash and deposits	EURO	NIS	+10%	508
Available for sale assets	EURO	U.S. Dollar	+10%	1,950
Loan to third party	EURO	GBP	+10%	5,942
				27,843
Financial liablities				
Loans at amortized cost (i)	NIS	U.S. Dollar	+10%	(31,873)
Loans at amortized cost	EURO	NIS	+10%	(6,000)
Debentures at amortized cost	NIS	U.S. Dollar	+10%	(2,812)
Debentures at amortized cost (ii)	EURO	NIS	+10%	(62,232)
Loans at amortized cost	EURO	U.S. Dollar	+10%	(3,247)
Loan at amortized cost	EURO	GBP	+10%	(337)
Loans at amortized cost	RON	EURO	+10%	(30,246)
				(136,747)

(i) The effect of the exchange rates results in respect of these financial liablities 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 debenures at FVTPL, see C (4) below.

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(1) Foreign currency risk (cont.)

As of December 31, 2010:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss)
				In thousand NIS
Assets				
Cash and deposits	NIS	U.S.Dollar	+10%	9,744
Cash and deposits	EURO	PLN	+10%	3,984
Cash and deposits	NIS	EURO	+10%	6,996
Cash and deposits	EURO	U.S. Dollar	+10%	1,510
				22,234
Financial liablities				
Loans at amortized cost	NIS	U.S. Dollar	+10%	(15,702)
Loans at amortized cost (i)	NIS	EURO	+10%	(20,349)
Debentures at amortized cost	NIS	U.S. Dollar	+10%	(3,648)
Debentures at amortized cost (ii)	EURO	NIS	+10%	(49,184)
Loans at amortized cost	EURO	U.S. Dollar	+10%	(1,465)
Loans at amortized cost	RON	EURO	+10%	(18,707)
				(109,055)

(i) The effect of the exchange rates results in respect of these financial liablities is offset agianst the exchange rate resulting from investments in foreign opertions 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 debenures at FVTPL, see C (4) below.

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. As of December 31, 2012 the Investment of the Company in marketable securities is NIS 10.7 million.

Available for sale

The Group is exposed to equity price risks arising from equity investments classified as Available for sale assets (see note 4). Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis - The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower: profit for the year ended 31 December 2012 would have been unaffected as the equity investments are classified as available for sale and no investments were disposed or impaired, and other comprehensive income for the year ended 31 December 2012 would increase/decrease by NIS 4 million as a result of the changes in fair value of available for sale shares. The Group's sensitivity to equity prices has not changed significantly from the prior year.

Derivative measured at FVTPL

(1) The balance as of December 31, 2012 and 2011 includes an amount of GBP 2.5 and 2.6 million (NIS 15) with regard to the sale of the Group's hotels in UK. As of December 31, 2012, the balance also include amount of GBP 1.2 (NIS 8) with regard to the sale of the Group's hotels in The Netherland. Said amounts determined by a third party expert and represents the fair value of a derivative contemplated in the sale agreements (see note 12 C and D).

(2) December 31, 2011 - Within the framework of a credit agreement executed in September 2011 (see iv below) the Company granted to the Lender a warrant to purchase the Company's ordinary shares at an exercise price of $3.00 per share during a two-year period commencing on March 31, 2012. The warrant will entitle the lender to purchase up to 9.9% of the Company's outstanding shares. in April 2012, the Company and the Lender agreed to amend the warrant granted by the Company in the way that the lender is entitled to purchase from the Company, at any time and from time to time during the period commencing on March 31, 2012 and ending on March 31, 2014, up to 3.3% (instead of 9.9%) of the Company's outstanding shares at a purchase price of 0.00$ (instead of 3.00$) per share, subject to the terms and conditions set forth in the warrant. As for December 31, 2012 the warrant was classified to the equity of the Company in its fair value as of that date.

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. **Management of financial risks: (cont.)**

(2) **Price risk (Cont.)**

Embedded derivative

December 31, 2010 and 2011 - Within the framework of a credit agreement executed in April 2010 B.H. jointly controlled subsidiary that holds a hotel in Netherland was committed to pay the financing bank additional exit fee. The subsidiary was sold within the share purchase agreement as described in note 12(D).

The following table details senstivity analysis to changes in market prices and/or fair value and their effect on the statements of income (before tax) :

	Scope of price change	Profit (loss)		
		Year ended December 31		
	%	2012	2011	2010
			(in thousand NIS)	
Increase in the prices of marketable securities held for trade	+10%	1,067	2,147	15,576
Increase in the fair value of Park Plaza shares	+10%	(2,192)	(1,159)	-
Increrase in the fair value of the underlying assets used for the calculation of the embedded derivative's fair value	+5%	-	(318)	(200)
Increrase in the fair value of the underlying assets used for the calculation of the derivative's fair value (2)	+10%	-	1,442	-
		(1,125)	2,112	15,376

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(3) Credit risk

The Group holds cash and cash equivalents, short term investments and other long- term investments in financial instruments 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.

The investment of the group in HTM structures was realized during 2012.

Due to the nature of their activity, the Group companies, which operates at the hotels 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. With respect of three projects loans, PC mitigates its exposure to cash flow due to floating interest (IRS) (see note 17(i)). The aggregate fair value of these three IRS, based on a valuation technique, was a negative value in an amount of NIS 12.3 million, a change of 1% in the market interest, is expected to have immaterial effect on the statement of income. 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 did not have any effect on the statement of income. The Notes were sold in June 2012 for a total consideration of EUR 37.2 million (NIS 183 million). In respect to loan agreement drown by a subsidiary holding the Radisson Blu, Bucharest ("BUTU") (see Note 19 D (ii)), BUTU entered into IRS transaction in which it will pay fixed interest rate of 1.4% and receives three months Euribor on a quarterly basis starting on January 1, 2013 and ending on June 30, 2016. In addition, the Group has invested in Available for sale assets which changes in their fair value do not have any effect on the statements of income, since it is included directly in the comprehensive income.

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. **Management of financial risks: (cont.)**

(4) **Interest rate risk (cont.)**

PC's debentures at FVTPL and PC EURO/PLN debenture and swap transaction

As of December 31 2012, PC has issued two series of debentures which are presented at FVTPL: Series A in the total aggregate amount of NIS 305 million, Series B in the aggregate amount of NIS 799 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 EURO-NIS interest rate swap transactions in respect of the entire amount of Series A debentures. Such swap transaction was settled in January 2009. In February 2011, PC entered into a new cross currency interest rate swap transaction in respect of a principal amount of NIS 127 million of Series A debentures. According to the swap transaction, PC will pay a fixed interest of 6.82% and will receive the same interest of the debentures linked to the Israeli CPI, with the same amortization schedule as the debentures. The new series A swap was settled in January 2012. In addition, PC entered into several swap transactions for its Series B debentures, NIS 799 million par value ("Series B at FVTPL") close to the date of their issuance. 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 3.52%-3.66% and will receive the same interest of the debentures linked to the Israeli CPI with the same amortization schedule as the debentures. Series B debentures swap transactions were settled in September 2011 for total proceeds of NIS 153 million. The swap derivatives are measured at fair value, 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 are presented at FVTPL although the swap was settled. 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. In respect of EURO-PLN cross currency interest rate swap related to PC PLN debentures at amortized cost (see note 30 (4) (a) (ii)), PC included a negative value in the amount of NIS 4 million (December 31, 2011 - NIS 10.3 million).

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 price change	Profit (loss)		
		Year ended December 31		
	%	2012	(*)2011	2010
		(in thousand NIS)		
Devaluation of the NIS against the EURO	(i)	57,151	70,738	101,789
Change in the Israeli CPI	(ii)	(12,573)	(15,562)	(23,055)
Change in the market interest rate	+1%	8,036	10,646	20,804

(i) December 31, 2012, 2011 and 2010: +10%;
(ii) December 31, 2012 and 2011: +2.2%, December 31, 2010 +3%
(*) During 2011, the exposure to the above changes was lower, due to a EURO-NIS swap transaction which was in effect and was settled during September 2011.

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(4) Interest rate risk (cont.)

Cash flow risk

a. Part of the Group's long term borrowings as well as long term loans receivable are bearing variable interest rate (see notes 17 and 20). 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 assets and liabilities which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

	Profit (loss)		
	Year ended December 31		
	2012	(*)2011	2010
	(in thousand NIS)		
Deposits linked to the EURO	644	-	-
Deposits linked to the PLN	-	227	-
Held to Maturity financial notes linked to the EURO	-	5,007	-
Loans, debentures and convertible debentures linked to the U.S. Dollar	(6,390)	(12,481)	(9,710)
Loans and debentures linked to the EURO (i) (ii)	(28,636)	(32,703)	(44,328)
Loans linked to the NIS	(1,859)	(1,498)	(1,034)
	(36,241)	(41,448)	(55,072)

(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 C(4) above).

(ii) PC raised a total of PLN 60 million (approximately NIS 71 million) from Polish institutional investors. The unsecured bearer bonds governed by Polish law (the "Bonds") have a three year maturity and will bear interest rate of six months Polish Wibor plus a margin of 4.5%. PC entered into a EURO-PLN cross-currency interest rate swap, in order to mitigate the expected payments in PLN (principal and interest) and to correlate them with the EURO. The derivative is measured at fair value and the debentures are measured at amortized cost.

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

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. **Management of financial risks: (cont.)**

(5) **Liquidity risk**

The Group's capital resources include the following: (a) proceeds from sales of trading property and real estate assets subject to market condition (b) lines of credit obtained from banks, financial institutions and others; (c) public issuances of unsecured debentures by the Company and PC subject to market condition; 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) Interest and principal payments on the Group debentures and loans;

(iii) Payment of general and administrative expenses; and

(iv) Additional investment in associates (mainly venture capital investments).

(v) New Real Estate Investments.

As for the Company's ability to repay its financial liabilities see note 3.

The following tables present the cash flow of financial liabilities and assets (principal and interest) in accordance with the contractual repayment dates:

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. **Management of financial risks: (cont.)**

(5) **Liquidity risk (cont.)**

As of December 31, 2012:

	1st year (iii)	2nd year	3rd year	4th year	5th year	6th year and thereafter	Total
				(in thousand NIS)			
Financial liabilities							
Borrowing with fixed interest rate							
Loans linked to EURO	3,549	3,448	3,348	3,248	3,147	21,509	38,249
Convertible Debentures	60,954	57,568	-	-	-	-	118,522
PC's debentures linked to the Israeli CPI	366,757	349,845	332,938	44,285	42,460	-	1,136,285
Debentures linked to the Israeli CPI	529,874	486,416	444,646	328,657	339,784	588,765	2,718,142
	961,134	897,277	780,932	376,190	385,391	610,274	4,011,198
Borrowing with variable interest rate							
Loans linked to the EURO	188,774	360,214	198,275	345,355	349,276	480,752	1,922,646
Debenture linked to the EURO	79,482	-	-	-	-	-	79,482
Loans linked to the NIS	100,846	-	-	-	-	-	100,846
Loans linked to the U.S. Dollar (ii)	310,527	12,907	-	-	-	-	323,434
Debentures linked to the U.S. Dollar	10,657	5,260	-	-	-	-	15,917
	690,286	378,381	198,275	345,355	349,276	480,752	2,442,325
Suppliers, payable and other credit balances	184,486	3,274	503	9,740	-	-	198,003
Total financial liabilities	1,835,906	1,278,932	979,710	731,285	734,667	1,091,026	6,651,526
Financial assets							
Cash and cash equivalent (i)	535,064	-	-	-	-	-	535,064
Short term deposits (i)	327,830	-	-	-	-	-	327,830
Trade receivables and other receivables	183,804	-	-	-	-	-	183,804
Long term deposits, loans and invesiments	-	23,493	-	22,934	5,329	2,760	54,516
Total financial assets	1,046,698	23,493	-	22,934	5,329	2,760	1,101,214

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. **Management of financial risks: (cont.)**

(5) **Liquidity risk (cont.)**

As of December 31, 2011:

	1st year (iii)	2nd year	3rd year	4th year	5th year	6th year and thereafter	Total
				(in thousand NIS)			
Financial liabilities							
Borrowing with fixed interest rate							
Loans linked to EURO	20,335	20,003	180,941	6,521	6,416	93,576	327,792
Loans Linked to U.S. Dollar (ii)	281,860	370,988	71,091	523,207	209,772	286,630	1,743,548
Convertible Debentures	7,000	63,003	59,503	-	-	-	129,506
PC's debentures linked to the Israeli CPI	406,870	389,083	371,296	353,509	59,553	57,099	1,637,410
Debentures linked to the Israeli CPI	417,662	509,148	468,974	430,352	318,624	901,892	3,046,652
	1,133,727	1,352,225	1,151,805	1,313,589	594,365	1,339,197	6,884,908
Borrowing with variable interest rate							
Loans linked to the EURO	892,013	131,674	91,695	88,219	385,567	351,435	1,940,603
Debenture linked to the EURO	5,220	79,982	-	-	-	-	85,202
Loans linked to the NIS	35,612	18,372	17,251	16,125	-	-	87,360
Loans linked to the U.S. Dollar (ii)	46,258	341,389	81,966	65,956	70,847	82,686	689,102
Debentures linked to the U S. Dollar	12,106	11,763	5,796	-	-	-	29,665
	991,209	583,180	196,708	170,300	456,414	434,121	2,831,932
Suppliers, payable and other credit balances	429,631	6,608	2,865	2,729	2,599	16,670	461,102
Total financial liabilities	2,554,567	1,942,013	1,351,378	1,486,618	1,053,378	1,789,988	10,177,942
Financial assets							
Cash and cash equivalent (i)	602,292	-	-	-	-	-	602,292
Short term deposits (i)	409,338	-	-	-	-	-	409,338
Trade receivables and other receivables	173,615	-	-	-	-	-	173,615
Long term deposits, loans and investments	-	91,318	7,252	1,764	16,912	262,831	380,077
Total financial assets	1,185,245	91,318	7,252	1,764	16,912	262,831	1,565,322

(i) The Company's cash (solo report) amounted to NIS 370 million, see notes 11 B(3) and 23 E(1)).

(ii) Includes loans in the amount of NIS 395 million, for which the Group is not in compliance with their covenants as of December 31, 2011. See also note 23 E (5).

The Company believes that, based on the current operating forecast, the combination of existing working capital and expected cash flow from operations will be sufficient to finance the ongoing operations in the foreseeable future.

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 certain debentures linkage currency into EURO. (See 9 A.(iv).) which are linked to the increase in the Israeli CPI above the base index at the date of the debentures issuance. The swap transaction for Series B debentures was settled during September 2011. An increase of 3% in the Israeli CPI will cause an increase in the Group finance expenses for the years ended December 31, 2012, 2011 and 2010 (before tax and capitalization of borrowings costs to qualified assets) in the amount of NIS 69.7 million, NIS 87.8 million and NIS 79.2 million, respectively.

(7) **Collaterals**

The following table presents the book value of financial assets which are used as collaterals for the Group's liabilities:

	December 31	
	2012	2011
	(in thousand NIS)	
Long term borrowings	39,262	33,845
Short term credits	66,374	121,183
Guarantees provided by the Group	19,805	29,375
Interest rate swap transactions	14,762	29,135
Liabilities in respect of sale of Investment property	55,111	-
	195,314	213,538

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

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. The fair value of financial instruments that are not traded 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.

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.

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

D. Fair value of financial instruments (cont.)

(2) The principal methods and assumptions which served to compute the estimated fair value of the financial instruments (cont.)

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.

The fair value of derivatives (mainly swap transactions) is done mainly 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.

d. **Financial instruments included in long-term liabilities** - the fair value of the traded liabilities (debentures) is determined according to closing prices as of the balance sheet date quoted on the Tel- Aviv and Warsaw Stock Exchanges, multiplied by the quantity of the marketable financial instrument issued as of that date. 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.

(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			
	2012		2011	
	Book Value	Fair Value	Book Value	Fair Value
	(In thousands NIS)			
Financial Notes held to maturity	-	-	187,648	132,875
Long- term loans at fixed interest rate	(30,537)	(30,537)	(1,550,990)	(1,579,736)
Debentures	(2,410,489)	(1,098,999)	(3,166,108)	(1,448,648)
	(2,441,026)	(1,129,536)	(4,529,450)	(2,895,509)

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

D. Fair value of financial instruments (cont.)

(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, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands NIS)			
Marketable securities	10,675	-	-	10,675
AFS financial assets	87,044	-	-	87,044
Financial notes	-	45,796	-	45,796
Option measured at FVTPL	-	-	22,934	22,934
	97,719	45,796	22,934	166,449

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands NIS)			
Marketable securities	21,466	-	-	21,466
AFS financial assets	144,702	-	-	144,702
Financial note and option measured at FVTPL (i)	-	-	77,849	77,849
	166,168	-	77,849	244,017

(i) The Company estimates the fair value of structured deposit B based on the bank's quote. This quote is tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market interest rates for a similar instrument at the measurement date. The test is being done by using yield analysis for structured model. The change in the fair value included in the profit and loss for the year ended December 31, 2011 is loss of NIS 6.4 million.

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

D. **Fair value of financial instruments (cont.)**

(4) **Fair value levels (cont.)**

Financial liabilities at fair value through profit or loss

	December 31, 2012			
	Level 1	Level 2	Level 3 (i)	Total
	(In thousands NIS)			
PC's Debentures	571,510	-	-	571,510
The Company Debentures	90,733	-	-	90,733
PC's swap transactions and other swap transactions		27,586	2,058	29,644
	662,243	27,586	2,058	691,887

	December 31, 2011			
	Level 1	Level 2	Level 3 (i)	Total
	(In thousands NIS)			
PC's Debentures	707,384	-	-	707,384
Exit fee to financing bank	-	-	2,417	2,417
Liability to the Office of Chief Scientist	-	-	24,827	24,827
PC's swap transactions and other	-	17,584	7,276	24,860
	707,384	17,584	34,520	759,488

(i) The changes in the fair value of the Group's financial liabilities included in Level 3 were charged mainly to the profit and loss as follows:

Liability to the Office of Chief Scientist NIS 1.2 million.

Option plan to former VC income of NIS 2.9 and expenses of NIS 0.4 million in 2012 and 2011, respectively.

(ii) See note 20 (A) (i).

NOTE 31 - SUBSEQUENT EVENTS

A. **Suspension of payments to the Company's debenture holders**

According to the repayment schedule of the Company's Series A and Series B debentures, on February 20, 2013 the Company is required to pay the holders of the debentures principal and interest in the aggregate amount of approximately NIS 82 million (the "Upcoming Payments"). On February 3, 2013 the trustees informed the Company that in meetings of holders of the Series E and I debentures it was agreed to authorize them to take legal action against the Company to prevent the making of the Upcoming Payments, and in connection therewith in a meeting that was held between the Company and the trustees of the debentures and the joint representatives of the Series E, F, F and I debentures (the "Joint Representatives") the Company was requested by the Joint Representatives to refrain from making the Upcoming Payments

In addition, in light of the damage that is likely to be caused to the Company and to all its creditors if the Company is pulled into legal proceedings as mentioned, and in order to allow the Company to engage in the process of negotiations mentioned above to the fullest extent and in a manner that is quick and efficient, the board of directors of the Company decided, at this stage, to accede to the demands of the debenture holders and to delay the payment of principal to the holders of the various series of debentures until the conclusion of negotiations with them. Furthermore the Board has also decided on that date that during the forbearance period, it is the Company's intention to make the interest payments on a regular basis to the various series unless it is decided otherwise

Series A, B and C bond holders have notified the Company that they reject the Company's decision and demanded that the Company shall make all payments it is obligated to towards the bond holders.

On February 19, 2013, the Board of Directors of the Company resolved to suspend any interest payments with respect to all of the Company's Notes.

B. **An Early Termination of the Debentures Repurchase Financing Transactions**

On February 10, 2013, the financial institutions that had acquired the Company's Series A to G Debentures ("Debentures") under the structured debenture transactions described in note 19 E have notified of the early termination of the Transactions as a result of the decline in the market price of the Debentures and consequentially, the failure to meet the loan-to-value covenants under the Transactions.

Accordingly, the financial institutions sold the Debentures held by them in consideration that fully covered the termination amounts. An amount of NIS 10 million and 31 million par value Debentures had been returned to the Company.

NOTE 31 - SUBSEQUENT EVENTS (Cont.)

C. **Notice from Bank Hapoalim Ltd.**

In respect of the bank loan described in note 23 D, the balance of which as of December 31, 2012 amounted to NIS 238 million, in February 2013 the bank notified the Company, that the Company is in breach of covenants stipulated in the agreement, i.e. - breach of the Company's commitments to bond holders and breach of commitments regarding LTV. The bank has further notified the Company that the bank has the right to demand the immediate repayment of all the credit it has provided to the Company. The bank also notified the Company that it shall use collateral made in its favor by B.E.A. Hotels N.V. to repay said credit (see note 9 (v)).

At this time, the Company has not responded to the bank's notice said letter.

D. **Notice from Bank Leumi**

On March 2013, the Company received a letter from Bank Leumi le-Israel B.M. demanding repayment within ten days of the outstanding balance of approximately $14.1 million (approximately NIS 52 million) due primarily under the loans made by the bank to the Company (the "Loans"). The bank stated that it was taking this action in light of the Company's current financial condition and the Company having informed the bank that it would not be making the upcoming payment to the Bank on March 29, 2013 of principal and interest due under the Loans. The Bank also informed the Company that it had placed a freeze on certain accounts maintained by the Company with the Bank in which the Company holds cash and trading securities in the amount of approximately NIS 13 million ("Leumi Accounts") until the outstanding amounts due are repaid. The bank has also notified the Company that should such repayment will not be made within ten days the bank is preserving his rights to take all actions necessary in order to protect his rights under the loan agreements including offsetting any amounts in the Leumi accounts against the Loans.

As of the approval date of these financial statements, the Company has not responded to the bank's notice letter.

E. **Purported Class Action Lawsuit filed against the Company**

On March 3, 2013, the Company was informed that a purported class action lawsuit was filed on February 25, 2013 by one of the Company's note holders, in the Israeli Tel-Aviv Jaffa District Court, against the Company, its controlling shareholders, officers and others. The complaint requests the court to recognize the lawsuit as a valid class action and alleges, among other things, that the Company's announcements on February 5, 2013 and February 19, 2013 that it would suspend its principal and interest payments to its note holders (see A above) constitutes a breach of the trust agreements relating to the Company's Series A and Series B notes. The lawsuit seeks damages in the amount of NIS 240 million (approximately $64.5 million). The Company plans to vigorously oppose the purported class action.

F. **Purported Restructuring**

On February 27, 2013, a summary of terms was reached among the Company, York Capital Management Global Advisors, LLC ("York") and Davidson Kempner Capital Management LLC ("DK", and collectively with York, the "Funds"). The Funds hold, in the aggregate, approximately 35% of the outstanding balance of the Notes (as defined below).

NOTE 31 - SUBSEQUENT EVENTS (Cont.)

F. Purported Restructuring Cont.)

The Proposed Restructuring
Pursuant to an arrangement under Sections 350-351 of the Israeli Companies Law, the outstanding balance under the Company's Notes and any other unsecured loans of the Company (which together, as of February 26, 2013, equaled approximately NIS 2,464 million (approximately $660 million) would be converted into (a) Ordinary Shares of the Company, representing immediately following such conversion 86% of the total share capital of the Company on a fully diluted basis (excluding any new warrants to purchase Ordinary Shares that may be issued to Mr. Mordechay Zisser, who currently is the controlling party of the Company, in consideration for Mr. Zisser's continued role in the Company as described below); and (b) new notes (the "New Notes") with an aggregate face amount of NIS 300 million (approximately $80 million) bearing interest at the rate of 8% per annum payable on a semi-annual basis, with principal repayable in a single payment at the end of five years.

The Ordinary Shares and New Notes would be allocated among the various series of the Notes in proportion to the outstanding balance (pari) under each such series and would be listed for trading on both the Tel Aviv Stock Exchange and the NASDAQ Global Select Market free of any restrictions or limitations on trade. The New Notes would be secured by a negative pledge and would include mandatory prepayment provisions in the event the Company secures corporate-level financing (using only the proceeds of such new financing), and may be prepaid at any time without penalty.

Cash-out
Under the summary of terms, the Funds would offer to purchase Notes from those Note holders who wish to sell, immediately prior to the closing of the Restructuring, for an aggregate amount of $75 million in cash (the "Cash-Out"). The structure, terms and conditions of the Cash-out have yet to be determined.

The participation of the Funds in, and the terms of, the Cash-Out would be conditioned on the satisfactory outcome of a due diligence review of the Company, as well as other conditions precedent to be agreed upon by the parties.

Secured Debt
The Restructuring contemplates that the secured debt owed by the Company to an Israeli bank the balance of which as of December 31, 2012 amounted to NIS 238 million, would remain outstanding and payable in accordance with its existing repayment schedule and other terms.

Continuing Role of the Chief Executive Officer
The Funds have expressed their belief that the continued involvement of Mr. Zisser, the Chief Executive Officer, Executive President and a director of the Company and its controlling party as of December 31, 2012, in the business of the Company following the Restructuring is in the best interest of the Company. As part of the Restructuring, the parties intend to negotiate with Mr. Zisser an arrangement whereby Mr. Zisser will continue to devote substantially all of his business time and effort to the business of the Company and to serve as the Company's Chief Executive Officer, on terms to be agreed upon, including the issuance of warrants by the Company to Mr. Zisser to purchase Ordinary Shares.

The Company has agreed to examine all of its related party transactions and arrangements, including all transactions and arrangements with Mr. Zisser, to ensure that such transactions and arrangements are and will be made in the best interests of the Company. The Company shall have the right to terminate these related party transactions and arrangements with immediate effect.

NOTE 31 - SUBSEQUENT EVENTS (Cont.)

G. **The Company's controlling shareholder's request for an arrangement with creditors**

On February 26, 2013, the Company's controlling shareholder, Europe-Israel MMS Ltd. ("Europe Israel") and Mr. Mordechay Zisser, have notified the Company that Europe Israel has filed with the Tel Aviv District Court a request for an arrangement with creditors under Section 350 of the Israeli Companies Law. This action follows a notice received by Europe Israel from Bank Hapoalim (the "Bank") of an alleged breach of a loan agreement between the Bank and Europe Israel, and demanding an immediate repayment.

On February 28, 2013, Europe Israel and Mr. Mordechay Zisser, have notified the Company that the Bank has taken legal action to foreclose on its liens on the assets of Europe Israel, including the Company's shares held by Europe Israel, securing Europe Israel's obligations under the loan agreement with the Bank.

Europe Israel and Mr. Zisser have also notified the Company that they utterly reject the Bank's claims and intend to vigorously defend their rights.

H. **District's Court decision to dismiss the claims in note 23 B (2) as class actions**

In January 2013, the District Court ruled that the claims referred to in note 23 B (2) would not be certified as class actions, due to their similarity to the claim described in note 23 B (1). Since the day the District Court's decision was handed to him, the plaintiff had 45 days to appeal said decision to the Supreme Court. Such an appeal was not received as of the approval date of these financial statements.

I. **Letter of Undertaking with the trustees**

The Letter of Undertaking was effective as of March 19, 2013 and will remain in effect until the end of the period of 14 days from the date on which the Company notifies the Trustees of its intention to terminate the Letter of Undertaking for any reason (the "Interim Period"). In addition, the Company may notify the Trustees in writing of the termination of any of the undertakings included in the Letter of Undertaking for any reason following the end of the period of 14 days from the delivery of such notice, or with immediate effect if any of the Notes Series file a motion for the liquidation of the Company.

The Letter of Undertaking provides that, without prejudicing anything in the Letter of Undertaking, the parties intend to mutually investigate the possibility of formulating a plan of arrangement among the Company and the Note Holders as to the Company's outstanding obligations to the Note Holders.

In addition, (i) nothing in the Letter of Undertaking will be deemed to obligate any of the Company, the Trustees, the Note Holders' representatives (the "Representatives") and/or the Controlling Shareholder (as defined below) to enter into any arrangement and/or agreement of any kind, and nothing in the Letter of Undertaking will be deemed to constitute a representation and/or warranty whatsoever as to any consent and/or confirmation by either the Company, the Trustees and/or the Controlling Shareholder, to any arrangement among the Company and the Notes Holders; and (ii) the execution of the Letter of Undertaking will not prejudice any of the parties' or Note Holders' rights.

NOTE 31 - SUBSEQUENT EVENTS (Cont.)

I. Letter of Undertaking with the trustees (Cont.)

The Company undertook to fully cooperate with the Trustees, the Representatives and anyone acting of their behalf to enable them to conduct a due diligence investigation with respect to the financial condition of the Company for the objective of negotiating an arrangement and/or providing recommendations to the Note Holders as to any arrangement and/or relating to available courses of action to protect the Note Holders' rights pursuant to the respective Notes and the exercise thereof, subject to confidentiality obligations.

The Company further undertook that during the Interim Period it and the entities under its control (excluding Plaza Centers N.V. ("Plaza") (the "Controlled Entities")), will not: (i) either directly or indirectly, make any payments and/or engage in any transactions with the Controlling Shareholder and/or entities under the control of the Controlling Shareholder and/or Mr. Mordechay Zisser's relatives (collectively, "Related Parties") (but excluding D&O insurance and/or indemnification undertakings, to the extent these will be duly provided to all officers of the respective entity under applicable law); (ii) dispose and/or undertake to dispose of any material asset of the Company and/or the Controlled Entities, and will not provide any guarantee and/or security of any kind, to secure the Company's or any third party's debt, without providing the Trustees a 14-day prior written notice accompanied by all relevant information ("Advance Notice"); (iii) carry out any activity and/or enter into any transaction which is not in the Company's and/or the Controlled Entities' (as the case may be) ordinary course of business, unless it provides the Trustees with Advance Notice; (iv) acquire and/or sell and/or pledge any of the Company's securities, unless it provides Advance Notice; (v) deposit any cash or cash equivalent (including any securities) with any financial institution that is a creditor of the Company ("Financial Creditors") and/or any of the Controlled Entities, or with a bank account in any of the banks to whom the Company's and/or any of its Controlled Entities' aggregate debt exceeds an amount of NIS 5,000,000, but excluding any deposits of any proceeds made by the Company's subsidiaries in the framework of such subsidiaries' on-going activity in the ordinary course; (vi) in the case of the Company, announce and/or distribute any dividends and/or other distributions of any kind, to any of its shareholders, (vii) change or amend any term under its existing credit and/or funding facilities with any of its Financial Creditors; and (viii) enter into new investments, including any purchase of new assets and/or additional rights in existing assets (except for certain specific activities agreed-upon under the Letter of Undertaking), unless it provides Advance Notice. In addition, each of the Company and the Controlled Entities agreed during the Interim Period to notify the Trustees and the Representatives of actual or threatened litigation or claims against the Company and/or any of its Controlled Entities that exceeds or would reasonably be expected to exceed NIS 2,500,000.

In addition, during the Interim Period, the Company and its Controlled Entities will not make any payments to their respective creditors nor will any of them undertake any obligations to do so unless the Company provides the Trustees with Advance Notice, except for the following:

The making of payments and undertakings in the ordinary course of business, other than to Related Parties and Financial Creditors, subject to certain thresholds and exclusions;

The advance of working capital to the Company's subsidiaries in India and the United States, subject to a certain threshold; and

Payments to secured creditors that are due and payable in accordance with the terms thereof, provided that the source of the funds used for the repayment of such secured debt was generated from the secured assets.

The Company further undertook that neither the Company nor any of its Controlled Entities will settle any of their respective debt towards other entities included in the Elbit Group, except for the settlement of debts owed to the Company by any such entities included in the Elbit Group or for the settlement of any of Plaza's debts to any third party.

NOTE 31 - SUBSEQUENT EVENTS (Cont.)

I. Letter of Undertaking with the trustees (Cont.)

Mr. Mordechay Zisser and the entities owned and/or controlled by him (the "Controlling Shareholder") have agreed that, during the Interim Period, they will not dispose of the securities of the Company and/or the Controlled Entities held, directly or indirectly, by the Controlling Shareholder. In addition, there may not be any change in the Controlling Shareholder's holdings (directly or indirectly) in any of the Company's securities, provided that such undertaking will not apply in case of any conflict between this undertaking and any previous undertaking of the Controlling Shareholder towards Bank Hapoalim B.M., if and to the extent any such other undertaking exists.

ELBIT IMAGING LTD.
APPENDIX

Name of company	Abbreviated name	Country of organization	Direct/indirect ownership percentage
BEA Hotels NV	BEA	The Netherlands	100%
Elbit Medical Technologies Ltd.	Elbit Medical	Israel	90%
InSightec Ltd.	InSightec	Israel	48% (1)
Gamida Cell Ltd.	Gamida	Israel	28.8% (1)
Elbit Plaza India Real Estate Holdings Limited	EPI	Cyprus	50% (2)(3)
Elbit Plaza USA, L.P.	Elbit Plaza USA	USA	100% (4)
EPN GP, LLC	EPN Group	USA	100% (5)
EPN EDT Holding II, LLC	EPN Group	USA	100% (5)
Elbit Trade & Retail Ltd.	Elbit Trade	Israel	100%
Elbit Ultrasound (Luxemburg) BV/SA R.L	EUBV	Luxemburg	100%
Plaza Centers N.V.	PC	The Netherlands	62.5%

(1) Held through Elbit Medical.

(2) The Company holds 47.5% of the shares in EPI directly, and an additional 47.5% through PC.

(3) For details as to the grant of 5% of EPI's equity to the Company's former Executive Vice Chairman of the board of directors, see note 27 B.(5)& (6).

(4) The Company holds 50% in Elbit Plaza USA directly, and an additional 50% through PC.

(5) Indirectly held through Elbit Plaza USA.

Exhibit 99.2

Elbit Imaging Ltd.

Operating and Financial Review and Prospects

In this document, all references to "Elbit," the "Company," "our," "we" or "us," are to Elbit Imaging Ltd. and its consolidated subsidiaries.

All references to "$" or "U.S. dollar," are to United States dollars and all references to "NIS" are to new Israeli shekel.

This report on Form 6-K 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 Securiti 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 t 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 simil 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 impli in the forward-looking statements as a result of various factors including, without limitation, the factors set forth under Item 3.D of our annual report on Form 20-F for the fiscal year ended December 31, 201 under the caption "Risk Factors," as well as those discussed elsewhere in our other filings with the securities and exchange commission. Any forward-looking statements contained in this report on Form 6 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 futu 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 forwar looking statements.

The following discussion should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2012, and accompanying notes thereto, whi were filed with the Securities and Exchange Commission (the "SEC") on this report on Form 6-K on March 20, 2013.

Overview

We operate primarily 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 Central and Eastern Europe and in India, primarily through PC. In certain circumstances and depending on market conditions, we operate and manage commercial and entertainment centers prior to their sale;

- Hotels - Hotel operation and management;

- Medical Industries - (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine;

- Residential Projects - Initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India; and

- Fashion Apparel - Distribution and marketing of fashion apparel and accessories in Israel.

During 2012, we completed a transaction to sale all of our investments in commercial centers in the United States. In addition, as discussed below in 2012 we lost majority control over InSightec, t entity operating the medical industry and devices business. Accordingly, both of these operations are presented in these financial statements as discontinued operations.

In addition, we make venture capital investments in different start-up and emerging corporations. However, the results of this activity is not material to our company, and this activity is not a materi segment of our company.

We have established a new investment fund, upon which we will drawn upon our track record of experience in the United States. Our business concept and strategy in this field is to focus acquisition of stable, dominant, institutional quality (primarily A, A-) retail properties located in the United States (and, possibly, from other locations), from capital-seeking owners and lenders. We intend hold the assets for a period of three to five years, until such assets are traded again at their historical yields and values. During this period our investment platform will engage in active asset management, as to preserve the properties' cash flow, enhance tenant mix and position the assets to outperform competitive properties. Our ultimate goal would be for our investment platform to sell its assets as a portfol or individually, to realize the highest value for its investors. Nothing in this paragraph shall constitute an offer or sale of securities or be construed as a solicitation of any investors in any fund.

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 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 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.

In 2012 we elected to change the way in which we account for property, plant and equipment (hotels) and to adopt the revaluation model instead of the cost model we had been using until such tir This change was effective as of January 1, 2012.

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 a 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 da Such financial data have been rounded to the nearest thousand or million.

The following acquisitions and other activities affected our operational results for 2010, 2011, 2012 and 2013 (to date) and may continue to affect our operational results in the coming years.

2013

- In February 2013 we announced that we would temporarily cease making all principal payments due under our Series A and Series B debentures and all interest payments due under all of our publicly-traded debentures; for a discussion of these announcements please see the Form 6-Ks we filed on February 5, 2013, and February 19, 2013, respectively. For a discussion of the proposals to restructure our current outstanding debt, please see the Forms 6-K we filed on February 19, 2013, February 27, 2013 and March 18, 2013, and for a discussion of the correspondence we have had with Bank Leumi le-Israel B.M. regarding our outstanding indebtedness please see the Form 6-K we filed on March 20, 2013. For a discussion of the letter of undertaking we entered into with the trustees of our Series 1, C, D, E, F and G debentures regarding our activities during an interim period, please see the form 6-K we filed on March 21, 2013.
- As described below in " – 2012", in August and November 2012 Elbit Imaging Financing Services, Limited Partnership ("Elbit Financing"), a partnership owned and controlled by the Company, entered into two bond structured transaction with a leading global financial institution (the "Counterparty"). On February 20, 2013, the Counterparty notified Elbit Financing of the early termination of the transactions as a result of the decline in the market price of our outstanding debentures and consequent failure to meet the loan-to-value covenants under the agreements governing the transactions.

2012

- On December 6, 2012, InSightec completed its issuance of Series C preferred shares for an aggregate amount of $30.9 million, which included $27.6 million invested by GE and $3.9 million invested by other investors. According to the terms of the transaction, GE and the Company converted all the existing shareholders loans that had been granted to InSightec into InSightec's series B-1 preferred shares in accordance with the terms of those loans. The transaction reflected a post money valuation of InSightec of approximately $105.9 million (or pre-money valuation of $75 million and following the conversion of the loans as described above). As part of the transaction GE and InSightec signed a term sheet that regulates the commercial relationship between those parties, including with respect to the distribution and marketing of InSightec's products and the developments of InSightec's products so that they will exclusively fit GE's MRI for a defined time period. Following the closing of the transaction, Elbit Medical's holding in InSightec were reduced to approximately 48.2% (approximately 40.7% on a fully diluted basis). After completion of the transaction Elbit Medical no longer has the right to appoint the majority of InSightec's board members and therefore will cease to consolidate InSightec's financial statements, and its investments in InSightec will presented based on the equity method.

- In November 2012, PC's board of directors approved the extension of the repurchase of its series A through B Notes in an amount of up to NIS 750 million (approximately $201 million), to be made until December 31, 2014. During 2012, PC purchased a total of NIS 271 million par value of its debentures (approximately $72.0 million), for a total consideration of NIS 247 million (approximately $66.0 million).

- In August 2012 Elbit Financing entered into a NIS 75 million bond structured transaction with the Counterpart, pursuant to which Elbit Financing purchased a NIS denominated zero-coupon credit linked note due to mature on October 2, 2013 (the "CLN") from the Counterparty or its affiliate. The CLN referenced a portfolio of the Company's bonds (having a market value of NIS 75 million). The bond portfolio was purchased by Elbit Financing under the Company's bond repurchase program that was announced on May 23, 2011 and in the framework of the transaction it sold the bond portfolio to the Counterparty. In consideration, the Counterparty paid to Elbit Financing the market value of the bond portfolio and arranged for the issuance of the CLN at an issue price of NIS 37.5 million.

  In addition, in November 2012 Elbit Financing entered into a NIS 150 million bond structured transaction with the Counterparty pursuant to which Elbit Financing received a NIS 75 million credit line for the purchase of a portfolio of the Company's bonds having an aggregate market value of up to NIS 150 million. Elbit Financing was permitted to purchase the bond portfolio within a 10-week utilization period commencing at the effective date of the transaction. In the framework of the transaction, Elbit Financing had the right to sell to the Counterparty bonds that were acquired by it and which comprised the bond portfolio in consideration for a payment by the Counterparty of the agreed-upon financing amount not to exceed 50% of the aggregate market value of the bond portfolio and that would be determined by the parties.

  During the terms of the respective transactions, all the proceeds derived from the bond portfolio (principal and interest) were to be retained by the Counterparty. Immediately following the scheduled respective termination date of each of the transactions, subject to no early termination event having occurred the Counterparty was to deliver to Elbit Financing the remaining, unamortized portion of the respective bond portfolio. Under the terms of the respective transactions, an early termination of the transaction could occur upon a trigger event linked to a decrease in the market value of the respective bond portfolio below a pre-defined threshold.

  The bonds were to be purchased by Elbit Financing under the Company's bond repurchase program that was announced on May 23, 2011. In furtherance of the transaction as well as any other bond repurchases, the board of directors of the Company approved the increase of the bond repurchase program to allow repurchase of up to an additional NIS 125 million (approximately $32 million) of the Company's Series A through G and Series I Notes.

- In June 2012 the EPN Group sold 47 of the shopping centers it held to BRE DDR Retail Holdings LLC for a purchase price of $1.43 billion. The total proceeds from the transaction, including cash and other net working capital items less property level financing which was repaid by EPN or assumed by the buyer at closing (in the amount of approximately $928 million), amounted to approximately $530 million. In July 2012, the two remaining shopping centers were sold for an aggregate amount of $41 million.

- On April 5, 2012, Elbit USA, LLC ("Elbit USA") and Eastgate amended the warrant granted in connection with the $30 million term loan agreement dated September 21, 2011, with effect as of March 22, 2012, pursuant to which we agreed to cancel the proposed increase in the number of shares issuable under the warrant on and after such date and to reduce the exercise price from $3.00 per share to zero. The amendment also contains appropriate modifications to the adjustment provisions of the warrant as a result of the foregoing changes.

- In March 2012, one of our wholly owned indirect subsidiaries entered into a share purchase agreement with PPHE for the sale of our holdings in certain subsidiaries, which owned a 50% interest in the following hotels in the Netherlands: the Park Plaza Victoria Amsterdam Hotel, the Park Plaza Utrecht Hotel, the arthotel Amsterdam and the Park Plaza Airport Hotel. These hotels were jointly owned by us and PPHE and were managed by PPHE. The closing of the sale took place in May 2012. The transaction reflected an asset value of €169 million (approximately $219 million) for all four hotels. The total net consideration payable to us was €26.5 million (approximately $34.5 million). In addition, approximately €58 million (approximately $75 million) of our subsidiaries' share (50%) of banks loans was assumed by PPHE by virtue of the purchase of those subsidiaries and were eliminated from our consolidated balance sheet. The consideration was paid as follows: (i) €23 million (approximately $30 million) in cash; (ii) PPHE shall issue and allot to us 700,000 ordinary shares of PPHE, with a current market price of approximately €2.0 million (approximately $2.5 million), based on the quotation of such shares' price on the London Stock Exchange as of March 30, 2012; and (iii) an additional payment in the aggregate amount of up €1.5 million (approximately $2.0 million) that shall be made on the fourth anniversary of the Transfer Date and shall be subject to certain adjustments, based on the PPHE shares' market price, as set forth in the agreement. The total profit generated from the sale of the hotels amounted to approximately NIS 188 million ($50 million), out of which we recognized NIS 134 million ($36 million) in the shareholders equity due to the application of the revaluation model described above and NIS 54 million ($14 million) in the income statement.

- In January 2012, we and Elbit Trade & Retail Ltd. ("Elbit Trade"), previously a wholly-subsidiary of ours, entered into an agreement with Gottex Models Ltd. ("Gottex") for the sale of all of our shares in Elbit Trade and all of its interests in GB Brands, Limited Partnership ("GB Brands"), which is the franchisee of the Gap brand in Israel. The transaction closed in April 2012. The purchase price paid by Gottex under the agreement was NIS 25 million, plus the agreed value of the Gap inventory as of the closing date and adjustments based on the agreed value of the working capital attributed to the Gap activity as of the closing date. We recorded a gain in the amount of NIS 9.4 million.

- In March 2012, PC opened the Kragujevac Plaza in Kragujevac, Serbia, the fourth largest city in Serbia and the capital of the Sumadjia Region in central Serbia. This commercial and entertainment center comprises 22,000 square meters of gross lettable area spread over two floors with approximately 700 parking spaces. The center includes an six screen cinema, the Arena Fun Factory entertainment center and Circus Playground, as well as over 95 shops with international and local brands.

- On March 2, 2012, PC opened its first shopping mall in India, the Koregaon Park Plaza in Pune, the second largest city in the state of Maharashtra. This commercial and entertainment center comprises 41,500 square meters of gross lettable area spread over two and a half floors with approximately 930 car parking spaces and 930 two-wheeler slots. The shopping mall includes a seven screen PVR cinema, the blu-O bowling and Timezone entertainment center as well as over 120 shops with international and local brands. This mall is owned exclusively by PC.

In June 2012, a fire event occurred at the mall, which resulted in its being temporarily closed for the majority of 2012. As a result, we recorded an impairment of NIS 50 ($13 million) to our trading property asset. PC maintains comprehensive general liability and property insurance, including business interruption insurance, with loss limits that PC believes will entitle it to be insured for the currently foreseeable losses arising from the fire. Based on the insurance company's valuator report, we determined that it is substantially likely that PC will be reimbursed by the insurance company, and accordingly we recorded a receivable in the amount of NIS 37 million ($10 million).

- On February 23, 2012, InSightec and InSightec's wholly owned subsidiary concluded a series of agreements with GEHC pursuant to which GEHC agreed to provide financing to InSightec in the form of convertible notes up to a total of $13.75 million, bearing interest at a rate of 6% per annum or a rate equivalent to the interest applicable to the financing provided by us and Elbit Medical. The convertible notes will be due and payable by October 1, 2016, and will be convertible into Series B-1 Preferred Shares of InSightec. In addition, we and Elbit Medical entered into a series of agreements with InSightec and GEHC pursuant to which, among other things, upon Elbit Medical obtaining the approval of its shareholders the financing granted to InSightec by us and Elbit Medical during 2010 and 2011 will be amended to provide similar loan terms and security mechanisms as set forth in this funding agreement, so that Elbit Medical and us will receive convertible notes convertible on the same terms and up to the same amounts as the GEHC notes. The loans and convertible notes issued to GEHC and Elbit Medical and the note that will be issued to us will be secured, *pari passu*, by floating charges over the assets of InSightec and its wholly owned subsidiary.

2011

- In May 2011, PC's board of directors approved the repurchase of up to NIS 150 million (approximately $39 million) of its series A through B Notes, to be made from time to time in the open market. During 2011, PC purchased an additional total of NIS 168 million par value of its debentures (with adjusted value of NIS 194 million), for a total consideration of NIS 152 million (approximately $40 million).

- In November 2011, PC opened the Torun Plaza in Torun, Poland, an 800-year old city of 200,000 inhabitants located in the north-west of Poland. This commercial and entertainment center comprises 40,000 square meters of gross lettable area spread over two floors with approximately 1,100 parking spaces. The center includes an eight screen cinema, fantasy park entertainment center as well as over 120 shops with international and local brands.

- On October 3, 2011, our 77% held subsidiary, S.C. Bucuresti Turism S.A ("BUTU") completed a refinancing of its five star Radisson Blu Hotel located in Bucharest, Romania. According to the facilities agreement, a leading international European bank granted BUTU a loan of up to €71.5 million. The loan may be drawn down in two tranches, with Tranche A in the amount of approximately €62.5 million having been drawn down on September 29, 2011, and Tranche B in the amount of approximately €9.0 million to be drawn down between December 31, 2012 and March 31, 2013, subject to the satisfaction of certain conditions as stipulated in the facilities agreement. The proceeds of the loan shall be used, inter alia, to repay BUTU's current outstanding bank facility and to repay to us our shareholder loans in the amount of approximately €25 million.

- On September 22, 2011, PC undertook that it would not make any further distributions during 2011 other than a distribution of €30 million that was made on September 23, 2011, pursuant to an agreement entered into between PC and its Series A and Series B bondholders. Furthermore, PC undertook in the agreement that distributions in the years 2012 and 2013 will be subject to the following conditions:

    - any distribution of dividends (including a repurchase of shares that is not at an attractive price to PC) will not exceed €30 million (approximately $38.8 million);

    - any distribution of dividends will be derived only from the net cash flow derived from the realization of assets at a rate which will not exceed 50% of the cash flow from the realization of the foregoing assets;

    - if a distribution is made and the bonds meet certain agreed upon average yield rates, PC will maintain certain reserve amounts secured in favor of the bondholders which may be used to repurchase or repay the bonds; and

    - if a distribution is made and the bonds meet certain agreed upon average yield rates, PC will be entitled to make distributions between €30 million (approximately $38.8 million) and €50 million (approximately $64.7 million) and it will maintain an amount equal to the distribution amount exceeding €30 million as a reserve secured in favor of the bondholders which may be used to repurchase or repay the bonds.

- On September 21, 2011, our indirect subsidiary, Elbit USA entered into a secured term loan agreement (the "Term Loan Agreement") with Eastgate, for a term loan in the amount of $30 million (the "Term Loan"). As part of and in connection with the Term Loan, we granted to Eastgate a warrant to purchase our ordinary shares at an exercise price of $3.00 per share payable in cash, in exchange for the cancellation of debt or by forfeiting shares having a market value equal to the exercise price (i.e., "cashless exercise"), during a two-year period commencing on March 31, 2012. It was further agreed that if the Term Loan is repaid by March 22, 2012, six months from the closing, the warrant would entitle Eastgate to purchase up to 3.3% of our outstanding shares at the date of exercise. Otherwise, the warrant would entitle Eastgate to purchase up to 9.9% of our outstanding shares at the date of exercise. The exercise price and/or number of shares issuable upon exercise of the warrant are subject to adjustment for certain corporate events, transactions and dilutive issuances of securities. On September 22, 2011, we filed a prospectus supplement with the SEC under our shelf registration statement dated March 14, 2011, to register the warrant and up to 3,000,000 ordinary shares which may be issuable upon the exercise of the warrant.

- On September 19, 2011, EDT distributed an interim dividend payment of $26 million. Elbit Plaza USA received a total distribution amount of $11.8 million. Each of ours and PC's share in such distribution is approximately $5.9 million.

- On September 23, 2011, PC paid an interim cash dividend payment of €30 million (approximately $38.8 million) to its shareholders, of which we received €18.7 million (approximately $24.2 million), out of which €8.7 million (approximately $11.3 million) was used to serve our debt to an Israeli bank under a loan agreement dated March 2011 pursuant to which we pledged 29% of PC's outstanding shares.

- On July 14, 2011, we concluded the off-market takeover bid made by EPN EDT Holdings II, LLC ("EPN Holdings") in March 2011, for all of the units in EDT not already held by EPN Holdings and its affiliates. As a result of the purchases of EDT's units during the offer period, EPN Holdings and its affiliates increased their interest in EDT from approximately 47.8% to approximately 96.4%. In August 2011 EPN Holdings completed the compulsory acquisition of the remaining EDT units and the EPN Group became the holder of 100% of the outstanding units of EDT, following which, EDT was removed from the official list of the Sydney Stock Exchange and was voluntarily liquidated (while transferring the US REITs it held to the Fund).

- In May 2011, our board of directors approved the repurchase of up to NIS 150 million (approximately $39 million) of our series A through G Notes, to be made from time to time in the open market. During 2011, we purchased NIS 67.7 million par value of our notes for an amount of approximately NIS 53 million (approximately $14 million).

- In March 2011, we entered into a new financing agreement (subsequently amended) with an Israeli bank in the amount of $70 million (approximately NIS 268 million), replacing the previous financing agreement.

- In March 2011, we issued additional unsecured non-convertible Series D Notes to investors in Israel, by expanding the existing series, in an aggregate principal amount of approximately NIS 96 million (approximately $25 million) for gross proceeds of approximately NIS 108 million (approximately $28 million).

- On February 9, 2011, we filed a shelf registration statement on Form F-3 with the SEC, which became effective on March 14, 2011, pursuant to which we may offer and sell from time to time, a combination of ordinary shares, senior and subordinated debt securities, warrants and units in one or more offerings up to a total dollar amount of $300,000,000.

- In January 2011, PC issued additional Series A and B Notes for an aggregate consideration of approximately NIS 300 million (approximately $79 million).

2010

- On December 31, 2010, we sold to PPHE all of our holdings in three companies that own three hotels in London, England, for a total consideration of £21 million (approximately $28 million), representing a total estimated asset value for the hotels of £230 million (approximately $308 million). The consideration was paid in a combination of loans, an issuance of shares of PPHE and a possible additional payment that is subject to adjustments. Prior to this transaction, these hotels were jointly owned by us and PPHE and were managed by PPHE.

- On December 29, 2010, EPN Management signed an agreement to purchase seven retail shopping centers located in the states of Georgia, Oregon and Florida from certain affiliates of Charter Hall Retail REIT. Following the signing of several amendments, EPN acquired one of the assets located in Atlanta, Georgia (Roswell Crossing) for a purchase price of approximately $21.5 million and assumed a bank loan of approximately $14 million.

- On November 29, 2010, we completed a refinancing of three of our jointly controlled hotels in London - the Park Plaza Riverbank, the Park Plaza Victoria and the Park Plaza Sherlock Holmes. The refinancing involved 5-year term facilities totaling £165 million (approximately $219 million) with Aareal Bank AG, maturing in November 2015. The hotels were previously financed by a £195 million (approximately $306 million) facility (with £181.9 million outstanding, or approximately $285.5 million) from Goldman Sachs International, which was due in March 2011. In addition to the new facilities, PPHE and us provided an equity injection of £16.6 million (approximately $26 million) of which £7.7 million (approximately $12 million) was provided by us, in order to enable the borrowers to repay the balance of the amount that was outstanding to Goldman Sachs. PPHE and us severally guaranteed certain of the borrowers' obligations, plus interest in a total amount of £25.8 million (approximately $40.5 million), of which our share amounts to £11.9 million (approximately $18.6 million). The facilities are non-recourse to us or any other company affiliated to us, other than the borrowers and their subsidiaries. For details regarding the sale of these hotels to PPHE at the end of 2010, see above.

- On November 24, 2010, we closed a transaction to restructure our holdings in the medical companies InSightec and Gamida under Elbit Medical. In consideration for our shares of InSightec representing 65.9% of InSightec's outstanding share capital and our shares of Gamida representing 31.6% of Gamida's outstanding share capital at that time, we were issued shares of Elbit Medical representing a 90% interest in Elbit Medical and were granted options at zero exercise price to acquire shares of Elbit Medical which together with the shares issued represented shareholding of 97.9% in Elbit Medical, on a fully diluted basis. On December 8, 2010, Elbit Medical issued shares in a private placement in the aggregate amount of NIS 19 million (approximately $4.8 million), including a two year option to invest an additional aggregate amount of NIS 19 million (approximately $4.8 million), all at a pre-money valuation of Elbit Medical of NIS 800 million (approximately $202 million). Following the completion of this private placement, we hold 93.4% of Elbit Medical's share capital (on a fully diluted basis).

- On November 24, 2010, we completed a private placement of NIS 35 million (approximately $10 million) principal amount of our Series D Notes as an expansion to the existing Series D Notes traded on the TASE.

- In November 2010, PC announced the completion of the first tranche of a bond offering to Polish institutional investors. PC raised an amount of PLN 60 million (approximately $21 million) from the bond offering with a three year maturity bearing interest of six month Polish WIBOR plus a margin of 4.5%.

- On July 22, 2010, EPI entered into a new framework agreement with respect to the Bangalore Project, due to changes in the market conditions and to new commercial understandings between EPI and the third party seller of the project, pertaining, inter alia, to the joint development of the project and its magnitude and financing, the commercial relationships and working methods between the parties and the distribution mechanism of the revenues from the project.

- In August 2010, we sold 15,000,000 ordinary shares of PC to a Polish institutional investor, for an aggregate consideration of approximately NIS 98 million (approximately $28 million). Following this transaction, we owned approximately 62.36% of PC's outstanding shares.

- In 2010 we issued additional unsecured non-convertible Series G Notes to investors in Israel, by expanding the existing series, in an aggregate principal amount of approximately NIS 461.5 million (approximately $130 million) for gross proceeds of approximately NIS 459 million (approximately $129 million.

- In June 2010, EPN completed an investment of approximately $116 million in EDT, a trust traded on the Australian Stock Exchange. Following the completion of the transaction, EPN was EDT's largest unit holder, holding an approximate 48% ownership interest in EDT.

- In June 2010, the Fund raised $31 million in capital commitments from Menora and certain of its affiliates.

- In April 2010, we, together with PPHE, acquired the Holiday Inn Schiphol Hotel located near the Amsterdam Schiphol Airport, for a purchase price of €30 million (approximately $40 million).

- On February 9, 2010, Elbit Plaza USA entered into the framework and co-investment agreement with Eastgate.

- 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).

- During 2010 we repurchased 588,910 of our ordinary shares, for a total aggregate amount of NIS 30 million (approximately $8 million).

- During 2010 we opened four GAP stores in Israel. Our aggregate investment in such stores totaled approximately NIS 21 million (approximately $6 million).

- In 2010 PC completed the development of two shopping centers, Zgorzelec Plaza and Suwalki Plaza, both in Poland, and opened them to the public.

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 th 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 belie 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 relati 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 commercial and entertainment centers is to dispose of commercial and entertainment centers upon completion, subject to certain exceptions. Therefore, PC's commerci and entertainment centers are presented within current assets as trading property and our revenues from these commercial and entertainment centers are mainly 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 o 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 function 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 ea 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 cau a decrease in our revenues and costs related to such revenues in NIS.

Statements of income

The following table presents our statements of income for each of the three years ended December 31, 2012, 2011 and 2010:

	December 31			
	2012	2011	2010	2012 Convenience Translation
	(in NIS thousands) (except for per share data)			(in $ thousands)
Revenues and gains				
Commercial centers	302,262	115,270	102,895	80,970
Hotels operations and management	222,828	286,548	403,822	59,692
Sale of fashion merchandise and other	145,996	185,082	174,817	39,109
Total revenues	671,086	586,900	681,534	179,771
Gain from changes of shareholding in investees	9,369	-	-	2,510
Gain from sale of real estate assets	53,875	-	198,777	14,432
	734,330	586,900	880,311	196,713
Expenses and losses				
Commercial centers	272,810	159,626	156,745	73,081
Hotels operations and management	202,158	240,784	341,291	54,154
Cost of fashion merchandise and other	155,772	211,743	197,574	41,728
General and administrative expenses	48,886	61,857	65,292	13,096
Share in losses of associates, net	8,726	7,568	8,275	2,337
Financial expenses	175,778	164,001	316,706	47,088
Financial income	(31,083)	(65,571)	(40,927)	(8,327)
Change in fair value of financial instruments measured at fair value through profit and loss	50,229	(275,537)	53,016	13,455
Write-down, charges and other expenses, net	411,625	290,276	83,660	110,267
	1,294,901	794,747	1,181,632	346,879
Loss before income taxes	(560,571)	(207,847)	(301,321)	(150,166)
Income tax expenses (tax benefit)	(10,248)	63,283	3,992	(2,745)
Loss from continuing operations	(550,323)	(271,130)	(305,313)	(147,421)
Profit from discontinued operations, net	94,823	24,101	378,838	25,401
Profit (loss) for the year	(455,500)	(247,029)	73,525	(122,020)

	December 31			
	2012	2011	2010	2012
				Convenience translation
	(in NIS thousands) (except for per share data)			(in $ thousands)
Attributable to:				
Equity holders of the Company	(293,590)	(264,919)	61,998	(78,647)
Non-controlling interest	(161,910)	17,890	11,527	(43,373)
	(455,500)	(247,029)	73,525	(122,020)
Loss from continuing operations				
Equity holders of the Company	(391,947)	(284,610)	(308,924)	(104,995)
Non-controlling interest	(158,376)	13,480	3,611	(42,426)
	(550,323)	(271,130)	(305,313)	(147,421)
Profit from discontinued operation, net				
Equity holders of the Company	98,357	19,691	370,922	26,348
Non-controlling interest	(3,534)	4,410	7,916	(947)
	94,823	24,101	378,838	25,401
Earnings (loss) per share				
Basic earnings per share:				
From continuing operation	(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations	3.95	0.79	14.67	1.06
	(11.80)	(10.65)	2.45	(3.16)
Diluted earnings per share:				
From continuing operation	(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations	3.95	0.79	14.41	1.06
	(11.80)	(10.65)	2.13	(3.16)

2012 compared to 2011

Revenues and Gains

Total revenues and gains in 2012 amounted to NIS 734 million ($197 million) compared to NIS 587 million in 2011. The increase is mainly attributable to:

(i) Revenues from commercial and entertainment centers increased to NIS 302 million ($81 million) in 2012 compared to NIS 115 million in 2011, as a result of the operation of seven centers in 2012, of which six operated throughout the year, compared to the operation of five centers in 2011, four of which operated throughout the year. In addition, in 2012 we recognized revenues of NIS 30 million ($8 million) attributable to the sale of office space in India. Plaza consummated the sale of land in Bulgaria and Hungary which generated revenues of NIS 97 ($27 million).

(ii) Revenues from hotel operations and management decreased to NIS 223 million ($60 million) in 2012 compared to NIS 286 million in 2011. The decrease was mainly attributable to the sale of the four Dutch hotels in March 2012. This decrease was partially set off by an increase in the revenues from our hotels in the Belgium and Romania.

(iii) Revenues from the sale of fashion retail and other decreased to NIS 146 million ($39 million) in 2012 compared to NIS 185 million in 2011. The decrease was mainly attributable to the sale of the retail activity of GAP in April 2012, partially offset by the increase in the revenues attributable to the activity of Mango.

(iv) Gain from a sale of real estate assets increased to NIS 54 million ($14 million) compare to nil in 2011 as a result of the sale of four Dutch hotels in March 2012.

(v) Gain from changes of shareholding in investee increased to NIS 9 million ($2.5 million) compared to nil in 2011 as a result of the sale of the retail activity of GAP in April 2012.

Expenses and losses

Our expenses and losses in 2012 amounted to NIS 1,295 million ($346 million) compared to NIS 795 million in 2011. Set forth below is an analysis of our expenses and losses:

(i) Expenses of commercial and entertainment centers increased to NIS 273 million ($73 million) in 2012 compared to NIS 160 million in 2011 as a result of the operation of seven commercial centers in 2012 compared to the operation of five commercial centers in 2011 discussed above. In addition, expenses in 2012 includes NIS 19 million ($5 million) attributable to the sale of office space in India and NIS 90 million ($24 million) attributable to the sale of plots of land in Bulgaria and Hungary.

(ii) Cost of hotel operations and management decreased to NIS 202 million ($54 million) in 2012 compared to NIS 241 million in 2011. The decrease was mainly attributable to the sale of the four Dutch hotels in March 2012 discussed above.

(iii) Cost of fashion apparel and other decreased to NIS 156 million ($42 million) in 2012 compared to NIS 211 million in 2011. The decrease resulted from the sale of the retail activity of GAP in April 2012.

(iv) General and administrative expenses decreased to NIS 49 million ($13 million) in 2012 compared to NIS 62 million in 2011. General and administrative expenses less non-cash expenses amounted to NIS 35 million ($9 million) in 2012 compared to NIS 37 million in 2011.

(v) Financial expenses increased to NIS 176 million ($47 million) in 2012 compared to NIS 164 million in 2011. Such amount includes (a) interest and CPI-linked borrowings in the amount of NIS 394 million in 2012 compared to NIS 464 million in 2011; (b) loss from foreign currency translation differences and other in the amount of NIS 29 million in 2012 compared to a gain in the amount of NIS 38 million in 2011; (c) gain from buy-back of debentures in the amount of NIS 113 million in 2012 compared to NIS 64 million in 2011; and (d) financial expenses capitalized to qualified assets in the amount of NIS 134 million in 2012 compared to NIS 198 million in 2011.

The decrease in interest and CPI-linked borrowings in the amount of NIS 394 million in 2012 compared to NIS 464 million in 2011 was mainly attributable to (i) a decrease of NIS 38 million the interest expense attributable to the Company's and PC's debentures as result of repayment of outstanding principal and buyback of the debentures during 2012 and (ii) a decrease of N 28 million attributable to an increase in the Israeli consumer price index, to which our and some of PC's debentures are linked (1.44% in 2012, compared to 2.53% in 2011).

The increased in exchange rate differences and others loss which in 2012 amounted to a loss of NIS 29 million compared to a gain of NIS 38 million in 2011. The loss in 2012 was main attributable to noncash expenses attributed to the effect of the change in the exchange rate between the Euro and NIS on PC's' debentures, which are recorded in NIS and are measured Euros.

(vi) Financial income decreased to NIS 31 million ($8 million) in 2012 compared to NIS 66 million in 2011. Such decrease was attributable mainly to a decrease in interest on deposit and receivable.

(vii) Losses from changes in fair value of financial instruments amounted to NIS 50 million ($13 million) in 2012 compared to a gain of NIS 276 million in 2011. This decrease was mainly attributable to the following:

(i) Loss from changes in fair value of financial instruments (measured at fair value through profit and loss (mainly PC's debentures)) amounted to NIS 98 million ($13 million) in 2012 compared to a gain of NIS 353 million in 2011; and

(ii) Gain from change in fair value of derivatives, embedded derivative and marketable securities (mainly swap transactions) executed by PC in respect of its debentures amounted to NIS 48 million ($13 million) in 2012 compared to loss in the amount of NIS 77 million in 2011

(viii) Write-down, charges and other expenses, net, increased to NIS 411 million ($110 million) in 2012 compared to NIS 290 million in 2011. The increase was attributable to the write-down in PC's trading property in Eastern Europe in the amount of NIS 406 million ($109 million) in 2012 compared to NIS 371 million in 2011

As a result of the foregoing factors, we recognized loss before income tax in the total amount of NIS 561 million ($150 million) in 2012 compared to NIS 208 million in 2011

Tax benefit amounted to NIS 10 million ($3 million) in 2012 compared to tax expenses in the amount of NIS 63 million in 2011. The decrease in tax expenses was attributable mainly to timing differenc related to PC's debentures measured at fair value through profit and loss.

The above resulted in loss from continuing operations in the amount of NIS 550 million ($147 million) in 2012 compared to NIS 271 million in 2011.

Profit from discontinued operations, net, amounted to NIS 95 million ($25 million) in 2012 compared to NIS 24 million in 2011. Such amount includes (a) gain from loss of control over our subsidia InSightec in our medical segment in December 2012 in the amount of NIS 216, offset by (b) loss from InSightec's operations during 2012 in the amount of NIS 64 million and (c) loss from selling our U investment properties in the amount of NIS 58 million.

The above resulted in a loss of NIS 456 million ($122 million) in 2012, of which a loss of NIS 293 million ($79 million) was attributable to our equity holders and NIS 162 million ($43 million) w attributable to the non-controlling interest. The loss in 2011 included NIS 265 million attributable to our equity holders and profit in the amount of NIS 17 million attributable to the non-controlling interest.

2011 compared to 2010

Revenues and Gains

Total revenues and gains in 2011 amounted to NIS 587 million ($154 million) compared to NIS 880 million in 2010. The decrease is mainly attributable to:

(i) Revenues from shopping and entertainment centers increased to NIS 115 million ($30 million) in 2011 compared to NIS 103 million in 2010, as a result of the operation of five commercial centers in 2011, four of which operated throughout the year, compared to the operation of four commercial centers in 2010, two of which operated throughout the year

(ii) Revenues from hotel operations and management decreased to NIS 287 million ($75 million) in 2011 compared to NIS 404 million in 2010. The decrease was mainly attributable to the sale of the hotels in London in December 2010 as aforementioned. This decrease is partially set off by an increase in the revenues from our hotels in the Netherlands, Belgium and Romania.

(iii) Revenues from the sale of fashion retail and other increased to NIS 185 million ($48 million) in 2011 compared to NIS 175 million in 2010. The increase was mainly attributable to the operation of four additional GAP stores, which opened during 2010.

(iv) Gain from a sale of real estate assets decreased to nil compare to NIS 199 million in 2010, as a result of the sale of three hotels in London, U.K. in December 2010. Offset by gain in 2011 from change of shareholding in investee in the U.S. operation in the amount of NIS 15 million ($4 million) compared to nil in 2010.

Expenses and losses

Our expenses and losses in 2011 amounted to NIS 795 million ($208 million) compared to NIS 1,182 million in 2010. Set forth below is an analysis of our expenses and losses:

(i) Expenses of commercial centers increased to NIS 160 million ($42 million) in 2011 compared to NIS 157 million in 2010.

(ii) Cost of hotel operations and management decreased to NIS 241 million ($63 million) in 2011 compared to NIS 341 million in 2010. The decrease was mainly attributable to the sale of the hotels in London in December 2010 as aforementioned.

(iii) Cost of fashion retail and other increased to NIS 212 million ($55 million) in 2011 compared to NIS 198 million in 2010. The increase resulted from the increase in the revenues as aforementioned.

(iv) General and administrative expenses decreased to NIS 62 million ($16 million) in 2011 compared to NIS 65 million in 2010. General and administrative expenses offset non-cash expenses amounted to NIS 37 million ($10 million) in 2011 compared to NIS 49 million in 2010. The decrease in cash expenses was mainly attributable to increasing efficiency during 2011 in payroll expenses and other expenses in the amount of NIS 12 million.

(v) Financial expenses, net decreased to NIS 164 million ($43 million) in 2011 compared to NIS 317 million in 2010. Such amount includes (a) interest and CPI linked borrowings in the amount of NIS 484 million compared to NIS 418 million in 2010; (b) gain from buy back of debentures in the amount of NIS 64 million in 2011 (there were no debenture buy backs in 2010); offset by financial expenses capitalized to qualified assets in the amount of NIS 198 million in 2011 compared to NIS 164 million in 2010. The increase in interest and CPI linked borrowings in the amount of NIS 484 million in 2011 compared to NIS 418 million in 2010 is mainly attributable to: (i) an increase in bank loans as a result of progressing in the construction of new commercial centers offset by a decrease of loans attributable to our hotel operations as a result of selling the London hotels in December 2010, (ii) a net increase of NIS 28 million in interest expenses as a result of an increase in the principal amount of our and PC's debentures issued during 2011; and (iii) an increase of NIS 22 million attributable to an increase in the Israeli consumer price index to which our and part of PC's debentures are linked (2.53% in 2011 compared to 2.28% in 2010).

(vi) Financial income increased to NIS 66 million ($17 million) in 2011 compared to NIS 41 million in 2010. Such increase was attributable mainly to decrease in exchange rate differences which in 2010 amounted to a loss of NIS 18 million compared to a gain of NIS 1 million in 2011. The loss in 2010 is mainly attributable to our deposits in Euro and U.S. dollars which decreased as a result of the devaluation of the Euro and the U.S. dollar against the NISS.

(vii) Income from changes in fair value of financial instruments amounted to NIS 276 million ($73 million) in 2011 compared to loss of NIS 53 million in 2010. This increase was mainly attributable to the following:

(i) Gain from changes in fair value of financial instruments (measured at fair value through profit and loss (mainly PC's notes)) amounted to NIS 356 million ($93 million) in 2011 compared to a loss of NIS 234 million in 2010; and

(ii) Loss from change in fair value of derivatives and embedded derivative (mainly swap transactions) executed by PC in respect of its notes amounted to NIS 63 million ($16 million) in 2011 compared to gain in the amount of NIS 165 million in 2010.

(viii) Impairment and other expenses, net, increased to NIS 290 million ($76 million) in 2011 compared to NIS 84 million in 2010. The increase was attributable to the impairment in PC's trading property in Eastern Europe in the amount of NIS 283 million ($74 million) in 2011 compared to NIS 44 million in 2010.

As a result of the foregoing factors, we recognized loss before tax expenses in the total amount of NIS 208 million ($54 million) compared to NIS 301 million in 2010.

Tax expenses amounted to NIS 63 million ($16 million) in 2011 compared to NIS 4 million in 2010. The increase in tax expenses is attributable mainly to timing differences related to PC's debentur measured at fair value through profit and loss.

The above resulted in loss from continuing operations in the amount of NIS 271 million ($71 million) in 2011 compared to income of NIS 305 million in 2010.

Profit from discontinued operations, net, amounted to NIS 24 million ($6 million) in 2011 compared to NIS 379 million in 2010.

Profit from discontinued operations, net, amounted to NIS 24 million ($6 million) in 2011 compared to NIS 379 million in 2011. Such amount is attributed to our U.S investment properties operati which was sold during 2012. The decrees is mainly attributable to Non-recurring gain from a "bargain purchase" in 2010 results from the acquisition of 48% in EDT during June 2010.

The above resulted in a loss of NIS 247 million ($65 million) in 2011, of which a loss of NIS 265 million ($69 million) is attributable to our equity holders and a profit of NIS 18 million ($5 million) w attributable to the non-controlling interest. The net profit in 2010 includes NIS 62 million attributable to our equity holders and NIS 11 million attributable to the non-controlling interest.

Exhibit 99.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-172122 on Form F-3 and on Registration Statements No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820 on Form S-8 filed by Elbit Imaging Ltd. of our report dated March 20, 2013 relating to the consolidated financial statements of Elbit Imaging Ltd. as of December 31, 2012, which report expresses an unqualified opinion and includes an explanatory paragraph relating to claims that have been filed against Group companies for some of which petitions have been applied to certify as class actions suits, and one of which was certified as a class action, appearing in this Report on Form 6-K of Elbit Imaging Ltd., as filed with the Securities and Exchange Commission.

/s/ Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Tel-Aviv, Israel
March 20, 2013

Exhibit 99.4

Advisors relied upon in the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

Exhibit No.	Name of advisor	Nature of professional advice	Reference to the consolidated financial statements
99.5	Colliers International	Valuation of Radisson Blu Hotel and Centre Ville Apart Hotel in Bucharest, Romania as of December 31, 2010, 2011 and 2012	Note 15 (i) and AF (1) f.
99.6	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, 2011	Notes 2 AF. (1) e.
99.7	Financial Immunities Ltd.	Valuation of Interest Rate Swap Transaction (IRS) of PC in respect of Series B Debentures as of December 31, 2010	Notes 2 AF. (1) e. and 9 A. (iv)
99.8	Financial Immunities Ltd.	Valuation of Interest Rate Swap Transaction (IRS) of PC in respect of Polish Debentures as of December 31, 2012 and2011	Note 17 (1)
99.9	Financial Immunities Dealing Room Ltd.	Valuation of options granted by PC on March 23, 2010 , May 25, 2010 , August 23, 2010, November 18, 2010, August 23, 2011, and November 22, 2011 under the framework of ESOP 2008 , 2011 re-pricing valuation and March 14, 2012, May 22, 2012 , August 21, 2012 , November 20, 2012 and ESOP No.1 re-pricing valuation on august 2012 under ESOP no.2	Note 25 B.
99.10	Financial Immunities Dealing Room Ltd.	Valuation of options granted by PC India Holdings Public Company Limited and Elbit Plaza India Real Estate Holding Limited, on March 22, 2011	Note 25 D.
99.11	Financial Immunities Dealing Room Ltd.	Valuation of options granted by PC to the Company's former Vice Chairman of the Board in respect of PC's operations in India as of December 31, 2012, 2011 and December 31, 2010	Note 27 B (6).
99.12	Giza Zinger Even	Valuations of options granted by the Company during the year ended December 31,2010 and 2009 under the Company 2006 and 2008 Option Plan and 2011 re-pricing valuation for the year ended December 31 2011	Note 25 A.
99.13	Jones Lang LaSalle Kft	Valuation of certain trading property of PC as of December 31, 2012, 2011, 2010.	Notes 2 AF. (1) a and 8 G
99.14	Giza Zinger Even	Fair value estimation of financial instrument given to the Company and by the Company to Park Plaza London, as of December 31, 2012, 2011 and 2010	Note 9 (IV)

Exhibit No.	Name of advisor	Nature of professional advice	Reference to the consolidated financial statements
99.15	Giza Zinger Even	Fair value estimation of financial instrument given to the Company and by the Company to Park Plaza Netherlands, as of December 31, 2012.	Note 9 (IV)
99.16	Giza Zinger Even	Valuation of certain acquired intangible and tangible assets of EDT Retail Trust, as of June 18, 2010	Note 29.
99.17	Giza Zinger Even	Valuations of options granted by the Company during the year ended December 31, 2011, under the Elbit Medical Option Plan and re-pricing valuation for the year ended December 31, 2012.	Note 25 A
99.18	Giza Zinger Even	Valuations of options granted by Elbit Plaza USA Ltd. during the year ended December 31, 2011, under the Elbit Plaza USA Option Plan	Note 25 C
99.19	Giza Zinger Even	Valuation of InSightec Ltd. as of December 31, 2012	
99.20	De-Kalo Ben-Yehuda	Valuation of Varcode Ltd. as of December 31, 2011 2012	Note 15 (i)
99.21	Financial Immunities Dealing Room Ltd.	Methodology for estimation of discount rate applicable to the Office of Chief Scientist liability granted to InSightec Ltd.	Note 20 (i)

Exhibit 99.5

CONSENT

We hereby consent to the reference to our valuation of the Radisson Blu Hotel and Centre Ville Apart Hotel in Bucharest, Romania, as of December 31, 2012 and 2011, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Colliers International SRL
Colliers International SRL

Bucharest, Romania
March 20, 2013

Exhibit 99.6

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, 2011, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.
Financial Immunities Ltd.

Rehovot, Israel
March 20, 2013

Exhibit 99.7

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, 2011 and 2010, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd
Financial Immunities Ltd.

Rehovot, Israel
March 20, 2013

Exhibit 99.8

CONSENT

We hereby consent to the reference to our "Valuation of Interest Rate Swap Transaction in Respect of Polish Debentures of Plaza Centers N.V." as of December 31, 2012 and 2011, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd
Financial Immunities Ltd.

Rehovot, Israel
March 20, 2013

Exhibit 99.9

CONSENT

We hereby consent to the reference to our valuation report in respect of options granted by Plaza Centers N.V. ("the Company") on, March 23, 2010, May 25, 2010, August 23, 2010, November 18, 2010, August 23, 2011 and November 22, 2011 under the framework of ESOP 2008, 2011 re-pricing valuation report, which we prepared for the Company, and March 14, 2012, May 22, 2012, August 21, 2012, November 20, 2012 and ESOP No. 1 re-pricing valuation on August 2012 under ESOP No. 2, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
March 20, 2013

Exhibit 99.10

CONSENT

We hereby consent to the reference to our valuation report in respect of options granted by PC India Holdings Public Company Limited and Elbit Plaza India Real Estate Holding Limited on March 22, 2011, which we prepared for Plaza Centers N.V., appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
March 20, 2013

Exhibit 99.11

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, 2012, December 31, 2011 and December 31, 2010, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
March 20, 2013

Exhibit 99.12

CONSENT

We hereby consent to the reference to each of our studies listed below, appearing in the Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.:

- Valuation report in respect of options granted in July 18, 2010 under the framework of ESOP 2006 and 2008, dated October 2010;
- Valuation report in respect of options granted in August 30, 2009 under the framework of ESOP 2006 and 2008, dated November 2009;
- Valuation report in respect of options granted in May 27, 2009 under the framework of ESOP 2006 and 2008, dated June 2009;
- Valuation report in respect of options re-priced in May 20, 2009 under the framework of ESOP 2006 and 2008, dated June 2009; and
- 2011 re-pricing valuation for the year ended December 31, 2011.

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 under the provisions of the Securities Act of 1933, as amended.

s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
March 20, 2013

Exhibit 99.13

CONSENT

We hereby consent to the reference to our valuation, of certain trading property of Plaza Centers N.V. as of December 31, 2012, 2011, 2010, of certain trading property of Plaza Centers N.V., appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Jaroslav Kopac
Jaroslav Kopac
National Director
Head of Valuation Hungary

/s/ James Kinnel
James Kinnel
Regional Director CEE & SEE

Jones Lang LaSalle Kft

Budapest, Hungary
March 20, 2013

Exhibit 99.14

CONSENT

We hereby consent to the reference to our "Fair value estimation of financial instrument given to Elbit Imaging Ltd. and by Elbit Imaging Ltd. to Park Plaza London" as of December 31, 2012, December 31, 2011 and December 31, 2010, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
March 20, 2013

Exhibit 99.15

CONSENT

We hereby consent to the reference to our "Fair value estimation of financial instrument given to Elbit Imaging Ltd. and by Elbit Imaging Ltd. to Park Plaza Netherlands" as of December 31, 2012, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
March 20, 2013

Exhibit 99.16

CONSENT

We hereby consent to the reference to our "Valuation of certain acquired intangible and tangible assets of EDT Retail Trust" as of June 18, 2010, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Ltd
Giza Zinger Even

Tel Aviv, Israel
March 20, 2013

Exhibit 99.17

CONSENT

We hereby consent to the reference to our "Valuation of options granted by Elbit Imaging Ltd. during the year ended December 31, 2011, under the Elbit Medical Option Plan and re-pricing valuation for the year ended December 31, 2012", appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
March 20, 2013

Exhibit 99.18

CONSENT

We hereby consent to the reference to our "Valuation of options granted by Elbit Plaza USA Ltd. during the year ended December 31, 2011, under the Elbit Plaza USA Option Plan", appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
March 20, 2013

Exhibit 99.19

CONSENT

We hereby consent to the reference to our "Valuation of InSightec Ltd." as of December 31, 2012, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
March 20, 2013

Exhibit 99.20

CONSENT

We hereby consent to the reference to our "Valuation of Varcode Ltd." as of December 31, 2012 and December 31, 2011, appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

/s/ De-Kalo Ben-Yehuda
De-Kalo Ben-Yehuda

Tel Aviv, Israel
March 20, 2013

Exhibit 99.21

CONSENT

We hereby consent to the reference to our "Methodology for estimation of discount rate applicable to Office of Chief Scientist liability granted to InSightec Ltd.", appearing in this Current Report on Form 6-K of Elbit Imaging Ltd. and to the incorporation by reference of this Current Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and 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.

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 under the provisions of the Securities Act of 1933, as amended.

s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
March 20, 2013

נספח 33

נושאים מהותיים שאירעו מפרסום הדוח השנתי האחרון

נושאים מהותיים שאינם מתוארים בדוחות הרבעוניים של החברה

א. דירוג

להלן המועדים בהם הורד דירוג אגרות החוב של החברה:

מועד	דירוג אחרון	דירוג קודם	חברת הדירוג
20.8.12	"Baa1/Negative" credit rating	"Baa3/Negative" credit rating.	מידרוג
12.9.12	"ilBBB+/Negative" credit rating	"ilBBB/Negative" credit rating.	מעלות
27.12.12	"ilBBB/Negative" credit rating	"ilB/Negative" credit rating	מעלות
7.1.13	"Baa3/Negative" credit rating	"B2" credit rating on credit watch	מידרוג
5.2.13	"ilB/Negative" credit rating	"Watch Negative" credit rating on credit watch.	מעלות
20.2.13	"ilCC/Watch Negative" credit rating on credit watch	"D" credit rating	מעלות
21.2.13	"B2" credit rating	on credit watch to "Ca /Negative" credit rating.	מידרוג

ב. שינוי מבנה ארגוני

ביום 31 ביולי 2012, הודיעה החברה על הערכות חדשה אשר נועדה, בין היתר, לתמוך בכוונתה של החברה לשים דגש מרכזי על איתור הזדמנויות, ייזום והשבחת נכסים ועל כינון והרחבת שיתופי פעולה עסקיים בשוקי ארה"ב, אירופה והודו. במסגרת ההערכות החדשה כאמור, מר מוטי זיסר, אשר כיהן עד אותו מועד כדירקטור ונשיא החברה, מונה גם למנכ"ל החברה ולמנהל עסקים ראשי של החברה; מר רן שטרקמן נשאר בתפקידו כמנכ"ל פלאזה סנטרס, אשר במסגרתו הוא ירכז את פעילות הנדל"ן של הקבוצה (אלביט ופלאזה סנטרס) במזרח ובמרכז אירופה ובהודו; ואילו מר דודי מחלוף מונה למנכ"ל אלביט פלאזה ארה"ב, ובמסגרת תפקידו הוא יהיה אחראי על הפעילות בשוק האמריקאי, הרחבת פעילות הנדל"ן המניב למערב אירופה, וכן על פעילות המימון הבינלאומית של הקבוצה ועל תחום המיזוגים והרכישות. עוד נקבע, כי מנכ"לי החברות הבנות, מר שטרקמן ומר מחלוף, יתמקדו בניצול הזדמנויות באירופה ובארה"ב ובהשבחה ומימוש נכסים, וישקיעו את כל מרצם במנועי הצמיחה של הקבוצה המהווים את אחד מהיתרונות היחסיים החשובים של אלביט הדמיה, במיוחד בתקופות מאתגרות בשווקים. ההיערכות החדשה כאמור נועדה, בין היתר, לאפשר את הצבת שני המנהלים הבכירים ובעלי היכולות המוכחות, באופן קבוע, בשווקים הרלוונטיים בהם רוצה החברה להתמקד בשנים הקרובות ואשר מהווים את חטיבות הליבה של החברה.

בנוסף, מר דורון משה, אשר מכהן כסמנכ"ל הכספים, מונה גם לאחראי על קשרי המשקיעים של החברה, וזאת בשיתוף פעולה עם יו"ר החברה, מר שמעון יצחקי. כמו כן, מר צבי מעין, סמנכ"ל ויועמ"ש החברה, מונה לאחראי גם על נושאי הממשל התאגידי בחברה.

ג. תביעה ייצוגית חדשה

ביום 11 באפריל 2013, הוגשו נגד החברה, חברי הדירקטוריון שלה, המנכ"ל הקודם ובעל השליטה בה, כתב תביעה ובקשה לאשר את התביעה כתביעה ייצוגית (תיק ת"צ 20835-04-13 אייזנברג ע. ניהול וייעוץ בע"מ נ' אלביט בדמיה בע"מ ואח', בבית המשפט המחוזי בתל אביב-יפו), על ידי מחזיק אגרות חוב מסדרה ב' של החברה, במסגרתה נטען כי החברה הפרה את התחייבויותיה

למחזיקי אגרות החוב מסדרות א' ו-ב' בכך שלא שילמה את תשלומי הקרן והריבית במועדם. עוד נטען כי, לכאורה, מעשיהם ומחדליהם של הנתבעים הם אלו אשר גרמו להפרת ההתחייבות שנטלה על עצמה החברה כלפי מחזיקי אגרות החוב שלה, בין היתר, בתשקיפים שזו פרסמה, וכי מחדלי החברה כאמור נעוצים בהחלטה השגויה במחלוקת שקיבל דירקטוריון החברה בדבר תוכנית לרכישה עצמית של אגרות חוב של החברה, בהיקף של כ-150 מיליון ש"ח. הסכום בכתב התביעה הנדרש לכל מחזיקי הסדרות האמורות הינו בסך של כ-82 מיליון ₪, כאשר התובע טוען כי סכום הנזק אשר יש לייחס לו באופן אישי (להבדיל מהקבוצה), הינו על סך של כ-622,000 ₪. ביום 18.4.2013 הגישה התובעת בקשה לאחד את הדיון בתביעה זו עם התביעה בתיק ת.צ. 47845-02-13 יוקי שמש בע"מ נ' אלביט ואח' (ובקשה לאשר תביעה זו כתביעה ייצוגית), ומחיקתה של האחרונה. בקשה זו נקבעה לתגובת הצדדים עד ליום 29.4.2013 ולמיטב ידיעת החברה, טרם ניתנה החלטה בה.

ד. בקשת פירוק שהוגשה על ידי נאמן אג"ח סדרה ב'

ביום 3.4.2013 הוגשו בקשת פירוק נגד אלביט וכן "בקשה דחופה למינוי מפרק זמני" על-ידי משמרת, אשר משמשת כנאמן לאגרות החוב (סדרה ב'), במסגרתה התבקש מינוי מפרק זמני לחברה. ביום 7.5.2013 הגישה המבקשת בקשה למחיקת הבקשה למינוי מפרק זמני. לפרטים נוספים ראו סעיפים 84 ו- 85 לבקשה.

ה. דיווח מיידי בעניין ההליך המשפטי של אירופה ישראל עם בנק הפועלים

לפרטים ראו סעיף 89 לבקשה.

ו. מניעת חלוקת דיבידנד מחברת פלאזה סנטרס

לפרטים ראו סעיף 73 לבקשה.

ז. הפקדת חלויות שוטפות על-פי הסכם ההלוואה עם בנק הפועלים בע"מ

לפרטים ראו סעיף 134 לבקשה.

נספח 34

מידע בנוגע לנושאי משרה בכירה בתאגיד

מידע בנוגע לנושאי משרה בכירה בתאגיד

1. **להלן פירוט עיקרי הסכם דמי הניהול בין החברה לבין אירופה ישראל (מ.מ.ש.) בע"מ, עבור שירותי ניהול של מר מרדכי זיסר, מנכ"ל ונשיא החברה**

ביום 31 במאי 2006, אישרה האסיפה הכללית של בעלי המניות של החברה, התקשרות בין החברה לבין אירופה ישראל (מ.מ.ש.) בע"מ (להלן: "**אירופה ישראל**"), חברה בבעלותו המלאה של מר מרדכי זיסר (להלן: "**זיסר**") המכהן כיום כמנכ"ל, דירקטור ונשיא החברה, בהסכם למתן שירותי ניהול (להלן: "**הסכם שירותי הניהול**"). על פי הסכם שירותי הניהול, תספק אירופה ישראל את שירותי הניהול, לחברה ולחברות בנות פרטיות של החברה ו/או לחברות הקשורות עמה, בתמורה לדמי ניהול בסך של 50,000 דולר לחודש בצירוף מע"מ, וזאת בנוסף להחזר ההוצאות הישירות שיוצאו במסגרת מתן השירותים, העמדת רכב לרשות חברת אירופה ישראל ההולם את מעמדו ומשרתו של מר זיסר ואמצעי התקשרות (טלפון, פקסימיליה, טלפון נייד, מחשב, מדפסת ומודם, לרבות עלויות התקנה וכל הוצאה סבירה אחרת הקשורה לכך), כמפורט בהסכם. בהסכם שירותי הניהול נקבע עוד, כי שירותי הניהול על-פיו יינתנו על-ידי מר זיסר בלבד, מתוקף תפקידו כעובד של אירופה ישראל, כי מר זיסר יקדיש לפחות 80% מזמנו למתן השירותים נשוא ההסכם. בנוסף, קובע הסכם מתן השירותים כי, במהלך תקופת ההסכם, לא יחול שינוי בשליטה על חברת אירופה ישראל.

בהתאם לתנאי הסכם שירותי הניהול, אירופה ישראל תהיה מעבידתו הבלעדית של זיסר, ובינו לבין החברה לא יחולו יחסי עובד ומעביד כאשר, אירופה ישראל תפצה את החברה בגין כל סכום, זכות או הטבה שהחברה תידרש לשלם לזיסר, ובכלל זה הוצאות משפטיות, בקשר עם כל פסיקה של בית הדין לעבודה ו/או כל ערכאה מוסמכת אחרת, אשר במסגרתה ייקבע, כי חרף הקבוע בהסכם, זיסר היה או הינו עובד של החברה במהלך תקופת מתן השירותים על-פי הסכם שירותי הניהול. תקופת ההסכם הינה חמש שנים, החל מיום 1 באוגוסט 2005. מר זיסר ערב אישית לחובות והתחייבויות אירופה ישראל בהסכם שירותי הניהול.

בחודש ספטמבר 2010, אישרה האסיפה הכללית של בעלי המניות של החברה את הארכת ההסכם לחמש שנים נוספות, החל מחודש אוגוסט 2010. עם זאת, לאור תיקון 16 לחוק החברות, התשנ"ט-1999, הסכם זה ידרוש אישור מחדש של אסיפת בעלי המניות של החברה בתום שלוש שנים ממועד חידושו.

ביום 1 בנובמבר 2007, אישרה אסיפת בעלי המניות של החברה תשלום בונוס למנכ"ל ונשיא החברה, אשר יחושב כדלקמן: (i) 0% מרווחי החברה עד לסך של 100 מיליון ש"ח; (ii) 2.5% מרווחי החברה שבין 100 מיליון ש"ח ל-125 מיליון ש"ח; (iii) 3% מרווחי החברה בסך שבין 125 מיליון ש"ח ל-150 מיליון ש"ח; ו- (iv) 3.5% מרווחי החברה העולים על סך של 150 מיליון ש"ח. הבונוס השנתי ישולם כל עוד המנכ"ל ונשיא החברה משמש כדירקטור או בעל משרה בכירה של החברה או אחת מחברות הבת שלה.

לפי קביעת ועדת הביקורת ודירקטוריון החברה מיום 29 במאי 2008, המונח "רווחי החברה" לצורך קביעת הבונוס השנתי כאמור, משמעו - רווח של החברה לפני מס, כפי שמופיע בדוחות הכספיים המאוחדים השנתיים המבוקרים של החברה לאותה השנה, בניכוי הרווחים (הפסדים) לפני מס המיוחסים לבעלי זכויות המיעוט ופחות ההפסדים (לפני מס ולאחר ניכוי של הרווחים (הפסדים) המיוחסים לבעלי זכויות המיעוט) כפי שפורסמו בדוחות הכספיים השנתיים המבוקרים לכל השנים החל משנת 2007, אשר עדיין לא נוכו לצורך חישוב בונוס שנתי מעין זה עבור שנים קודמות. למרות האמור לעיל, הבונוס השנתי שיוענק למנכ"ל ונשיא החברה לא יעלה על סך של 18 מיליון ש"ח.

לאור תיקון 16 לחוק החברות, התשנ"ט-1999, מנגנון הבונוס כפוף לאישור מחדש של אסיפת בעלי המניות של החברה.

2. להלן פירוט עיקרי הסכם ההעסקה בין החברה לבין מר יצחקי שמעון, יושב ראש הדירקטוריון של החברה

בחודש דצמבר 2002, אישרה אסיפת בעלי המניות של החברה, התקשרות בהסכם העסקה עם מר שמעון יצחקי, אשר שימש בזמנו כנשיא, מנכ"ל ודירקטור[1] בחברה, בעלות חודשית כוללת בסך של 164,734 ₪ צמוד למדד המחירים לצרכן. עלות זו כוללת הטבות סוציאליות מקובלות ושימוש ברכב באחזקה מלאה של החברה. בנוסף, מר יצחקי זכאי להחזר הוצאות שיוצאו במסגרת מילוי תפקידו בחברה. על פי ההסכם, יקדיש מר יצחקי לפחות 90% מזמנו למילוי תפקידו.
בנוסף, ביום 31 במאי 2006, אישרה האסיפה הכללית של בעלי המניות של החברה, תשלום בונוס לשנת הכספים 2006 ליו"ר דירקטוריון החברה, אשר יחושב כדלקמן: (i) 0.75% מרווחי החברה עד לסך של 125 מיליון ש"ח; (ii) 0.875% מרווחי החברה בסך שבין 125 מיליון ש"ח ל-150 מיליון ש"ח; ו- (iii) 1% מרווחי החברה העולים על סך של 150 מיליון ש"ח.
לפי קביעת ועדת הביקורת ודירקטוריון החברה מיום 29 במאי 2008 המונח "רווחי החברה" משמעו - רווח של החברה לפני מס, כפי שמופיע בדוחות הכספיים השנתיים המאוחדים המבוקרים של החברה לאותה השנה, בניכוי הרווחים (הפסדים) לפני מס המיוחסים לבעלי זכויות המיעוט.

[1] החל מיום 1 בינואר 2010, מר יצחקי מכהן כיו"ר דירקטוריון החברה בלבד.

נספח 35

תזרים המזומנים הצפוי
לתקופה של שנתיים
ממועד ההסדר

תזרים מזומנים חזוי לתקופה של 30.6.2013 - 30.6.2015 (במיליוני שקלים חדשים)

	מחצית שנת 2013	שנת 2014	מחצית שנת 2015
מקורות			
יתרת פתיחה [1]	171	137	138
תזרים ממימושים ומימון מחדש[2,3]	86	217	101
תזרים מפעילות שותפת - מלונות	-	36	13
סה"כ מקורות	**257**	**390**	**252**
שימושים			
תשלומי קרן לבנק מובטח[4]	48	41	42
תשלומי ריבית לבנק מובטח	15	12	4
תשלומי ריבית לאגרות חוב	12	24	12
השקעות	25	140	20
הנהלה וכלליות	20	35	17
סה"כ שימושים	**120**	**252**	**95**
שימושים יתרת סגירה	**137**	**138**	**157**

(1) בניכוי מזומנים משועבדים ו/או מוגבלים בגין ערבויות, הלוואות בנקאיות וכן ני"ע סחירים של פארק פלאזה.
(2) כולל תזרים ממימוש מלונות בלגיה, מכירת דירות למגורים בפעילות החברה בהודו ומימון מחדש של פעילות חטיבת המלונות.
(3) התזרים האמור מניח כי הסדר החוב בחברה יושלם עד ליום 30 ביוני 2013. במידה ותהליך הסדר החוב יימשך מעבר לתאריך זה, תיתכן דחייה במועדי ביצוע המימושים הכלולים בטבלה זו.
(4) תזרים המזומנים מניח תשלום ההלוואה לבנק הפועלים בהתאם ללוח הסילוקין המקורי שלה.

נספח 36

תזרים המזומנים בשלוש השנים שקדמו להסדר

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2012	2011	2010	2012
				Convenience translation (Note 2D)
	(in thousand NIS)			U.S.$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the year from continued operations	(550,323)	(271,130)	(305,313)	(147,421)
Income tax expenses (tax benefit) recognized in profit and loss	(10,248)	63,283	3,992	(2,745)
Finance expenses (income) recognized in profit and loss	194,924	(177,107)	328,795	52,216
Income tax paid in cash	-	(3,376)	(1,555)	-
Depreciation and amortization (including impairment)	461,568	339,412	114,539	123,645
Gain from fair value adjustment of investment property	(9,930)	(19,700)	(2,324)	(2,660)
Profit from realization of investments in subsidiaries (Appendix B)	(62,608)	-	(198,777)	(16,771)
Share in losses of associates, net	8,726	7,568	8,275	2,338
Profit from realization of assets and liabilities	-	-	(5,739)	-
Stock based compensation expenses	18,497	39,691	27,632	4,955
Other	2,737	(1,949)	12,416	733
Trade accounts receivables	(9,112)	(7,662)	3,113	(2,441)
Receivables and other debit balances	7,791	(12,630)	67,585	2,087
Inventories	7,287	(8,240)	(1,664)	1,952
Trading property and payment on account of trading property	(113,135)	(403,624)	(349,714)	(30,307)
Suppliers and service providers	(105,691)	106,503	(33,610)	(28,313)
Payables and other credit balances	42,989	69,397	(31,829)	11,516
Net cash used in operating activities of continuing operations	(116,528)	(279,564)	(364,178)	(31,216)
Net cash provided by (used in) discontinued operating activities	(32,096)	38,675	31,167	(8,598)
Net cash used in operating activities	(148,624)	(240,889)	(333,011)	(39,814)

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2012	2011	2010	2012
				Convenience translation (Note 2D)
	(in thousand NIS)			U.S.$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in initially-consolidated subsidiaries (Appendix C)	-	(2,197)	(5,173)	-
Purchase of property plant and equipment, investment property and other assets	(24,227)	(34,410)	(72,925)	(6,490)
Proceeds from realization of property plant and equipment	2,000	1,018	31,282	536
Proceeds from realization of investments in subsidiaries (Appendix B)	139,827	-	(21,349)	37,457
Investments in associates and other companies	(11,567)	-	(2,591)	(3,099)
Proceed from realization of long-term deposits and long-term loans	277,436	33,431	119,489	74,320
Investment in long-term deposits and long-term loans	(29)	46,133	(11,925)	(8)
Interest received in cash	37,542	65,375	57,239	10,057
Investments in debt security	-	-	(39,206)	-
Proceeds from repayment of debt security	-	-	47,207	-
Proceed from sale of available for sale marketable securities	154,943	45,051	50,576	41,506
Purchase of available for sale marketable securities	(82,239)	(46,325)	(108,692)	(22,030)
Loans granted to a former subsidiary	-	(54,444)	(62,431)	-
Short-term deposits and marketable securities, net	62,511	333,136	(170,415)	16,746
Net cash provided by (used in) continued investing activities	556,197	386,768	(188,914)	148,995
Net cash provided by (used in) discontinued investing activities	1,289,831	(61,416)	(178,463)	345,521
Net cash provided by (used in) investing activities	1,846,028	325,352	(367,377)	494,516
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from re-issuance of debentures	58,080	-	-	15,559
Dividend paid to non-controlling interest	-	(56,772)	-	-
Repurchase of debentures and treasury stock	(184,342)	(202,439)	(30,002)	(49,382)
Interest paid in cash	(348,946)	(390,442)	(328,559)	(93,476)
Proceeds from long-term borrowings	52,895	1,116,030	1,379,556	14,170
Repayment of long-term borrowings	(770,898)	(1,226,102)	(923,753)	(206,509)
Proceeds from selling derivatives	59,040	222,543	45,834	15,816
Proceeds from transactions with non-controlling interests, net	-	-	121,218	-
Proceed from short-term credit	203,990	411,484	275,218	54,645
Repayment of short-term credit	(255,175)	(157,850)	(131,160)	(68,357)
Net cash provided by (used in) continued financing activities	(1,185,356)	(283,548)	408,352	(317,534)
Net cash used in discontinued financing activities	(584,789)	(297,092)	(39,991)	(156,654)
Net cash provided by (used in) financing activities	(1,770,145)	(580,640)	368,361	(474,188)
Decrease in cash and cash equivalents	(72,741)	(457,538)	(332,027)	(19,486)
Cash and cash equivalents at the beginning of the year	602,292	1,040,797	1,508,301	161,343
Net effect on cash due to currency exchange rate changes	5,519	57,672	(135,477)	1,478
Cash and cash equivalents at the end of the year	535,070	602,292	1,040,797	143,335

נספח 37

הסברי דירקטוריון באשר לנסיבות שהביאו את החברה למצב הפיננסי הנוכחי

הסברי הדירקטוריון לנסיבות שהביאו את החברה למצבה הפיננסי הנוכחי

פעילותה של קבוצת אלביט מאופיינת במעגלים (Cycles) של ייזום, פיתוח, השבחה ומימוש של נכסיה, תוך הצפת ערך, ועל כן, תזרים המזומנים של החברה מתבסס, במידה רבה, על התאמה בין עיתוי השלמת מעגל ההשבחה והמימוש לבין לוחות הסילוקין.

בתקופה שקדמה להצעת ההסדר החברה פעלה על מנת לייצר תזרים מזומנים לשירות החוב על פי תכניותיה העסקיות. במהלך שנות פעילותה החברה עמדה בהצלחה במרבית מרכיבי תכניותיה הן ביחס לסכומי המימוש והן ביחס למועדיהם. ואכן, עד סוף שנת 2012, פרעה החברה את כל חובותיה לנושיה כסדרם.

בתחילת שנת 2013, עקב הצטברות של אירועים ונסיבות, שאינם בשליטתה, נקלעה אלביט למצוקה תזרימית: החברה נתקלה בקושי לממש נכסים בערכים כלכליים, הן בשל מצב השווקים הבינלאומיים והן בשל עיכובים בקצב התקדמות פרויקטים. קושי זה נבע, בין השאר, כתוצאה מצירוף נסיבות ובכללן, עיכובים בקבלת היתרים ובמימוש החלטות רשויות תכנון, וכן בהקשחת מדיניות המימון על ידי בנקים ומוסדות פיננסיים (הן כלפי יזמים והן כלפי רוכשים) לגבי מימון פרויקטים בתחום פעילותה של החברה.

החברה נקטה מהלכים לגיוס הון או חוב, במסגרתם קיימה מגעים עם גופי השקעה ומימון גדולים ומובילים. ברם, גם מהלכיה אלו של החברה לייצר מקורות תזרימיים חלופיים, בין על ידי מימוש נכסים משמעותיים של החברה ובין באמצעות גיוס הון או חוב חדש לחברה, נתקלו בקשיים.

לקשיים הנזכרים לעיל נוספה העובדה, כי בשל התנגדותם של מחזיקי האג"ח של פלאזה סנטרס נמנעה חלוקת דיבידנד מפלאזה סנטרס לאלביט, בסך של כ-100 מיליון ש"ח (חלק אלביט). בנוסף, הורדות הדירוג של אגרות החוב של אלביט על ידי חברות הדירוג המקומיות, החמירו אף הן את קשיי המימון, וצמצמו עוד את אפשרויות הפעולה של החברה.

כאמור לעיל, החברה נקטה במהלכים רבים ומגוונים, שדי היה בכך שחלקם יתממשו, על מנת לממש את תכניותיה ולפרוע את התחייבויותיה. ואולם, הצטברות חריגה של אירועים ונסיבות, שאינם בשליטתה, גרמה לחברה למצוקה תזרימית קשה ולשיבוש של תכניותיה. כל אלה הביאו לכך שמימוש תכניות החברה הלך ונעשה אתגרי; אפיקי פעולה שונים בהם נקטה החברה לא הבשילו לכלל הסכמה מסחרית ולא הניבו פרי; ומנגד, מועדי פירעון חובות החברה הלכו וקרבו, והשווקים הרלוונטיים בהם פועלת החברה לא גילו סימני התאוששות שיאותתו על שינוי מגמה שיש בו כדי לשנות את התמונה. תהליך מקביל זה הביא את החברה לכלל מסקנה, כי אין מנוס מלפעול עתה לגיבוש הסדר חוב, שיהווה פתרון עומק משמעותי, ארוך טווח, לחובותיה של החברה ולמצבה. אמנם, נוכח היקף נכסיה של החברה, אפשר שאילו היתה החברה מציעה נכסים מנכסיה למכירה במחירים הנמוכים מהותית משוויים, היה בכך כדי לאפשר לחברה לעמוד בהתחייבויותיה בטווח הקצר, ואולם, בשל מאפייני נכסיה, מימוש שכזה היה גורם לחברה אבדן ערך, אשר היה בסופו של דבר גורם לנזק חמור הן לחברה והן ליכולתה לעמוד בהתחייבויותיה כלפי נושיה בטווח הבינוני והארוך. החברה סבורה, כי בידיה נכסים בעלי שווי ופוטנציאל של ממש, אשר בניהול נכון ומושכל, תוך ארגון מחדש של מבנה החוב שלה, ניתן יהיה לממש את מלוא הפוטנציאל הגלום בהם, לטובתה ולטובת כלל נושיה.

בהקשר זה יוזכר, כי במסגרת מעגל הייזום של פעילותה, לאחר שורה של מימושים מוצלחים, קיימים בידי החברה נכסים בעלי פוטנציאל ערך רב. נכסים אלה מצויים ברובם בשלבי פיתוח מוקדמים וחלקם אינם בני מימוש ריאלי בשלב זה, בין היתר, עקב מגבלות רגולטוריות ואחרות במדינות שבהן נמצאים אותם נכסים.

כללו של דבר, החברה סבורה, כי טובת החברה ונושיה מחייבת גיבוש הסדר חוב ראוי ומאוזן, שיהא בו להביא למקסום יכולתה להציף ערך מנכסיה ולאפשר לה להמשיך בפעילותה העסקית בטווח הארוך.

נספח 38

השפעת ההסדר על נתוני הדוחות הכספיים ובכלל זה על הרווח וההון העצמי

אלביט הדמיה
31.12.2012

להלן עיקרי המתווה המוצע להסדר החוב :

1) כל החוב הפיננסי הבלתי מובטח של החברה (דהיינו- אגרות החוב והלוואה מבנק לאומי), יומר ל: מניות אשר יהוו 86% מהון המניות המונפק והנפרע של החברה בהנחת דילול מלא (מבלי להביא בחשבון אופציות שונות, כמפורט בתכנית ההסדר).
2) אגרות חוב חדשות בסך של 300 מיליון ₪ , נושאות ריבית שנתית בשיעור של 8% שתשולם על בסיס חצי שנתי, ואשר תעמודנה לפירעון בתשלום אחד בתום 5 שנים ממועד ביצוע ההסדר.
3) המניות ואגרות החוב החדשות יוקצו בין כל בעלי החוב הבלתי מובטח , באופן יחסי ליתרת החוב (פארי) שלהם.

השפעת ההסדר המוצע על נתוני הדוחות הכספיים (ובכלל זה על הרווח וההון העצמי של החברה)

	יתרה ליום 31 בדצמבר 2012 באלפי ₪	יתרה לאחר ההסדר באלפי ₪
התחייבויות לז"ק		
ריבית לשלם בגין אג"ח שו	22,799	-
ריבית לשלם בגין הלוואת	-	-
חלויות שוטפות בגין	426,012	-
הלוואת בנק לאומי	52,262	-
	501,074	-
התחייבויות לז"א		
אג"ח שבהסדר לז"א	1,818,243	-
אגח סדרה חדשה	-	300,000
	1,818,243	300,000
הון עצמי		
הון עצמי חלק הרוב	309,606	2,328,926
הון עצמי חלק המיעוט	1,115,023	1,115,023
סה"כ הון עצמי	1,424,629	3,443,949